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ON

MARITIME TRANSPORTATION: THE ROLE OF U.S. SHIPS AND MARINERS

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Testimony of

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Chairman Hunter, Ranking Member Garamendi and Members of the Subcommittee, I am Fred Harris, President of General Dynamics NASSCO. We build US Navy ships and large, ocean-going commercial ships in San Diego, CA. We repair and maintain Navy ships in San Diego, Norfolk, VA and Mayport, FL. I am Vice Chairman of the Shipbuilders Council of America (SCA) which represents shipyards and partners that supply and support US vessel construction and repair on all coasts, the Great Lakes, the inland waterways, Alaska and Hawaii.

It is a pleasure to testify regarding the industry and important federal policies, including the Jones Act and the Title XI loan guarantee program.

The United States is a maritime nation and draws much of its global power from its maritime strength. Our Navy and Coast Guard are without equal anywhere in the world and their strategic importance in the decades since WWII is unquestionable. Of equal importance, our unfettered access to international maritime trade allows us to buy and sell freely in the global marketplace.

However, our commercial maritime industry is often overlooked as a vital element of our nation's maritime strength. Commercial shipbuilding is a crucial underpinning of our government shipbuilding industrial base. It also ensures skilled mariners and ships are available in time of war or emergency to transport materials by sea. In both Gulf wars, over 90-percent of all war material was moved by sea. In the first Gulf war, 78-percent of this sea lifted material was carried by US flag vessels, and from 2002 to 2008, US flag vessels carried a staggering 97-percent of sea lift materials for the Iraq and Afghanistan conflicts. Of this 97-percent, 57-percent was carried in US flagged vessels, primarily ships in the Maritime Security Program (MSP). The remaining 40-percent was carried in US government-owned vessels. Roughly half

of these were Ready Reserve Force vessels which required our maritime industry to provide experienced mariners to crew. In 2011, there were only 192 US flag vessels over 10,000 deadweight tons. Ninety-three of these are in foreign (non-Jones Act) service and 60 of these are in the MSP. These numbers should serve to illustrate the importance of the MSP as well as reveal how tenuous this strategic lifeline has become.

The Jones Act is the cornerstone of America's ability to maintain a strategically significant maritime industry that is capable of building the ships the nation requires and of providing adequate sealift in times of national emergency.

Jones Act

The Merchant Marine Act of 1920, Section 27, also known as the Jones Act, requires that cargo transported by water between US ports is moved on ships that are US built, US flagged, crewed by Americans, and 75-percent US owned. The Act also ensures that the nation maintains a shipbuilding industry that currently supports over 400,000 jobs in the United States. A soon-to-be-released, MARAD-sponsored, shipbuilding and repair industry economic impact study conducted by Price Waterhouse Cooper found that the US shipbuilding and repair industry directly employs over 107,000. The multiplier for indirect jobs in support of the industry is 2.7, resulting in approximately an additional 300,000 jobs. Overall, that employment accounts for \$23.9 billion in labor income and \$36 billion in GDP.

There are nearly 40,000 Jones Act vessels in operation in the US. These vessels include oceangoing crude and product carriers and containerships, and as well as Offshore Support

Vessels (OSV) and all the commercial vessels that move cargo in and around the nation's rivers and ports. America's domestic fleet, one of the largest in the world, ensures a skilled workforce to both service and sail these vessels and provides the nation a strategic sealift capability during time of conflict or emergency.

The Navy and Defense Department strongly support the Jones Act because of its important national security benefit. Our military leaders have repeatedly voiced their support for the Jones Act. In addition, 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. The 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. The GAO also said that if the American maritime industry ever disappeared or was substantially reduced, DoD would need to create a much larger reserve fleet at substantial cost to taxpayers.

Jones Act opponents argue that the Act is a highly protectionist law unique to the US maritime industry. In fact, according to the last tally by the US Maritime Administration, more than 50 countries have similar maritime laws. (And that does not include those nations that have "practices," if not laws, reserving their domestic transportation to their own countrymen.) In addition, these types of laws are not just confined to the maritime industry. A cabotage law is one that affects the transport of people and goods within a particular country, and it can apply to other modes of transportation such as rail, trucking, and airlines. All over the world, countries have put in place policies and laws for a variety of modes of transportation to ensure domestic safety, security, environmental control, and taxes, among other important reasons. Opponents of

the Jones Act are often artfully mum about laws similar to the Jones Act that support their own interests.

Jones Act opponents routinely state that no one is building ships in the United States anymore because the US-build requirement dramatically increases the cost of shipping in the US. First, American shipyards are building more than a thousand vessels every year, including state-of-the-art vessels. US shipyards are competitive in some areas 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. Additionally, the world's first LNG-powered containerships (and thus the greenest ships of this type) are currently being designed and will shortly begin construction in an American shipyard. This revolution in the maritime LNG market will be addressed in greater detail later in this testimony. Second, US commercial shipbuilding maintains a robust, skilled shipbuilding and repair work force and supplier base that supplements and helps reduce the cost of government construction. In fact, many of the same yards building for the military are also building commercially. For these reasons, the US Navy unequivocally supports the Jones Act.

The Shipbuilding Industry

Since WWII, the shipbuilding industry has undergone dramatic change. During WWII, US shipyards set the international benchmark for shipyard efficiency, producing more than 95-percent of the world's tonnage from just 30 yards. By the end of WWII, the US Navy's fleet was the world's largest, comprising 70-percent of the world's total tonnage for naval vessels greater than 1,000 tons.

Since WWII, the US has seen a marked decrease in the number of commercial oceangoing ships built domestically. In 1953, the US built 45 commercial ships. Despite an average of 25 ships delivered per year through the 50s, 60s, and 70s, US shipbuilders lost their competitive edge. Throughout this period, the industry was supported by the US Government's Construction Differential Subsidy Program (CDS). When the Reagan Administration canceled this subsidy in 1983, the impact was felt immediately, and the construction of commercial ships in the United States nearly ceased.

Along with the cancellation of the CDS program, a number of other factors have contributed to the decline of commercial shipbuilding in the US. The primary factors include the rise of heavily state-supported Asian shipyards, a lack of an effective US government maritime policy, and industry's failure to adopt more efficient processes and upgrade facilities.

Since 1953, we've lost over 300 shipyards, commercial and naval alike. We have lost the U.S. Naval Shipyards in Boston, Brooklyn and Philadelphia, and the commercial yards in Quincy, Massachusetts, Sun Shipbuilding & Dry Dock in Chester, Pennsylvania, and Bethlehem Steel at Sparrow's Point, Maryland, their state's largest private sector employers at the time. And, we are soon to lose Louisiana's Avondale shipyard for Navy work.

The decline of shipbuilding capacity in the US is directly linked with the decline of the US commercial fleet. However, the industry anticipates increased orders in the next few years for several reasons: the Jones Act dry cargo fleet requires recapitalization because of the current fleet's age, the introduction of stricter environmental regulations, and the rising cost of fuel. Additionally, the recent increase in crude oil production in the contiguous United States is

creating demand for more Jones Act tankers. Both of these opportunities offer hope for US shipbuilding, but a strong and intact Jones Act is a necessity. A healthy Jones Act ensures preservation of the industry's supplier base, the design and production workforces, and of course, the seafarers. Repealing the Jones Act would wipe out most large US commercial shipyards and shipping companies. Furthermore, it would limit oceangoing US Merchant Mariners to employment with Military Sealift Command (MSC).

The vast majority of large oceangoing commercial ships are built today in Japan, Korea, and China. India, Vietnam, and the Philippines are emerging in the industry as well. All of these countries, but particularly China and South Korea, have made the development of a shipbuilding industry a national priority. All of these countries heavily subsidize their shipbuilding industries and are able today to build ships more cheaply than the commercial shipyards in the US from a combination of subsidy and the resultant volume. Volume and the ensuing ability to pursue process improvement have ensured that foreign shipbuilders, particularly the Koreans and the Japanese, have become the most efficient in the world. For the last two years, however, there has been an enormous glut of new ships entering the market, and ship orders are severely depressed for all but the most complex ships (drilling rigs, LNG carriers, LNG processing plants, and mega containerships (14-18,000 TEU)). As a result, many foreign shipbuilders are struggling, and the world is seeing a dramatic reduction in the number of shipyards. As many as 50-percent of the shipyards in China, that build simpler ships (tankers, bulkers and small to medium containerships) may close (or be repurposed) during this downturn. In an effort to stave off closure, shipyards are offering very low prices. If the Jones Act was repealed today, foreign-built ships would be brought into the US trade immediately, supporting the heavily subsidized foreign shipyards and resulting in the demise of the American shipbuilding industry.

Importance to Military Shipbuilding

The commercial shipyard industrial base is critical to national security. The Navy strongly supports the Jones Act, along with every Administration in modern history. In a recent statement to Congressman Courtney, John F. Lehman, former Secretary of the Navy, had this to say:

“The Jones Act is vital to maintaining a U.S. merchant marine, on call in times of conflict and crisis, as well as a robust shipbuilding industrial base to construct and repair the most sophisticated Navy and Coast Guard fleets on earth.” Contracting US national security budgets projected through 2017 and beyond underscore the importance that commercial work will have in offsetting military and other government workloads in US shipyards. Commercial shipyards build vessels for the US Navy, US Army and the USCG. Without these commercial shipyards, the US military would pay more for supply vessels, other service vessels, amphibious ships and cutters. As an example, over the life of the Navy’s T-AKE (Dry Cargo and Ammunition Ship) Program, the Navy saved approximately \$80 million in overhead cost because of commercial shipbuilding. Commercial shipbuilding supports the base of manufacturers who provide the material for construction of naval warships as well as the military’s ship repair industrial base.

The ability to build our own naval vessels in the US is a strategic imperative, and our commercial shipbuilding industrial base is an essential underpinning of our naval shipbuilding. Without the skill base of trades people and designers and the continuous infusion of best practices provided from a robust commercial shipbuilding industrial base, the costs of naval shipbuilding would simply become too expensive. To appreciate the impact of commercial shipbuilding on naval shipbuilding, one need only look at the effect of its collapse in the United

Kingdom. British commercial shipbuilding has been in serious decline for over 40 years and all but ceased over a decade ago.

Shipbuilding in the United Kingdom

At the start of WWII, the Royal Navy consisted of 377 ships in service, with 98 under construction. The commercial fleet of the UK flourished as well, numbering nearly 7,000 vessels. An example of that strength was seen during the Royal Navy Fleet Review at Spit Head for Queen Elizabeth the Second's Coronation in 1953. Hundreds of naval vessels participated in the Review, exhibiting what was then the second largest navy in the world. Today, there are only 79 ships in Her Majesty's fleet, which represents an 87-percent decrease over the past 66 years. The Naval Review for Queen Elizabeth's Diamond Jubilee last year was cancelled because the size of the fleet was so small and so few ships were available. Instead, the Queen was honored with a boat parade on the River Thames.

As early as the 1960s, many UK shipyards were either empty or working on their last orders. Over the course of the next 20 years, the government of the UK attempted to save the industry, first through subsidy, then nationalization, and finally privatization. With each instance of government intervention, the industry became less efficient and less competitive, losing out first to other European yards and more recently to the Japanese and Koreans.

Today, the UK shipbuilding industry is a shell of its former self. By the end of this year, there will be only four active shipyards, owned by just two corporations, BAE and Babcock. Last November, BAE announced that they may close their Portsmouth yard this year. In 1963, the UK

built nearly 20-percent of the world's commercial tonnage. Since 2004, not a single commercial oceangoing vessel has been built in the UK. As might be expected, the size of the UK flagged merchant fleet has fallen dramatically, from about 2,500 to less than 1,000 vessels today. Additionally, the crewing regulations are much less restrictive in the UK. Today, a seaman of any nationality may sail aboard a UK-flagged vessel with the exception of three positions: the Master, Chief Engineer, and Chief Officer. In the US, the Jones Act requires that the entire crew be of US citizenship. This provides further evidence of the value of the Jones Act.

The Royal Navy and the Ministry of Defense (MOD) clearly understand that the shipbuilding industrial base has atrophied to the point where it can no longer meet fleet replacement needs. The dwindling industrial base has and continues to limit the success of current Royal Navy shipbuilding, including the Astute Class submarine and the Queen Elizabeth Class carrier programs. I was personally involved in both of these programs. Last year, at the invitation of the MOD, I participated with a team in assessing the design and construction progress on the Queen Elizabeth carrier program. Design studies for the program were awarded in 1999, contracts were signed for two carriers in 2008, and construction began in 2009. The first of class, the HMS *Queen Elizabeth*, will probably not be operational until 2020 – a span of over 20 years from start of design to delivery. The construction of HMS *Queen Elizabeth* and now HMS *Prince of Wales* has been hampered by the fact that the UK no longer possesses the qualified labor force necessary to efficiently design and build complex surface combatants. Not only has the UK not built a carrier in 30 years, but the yard assembling HMS *Queen Elizabeth* has not built a warship in over 40 years, performing only repair work during that time. Though the first ship is under construction, the yard has had to import hundreds of skilled workers from all over the UK at great expense.

The full effect of the loss of both capability and capacity has reverberated into more recent naval programs. Last year, the Royal Navy put its Tide Class Military Afloat Reach and Sustainability (MARS) Program of double-hulled replacement tankers out for final bid. Although a number of British companies took part in the competition, none submitted a final bid for the detailed design and construction contract. Sadly, the few remaining UK shipbuilders were overburdened with design and construction efforts on the *Queen Elizabeth* carriers and could not participate in a new program. As a result, the MOD contracted with Daewoo Shipbuilding and Marine Engineering Company (DSME) in South Korea to build four 37,000-ton tankers for \$711 million (USD).

The state of the UK shipbuilding industry demonstrates what we have to lose should the Jones Act be repealed or otherwise weakened. Not only the loss of thousands of US jobs and the associated revenue, but the potentially un-recoverable loss of design and construction skills would be detrimental to the country. We cannot allow the US maritime industry to follow in the United Kingdom's footsteps. Maintaining the Jones Act is vital to ensure America preserves its commercial shipbuilding industry, and thus, its naval shipbuilding capability.

While it is true that we cannot effectively compete in price with heavily subsidized shipbuilders in South Korea, Japan and China, US shipbuilders are becoming more competitive and innovative. Several shipbuilders are internationally competitive in the Offshore Support Vessel marketplace and others are quickly becoming world leaders in bringing green LNG propulsion technology to the world of commercial shipping. The Jones Act dry cargo fleet needs to be largely recapitalized over the next ten years, and the current and projected demand for crude and product carriers is significant. The Jones Act ensures this work will be performed in US

shipyards. Not only would US commercial shipbuilders be able to maintain their skilled workforce of builders and designers, they will also be able to continue developing innovative technologies and best practices to the benefit of military shipbuilding. Additionally, the US government will have the opportunity to save taxpayer money by sharing overhead costs with commercial ship owners.

Jones Act – GAO Study

The Jones Act is often portrayed as being particularly harmful to the non-contiguous areas of the United States. At the specific request of the Resident Commissioner of Puerto Rico, the Government Accountability Office (GAO) recently studied the American container shipping service between the US mainland and Puerto Rico. The study was one of the most significant ever undertaken by an independent, non-partisan source. The GAO disproved charges that the Jones Act raises prices for consumers in Puerto Rico. The GAO specifically said, “[S]o many factors influence freight rates and product prices that the independent effect and associated economic costs of the Jones Act cannot be determined.”¹ As such, the GAO’s report confirmed that previous estimates of the so-called “cost” of the Jones Act are not verifiable and cannot be proven. The GAO also found that Puerto Rico receives regular and reliable service and that shipping rates had actually dropped between 2006 and 2010, which is consistent with previous federal studies by the US Department of Transportation, both in Puerto Rico and Hawaii. Finally, the GAO warned of the potential for negative, unintended consequences for the non-contiguous areas if the Jones Act was repealed or changed.

¹ GAO Report to Congressional Requesters, Puerto Rico Characteristics of the Island’s Maritime Trade and Potential Effects of Modifying the Jones Act, March 2013, p. 29

The higher prices of US-built ships are often blamed for higher consumer prices in the non-contiguous markets. I have previously provided data that show this price differential doesn't exist. Increased capital costs are not synonymous with increased shipping rates, particularly in an intensely competitive trade like Puerto Rico. US tax law (e.g., depreciation of the asset and deductibility of mortgage interest) further reduces the immediate impact on shipping rates. In addition, US shipbuilding capital costs can be reduced through several channels. Financing (amortization of the cost over the life of the vessel) spreads any cost over an extended period. Utilization of the Maritime Administration's Title XI Loan Guarantee Program and the Capital Construction Fund (CCF) can provide affordable financing to ship owners. Current and imminent environmental regulations will require that up to 25 vessels currently serving the non-contiguous trades be recapitalized over the next 10 to 15 years. Therefore, the opportunity for series construction to drive down costs is substantially increased. New vessels will also contribute to lower operating costs. They would likely be significantly more efficient, reducing operating costs (e.g., fuel) and could require smaller crews, reducing manpower costs. Additionally, new vessels may not replace old vessels 1:1 (e.g., 2 modern vessels might replace 3 older vessels), further reducing overall operating costs.

Comparing US shipbuilding to foreign shipbuilding, especially to shipyards in Asia, is not an apples-to-apples comparison. In their report, the GAO dedicated a large discussion of the many differences between US and foreign shipbuilding that may contribute to any cost differential. These important differences include foreign government support, lack of similar environmental and safety standards, and standardized series construction runs. In the end, repealing the Jones Act would only send American jobs and countless billions of dollars in investments, labor, and taxes overseas.

LNG – Liquefied Natural Gas

Increasing use of LNG in the maritime industry and the US non-contiguous energy markets will have an enormous impact on the Jones Act shipping market and, as such, warrants discussion. There is no doubt that LNG will play an increasingly important role in our nation's energy portfolio. LNG stands to impact the national energy market in ways only comparable to the oil boom of the nineteenth and twentieth centuries. The growing acceptance and consumption of LNG is driven largely by four factors: the goal of detaching from unstable Middle East crude oil suppliers, an ever-increasing drive towards environmental cleanliness, extensive domestic availability, and a dramatic price spread against crude products. The US maintains the fifth largest known global reserve, with prices at one-eighth the cost of crude oil.

LNG is becoming particularly significant to the shipbuilding industry. While it has been carried as a cargo for decades, LNG has not been widely used as a marine transportation fuel until recently. In December of 2012, NASSCO executed a contract to construct two LNG-fueled container ships for TOTEM Ocean Trailer Express, or TOTE. Additionally, NASSCO agreed to complete technical design work for the conversion of two existing TOTE trailer ships. These programs represent the first of their kind in history and were executed in the United States, within the terms of the Jones Act.

NASSCO does not stand alone in LNG vessel new construction. Harvey Gulf, an operator of offshore vessels for the oil and gas industry, has ordered five LNG-fueled Offshore Support Vessels from Trinity Offshore in Gulfport, Mississippi. As of May 3, 2013, Harvey Gulf has added a sixth vessel to that order, aligning them as the largest owner/operator of clean burning

LNG OSVs in the world. The Washington State Department of Transportation is considering the conversion of six car/passenger ferries in the next several years. VT Halter Marine is also pursuing a new build program that includes LNG propulsion. Given the growing use of LNG as a marine fuel source, it is also likely that bunkering barges will be required. This is evidenced by Shell's recent issuance of a request for information regarding bunker barge construction in the US. As the Jones Act dry cargo fleet is recapitalized over the next decade and as more Jones Act product and/or crude carriers are built to accommodate the rapid increase in contiguous US crude oil production, much of this new fleet will be LNG powered.

Hawaii and Puerto Rico are both seriously considering shifting the fuel source for their domestic electrical power generation to natural gas. Puerto Rico uses natural gas now, but it is imported from Trinidad and Tobago. Both Puerto Rico and Hawaii desire, for good reason, to take advantage of low cost US domestic natural gas. In order to do this, they must bring it in as LNG. Jones Act detractors have written many times that there are no LNG carriers available under the Jones Act and US shipbuilders don't build LNG carriers. They argue that foreign-built LNG carriers should be waived into the US coastwise trades.

In fact, there are three US-built LNG carriers that have current US Jones Act coastwise endorsements. They are not currently working in the US Jones Act trades because there are currently no US LNG export facilities in operation. However, within six months they could be brought off their current charters and reflagged to operate on a Jones Act route, e.g. from Sabine Pass, Louisiana, to Puerto Rico or Hawaii. Both Puerto Rico and Hawaii have plans to convert their electrical power generation to LNG and both desire to bring in low cost LNG from the contiguous US. Neither location is yet ready to receive more LNG, nor is the US ready to export

it. When both ends of this trade are ready to begin operation, the Jones Act qualified LNG carriers will be ready to support it. The existing Jones Act LNG carriers have the capacity to support Puerto Rico's projected needs. Additionally, US shipyards are today designing and constructing LNG-powered ships and are designing LNG carriers. When the time comes to build LNG carriers to support Puerto Rico and Hawaii, American shipbuilders will be ready to do so.

MARAD and American Marine Highway

The Maritime Administration (MARAD) is charged with promoting the development and maintenance of a strong merchant marine for national defense and development of foreign and domestic commerce. MARAD administers financial programs to improve and strengthen the US marine transportation system to meet the economic, environmental, and security needs of the Nation. It is MARAD's responsibility to maintain equipment, shipyard facilities, and reserve fleets of Government-owned ships essential for national defense. The Jones Act is an important element in MARAD's mission to promote the maritime industry. That said, in terms of national policy, the maritime industry has been progressively marginalized since the 1980s.

In 1981, MARAD was integrated into the Department of Transportation (DoT), with a budget of \$568 million, which constituted 2.39-percent of the DoT budget, compared to the DoT Federal Highway Administration (FHWA) budget of \$9.13 billion (38.3-percent). At that time, the US Interstate Highway System was nearly self-sufficient; the Highway Trust Fund (HTF) supported ~99.5-percent of the US Interstate Highway System funding requirements through fuel tax, user fees, and various tolls. Less than 1-percent of the required funding came from the General Fund receipts, bond issues, and designated property taxes. By 2010, the DoT MARAD budget had

been reduced to \$346 million, making up only 0.47-percent of the DoT budget, and the FHWA budget had increased to \$41.85 billion (57.13-percent). In March of 2010, the HTF balance was approximately \$7 billion. Through September of FY10, the US HTF distributed \$63.1 billion in funding to the FHWA, \$21.25 billion greater than the FHWA FY10 budget request.

Over the past decade, the US Interstate Highway System funding requirements have grown roughly two times faster than US Gross Domestic Product. The System is aging and highway expansion is not keeping pace with the increase in vehicle miles travelled (VMT). Congestion is rapidly increasing. Between 1982 and 2011, according to the Texas Transportation Institute, lost time due to traffic congestion across the country has increased from 1.1 to 5.5 billion hours. New highway infrastructure is cost prohibitive (at roughly \$60 million per lane mile in urban areas) and room for expansion does not exist in large metropolitan areas where relief is most needed.

Congress directed DoT to establish the America's Marine Highway Program in the Energy Independence and Security Act of 2007. The purpose is to expand the use of waterborne transportation while relieving landside congestion and reducing carbon emissions. The program is designed to focus on the integration of marine highways into the nation's surface transportation system, providing seamless transition across all modes by leveraging marine services to complement landside surface transportation routes.

America's Marine Highways (AMH) are navigable waterways that have been designated as such by the Secretary of Transportation and have demonstrated the ability to provide additional

capacity to relieve congested landside routes serving freight and passenger movement. The designated Marine Highways consist of over 29,000 nautical miles of navigable waterways, including rivers, bays, channels, the Great Lakes, and Saint Lawrence Seaway System and coastal routes. The Marine Highway system is an efficient means of moving freight in terms of cost per ton-mile and yet, it is the most underutilized of our transportation modes. According to the North American Transportation Statistics Database, in 2010, water services carried barely 6-percent of the nation's ton-miles of domestic freight, down from 30.5-percent in 1990 (not including the domestic pipeline network).

Title XI Loan Guarantee Program

The Title XI loan guarantee program, administered by MARAD, is critically important to the overall US shipbuilding industry and, particularly, to the construction of AMH vessels. The primary purpose of the program is to promote the growth and modernization of the US Merchant Marine and US shipyards. Title XI provides government guarantees of private sector loans for commercial ship owners constructing new ships and offers better terms and lower interest rates. Leveraging as much as \$11 dollars of private investment for every \$1 dollar of federal guarantee funds, the program has provided strong support for the industry.

Affordable vessel financing is the first step toward building Jones Act vessels. Beyond the economic benefits, the use of modern engine technology for these vessels, required under current environmental regulations, will provide environmental benefits by requiring less energy and reducing greenhouse gas emissions per ton-mile of freight moved.

In 2012, the Maritime Transportation System National Advisory Council (MTSNAC), chartered by the Secretary of Transportation, established the Shipbuilding Subcommittee with the directive to make recommendations to the Secretary on how to ensure the health of the shipbuilding industry. The Subcommittee recommended that the Secretary request consistent levels of funding for Title XI transactions in order to promote ship construction. The subcommittee also recommended that MARAD and DoT improve the efficiency and quality of the Title XI review process. Additionally, it is recommended that the Secretary request an increase in MARAD's administrative budget to a level that will ensure that MARAD has an adequate number of professionals with the appropriate education, expertise, and experience to evaluate and document Title XI transactions.

At present, the US maritime industry considers the Title XI process to be "broken" to the point of making the program nearly ineffective. Long delays in the Title XI program's application process are a deterrent to potential investors, taking up to two years in some cases. The current process for receiving a loan guarantee requires significant reform in order to restore the program's effectiveness as a timely source of financing for Jones Act vessels. The DoT Credit Council Order should be amended, internal guidelines should be amended or promulgated, and existing administrative requirements should be enforced as necessary to improve transparency and efficiency.

Funds have only been appropriated to support this program six times since 2002, sometimes from the DoD budget. No funds were appropriated in Fiscal Year 2013 and none are proposed in the President's Fiscal Year 2014 budget. Funding for the program should be increased and made more consistent to improve the Title XI process and to support the construction of Jones Act

vessels. We are grateful for continued efforts in Congress to provide Title XI funding, including the efforts of Chairman Hunter and other Members of Congress.

AMH projects currently lack support from private financing sources due to the perceived high risk involved in such investments, and they can only be implemented through public assistance. AMH projects cannot meet the existing Title XI financial tests with respect to debt, equity, and working capital since such tests are not consistent with start-up operations. The financial requirements in the existing Title XI program must be modified for AMH projects, if the Title XI program is selected to be used for these projects.

Implementing the recommended improvements to the administration of the existing Title XI program will restore its ability to serve as a vital financing source for the entire US shipbuilding industry. Implementation of the MTSNAC Shipbuilding Subcommittee's recommendations will make the Title XI program effective as a critically needed financing tool to further the development of America's Marine Highway as well as the construction of new Jones Act ships. The program, as modified, will provide the long-term financing necessary for vessel construction with requirements that companies with reasonable business models should be able to meet. In addition, clarification that Title XI can be used for vessel re-engining projects, since LNG repowering is expected to be a major feature of future economical vessel operation, will reflect the Secretary's support of projects that meet and exceed current environmental requirements.

Small Shipyard Grant Program

Another program creating highly skilled shipbuilding jobs is the Department of Transportation's Small Shipyard Grant Program (SSGP). According to a DoT release on May 7, 2013, "It's no secret that America's maritime industry is critical to our nation's economy and national security. That's why this Administration has provided more than \$150 million to help foster efficient and competitive shipyard operations through the Small Shipyard Grant Program." The grants provide financial assistance to small shipyards for capital improvements and training purposes.

The Shipbuilders Council of America (SCA) strongly supports continued SSGP funding and commends MARAD on their efficient and effective administration of the program. These competitive grants have been dispersed to over 50 projects in the past several years, improving and modernizing equipment to increase the efficiency, competitive operations, and quality construction of vessels in US shipyards. Additionally, the program supports important workforce development initiatives, a critical issue facing the industry at-large. In 2012 alone, 141 SSGP grant applications were submitted by shipyards while only 15 were awarded, clearly demonstrating the demand for this program. Over the past five years, SSGP has created and retained thousands of American jobs.

Conclusion

The Jones Act has been supported by every president in modern history and enjoys broad, bipartisan support in Congress today. The Defense Department and US Navy have declared it essential to national security. The American domestic maritime industry is responsible for

hundreds of thousands of jobs across our country, and maritime remains the most environmentally friendly, safe and cost-efficient mode of transportation.

The Jones Act is a critical supporting element of our maritime strength. Without it, the US stands to follow the same path as the UK and lose virtually all shipbuilding capabilities, along with the valuable design and construction skills associated with it.

Just as The Jones Act is vital for the US shipbuilding industry, the Maritime Administration's Title XI loan guarantee program is essential to the Jones Act trade. Title XI guarantees private loans to commercial ship owners for ship construction and modernization. This program provides affordable financing to ship owners to build new ships. There are, however, two critical elements of this program that need to be addressed to ensure the viability of commercial shipbuilding. First, funds must be consistently appropriated to support the program. Second, the current process for receiving a loan guarantee requires significant reform in order to restore the program's effectiveness as a timely source of financing for Jones Act vessels. Maintaining the Jones Act and funding and reforming Title XI are essential to ensure that America preserves its commercial shipbuilding industry, and thus, its naval shipbuilding capability.