

The Energizing American Shipbuilding Act:

A Plan to Create Good Middle Class Jobs, Maintain Critical National Security Assets, Enhance Public Safety, and Strengthen the American Shipbuilding Industry



MAKE IT IN CHINA? Dapeng Sun, a Chinese LNG carrier, built by Shanghai-based Hudong-Zhonghua Shipbuilding Group Co.



OR MAKE IT IN AMERICA? USNS Cesar Chavez, a Lewis and Clark-class ship, built at NASSCO's San Diego Shipyard

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Congressman John Garamendi, Ranking Member, Coast Guard and Maritime Transportation Subcommittee

The U.S. Merchant Marine and shipbuilding industries are strategic national assets critical to national security, with the Department of Defense relying on our U.S.-flag fleet and its pool of trained and credentialed mariners for over 95 percent of national sealift needs in times of war or emergency. Yet this fleet is in a state of precipitous decline: the number of privately-owned U.S.-flag vessels engaged in foreign trade has dropped from 249 in the 1980s to just 78 as of October 1, 2016.

This signals not only the erosion of our sealift capabilities, but also the outsourcing of security and control over the supply chain that underpins our entire economy. The world relies on maritime transportation to move ninety percent of its global trade, but very little of that travels on U.S.-flag ships. Of the 1.4 billion tons of goods that are imported and exported through U.S. ports each year, 98 percent travel on foreign-flag vessels operated by foreign mariners.

The erosion of our ability to build and operate ocean-going vessels at competitive rates is also a threat to our industrial base. Good manufacturing jobs in shipyards and shipbuilding supplier companies have been outsourced overseas at alarming rates, and with them the invaluable technical skill and shipyard infrastructure that once kept costs down for both commercial and naval shipbuilding.

Inertia and bad public policy precipitated this decline, but Congress can turn the ship around by passing the *Energizing American Shipbuilding Act*.

The Energy Export Market Creates Important Cargo Opportunities for our Fleet

With the lifting of crude oil export restrictions at the end of 2015 and increased domestic natural gas production, the U.S. has seen an increase in export of these two strategic energy assets. By 2020, the U.S. is expected to be the world's third-largest producer of LNG for export, requiring about 100 or more LNG carriers. Crude oil exports could reach as high as 3.64 million barrels per day by 2025, which could require the use of between 180 and 380 oil tankers.

It is in the U.S. national interest to utilize the emerging export trades for American crude oil and LNG to provide reliable, long-term markets for U.S. commercial shipbuilding and U.S.-flag operators; to expand and increase the U.S. shipbuilding industrial base; and to strengthen U.S. strategic interests and alliances with trading partners that can place their trust in the reliability of the U.S. flag. Congress must look for ways to use American crude oil and LNG as leverage to bring to our shores new industries, hundreds of thousands of jobs, and national security modernizations befitting a global climate in which trade by sea will be a critical vulnerability for those nations who do not build, own, or operate ships.

Keeping American National Security Assets Competitive

As laid out in section 3502 of Public Law 113-66, maintaining a U.S. shipbuilding base is critical to meeting United States national security requirements, and can be achieved through the construction of vessels for use in transporting potential new energy exports. Shipbuilding is a strategic national industry critical to the growth and flow of our economy, and is also essential to the United States Navy, which relies on a select few remaining shipyards for the construction of new ships and the repair and refitting of existing ships. Further decline of the U.S. shipbuilding industrial base will continue to erode competitive bidding among shipyards, thus compromising efforts to reduce the deficit and balance the national budget. It will also result in the further loss of marine engineering expertise, preventing the adoption and utilization of the cutting edge ship construction technologies used by our foreign competitors.

"Today, after decades of trade deficits and a mass migration of factories offshore, there is only one American company that can repair Navy submarine propellers... America's steel industry is on the ropes, its aluminum industry is flat on its back, and its shipbuilding industry is gathering barnacles."

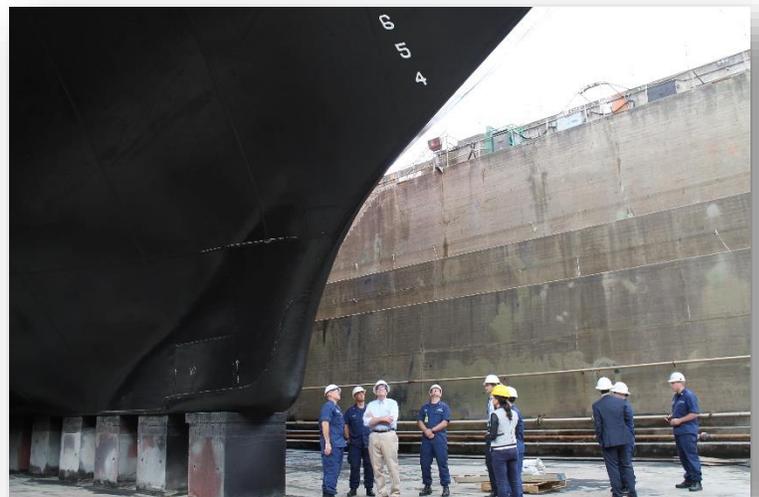
*- Peter Navarro, Director of
White House National Trade
Council (March 2017)*

Other countries have recognized the critical national security implications of a strong shipbuilding industry, and have taken strides to use the LNG trade as an opportunity to bolster their technology and capabilities. In 2014, India put out a tender to build nine new vessels to import American LNG, requiring bidders to build three of those vessels in India. South Korea has registered

shipbuilding technology as a national core technology to be controlled by the Korean government. China is looking to triple its LNG imports and plans to ship the bulk of its cargoes on its own project-dedicated vessels regardless of foreign-built vessel availability, ensuring greater control over its supply chain. Seeing a growth opportunity in developing the skills and technology to build more sophisticated ships, Chinese shipyards are aiming to take some \$10 billion in orders for new LNG tankers over the rest of the decade as part of a plan to restructure the country's ailing shipbuilding sector and secure China's energy supply chain.

Creating Good Middle Class Jobs

Tens of thousands of American mariner and manufacturing jobs aboard vessels, in shipyards, and throughout the U.S. supply chain depend on the strength of the maritime industry. There are currently 117 active shipyards in the U.S. spread across 26 states, and another 200 shipyards engaged in repairs or capable of building ships. In 2011, the U.S. private shipbuilding and repair industry directly provided 107,240 jobs, \$7.9 billion in labor income,



and \$9.8 billion in gross domestic product to the national economy. Including direct, indirect, and induced impacts, on a nationwide basis, total economic activity associated with the industry reached 402,010 jobs across all 50 states, \$23.9 billion of labor income, and \$36 billion in GDP in 2011. Each job in the private shipbuilding and repair industry supports another 2.7 jobs nationally, including increased revenue for small businesses serving maritime workers and their families. Each dollar of labor income in the shipyard sector leads to another \$2.03 in labor income in other parts of the economy.

"When somebody tells you that cargo preference is too expensive, you ask them whether they would prefer that a foreign government control our economy and our future."

- Anthony Fisher, Deputy Associate Administrator for Commercial Sealift at the U.S. Maritime Administration (March 2017)

Despite the strength of our shipyards' ability to build smaller vessels to service domestic trade, only a few shipyards currently have the ability to build large oceangoing commercial ships. Due to this eroded capacity and higher costs, the book of shipbuilding business created by energy exports will go entirely to foreign yards. 225 LNG vessels are expected to be added to the worldwide fleet by the end of 2020. Up to 50 of those are set to be built in China to deliver gas, including American LNG, to its ports. 125 LNG carriers and storage vessels are currently on order, but none from U.S. shipyards. Over 70 percent have gone to South Korean shipyards like Daewoo Shipbuilding and Marine Engineering and Samsung Heavy Industries. Another 100 ships are expected to be ordered for delivery between 2017 and 2020. If we set the course now to equip U.S. industry to win future orders, the economic prospects are tremendous.

Enhancing Port and Public Safety

The U.S. Merchant Marine is a highly trained, militarily-useful labor force, and American merchant sailors are the foundation of our marine transportation system. Since January of 2010, the net loss of 52 U.S.-flag oceangoing commercial ships has spurred the loss of around 2,300 mariners qualified to operate these vessels. Our mariner pool is now only barely sufficient to meet U.S. Transportation Command need estimates.

Further attrition of the Merchant Marine threatens American security because our nation relies on this secure source of labor for the movement of supplies and military cargo and personnel. The explosive nature of LNG heightens the need to ensure that the transport of LNG, especially in U.S. ports, is done by U.S. seafarers.

"Privately-owned U.S.-flag commercial shipping has proven to be an extremely cost-effective means to acquire significant sealift capacity to meet the Nation's requirements. However, the U.S.-flag commercial international trading sector is declining... The [recent] loss of U.S.-flag vessels represents a net decrease of over 327,000 square feet of roll-on/roll-off force projection capacity and over 600 merchant mariner jobs. The impact of losing these jobs cannot be overstated."

- General Darren W. McDew, Commander, U.S. Transportation Command (March 2016)

A Path Forward

The opportunity is ripe to push a program that reinvigorates our domestic maritime industry, advances American manufacturing, creates good shipbuilding and maritime jobs, and reclaims our expertise in a technology we once pioneered. To best serve U.S. national security and the public interest by ensuring that American shipyards and the U.S. Merchant Marine benefit from the shipping and export of strategic national energy assets, Congress must act to require that a percentage of strategic U.S. energy exports travel on American-built, flagged, and crewed ships.

The **Energizing American Shipbuilding Act** would:

- Immediately launch an LNG shipbuilding program in the U.S., ramping up over time so that by 2040, 15% of exported American LNG travels on U.S.-built and –flagged vessels;
- Immediately launch a crude oil shipbuilding program in the U.S., ramping up over time so that by 2032, 10% of exported crude oil travels on U.S.-built and –flagged vessels;
- Require that a significant portion of the iron, steel, and manufactured components be U.S.-sourced and U.S.-constructed, good U.S. manufacturing jobs in addition to mariner jobs;
- Require that exporters immediately create training opportunities for American mariners aboard export vessels so they can earn the credentialing required to assume these jobs.

This legislation endorsed by: Shipbuilders Council of America (SCA); Offshore Marine Services Association (OMSA); Navy League; American Shipbuilding Suppliers Association; American Maritime Officers Service; American Maritime Officers; International Association of Machinists and Aerospace Workers; Marine Engineers Beneficial Association (MEBA); Alliance for American Manufacturing (AAM); Seafarers International Union; Masters Mates & Pilots; Transportation Trades Department AFL-CIO; Transportation Institute; Maritime Institute for Research and Development (MIRAID); Council of American Master Mariners (CAMM); Propeller Club of Northern California.

Unless Congress takes action, ALL exported American crude oil and LNG traveling by ship will go on foreign-built and foreign-flag vessels operated by foreign crews, outsourcing ALL of the associated jobs and technical skills to foreign competitors. This bill would expand our U.S.-flag fleet, create over 2,000 new mariner jobs, and create thousands of additional jobs in shipyards and throughout the shipbuilding supply chain. I hope we can count on your support.



Energizing American Shipbuilding Act Summary

- Section 3 of the Natural Gas Act, which deals with the exportation of LNG, is amended to require that a percentage of exports travel on American-built vessels, starting at 2% in 2024 and ramping up to 15% in 2040.
- The provision of law lifting the crude oil export ban is amended to require that a percentage of exports travel on American-built vessels, starting at 1% in 2023 and ramping up to 10% in 2032.
- These vessels must be:
 - Built in the U.S.
 - Documented under the laws of the U.S.
 - Equivalent to the domestic content standards set by the Navy, as follows:
 - All major components of the hull or superstructure are built in the U.S. (10 U.S.C. 7309), and the iron and steel used for these structures must be melted and poured in the U.S.
 - Certain components are manufactured in the U.S. (10 U.S.C. 2534 and FY 2017 Appropriations Sec. 8117), with waiver authority included for unreasonable costs, delays, or insufficient quality.
- Exporters are required to provide opportunities for United States licensed and unlicensed mariners to receive experience and training necessary for them to become credentialed in working on export vessels.
- The bill is estimated to expand the U.S.-flag fleet by over 50 U.S.-built ships by 2040, creating over 2,000 mariner jobs and thousands of additional shipyard and steel-related manufacturing jobs.