

STATEMENT

OF

WILLIAM A. CREELMAN
DEPUTY MARITIME ADMINISTRATOR

OF THE

DEPARTMENT OF TRANSPORTATION

BEFORE THE SUBCOMMITTEE ON DEFENSE
OF THE HOUSE APPROPRIATIONS COMMITTEE

ON

THE SHIPBUILDING INDUSTRIAL BASE

MAY 11, 1989

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MR. CHAIRMAN, I AM WILLIAM A. CREELMAN, DEPUTY MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION. I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS THE SHIPBUILDING INDUSTRIAL BASE.

THE MANDATE OF THE MARITIME ADMINISTRATION (MARAD) IS TO FOSTER THE DEVELOPMENT AND ENCOURAGE THE MAINTENANCE OF OUR MERCHANT MARINE, INCLUDING OUR SHIPBUILDING INDUSTRY. A COMMERCIALY VIABLE MERCHANT MARINE IS, BY ITS VERY NATURE, A DEFENSE MOBILIZATION RESOURCE.

WITHIN THE PAST MONTH SECRETARY CHENEY HAS CALLED FOR THE DEVELOPMENT OF A NATIONAL SEALIFT POLICY. IN ADDITION, TRANSPORTATION SECRETARY SKINNER IS TAKING THE LEAD IN DEVELOPING A NATIONAL TRANSPORTATION POLICY WHICH WILL INCLUDE MARITIME INITIATIVES.

STATUS OF SHIPYARDS

THE U.S. "ACTIVE SHIPBUILDING BASE" (ASB), AS IDENTIFIED BY THE U.S. NAVY AND MARAD, IS COMPOSED OF THOSE PRIVATELY-OWNED SHIPYARDS WHICH ARE ENGAGED IN, OR ACTIVELY SEEKING, CONSTRUCTION

CONTRACTS FOR MAJOR OCEANGOING OR GREAT LAKES SHIPS OF 1,000 GROSS TONS AND OVER. AS OF JANUARY 1, 1989, THERE WERE 19 ASB SHIPYARDS. THE ASB SHIPYARDS EMPLOY APPROXIMATELY 89,700 PEOPLE, ABOUT 70 PERCENT OF THE SHIPBUILDING AND SHIP REPAIR INDUSTRY'S TOTAL WORK FORCE OF ABOUT 127,600, BOTH OF WHICH ARE DOWN ABOUT 25 PERCENT FROM CYCLICAL PEAKS IN 1981. THE REMAINING 30 PERCENT IS DISTRIBUTED AMONG 550 SMALLER YARDS AND FACILITIES, ACCORDING TO THE BUREAU OF LABOR STATISTICS (BLS). IN ADDITION, THERE ARE NINE GOVERNMENT-OWNED SHIPYARDS, WHICH, IN RECENT YEARS, HAVE NOT ENGAGED IN NEW CONSTRUCTION, BUT RATHER IN THE OVERHAUL AND REPAIR OF NAVY AND COAST GUARD SHIPS.

THE TOTAL VALUE OF WORK COMPLETED BY U.S. SHIPYARDS IN 1988 WAS \$8.7 BILLION, DOWN 2 PERCENT FROM 1987.

DURING THE 1980'S, THE LARGEST SHIP CONSTRUCTION PROGRAM IN THE U.S. NAVY'S PEACETIME HISTORY -- NEARLY \$100 BILLION APPROPRIATED -- HAS BEEN UNDERWAY. CONTRACTS FOR CONSTRUCTION, CONVERSION, AND REPAIR OF NAVY AND COAST GUARD SHIPS ACCOUNTED FOR MORE THAN 90 PERCENT OF THE PRODUCTION WORK FORCE WITHIN THE ASB IN 1988. THIS PERCENTAGE OF EMPLOYMENT SUPPORTED BY NAVY WORK IS EXPECTED TO REMAIN STEADY IN 1989.

COMMERCIAL SHIPBUILDING

WORLDWIDE, COMMERCIAL SHIPBUILDING HAS ALWAYS RESPONDED TO CYCLES IN WORLD TRADE PATTERNS AND TECHNOLOGICAL CHANGE AS WELL AS TO THE AFTER EFFECTS OF WAR-RELATED SURGES. AS OF JANUARY 1,

1988, THERE WERE ONLY APPROXIMATELY 1,000 OCEANGOING MERCHANT TYPE VESSELS UNDER CONSTRUCTION OR ON ORDER THROUGHOUT THE WORLD, CONTINUING A PATTERN OF DECLINE FROM ABOUT 2,000 VESSELS IN 1979. THE DECLINE IS PARTICULARLY SEVERE IN THE TRADITIONAL EUROPEAN SHIPBUILDING COUNTRIES.

REFLECTING THAT PATTERN, THE U.S. COMMERCIAL SHIP CONSTRUCTION MARKET IS AT ITS LOWEST LEVEL SINCE BEFORE WORLD WAR II. THE ORDER BOOK DECLINED RAPIDLY AFTER 1978 AND HAS REMAINED AT A NOMINAL LEVEL THROUGHOUT THE 1980'S. DURING 1987 AND 1988, NO ORDERS WERE PLACED WITH U.S. SHIPYARDS FOR COMMERCIAL VESSELS OF 1,000 GROSS TONS AND OVER. THE LAST COMMERCIAL VESSEL, A CONTAINERSHIP, WAS DELIVERED BY A U.S. SHIPYARD, BAY SHIPBUILDING CORPORATION, TO SEA-LAND SERVICE, INC., ON NOVEMBER 9, 1987.

AS OF DECEMBER 1, 1988, OUR ACTIVE FLEET OF 170 OCEANGOING DOMESTIC TRADE VESSELS AND 220 U.S. VESSELS IN FOREIGN TRADE (1,000 GRT AND OVER) DOES PROVIDE A NUCLEUS OF REPAIR WORK FOR OUR YARDS, AS DO OUR 64 ACTIVE GREAT LAKES JONES ACT VESSELS. IN ADDITION, OUR COASTAL, INLAND, OFFSHORE OIL SERVICE AND FISHING VESSELS ALSO PROVIDE WORK TO OUR SMALLER SHIPYARDS.

IN THIS AREA, MARAD HAS TWO PROMOTIONAL PROGRAMS TO ASSIST BUILDING IN U.S. YARDS. THE TITLE XI PROGRAM PROVIDES FOR LOAN GUARANTEES UP TO 75 PERCENT OF A VESSEL'S COST. THE OTHER PROGRAM IS THE CAPITAL CONSTRUCTION FUND, WHICH IS A TAX DEFERRAL PROGRAM. WHILE THESE TWO PROMOTIONAL PROGRAMS ARE AVAILABLE TO

BOTH THE JONES ACT AND THE U.S.-FLAG INTERNATIONAL MERCHANT FLEETS, THEY ARE NOT CURRENTLY GENERATING NEW SHIP CONSTRUCTION BECAUSE OF THE HIGH COST OF BUILDING IN U.S. YARDS.

U.S. YARDS, EVEN WITH A MAXIMUM OF 50 PERCENT SUBSIDY TO OFFSET FOREIGN COSTS, CEASED TO BE COMPETITIVE IN THE LATE 1970'S. FREQUENTLY, NEW SHIPS CAN BE FOREIGN-BUILT FOR ONE-HALF TO ONE-THIRD OF U.S. YARD COSTS FOR THE SAME SHIPS, AND THEY CAN BE BUILT IN ONE-HALF THE TIME AS WELL. THE MOST PRODUCTIVE FOREIGN YARDS ARE ALSO BUILDING MAJOR COMMERCIAL SHIPS USING AS LITTLE AS 25 MAN-HOURS PER TON OF STEEL ERECTED, WHILE THE BEST U.S. YARDS PRESENTLY REQUIRE MORE THAN TWICE AS MANY MAN-HOURS. FOR THIS REASON OUR CONSTRUCTION DIFFERENTIAL SUBSIDY PROGRAM HAS NOT BEEN VIABLE AND WAS SUSPENDED. THERE ARE AT PRESENT NO MERCHANT SHIPS BEING BUILT IN U.S. YARDS.

READY RESERVE FORCE

MARAD ACTIVELY SUPPORTS U.S. SHIPYARDS THROUGH THE READY RESERVE FORCE (RRF).

THE RRF (A COMPONENT OF THE NATIONAL DEFENSE RESERVE FLEET) WAS INITIATED IN 1976 TO PROVIDE ASSURED, RESPONSIVE SHIPPING TO SUPPORT THE RAPID WORLDWIDE DEPLOYMENT OF U.S. MILITARY FORCES. HISTORICALLY, ABOUT 95 PERCENT OF MATERIEL NEEDED TO SUPPLY OUR FORCES DURING WARTIME IS TRANSPORTED BY SHIPS. A KEY ELEMENT OF THE STRATEGIC SEALIFT PROGRAM, THE RRF IS STRUCTURED FOR QUICK-RESPONSE SHIP AVAILABILITY TO TRANSPORT ARMY AND MARINE CORPS UNIT EQUIPMENT AND INITIAL RESUPPLY FOR FORCES DEPLOYING ANYWHERE

IN THE WORLD DURING THE CRITICAL INITIAL PERIOD BEFORE ADEQUATE NUMBERS OF ACTIVE NAVY-CONTROLLED OR COMMERCIAL SHIPS CAN BE MARSHALLED. WITH A CURRENT TOTAL OF 92 RRF SHIPS, THE FY 1994 DOD GOAL IS TO HAVE A 142-SHIP RRF CONSISTING OF 104 DRY CARGO SHIPS, 36 TANKERS, AND 2 TROOPSHIPS.

ALL REPAIR AND MAINTENANCE WORK ON VESSELS PURCHASED FOR THE RRF PROGRAM MUST BE PERFORMED AT U.S. FACILITIES. THE ADDITION OF 50 SHIPS INTO THE RRF OVER THE NEXT 5 YEARS WILL PROVIDE THE DOMESTIC SHIPBUILDING/REPAIR INDUSTRIAL BASE WITH AN ADDITIONAL ESTIMATED \$93 MILLION WORTH OF WORK. TO THE EXTENT THAT THE ADDITIONAL ACQUISITIONS OF RRF SHIPS ARE FOREIGN-FLAG, PAST EXPERIENCE INDICATES THAT THE COST OF REFLAGGING WOULD GENERATE APPROXIMATELY \$4 MILLION PER SHIP IN U.S. SHIPYARDS. ON THE BASIS OF MARAD'S ANNUAL REPAIR AND MAINTENANCE REQUIREMENTS OF APPROXIMATELY \$750,000 PER SHIP, WE ESTIMATE THAT THE MAINTENANCE OF THE ENTIRE RRF OVER THE NEXT 5 YEARS, INCLUDING THE 50 NEW ACQUISITIONS, WILL PROVIDE THE SHIPBUILDING/REPAIR INDUSTRIAL BASE WITH AN ESTIMATED AVERAGE OF \$107 MILLION WORTH OF WORK ANNUALLY.

FY 1990 RRF FUNDING REQUEST

THE PRESIDENT'S FY 1990 BUDGET PROPOSES AN RRF FUNDING LEVEL OF \$239 MILLION. WHILE REPRESENTING A SIGNIFICANT INCREASE OVER MARAD'S 1989 LEVEL OF \$110 MILLION, THE LEVEL REQUESTED IS VERY CLOSE TO THE DOD FUNDING LEVELS FOR THE PAST FEW YEARS. THE

FUNDING IS NEEDED IN FY 1990 IF WE ARE TO MEET THE 1994 GOAL OF EXPANDING THE CURRENT LEVEL OF 92 RRF VESSELS TO 142. THIS GOAL IS BASED ON DOD'S PROJECTIONS OF THE SHORTFALL IN SEALIFT CAPABILITY OF SPECIFIC SHIP TYPES THAT ARE REQUIRED IN LIGHT OF THE CONTINUING CONTAINERIZATION OF THE U.S. COMMERCIAL FLEET.

BECAUSE OF THE IMPORTANCE OF THE RRF TO NATIONAL SECURITY, MARAD AND THE NAVY HAVE URGED CHAIRMAN WHITTEN AND THE COMMERCE, JUSTICE, STATE SUBCOMMITTEE TO APPROVE THE FULL FUNDING REQUESTED IN THE PRESIDENT'S BUDGET. THE FUNDING REQUESTED WILL GENERATE WORK IN OUR SHIPYARDS AND IS VITALLY NEEDED.

SUMMARY

THE SHIPYARD MOBILIZATION BASE IS AN INTEGRAL COMPONENT OF U.S. NATIONAL SECURITY. ADEQUATE U.S. SHIPYARD CAPACITY AS DEFINED BY DOD IS NECESSARY TO MEET MILITARY MOBILIZATION REQUIREMENTS FOR ACTIVATION OF RESERVE MILITARY AND COMMERCIAL SHIPS, INSTALLATION OF SEALIFT ENHANCEMENT FEATURES, AND BATTLE DAMAGE REPAIRS.

AS OF 1989, U.S. YARDS ARE RELYING MAINLY ON NAVY CONSTRUCTION AND SHIP REPAIR WORK. THE TREND IS TOWARD A SHIPYARD BASE COMPOSED OF FEWER SHIP CONSTRUCTION FACILITIES AND A LIMITED NUMBER OF SMALLER REPAIR YARDS. THE DECREASING CAPACITY OF THE MOBILIZATION BASE, COMBINED WITH THE

LOSS OF CRITICAL, HARD-TO-REPLACE SKILLED LABOR, THE CONTINUOUS DECLINE OF ASSOCIATED PRODUCTION WORKERS, AND THE EROSION OF THE ESSENTIAL SUPPLIER BASE ARE ALL FACTORS WHICH, IF CONTINUED FOR A NUMBER OF ADDITIONAL YEARS, WILL HAVE A SIGNIFICANT IMPACT ON THE INDUSTRY'S CAPABILITY TO SUPPORT A NATIONAL DEFENSE EFFORT.

FINALLY, MR. CHAIRMAN, I WOULD BE REMISS IN MY CONCLUSION IF I DID NOT POINT OUT THE DILEMMA WITH WHICH WE ARE FACED DURING PEACETIME.

ON ONE HAND, WE HAVE AN INTERNATIONAL COMMERCIAL FLEET WHICH CANNOT BE COST COMPETITIVE IN THE WORLD MARKET IF IT HAS TO BUILD ITS SHIPS IN U.S. YARDS WITH THEIR PRESENT HIGHER COSTS. ON THE OTHER HAND, THE SHIPYARD MOBILIZATION BASE REQUIREMENTS FOR A NATIONAL EMERGENCY CLEARLY EXCEED THE CAPACITY GENERATED BY REPAIR WORK AND NEW CONSTRUCTIONS REQUIRED BY THE COMPANIES OPERATING UNDER THE JONES ACT.

THIS IS NOT AN ENCOURAGING PICTURE. HOWEVER, THESE ARE THE TYPES OF PROBLEMS THAT I BELIEVE SECRETARY CHENEY INTENDS FOR THE NATIONAL SECURITY COUNCIL TO EXPLORE. YOU CAN BE ASSURED THAT SECRETARY SKINNER, IN DEVELOPING THE MARITIME PORTION OF THE NATIONAL TRANSPORTATION POLICY, WILL BE DISCUSSING THESE DIFFICULT PROBLEMS WITH THE SECRETARY OF DEFENSE.

THIS CONCLUDES MY STATEMENT. I WILL BE PLEASED TO ANSWER ANY QUESTIONS THE SUBCOMMITTEE MAY HAVE.