



BEFORE THE
**UNITED STATES HOUSE
TRANSPORTATION & INFRASTRUCTURE COMMITTEE**

State of the U.S. Maritime Industry: Impacts of the COVID-19 Pandemic

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Testimony of:

Ben Bordelon
Chairman
Shipbuilders Council of America
20 F St. NW, Suite 500
Washington, DC 20001

On behalf of the Shipbuilders Council of America (SCA) I would like to thank Chairman Carbajal, Ranking Member Gibbs and members of the Committee for the opportunity to provide testimony on the state of the U.S. shipyard industry, specifically the impact that COVID-19 has had on our industrial base and the opportunities we see on the horizon. I ask that my entire testimony be submitted for the record.

I am testifying today as Chairman of the Shipbuilders Council of America, the national trade association for the U.S. shipyard industry. SCA is comprised of 83 member shipyard facilities and 104 industry partner member companies, many that are small and represent the vital supply and logistics chain that comprise the U.S. shipyard industrial base.

I am a proud third-generation shipbuilder and serve as president and CEO of Bollinger Shipyards. Founded as a machine shop by my grandfather, Donald Bollinger, in 1946, today we are the largest privately owned and operated shipbuilder in the United States and a leading designer and builder of high performance military patrol boats, ocean-going double hull barges, offshore oil field support vessels, tug boats, rigs, liftboats, inland waterways push boats, barges, and other steel and aluminum products. While we have both commercial and government customers, we are especially proud of our work for the United States government where we have designed, built, and delivered more than [182] and counting U.S. Navy and Coast Guard vessels since 1984 – over 165 of those high-speed Coast Guard cutters.

The U.S. shipyard industrial base is a diverse and critical manufacturing sector of our nation's economy. Shipyards are engaged in building, maintaining and repairing vessels of all sizes for the U.S. Navy, U.S. Coast Guard, U.S. Army, NOAA, Maritime Administration, local and state government customers and the 40,000 commercial vessels that operate in domestic commerce.

The ships built for these customers are some of the most technologically advanced in the world and are only possible because of the significant contributions of U.S. shipyard workers and the associated supply chain that support jobs in all 50 states.

COVID Impacts to the Industry

Though the COVID-19 pandemic greatly impacted the shipyard industry, I am proud to report that with the workforce designated essential workers, your American shipyards never shut down and have been cutting steel and coming to work throughout the past year. The COVID-19 pandemic impacted the U.S. shipyard industry by introducing additional costs and delays related to production, workforce and our critical supply chains and there is uncertainty as to how those delays and costs will ultimately be addressed by the government and commercial customers.

In response to the pandemic, the SCA established an emergency COVID-19 task force that met weekly beginning mid-March 2020. The task force conducted industry surveys, shared industry best practices and resources and provided this information to our government partners, including the Navy Industrial Base Task Force, the Maritime Administration and the DHS Maritime Security Committee. Additionally, we know the dedication our members have to their teams and while they were sharing essential information with us, we were also providing them with real-time information from Washington so they could plan and make the best decisions for their companies and workforces. Regular communication with those groups helped facilitate questions related to testing, personal protective equipment (PPE) and additional assistance from the Federal Emergency Management Agency (FEMA).

The shipyard industry has a long culture of safety and we are dedicated to the health and safety of our employees. When the pandemic crisis began, our industry was prepared to meet unique demands and adjusted to protect our workers by shifting our operations, providing additional PPE and issuing safety guidance as we learned more about the virus.

Shipyards took immediate action to keep employees safe with many facilities establishing their own crisis response teams, limiting company travel and spreading out the work force as much as possible in our facilities. Additionally, managing supply chain disruptions became a critical component to mitigate production delays as well as reassigning our workforce to complete other tasks while those delays were absorbed. There have been associated costs to these changes in every area of our business from our workforce and finance teams to IT and our technical infrastructure to absorb the changes necessary to continue working while keeping people safe.

The biggest drivers of schedule and cost impacts have been increased rates of absenteeism, sometimes as high as 30% at some of our member yards, unexpected loss of supervision, late equipment deliveries due to other production delays in the supply chain and inability of our suppliers to travel to oversee complex discussions with our engineers.

Almost a year into the pandemic, facilities are continuing to adjust to this new normal and implementing innovative policies to limit workplace spread of COVID-19. Like any industry on the frontlines, we continue to focus on the health and wellness of our employees and adjust our work environments to make sure our teams come to work and leave safely. However, challenges persist and many of our members' shipyard facilities are expected to face production delays and cost impacts.

Congress and the Administration need to be aware of the impact our yards are having in their communities and the essential work they are completing for the good of our nation. Shipyards were essential economic drivers in their communities pre-pandemic and will be essential to the long-term economic recovery of those communities. During this time when so many in our country are out of work, the jobs associated with shipbuilding and ship repair have been incredibly resilient, allowing working people to continue bringing home paychecks to their families.

CARES Act and Additional Congressional Response to Pandemic

SCA and its members are appreciative of Congress passing the CARES Act in 2020. Section 3610 of the CARES Act authorized government contractors to be reimbursed for employees who could not work as a result of COVID-related closures. The U.S. shipyard industry was deemed essential from the beginning of the pandemic and shipyards have since remained in operation. For these companies, Section 3610 has largely not been applicable.

The scale of the pandemic's impact was not known when the Congress passed the CARES Act legislation. Then-Undersecretary of Defense (Acquisition and Sustainment) Ellen Lord testified before the House Armed Services Committee that without additional funds, the Department of Defense would have to use modernization and readiness funds to plug gaps caused by the pandemic. The lack of appropriated funds for those expenses has placed a significant burden on the shipyard industrial base due to the uncertainty of if, when, and how reimbursements will be distributed.

Absorbing these COVID-related costs without the necessary appropriated reimbursements could seriously jeopardize the shipyard industrial base which would have a degrading effect on our national security.

Planning for a Post-Pandemic Shipyard Industrial Base

Our experience with the ongoing pandemic has also reinforced the industry's need to shore up our domestic manufacturing capabilities, supply chains, facilities and workforce. In a 2015 report, the Maritime Administration determined the Economic Benefits of the U.S. shipyard industry supports nearly 110,000 skilled craftsmen in the Nation's private shipyards building and repairing America's military and commercial fleets.¹ The report found the U.S. shipbuilding industry supports nearly 400,000 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 highly-skilled workforce and industrial base needs stability and predictability to train the next generation of the U.S. shipyard workforce. We expect MARAD to update this report in the first quarter of 2021 which will provide us an updated snapshot of where the industry stands through this pandemic and the concurrent economic downturn.

U.S. shipyards and shipyard suppliers pride themselves on implementing state of the art training and apprenticeship programs to develop skilled craftspeople that can cut, weld, bend and build truly first of kind vessels and technologically advanced ships. However, the shipbuilding industry, like so many other manufacturing sectors, faces an aging workforce.

Our industry has continued to look at best practices for attracting the next generation workforce by highlighting the opportunities to learn high-skilled labor and the corresponding wages that can be earned without a four-year degree. Our shipyards work with regional partners to establish the curriculum needed for apprenticeship and vocational education at community colleges and local technical schools.

We encourage the Congress to look at opportunities to incentivize investment in vocational training and development of these critical skilled workers. This not only supports the requirements needed for our military customers but supports additional needs and opportunities in new commercial markets such as offshore renewable energy.

Providing Market Stability

To grow and develop the next generation of shipyard workers, U.S. shipyards require market stability across sectors so that companies can make the required investment in their people and facilities to meet demand.

The domestic commercial market is sustained by the Jones Act, which provides market certainty and stability. This law helps to ensure the existence of a domestic shipbuilding and ship repair industrial base. We were pleased that in his first week in office, President Joe Biden issued an Executive Order

¹ "Economic Importance of the U.S. Shipbuilding and Repairing Industry". Maritime Administration (MARAD), November 2015

reaffirming his support for the Jones Act and identifying it as a critical tool to support the development of U.S. jobs. The Jones Act sustains a domestic market for which carriers, operators and shipyards vigorously compete. When the Jones Act is not enforced or undermined by shortsighted policy, there can be detrimental influences on the larger domestic maritime industry and U.S. job creation.

A 2017 decision by the Customs and Border Protection (CBP) has allowed [certain] foreign-built, foreign-crewed and foreign-owned offshore supply vessels to operate in violation of the Jones Act. This has resulted in the cancellation of numerous construction contracts to build new "Made in the U.S.A." vessels because of the uncertainty introduced by executive-fiat and in contravention of Congressional intent. Not only does the cancellation of contracts have an immediate dampening impact to the domestic industry, but it initiates a vicious cycle wherein future opportunities could also be reconsidered or rescinded. The cancellation of contracts also dampens the domestic industry's ability to invest in their workforce and modernize their facilities to make them more safe and efficient.

I raise this issue as an example of how a decision by an agency to not enforce the Jones Act can have an adverse impact on commercial shipbuilding that reverberates throughout the entire shipyard industrial base, further raising costs and destabilizing its ability to support national defense requirements. We encourage the Congress to consider identifying and closing loopholes to the Jones Act that currently exist by providing clarity on matters related to visa issues and heavy lift operations that are integral to success and viability this critical commercial market.

Instead of seeking to undermine the Jones Act and undermine the critical shipbuilding manufacturing sector, the United States government, both the Administration and the Congress, should be promoting policies that actively encourage the expansion of the shipyard industrial base.

Efforts by this Committee in its support of the most recent U.S. Coast Guard Authorization Act provided clarity about the Congressional intent of the application of the Outer Continental Shelf Lands Act (OCSLA) to all aspects of development of offshore energy, not just production. That language, which was adopted into the full FY21 National Defense Authorization Act (NDAA), resulted in several shipyards confirming orders to construct new vessels to serve the burgeoning offshore wind market. Again, these policies result in jobs for American workers – so critical at this time of economic upheaval in our country.

Other efforts by members of this Committee have also seen the potential benefits of ensuring access to our own domestic energy production. As the United States has become the world's leader in energy production, we should encourage that our domestically produced natural resources, including LNG, be transported on U.S. vessels under such policies as proposed by Congressman Garamendi's Energizing American Shipbuilding Act. Not only would that help us regain a foothold on the international shipping market where we've ceded ground to heavily subsidized and government-backed shipyards, but there is a direct relationship from the construction of LNG tanker vessels to the recapitalization of our strategic sealift fleets because of the stabilization it would bring to the shipyard supplier base and shipyards generally.

In addition to preserving opportunities for commercial shipyard interests, SCA encourages the Congress to support stable and predictable budgets for the U.S. Navy and Coast Guard. The recently released Battle Force 2045 concept would see the fleet grow far beyond today's 296 ships. Simultaneously, the United States Coast Guard is undertaking efforts to recapitalize essential assets and programs. To be

clear, SCA advocates for policies and budgets that support our members' combined interests and refrains from promoting specific platforms or mixes of ships.

To meet the demands that these plans would require, the U.S. shipyard industry would need a substantial and sustained investment of both money and time, in both shipbuilding and readiness.

The increase in shipbuilding and ship repair to meet the Navy's plan would require U.S. shipyards to expand their work forces and improve their infrastructure to meet the increased demand for vessels – a requirement our Nation's shipyards are eager to provide. But to build these ships in a timely and affordable manner, stable and robust funding is necessary to sustain those industrial capabilities which support Navy and Coast Guard shipbuilding. It is important to note that today many of our shipyards and suppliers that compete to build these national security assets are sustained by commercial shipbuilding and repair so they are viable when the time comes to build and repair the national security fleets.

Congress has the tools to provide for the use of acquisition strategies that enhance cost reduction rather than requiring the entire procurement cost of a ship to be funded in one fiscal year. Alternative funding approaches such as advanced procurement, incremental funding and block buy contracting could increase stability in U.S. government shipbuilding plans and increase the number of ships that could be built for the same amount of procurement funding.

Through the use of advanced procurement, Congress can define the full cost of a ship in an initial appropriations act but incrementally defer some appropriated funds to future years. For the shipbuilding industry and the supplier base, this creates an early financial commitment which enhances job security and encourages capital investment. Additionally, advance procurement can reduce the total construction cost of a ship through improved sequencing or year-to-year balancing of shipyard construction work and the purchase of batch items that can be manufactured in an efficient and economic manner.

Incremental funding, where cost is divided into two or more annual measures, allow for expensive items, such as large Navy ships, to be procured in a given year while avoiding or mitigating budget "spikes" and major fluctuations in year-to-year budget totals. Incremental funding would also allow construction to start on a larger number of ships in a given year so as to achieve better production economies. An added benefit often not considered is a reduction in the amount of unobligated balances associated with DOD procurement programs.

Beyond that, Congress can consider block buys of ships. Block buy contracting permits a department to use a single contract for more than one year's worth of procurement of a given kind of ship without having to exercise contract options for each year after the first year. Purchasing ships through block buy contracting would enable shipyards to leverage "hot" production lines — those assembling current ships —and streamline the acquisition process for these vessels. Additionally, taking advantage of "hot" production lines as opposed to starting new classes of ships and reducing build "centers" can save the government significant money and get to the target fleet size more rapidly.

In addition to funding the construction of Navy and Coast Guard vessels, there must be similar commitments to fund the "tail" – the maintenance of the current and new ships entering the fleet. It is not possible to get to the target fleet size if the services do not maintain the ships that they currently have, for their expected service lives, while building new ships. Congressional initiatives such as the

recently extended OPN Pilot and relaxing upward obligation requirements are moving in the right direction. Reversing the Navy's momentum of cancelling planned modernizations and decommissioning Aegis Cruisers would help the industrial base as well as keep more ships in the fleet to meet our ever-increasing commitments around the world.

Another area of significant concern for government fleets is the recapitalization of the nation's strategic sealift fleet, which ensures that unitized military cargo can be delivered to the war front. Currently the average age of the ships in this fleet is nearly 40 years old, and the number of ships that will reach the end of their programmed service lives over the next decade will reduce sealift capacity by more than 25 percent. The Navy, in partnership with TRANSCOM and MARAD, is working through a plan to recapitalize that fleet through a combination of service life extensions, acquiring used commercial ships, and investing in new-build construction at U.S. shipyards.

In order to build and maintain these ships in as timely and affordable manner, stable and robust funding as well as stable construction rates and long-term procurement vehicles are necessary to sustain those industrial capabilities which support Navy, Coast Guard and other government shipbuilding and ship maintenance and modernization programs. These programmatic attributes provide the horizon and incentives required by industry to make risk-balanced investments in support of our national defense needs. To meet the demand for increased vessel construction while maintaining the vessels we currently have will require U.S. shipyards to expand their work forces and invest in their physical infrastructure in varying degrees depending on ship type and ship mix. Therefore, undermining the Jones Act through lack of proper enforcement directly impacts the ability of the nation to meet our own national security objectives.

Impact of Foreign Competition in Shipbuilding

Over the last twenty years, with significant government policy and financial assistance, the global shipbuilding capacity grew dramatically, primarily in Asia. At its peak Asian shipbuilders had captured 92% of the world commercial shipbuilding market. Despite the recent severe and sustained downturn in the world commercial shipbuilding markets, Asian governments have doubled down on the support of their shipbuilding industries. Policies like direct government subsidies and government-supported shipbuilding credit pools being used in Asian countries will continue to distort the global shipbuilding market.

A recent UN report notes that "in several Asian countries, Governments have taken various initiatives to support the shipbuilding industry. The use of public funds to finance shipbuilding prompted a complaint at WTO against the Republic of Korea in November 2018, on grounds that it may grant subsidies that may have a substantial impact on the price of ships, ship engines and maritime equipment, affecting trade flows in these products. At the same time, the shipbuilding industry in several European countries has called for increased Government support to help achieve the target of zero-emission shipping by 2050 (JOC.com, 2018a, 2018b)"²

These countries are investing and financing their shipyard industries because they consider it to be an issue of national sovereignty. The Congress and Administration need to recognize this distortion of the

² https://unctad.org/system/files/official-document/rmt2019_en.pdf

shipbuilding markets as they consider the actions needed to protect and support the U.S. shipyard industrial base. This begins with ensuring that the Jones Act is fully enforced.

Conclusion

The nation's shipyard industrial base has met the challenge of COVID-19 and continued to show its value to the nation. The shipyard worker stayed on the front lines and worked through the pandemic in difficult conditions. Looking towards the future, continued investment from Congress is essential to support the U.S. Navy and U.S. Coast Guard in their recapitalization of critical shipbuilding programs for their fleets. Simultaneously, the commercial market will continue to respond to industry demands for domestic shipbuilding, so long as there is stability and predictability in the market.

On behalf of our members at the Shipbuilders Council of America and personally as a President and CEO of Bollinger Shipyards, I want to reiterate my sincerest gratitude for all this Committee has done for the U.S. maritime industry and ask for continued Congressional and Administrative support on these initiatives and enforcement of the Jones Act because it is essential to maintaining the critical U.S. shipyard industrial base that supports our national security fleets.

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