Testimony Mr. Rick Edger, Jered Industries, Inc.

House Armed Services Committee
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Thank you Mr. Chairman. My name is Rick Edger, President and CEO of Jered Industries, Inc. We are a US-owned small business, and have been in business for nearly 60 years. We currently employ a workforce of 100 at the Liberty Works, our manufacturing facility in Brunswick, Georgia. We named it Liberty Works because we are located on the site of Liberty ship construction during WW II.

We have a proud work history with our primary customer, the US Navy, dating back more than 40 years. Jered Industries is a major source of naval machinery, including aircraft elevators, weapons and cargo elevators, retractable bow planes for submarines, steering gear, anchor windlasses, winches, capstans and other special purpose, custom designed equipment.

Our aircraft elevators are on the CVN 71-76; LHA 1-5; LHD 1-7; LPH 9-12 and our cargo and weapons elevators and steering systems are installed in over half the fleet on ship classes including the CGN and CVN 68-76, and the Navy's new LPD 17, *San Antonio* class ships.

Jered has made major investments at our twelve year old facility in Georgia including a multi-million dollar 4-head robotic welding station which was originally purchased to support the modular elevated portable causeway system ELCAS(M) that we designed, manufactured, and

demonstrated for the US Naval Facilities command. This welding station deposited 1.2 miles of weld on each of over 300 ELCAS(M) pontoons we produced. We also have an automatic Rotoblast machine which takes raw steel plates and burned shapes and sandblasts them prior to further fit up welding, and then painting in our climate controlled paint facility.

In addition to our workplace investment, we invest heavily in our workforce. Jered Industries has a highly trained and skilled workforce, composed of design and manufacturing engineers, certified welders and highly skilled mechanical assemblers. Before our welders touch the steel, they must pass an intensive training program, and all of our welders hold certificates to the required Military Specifications in addition to American Welding Society, American Institute of Steel Contractors, American Bureau of Shipbuilding and Department Of Transportation codes. We are certified to both the Military and the ISO 9000-2000 Quality Assurance Systems.

We have seen our workforce decrease by half in nine years, and we have lost 40 highly skilled, highly paid jobs in the last year and a half alone. Historically low rates of ship procurement by the Navy – six a year for the past 13 years -- have been a major factor in that decrease. Also playing a part is the uncertainty and unpredictability of USN programs. For example; as I mentioned earlier we invested in the robotic welding for the Elevated Causeway system based on the Navy's planned purchase of two systems. The second system was never ordered. More recently we invested heavily in non-recurring costs for the LPD 17 program based on the USN plan for construction of 12 ships. It now appears they will only build 8. We will not recover our initial investment in that program either. Our best hope right

now is that Congress supports the acceleration and advance funding of the LHA-R program.

Our experience is not atypical, as the defense industrial base has lost more than 180,000 engineers, designers and skilled craftsman over the last decade and a half. We are committed to supporting our systems for the life of the ship, 30-50 years. Every day we are faced with the problem of finding substitute components for companies that are no longer in business, or at least no longer in the defense business. And all too often the replacement parts must be purchased from foreign suppliers.

Foreign competition has also played a role, both as direct competition for USN contracts in the US, and with foreign offset, or domestic industrial participation requirements for their programs.

In the direct competition case, foreign competitors typically cherry pick particular USN programs with high production potential, typically those with commercial specifications, while ignoring lower volume programs with more challenging specifications that we have to support. Examples are the T-AKE supply ships and the MPFE maritime prepositioning ships, both of which have seen substantial foreign supply of systems that could be supplied by US manufacturers.

A few years ago we lost a bid for the CROPS program to a Korean company that set up a manufacturing facility in Mexico to take advantage of NAFTA. One thing that this experience has taught us is that to compete we

also must subcontract work in low cost countries. This, of course, helps accelerates job loss in the industry.

I would like to share with the Committee our company's recent experience with the impact of offsets.

We have done several contracts in Spain going back 25 years. Most recently we supplied the steering gear for their F 100 frigates. They required 100% domestic production on that contract although you can get credit against that for transfer of technology. We just last week submitted a proposal for aircraft elevators for their new 'LL' Strategic Projection Ship, and the same requirements apply. We will do the design and program management from the US but all of the manufacturing will be subcontracted to Spanish companies. They have an office in their department of defense called the "Gerencia de Cooperacion Industrial" that enforces these requirements. The shipyard is not allowed to place a contract with a foreign supplier until that supplier has an approved industrial cooperation plan.

Similarly, we are working in Japan to supply aircraft elevators for their new DDH program. Foreign suppliers will not be considered unless they have made arrangements for partial domestic production. Although there is apparently no fixed percentage required, more is better. In recent proposals for the UK, Italy, and Korea, however no offset or co-production requirements were imposed.

Because of the low level of US Navy shipbuilding Jered is working to increase our exports of equipment and systems overseas in order to survive.

The ultimate effect of offset requirements, however, is to shift manufacturing jobs out of the US. The impact is to reduce manufacturing volume here, which raises our overhead rates and increases the cost of our product to the US shipbuilders and makes our US Navy ships more expensive to the US Taxpayers.

Mr. Chairman, we, at Jered Industries, are committed to doing our part to ensure our national security. The fact that we suffer at the hands of foreign companies who are not only subsidized for exports in some cases, but also benefit from their country's offset policies, puts us at a serious competitive disadvantage when it comes to sales.

To the large defense companies offset requirements are simply a part of doing business. To second and third tier defense manufacturers, and therefore to the overall defense industrial base, however, they have a major negative impact. Our best efforts to upgrade our workplace technology as well as to keep our workforce on the cutting edge with training and certification are for naught when we have no hope of a level playing field.

For too long our government has simply watched our manufacturing businesses decline while our technology and our jobs are transferred to other countries, raising our defense costs here in the USA. To some it may seem like an academic exercise, but to those of us who make up the defense industrial base it is both a critical business issue and a critical national security issue. Given all that has happened in the first years of the 21st Century Mr. Chairman, I wonder if we, as a country, are willing to put our security at the mercy of these other countries. Will they be there for us

when we need them for a part to launch our weapons or operate our ships– a part once made by a US company that no longer exists?

Mr. Chairman I do not know what the best solution is for this complex issue, but I thank you for the opportunity to testify before the Committee today. I will be happy to answer your questions.