



BEFORE THE

**UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION**

State of the U.S. Flag Maritime Industry

January 17, 2018

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On behalf of the Shipbuilders Council of America (SCA), I would like to thank Chairman Hunter, Ranking Member Garamendi, and members of the Subcommittee for the opportunity to provide testimony on the state of the U.S. Flag maritime industry. I ask that my entire testimony be submitted for the record.

I am Matthew Paxton, President of the Shipbuilders Council of America (SCA), the national trade association for the U.S. shipyard industry.

The SCA represents 85 shipyard facilities and 116 industry partner member companies that are part of the vital supply chain that make up the shipyard industrial base.

The Jones Act is a core value promoted by the SCA. This policy, which is provided at no cost to the U.S. government, helps to maintain a merchant marine that is sufficient to carry our domestic water-borne commerce and also ensures that there is sufficient U.S. capacity to serve as a naval and military auxiliary in time of war or national emergency.

The U.S. shipyard industry is diverse and operates in several sectors including government new construction, government repair and modernization, commercial repair and modernization, and commercial new construction. According to the Maritime Administration (MARAD) there are 124 active shipyards in the United States spread across 27 states and shipyard related jobs in all 50 states. Many of SCA's member companies have diversified their waterfronts to contribute to multiple sectors and some are also utilizing their skilled workforce to contribute to non-maritime construction efforts.

From our industry's perspective, the Jones Act also ensures that the U.S. maintains critical shipyard infrastructure and an associated skilled workforce that can build, repair, modernize and maintain the more than 40,000 vessels of the domestic Jones Act fleet. This industrial base also ensures there is a sufficient workforce to support the construction and repair of our critical national security fleets.

U.S. shipyards build some of the most technologically advanced vessels in the world. For example, the world's first LNG-powered containership was built in the U.S. and is now serving the Puerto Rican trade. Our shipyards also build world-class offshore service vessels for oil and

gas exploration, vessels of all types for the Coast Guard, and state-of-the-art vessels for the Navy.

The maritime industry is the most economical form of domestic transportation, moving more than 1 billion tons of cargo annually at a fraction of the cost of other modes. According to the Maritime Administration, the U.S. shipbuilding industry ran a trade surplus in 6 out of 9 years between 2006 and 2014, resulting in a cumulative trade surplus of \$1.5 billion over that period.

The 355 Ship Navy and the Jones Act

In December 2016, the Navy released a new force structure assessment (FSA) that called for a fleet of 355 ships—substantially larger than the current fleet of 275 ships and also larger than the Navy’s previously stated goal of 308 ships. To increase the Navy’s Fleet to 355 ships, a substantial and sustained investment is required in both procurement and readiness. However, let me be clear: building and sustaining the larger required Fleet is achievable and our industry stands ready to help achieve that important national security objective.

To meet the demand for increased vessel construction while sustaining the vessels we currently have will require U.S. shipyards to expand their work forces and improve their infrastructure in varying degrees depending on ship type and ship mix – a requirement our Nation’s shipyards are eager to meet. But first, in order to build these ships in as timely and affordable manner as possible, stable and robust funding is necessary to sustain those industrial capabilities which support Navy shipbuilding and ship maintenance and modernization.

In addition to stable funding the Congress and the Administration must maintain and support the Jones Act. The Jones Act ensures a commercial shipbuilding industry, supplier chain, and workforce that can support building and maintaining these Navy assets, making it a major national security benefit. It is for that reason that the U.S. Navy has always, and continues, to support the Jones Act.

The domestic shipyard industry certainly has the capability and know-how to build and maintain a 355-ship Navy and build and maintain the nearly 40,000 commercial vessels in the domestic fleet. The Maritime Administration determined in a recent study on the Economic Benefits of the U.S. Shipyard Industry that there are nearly 110,000 skilled men and women directly

employed in the Nation's private shipyards building, repairing and maintaining America's military and commercial fleets.¹ The report found the U.S. shipbuilding industry supports nearly 400,000 total direct and indirect jobs across the country and generates \$25.1 billion in income and \$37.3 billion worth of goods and services each year. In fact, the MARAD report found that the shipyard industry creates direct and induced employment in every State and Congressional District and each job in the private shipbuilding and repairing industry supports another 2.6 jobs nationally. This data confirms the significant economic impact of this manufacturing sector, but also that the skilled workforce and industrial base exists domestically to build a larger Navy fleet and meet commercial vessel construction demands.

Strategy for Shipyard Workforce Development

Long-term, there needs to be a workforce expansion and some shipyards will need to reconfigure or expand production lines to meet demands for national security vessel construction and commercial market demands. This can and will be done as required to meet the need if adequate, stable budgets and procurement plans are established and sustained for the long-term. Funding predictability and sustainability, along with fully and consistently enforcing the Jones Act, will allow industry to invest in facilities and more effectively grow its skilled workforce. The development of that critical workforce will take time and a concerted effort in a partnership between industry, the Congress, local governments, and the federal government.

U.S. shipyards pride themselves on implementing state of the art training and apprenticeship programs to develop skilled men and women that can cut, weld, and bend steel and aluminum and who can design, build and maintain the best Navy and Coast Guard in the world, along with our domestic commercial fleet. However, the shipbuilding industry, like so many other manufacturing sectors, faces an aging workforce. Attracting and retaining the next generation shipyard worker for an industry career is critical. Working together with our Shipyard and Industry Partner Members and local and state resources, the SCA is committed to building a robust training and development pipeline for skilled shipyard workers. The continued development of a skilled shipyard workforce must be an essential element of our national maritime strategy.

¹ (U.S. Maritime Administration 2015)

A critical part of maintaining and growing the workforce and industrial base is the strong support of the Jones Act. The Jones Act ensures a commercial shipbuilding industry and supplier chain exists domestically which also supports Navy and Coast Guard shipbuilding and reduces costs. There is strong bipartisan support for this law, however, we must be vigilant that the law is consistently enforced and not eroded by administrative rulemaking. A recent decision by the Department of Homeland Security to not revoke a series of letter rulings that have allowed foreign-built and foreign crewed offshore supply vessels to operate in violation of the Jones Act has created uncertainty and resulted in numerous new U.S. vessel construction contracts to be cancelled. I raise this issue as an example of how a decision by an agency to not properly enforce the Jones Act can have such an adverse impact on commercial shipbuilding that reverberates throughout the entire shipyard industrial base.

The U.S. Navy has always and continues to support the Jones Act because of its national security benefits. A strong commercial shipyard base and a strong cadre of skilled mariners is crucial to fulfilling the Navy's role in maintaining a forward presence in the world's sea lanes and trouble spots. In a recent study, the independent Government Accountability Office (GAO) put it this way: "the military strategy of the United States relies on the use of commercial U.S.-flag ships and crews and the availability of a shipyard industry base to support national defense needs."

As I know this subcommittee is keenly aware, we must remember a key component of the National Fleet is the United States Coast Guard. Shipyard capacity is required for the Service's desperately needed fleet modernization of its entire fleet from inland aids to navigation vessels to cutters of all sizes to icebreakers. Almost all of the shipyards that are building Coast Guard vessels also build Jones Act vessels. It is because of this law that the Coast Guard is receiving such robust competition to build its various classes of ships.

Commercial Market for Large Vessel Construction

As we look at the current state of the U.S. flag maritime industry, we need to ask ourselves "what's next." Recently, our shipyards effectively built for the increased demand in the tanker market due to the oil and natural gas boom. It is a testament to the Jones Act, that the commercial shipbuilding sector was able to rapidly meet the market demand for domestic tankers and deliver these vessels on time for the booming energy industry at that time. The U.S.

shipyard industrial base mobilized for that market demand and built state of the art tankers for that transportation sector. It was a true success for our industry.

In addition, our shipyards recently delivered numerous large ocean going containerships to recapitalize the noncontiguous fleets. Vessel construction for these important shipping routes is ongoing at several shipyards, but will be completed in the coming years. Again, it is a result of the Jones Act that we have such a capable and robust shipyard industry to build for this markets.

A common misconception however is that without large vessel construction, the U.S. shipyard industry is dormant – however nothing could be further from the truth. In 2015 our industry delivered 1,438 Jones Act vessels and 1,329 in 2016. We expect this infrastructure to continue supporting the expanded investment in marine transportation, including ferries and passenger vessels, commercial fishing fleets and the inland barge market. Recent announcements regarding the construction of 100,000-barrel ATB's again demonstrate the Jones Act is working as intended to support our domestic commercial market.

Looking towards the future, we expect there will be strong investment in marine transportation around the nation making investments in expanded ferry and passenger vessel service. We will need to be ready to build out vessels to support our maritime academies by building the next generation of training ships for our mariners. We will need to recapitalize the Ready Reserve Force (RRF) and that may require a mixture of extending the service lives of some of those vessels, building new and possibly purchasing some foreign built assets out of the Maritime Security Program. With the looming threat of political instability in multiple regions across the globe, it is imperative that the RRF is prepared for sudden dispatch, and is made up of capable assets that can meet any national security demand.

As Congress and the administration work together to construct a new transportation and infrastructure package, we want to make sure that the shipyard industry is not forgotten. The SCA would support an increase in funding for small shipyard assistance grants and sustained funding for the Title XI loan guarantee program. These initiatives are very important to shipyards and the more than 400,000 people that work in our industry.

According to MARAD's "Research, Development, and Technology Strategy" released in November of 2017, over the past several decades, hundreds of millions of dollars in federal

funding have been allocated to surface transportation innovation and research. In that same period, less than one percent of that value has been used for maritime innovation and research. In the consideration of the next generation of transportation, we ask that the Congress redouble efforts to support maritime research.

Foreign Shipyard Bailouts and Subsidies

As a closing observation it is important to highlight to this committee that U.S. shipyards do not compete on a level playing field in the worldwide market. For example, last year South Korea's government injected \$2.6 billion into one of their most prominent shipyards in order to keep the yard from going bankrupt.

China's government subsidies are extremely difficult to detect and measure partly because international trade agreements prohibit direct and indirect subsidies. However, we know that there is a certain extent of market manipulation based on international news reports and recent studies. A September report from the Center for Economic and Policy Research found evidence that shipyard costs in China decreased between 13 and 20 percent between 2006 and 2012, leading to "substantial misallocation of global production with no significant consumer [gains]."²

Additionally, between 2013 and 2017³, China operated a "cash for clunkers" program that increased subsidies for scrapping obsolete ships by 50 percent to help cut overcapacity in the market. During this period, the Chinese government granted \$247 per gross ton for shipping companies to replace obsolete ships. Chinese shipyards further benefited from this initiative, because the grants were awarded to shipping companies only after replacement orders had been placed in Chinese shipyards.⁴

On top of the scrapping incentive, the Chinese government offers more overt support for its shipyard industry through cash infusions. One such shipyard, Rongsheng, received state subsidies of up to 1.3 billion yuan, or \$202 million, *per year* from 2010 to 2012. In that same time period, reports also noted that the shipyard had laid off 8,000 workers, and yet would still

² (Kalouptsidi 2017)

³ (Reuters 2015)

⁴ (Bhattacharya 2013)

need to appeal for more government aid in 2013.⁵ Eventually, even state subsidies could not prop up the yard, which went bankrupt and the facility was removed from the government's white list in 2014.

The Chinese government's "white list" program was introduced by China's Ministry of Industry and Information Technology in 2014 as a way to address the severe overcapacity of shipbuilding facilities. In 2017 it consisted of 70 "reputable" shipyards that allow the companies to benefit from prioritized policy support and gain easier access to domestic bank credits. The list is comprised of 37 state-owned facilities, 24-privately owned, seven jointly-owned and two sole proprietorship yards.⁶

These are examples of direct and indirect government support that distort the international shipbuilding market and disproportionately impact U.S. shipyards and their ability to compete internationally. The infusion of cash from governments like South Korea, Japan and China resulted in shipyards from those countries building for markets that did not exist, at rates subsidized by those foreign governments.

It is therefore an extreme misrepresentation to compare that blatant manipulation of foreign shipyards to the stability provided by the Jones Act.

Thank you again Chairman Hunter and Ranking Member Garamendi for allowing me to testify alongside such distinguished witnesses today. I look forward to your questions.

⁵ (Reuters 2013)

⁶ (Liang 2017)

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