BEFORE THE

UNITED STATES SENATE
COMMITTEE ON ARMED SERVICES
SUBCOMMITTEE ON SEAPOWER

Industry Perspectives on Options and Considerations for Achieving a 355-Ship Navy

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Testimony of

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On behalf of the Shipbuilders Council of America (SCA), I would like to thank Chairman Wicker, Ranking Member Hirono and members of the Seapower Subcommittee for the opportunity to provide industry perspectives on the domestic shipyard industry's capacity and capability to achieve a 355-ship Navy.

I am Matthew Paxton, President of the Shipbuilders Council of America, the largest national trade association representing the U.S. shipyard industry. The SCA has been in existence since 1920 and represents 85 member shipyard facilities and 99 industry partner member companies that are part of the vital supply chain that make up the shipyard industrial base.

SCA member shipyards are located along the eastern seaboard, the Gulf coast, Great Lakes, on the inland river system, West Coast, Alaska and Hawaii and constitute the shipyard industrial base that builds, repairs, maintains and modernizes U.S. Navy ships and craft, U.S. Coast Guard vessels of all sizes, numerous Army vessels, as well as vessels for other U.S. government agencies. In addition, SCA member shipyards build, repair and maintain America's commercial fleet of 40,000 vessels that operate along our coastline, inland waterways and between Alaska, Hawaii and Puerto Rico. The nearly 100 partner members of the SCA represent a significant portion of the vast supplier industrial base that provide goods and services to support commercial and government shipbuilding and ship repair in the United States.

My testimony this morning will focus primarily on the capability and capacity of the domestic shipyard industry to build and maintain a 355-ship Navy. The shipyard membership of this trade association builds the Navy's fleet of aircraft carriers, surface combatants, submarines, amphibious vessels and support ships. To be clear, the trade association advocates for policies and budgets that support our members' combined interests and refrains from promoting specific platforms or mixes of ships.

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.

First, Congress must find a way to remove the defense spending caps set in place by the 2011 Budget Control Act, which enacted the 10-year slate of reductions known as sequestration. In recent years, Congress has worked around sequestration with short-term deals, however, without a long-term solution uncertainty continues regarding the specific effects of sequestration in fiscal years 2018 through 2021. Although it is difficult to determine exact impacts going forward, five years of restrictions and reductions have already led to furloughs, deferred maintenance, delayed recapitalization and modernization programs, and increased deployment times. The easiest or least harmful of the reductions have already been made. Any cuts going forward will have incrementally more of an impact and will be more difficult to reverse causing further strain to the readiness of the Fleet. A sustained investment in our Naval Fleet requires as an essential precondition that the threat of sequestration be permanently eliminated.

In addition to eliminating sequestration, Congress can support the use of acquisition strategies to provide stability and 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 advance procurement, incremental or split funding and block buy contracting – all already in use in Navy shipbuilding – can help increase stability and affordability in Navy shipbuilding.

Through the use of advanced procurement, Congress provides upfront funding for the purchase of long-lead time ship material and components and provides the balance of ship funding in the subsequent fiscal year. For the shipbuilding industry and the supplier base this creates an early financial commitment which enhances job security, allows for strategic planning, training, hiring as well as encourages capital investment. Additionally, advance procurement can reduce the total construction cost of ships through improved sequencing or year-to-year balancing of shipyard construction work and the purchase of batch items that can be manufactured in a more efficient and economic manner.

Incremental or split funding, where cost is divided into two or more annual increments, allows for expensive items, such as large Navy ships, to be procured 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. And 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 the Department of Defense 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 initial procurement year. This is currently how Virginia-class submarines are procured, and during the Reagan years the federal government twice purchased two aircraft carriers at once. Purchasing ships through block buy contracting enables shipyards to leverage “hot” production lines — those assembling current ships —and streamline the acquisition process for these vessels. We cannot get to or sustain the target

fleet size if we do not maintain the ships we already have to their expected service life while simultaneously building new ships.

The selection or combination of these types of strategies will signal to the U.S. shipbuilding and repair industry that Congress is committed to building a 355-ship Navy and our industry is ready to respond accordingly.

Beyond providing for the building of a 355-ship Navy, there must also be provision to fund the "tail," the maintenance of the current and new ships entering the fleet. Target fleet size cannot be reached if existing ships are not maintained to their full service lives, while building those new ships. Maintenance has been deferred in the last few years because of across-the-board budget cuts. As a result of the wars in Afghanistan and Iraq, combined with commitments in Asia and other priorities, have lengthened ship deployments to eight to 11 months. This in turn has stretched the Navy's maintenance budget and kept families apart far longer than the Navy wants. The risk the Navy takes on when it has less than full operations and maintenance funding means accepting less readiness across the whole of the Navy, less capacity to surge in crisis or wartime, and preventing ships and submarines from reaching the end of their service lives. Any investment in building ships must be complemented by the investment to maintain those ships to their full life expectancy.

The domestic shipyard industry certainly has the capability and know-how to build and maintain a 355-ship Navy. 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 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 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

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

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 these ships. Long-term, there needs to be a workforce expansion and some shipyards will need to reconfigure or expand production lines. 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 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 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 in the world. 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 the Navy, and local and state resources, our association is committed to building a robust training and development pipeline for skilled shipyard workers. In addition to repealing sequestration and stabilizing funding the continued development of a skilled workforce also needs to be included in our national maritime strategy.

A critical part of maintaining and growing the workforce and industrial base to build a 355 ship Navy 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 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."

Additionally, while the Department of Homeland Security falls under the oversight of another Senate Committee, we must remember that another 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.

In conclusion, the U.S. shipyard industry is certainly up to the task of building a 355-ship Navy and has the expertise, the capability, the critical capacity and the unmatched skilled workforce to build these national assets. Meeting the Navy's goal of a 355-ship fleet and securing America's naval dominance for the decades ahead will require sustained investment by Congress and Navy's partnership with a defense industrial base that can further attract and retain a highly-skilled workforce with critical skill sets. Again, I would like to thank this Subcommittee for inviting me to testify alongside such distinguished witnesses. As a representative of our nation's private shipyards, I can say, with

confidence and certainty, that our domestic shipyards and skilled workers are ready, willing and able to build and maintain the Navy's 355-ship Fleet.