STATEMENT

OF

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DEPUTY MARITIME ADMINISTRATOR

OF THE

DEPARTMENT OF TRANSPORTATION

BEFORE THE SUBCOMMITTEE ON THE MERCHANT MARINE
OF THE SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ON

SEALIFT AND RELATED ISSUES

JULY 13, 1989

STATEMENT OF WILLIAM A CREELMAN, DEPUTY MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE OF THE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

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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 ABILITY OF THIS NATION TO MEET OUR SEALIFT REQUIREMENTS AND THE ISSUES THAT RELATE TO OUR SEALIFT REQUIREMENTS AND CAPABILITIES.

THE DEPARTMENT OF TRANSPORTATION CLEARLY RECOGNIZES THAT SEALIFT IS A CRITICAL NATIONAL ISSUE. SECRETARY SKINNER IS TAKING THE LEAD IN DEVELOPING A NATIONAL TRANSPORTATION POLICY. THE OUTREACH TO THE MARITIME COMMUNITY THAT IS PART OF THE POLICY DEVELOPMENT PROCESS HAS BEGUN.

SEALIFT IS THE TERM WE USE TO DESCRIBE THE SHIPPING CAPACITY THAT WOULD BE REQUIRED TO DEPLOY AND SUSTAIN U.S. ARMED FORCES IN A PERIOD OF NATIONAL EMERGENCY OR WAR. THE SEALIFT REQUIREMENT INCLUDES SPECIFIC DEMANDS FOR MANY TYPES OF SHIPS: BREAKBULK SHIPS, RO/ROS, CONTAINERSHIPS AND TANKERS. THIS REQUIREMENT CAN ONLY BE MET BY PROVIDING THE RIGHT NUMBERS OF THE RIGHT TYPES OF SHIPS AND MAKING SURE THAT THEY ARE AVAILABLE IN A TIMELY MANNER.

THE REQUIREMENT FOR SEALIFT IS ULTIMATELY BASED ON THE NATIONAL SECURITY STRATEGY ESTABLISHED BY THE PRESIDENT. THIS NATIONAL STRATEGY IS USED IN THE DEPARTMENT OF DEFENSE MOBILITY PLANNING PROCESS, IN WHICH MARAD PARTICIPATES, TO GENERATE SEALIFT REQUIREMENTS FOR EXPLICIT NUMBERS AND TYPES OF SHIPS. THIS PROCESS CONSIDERS THE AMOUNT OF EQUIPMENT AND SUPPLIES THAT THE MILITARY HAS TO MOVE, WHERE THESE CARGOES MUST GO, AND HOW QUICKLY THEY MUST REACH THEIR DESTINATIONS. AS MY COLLEAGUES FROM THE DEPARTMENT OF DEFENSE HAVE STATED/WILL STATE, THIS PLANNING CONSISTENTLY SHOWS THAT ABOUT 95% OF ALL EQUIPMENT AND PETROLEUM NEEDED TO DEPLOY AND SUPPORT U.S. MILITARY FORCES ABROAD WOULD HAVE TO MOVE BY SEA. IT CAN BE READILY CONCLUDED THAT PROVIDING ADEQUATE SEALIFT IS A FORMIDABLE TASK.

THE MARITIME ADMINISTRATION (MARAD) HAS VERY SPECIFIC RESPONSIBILITIES IN THE SEALIFT FUNCTION. THE PRIMARY MANDATE FOR THE SEALIFT ROLE OF MARAD IS CONTAINED IN THE MERCHANT MARINE ACT OF 1936 WHICH ESTABLISHES, AS NATIONAL POLICY, THE NEED TO HAVE A MERCHANT MARINE "CAPABLE OF SERVING AS A NAVAL AND MILITARY AUXILIARY IN TIME OF WAR OR NATIONAL EMERGENCY."

THERE ARE TWO MAJOR COMPONENTS TO THE SEALIFT CAPABILITY PROVIDED BY THE MARAD PROGRAMS: THE ACTIVE U.S. MERCHANT MARINE AND GOVERNMENT-OWNED SHIPS THAT ARE MAINTAINED NEAR DOMESTIC PORTS OF EMBARKATION AT A HIGH LEVEL OF READINESS. BOTH OF THESE

COMPONENTS ARE ESSENTIAL TO THE SEALIFT ROLE, AND EACH PROVIDES UNIQUE CAPABILITIES THAT ARE NOT AVAILABLE ELSEWHERE.

ROLE OF THE ACTIVE MERCHANT MARINE IN SEALIFT

A COMMERCIALLY VIABLE MERCHANT MARINE IS, BY ITS VERY NATURE, A CRITICAL DEFENSE MOBILIZATION ASSET. MOST OF THE SHIPS USED FOR SEALIFT WILL HAVE TO COME FROM THE ACTIVE U.S. MERCHANT FLEET. UNFORTUNATELY, THE OUTLOOK FOR OUR MERCHANT FLEET IS NOT ENCOURAGING. THE NUMBER OF SHIPS IN OUR LINER FLEET HAS FALLEN FROM 494 IN 1970 TO 197 CURRENTLY. DURING THIS TIME THE NUMBER OF LINER COMPANIES HAS DECLINED FROM 20 TO 7. U.S. OPERATORS HAVE FACED HIGHER CAPITAL AND OPERATING COSTS AS WELL AS A BURDENSOME REGULATORY REGIME COMPARED TO THAT EXPERIENCED BY THEIR FOREIGN COMPETITORS. THE TOTAL TONNAGE HAS NOT DECLINED BECAUSE COMMERCIAL SHIPS HAVE BECOME LARGER.

THE GROWTH IN THE SIZE OF SHIPS, AND THE NEED FOR COMMERCIALLY EFFICIENT SHIPS, HAS CREATED A GROWING DIVERGENCE BETWEEN THE MILITARY AND COMMERCIAL UTILITY OF MERCHANT VESSELS. OLDER DESIGNS SUCH AS BREAKBULK, LASH AND RO/RO ARE RAPIDLY BEING REPLACED BY LARGE CONTAINERSHIPS, WHICH WHILE MILITARILY USEFUL, ARE NOT IDEALLY SUITED FOR CARRIAGE OF MOST WHEELED AND TRACKED MILITARY EQUIPMENT. HOWEVER, IT SHOULD BE NOTED THAT IN THE MOBILITY PLANNING STUDIES, ALL AVAILABLE CONTAINERSHIPS ARE USED - IN FACT ADDITIONAL CONTAINERSHIPS ARE GENERALLY REQUIRED TO

MEET SHORTFALLS. GIVEN THE FACT THAT THE LARGE CONTAINERSHIPS ARE THE MOST COMMERCIALLY VIABLE PART OF THE U.S. FLAG FLEET, WE STRONGLY SUPPORT THE VARIOUS DOD EFFORTS TO INCREASE OUR ABILITY TO CONTAINERIZE UNIT EQUIPMENT.

WHILE ESTIMATES INDICATE THAT THE PROJECTED U.S. FLAG MERCHANT MARINE CAN NOT MEET FUTURE SEALIFT REQUIREMENTS, IT IS CRITICAL THAT WE MOVE RAPIDLY TO ENHANCE THE ABILITY OF OUR MERCHANT FLEET TO MEET NATIONAL SECURITY REQUIREMENTS. THE CONCEPTS OF OPERATING-DIFFERENTIAL SUBSIDY REFORM PROPOSED BY THE LAST ADMINISTRATION WOULD GO A LONG WAY TOWARD FURTHER REDUCING CAPITAL AND OPERATING COSTS AND WOULD TAKE STEPS TOWARD THE REDUCTION OF BURDENSOME REGULATION. IT WOULD ALLOW WORLDWIDE VESSEL ACQUISITION AND STREAMLINE OPERATING SUBSIDIES AND THEIR ADMINISTRATION.

READY RESERVE FORCE

IN RECOGNITION OF THE NEED TO PROVIDE ASSURED, RESPONSIVE SHIPPING TO SUPPORT THE RAPID WORLDWIDE DEPLOYMENT OF U.S. MILITARY FORCES, THE READY RESERVE FORCE (RRF) WAS CREATED IN 1976 AS A COMPONENT OF THE NATIONAL DEFENSE RESERVE FLEET. A KEY ELEMENT OF THE STRATEGIC SEALIFT PROGRAM, THE RRF IS STRUCTURED TO PROVIDE QUICK-RESPONSE SHIP AVAILABILITY TO TRANSPORT UNIT EQUIPMENT AND INITIAL RESUPPLY FOR FORCES DEPLOYING ANYWHERE IN THE WORLD DURING THE CRITICAL INITIAL PERIOD BEFORE ACTIVE

COMMERCIAL SHIPS CAN BE MARSHALLED. THE RRF WAS EXTABLISHED TO PROVIDE THE INITIAL SURGE OF SEALIFT, AND THE TYPES OF SHIPS THAT ARE CRITICAL TO MOVING MILITARY EQUIPMENT BUT ARE NO LONGER ADEQUATELY AVAILABLE IN THE ACTIVE COMMERCIAL FLEET. THIS INCLUDES SHIPS SUCH AS RO/ROS, LASH, AND SELF-SUSTAINING GENERAL CARGO SHIPS. THE RRF ALSO INCLUDES SOME SHIP TYPES WHICH ARE SIMPLY IN SHORT SUPPLY IN THE U.S. FLEET, SUCH AS PRODUCT TANKERS. ALSO INCLUDED IN THE RRF ARE SOME SPECIAL PURPOSE VESSELS, LIKE THE AUXILIARY CRANE SHIPS USED TO UNLOAD GEARLESS CONTAINER SHIPS, WHICH WOULD NEVER BE FOUND IN AN ACTIVE COMMERCIAL FLEET. THE RRF NOW INCLUDES 93 VESSELS AND THE FY 1994 DOD GOAL IS TO HAVE A FLEET OF 142 SHIPS CONSISTING OF 104 DRY CARGO SHIPS, 36 TANKERS, AND 2 TROOPSHIPS.

THE SHIPS IN THE RRF ARE MAINTAINED IN A HIGH STATE OF READINESS AND ARE INTENDED TO BE AVAILABLE WITHIN 5, 10 OR 20 DAYS. WHILE WE HAVE HAD CONSIDERABLE SUCCESS IN TEST ACTIVATIONS OF THIS FLEET, WE HAVE ALSO LEARNED VALUABLE LESSONS FROM ACTIVATION PROBLEMS. WE NEED TO INCREASE OUR ACTIVATIONS TO BE SURE THAT OUR INTENDED READINESS STANDARDS ARE ACHIEVED AND THAT THESE SHIPS CAN BE COUNTED ON AS LONG TERM SEALIFT ASSETS. HOWEVER, THERE IS A VERY REAL AND GROWING CONCERN AS TO HOW TO ASSURE THE AVAILABILITY OF TRAINED CREWS TO OPERATE THESE SHIPS IN ANY FUTURE EMERGENCY.

ALLIED SHIPPING RESOURCES

MARAD ALSO IS RESPONSIBLE FOR A THIRD SOURCE OF SHIPPING CAPABILITY THAT WOULD BE USED IN WARTIME. MARAD REPRESENTS THE U.S. GOVERNMENT ON THE NATO PLANNING BOARD FOR OCEAN SHIPPING (PBOS) WHICH IS RESPONSIBLE FOR ASSURING THE AVAILABILITY OF VESSELS FOR SEALIFT AND GENERAL ALLIED USE IN A NATO WAR. THE DEPARTMENT OF DEFENSE, IN CONJUNCTION WITH MARAD, HAS COMPLETED A NATO SEALIFT SIZING STUDY DESIGNED TO ADDRESS THE SUPPLY/DEMAND OF MERCHANT VESSELS FOR A EUROPEAN CONFLICT. WHILE THE DETAILS OF THAT STUDY ARE CLASSIFIED, IT CAN BE STATED THAT A SHORTAGE EXISTS. WE HAVE FORMALLY REQUESTED PBOS TO INCREASE THE COMMITMENT OF ALLIED SHIPS THAT WOULD BE AVAILABLE FOR USE IN THE REINFORCEMENT OF EUROPE.

STATUS OF SHIPYARDS

SHIPYARDS AND THE SHIPYARD SUPPLIER BASE LOCATED IN THE UNITED STATES ALSO ARE CRITICAL PARTS OF THE SEALIFT EQUATION. A CERTAIN AMOUNT OF U.S. SHIPYARD CAPACITY IS ESSENTIAL FOR ACTIVATING THE RRF AND OUTFITTING THE SHIPS FROM THE ACTIVE MERCHANT MARINE FOR THEIR SEALIFT ROLE. A U.S. BASED SHIPBUILDING INDUSTRY IS ESSENTIAL FOR KEEPING SHIPS IN GOOD OPERATING CONDITION IN WARTIME.

HOWEVER, THIS CRITICALLY IMPORTANT SHIPBUILDING INDUSTRY IS ALSO IN A DECLINE. 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 89,000 PEOPLE, ABOUT 70 PERCENT OF THE SHIPBUILDING AND SHIP REPAIR INDUSTRY'S TOTAL WORK FORCE OF ABOUT 127,000, 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 ALWAYS HAS RESPONDED TO CYCLES IN WORLD TRADE PATTERNS AND TECHNOLOGICAL CHANGE AS WELL AS TO THE AFTER EFFECTS OF WAR-RELATED SURGES. AS OF MARCH 1, 1989, THERE WERE ONLY 1,079 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 ORDERBOOK DECLINED RAPIDLY AFTER 1978 AND REMAINED AT A NOMINAL LEVEL UNTIL THE MID-1980'S. SINCE 1987, NO ORDERS HAVE BEEN PLACED WITH U.S. SHIPYARDS FOR COMMERCIAL VESSELS OF 1,000 GROSS TONS AND OVER. THE LAST COMMERCIAL VESSEL COMPLETED BY A U.S. SHIPYARD WAS DELIVERED TO SEA-LAND SERVICE, INC., ON NOVEMBER 9, 1987. THERE ARE AT PRESENT NO MERCHANT SHIPS BEING BUILT IN U.S. YARDS.

AS OF DECEMBER 1, 1988, OUR ACTIVE FLEET OF 166 OCEANGOING DOMESTIC TRADE VESSELS AND 168 U.S. VESSELS IN FOREIGN TRADE (1,000 GRT AND OVER) PROVIDES A NUCLEUS OF REPAIR WORK FOR OUR YARDS, AS DO OUR 78 GREAT LAKES JONES ACT VESSELS. IN ADDITION, OUR COASTAL, INLAND, AND 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 BUILT ABROAD FOR ONE-HALF TO ONE-THIRD OF U.S. YARD COSTS FOR ESSENTIALLY THE SAME SHIPS, AND THEY CAN BE BUILT IN ONE-HALF THE TIME AS WELL. THE MOST PRODUCTIVE FOREIGN YARDS ARE BUILDING MAJOR COMMERCIAL SHIPS USING LESS THAN 20 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 WAS NOT VIABLE, AND IT WAS SUSPENDED.

THE INTERESTS OF THE GOVERNMENT, HOWEVER, ARE SERVED BY CONTINUING EFFORTS TO IMPROVE THE PRODUCTIVITY OF U.S. YARDS, BOTH PUBLIC AND PRIVATE. IMPROVING PRODUCTIVITY WOULD RESULT IN REDUCED COSTS OF NAVAL CONSTRUCTION; REDUCED COSTS AND IMPROVED SCHEDULES FOR MODIFICATION, MAINTENANCE AND ACTIVATION OF SHIPS

IN THE READY RESERVE FORCE; AND IMPROVEMENT OF THE SHIPYARD MOBILIZATION BASE.

ALL REPAIR AND MAINTENANCE WORK ON VESSELS PURCHASED FOR THE RRF PROGRAM MUST BE PERFORMED AT U.S. FACILITIES. THE PLANNED ADDITION OF 50 SHIPS INTO THE RRF OVER THE NEXT 5 YEARS, IF IT CAN BE FINANCED, 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 AND BRINGING FOREIGN ACQUIRED VESSELS UP TO U.S. STANDARDS 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 PROPOSED 50 NEW ACQUISITIONS, WILL PROVIDE THE SHIP 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 AND REFLECTS CLOSE COORDINATION WITH THE DOD IN THE BUDGET DEVELOPMENT PROCESS. THE FUNDING IS NEEDED IN 1990 IF WE ARE TO

MEET THE 1994 GOAL OF EXPANDING THE CURRENT LEVEL OF 93 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.

SUMMARY

THE U.S. MERCHANT MARINE 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 LIMITED CAPACITY SUPPORTED 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 PROBLEMS THAT I BELIEVE WE MUST SOLVE. 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.