

Statement of

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Before the

House Armed Services Committee

Subcommittee on Seapower and Expeditionary Forces

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Thank you, Mr. Chairman, Members of the Subcommittee, for the opportunity to testify on the importance of the Title XI Ship Loan Guarantee Program in facilitating commercial ship construction in the United States.

The American Shipbuilding Association (ASA) is the national trade association of the six largest shipbuilders in the United States that build all of the capital ships for the U.S. Navy, and which have a long history in the construction of large oceangoing commercial ships. ASA also represents more than 70 companies that design, manufacture, and service major ship systems and components. A membership list is attached.

The Federal Ship Financing Program was established pursuant to Title XI of the Merchant Marine Act of 1936. As amended, the Act provides for a full faith and credit guarantee by the U.S. Government of commercial loans issued to U.S. or foreign ship owners for the purpose of financing the construction or reconstruction of vessels in U.S. shipyards. The program also guarantees debt obligations of U.S. shipyards for the purpose of financing advanced shipbuilding technology and facility modernization.

Following enactment of the Federal Credit Reform Act of 1990, appropriations to cover the estimated costs of a project are required prior to the issuance of any Title XI financing guarantee. Title XI guarantees 87.5 percent of a commercial ship financing loan for a period of 25 years. The program has a 20 to

one multiplier – meaning that for every \$1 million appropriated for the program \$20 million in ship construction is generated in the U.S. economy.

The Maritime Administration (MARAD) of the Department of Transportation charges a number of fees to applicants. There is a non-refundable filing fee of \$1,000 when an application is filed. Prior to MARAD issuing a letter of commitment, an investigation fee of one-half of one percent on obligations to \$10 million, and 1/8 of one percent on all obligations in excess of \$10 million is charged to the applicant.

Today, this program is urgently needed for small and medium-sized U.S. ship owners and operators to secure affordable financing over 25 years for the purpose of replacing their aging Jones Act fleets with new ships built in our shipyards. Without Title XI, the majority of Jones Act ship owners will not be able to invest in new tonnage, and thus, desperately needed commercial shipbuilding orders will not materialize for our industry.

The Jones Act fleet numbers 105 oceangoing ships, which carry oil and dry cargo between U.S. ports. The average age of this fleet is more than 22 years when the normal economic useful life of an oil tanker is 20 years and a dry cargo ship is 25 years. Many of the ships in this fleet are well over 30 years of age. These ships need to be replaced to ensure that the United States has the ships necessary to meet our energy distribution and economic needs. Modern tonnage is also needed to ensure the safety of domestic waterborne transportation.

Benefits of Commercial Shipbuilding Made Possible by Title XI:

The construction of oceangoing commercial ships in the United States made possible by Title XI loan guarantees has many benefits for the Nation:

First, it helps American shipyards retain and grow our highly skilled engineering and production workforce, which is vital to the building of ships for the U.S. Navy and Coast Guard.

Second, increased ship production provided by commercial orders reduces the cost of U.S. Navy and Coast Guard ships because the shipyards are able to spread their overhead costs over a larger universe of ships -- costs which would otherwise be covered exclusively by the U.S. Government. The cost of ships built for the government is also reduced by stabilizing our workforce. Persistently low and unstable rates of Navy ship construction have resulted in large, costly swings in the workforce in our industry. When government shipbuilding programs are delayed or reduced, the shipyards are forced to layoff their highly skilled workforce to later recruit and train or retrain a workforce when an order arrives. It takes three years and a minimum of \$50,000 to train a ship welder, for example, to minimum proficiency levels. The huge costs and time required to train a skilled workforce increases the cost of every ship we build. Stabilizing our workforce with a mix of Navy and commercial orders allows us to avoid these costs and greatly enhances our efficiency in building ships by being able to retain our experienced workforce.

Third, building commercial ships facilitates the introduction of best commercial building practices into Navy and Coast Guard programs, which can equate to increased production efficiencies and reduced costs.

Fourth, commercial oceangoing ships built for American ship owners are available to the Department of Defense in time of war or national emergency. For example, the six tankers financed by Title XI and built by Newport News Shipbuilding in the late 1990's were called into service for DOD in the Iraq war to transport jet fuel to our forward deployed forces. Commercial roll-on/roll-off and containerships are also needed by DOD. Without American-built and -owned ships, the U.S. is dependent upon foreign ships for the re-supply of our troops.

Fifth, commercial ships built in the U.S. are built to the highest safety standards in the world. As one example, the double hulled tankers that U.S. shipyards have built subsequent to the Oil Pollution Act of 1990 are the most environmentally safe in the world. These ships were designed and built with redundant propulsion plants, controls, and other equipment to guard against a mechanical failure that could also result in an oil spill.

Recommendations for the Title XI Program:

The Title XI program was established to give ship owners and operators access to long-term, affordable financing that they could not otherwise find in the commercial market without a loan guarantee. The program was designed to ease the risk of commercial lending institutions with the Government assuming that risk

in order to facilitate financing for smaller and medium-sized companies comparable to that available to large corporations. If all ship owners and operators were large corporations with deep pockets, there would be no need for Title XI. The program was designed to address financing needs of companies where there is some risk. ASA strongly supports limiting the Government's risk exposure. A default is not in the program's interest, nor in the industry's interest. However, in the name of risk reduction, there have been multiple regulatory restrictions imposed on the Program by this Administration making it very difficult for any applicant to be approved.

In light of these regulatory handcuffs, ASA asks the subcommittee for its support in not only funding the Program, but also in amending the Program to establish a priority category for certain ship loan applications and an accelerated review process for these applications.

No money has been appropriated for the Title XI Program since fiscal year 2003 when Congress provided \$25 million in the Emergency War Supplemental. Without funding, no loan guarantees can be issued by the Maritime Administration. As stated earlier, without Title XI guarantees, the majority of Jones Act ship owners will not have the financial means to replace their fleets. If ship owners don't have access to affordable financing to introduce new, modern tonnage in the Jones Act trade, there will be increased pressure to repeal the Jones Act to allow foreign tonnage to carry America's coastwise commerce. Should that

happen, there will be no commercial shipbuilding market left for American shipyards in the absence of a commercial shipbuilding subsidy program to offset years of subsidies provided to foreign shipyards in Asia, which have allowed those shipyards to corner the commercial shipbuilding market.

Without commercial work, the risk increases for losing more U.S. shipyards that comprise the core shipbuilding industry necessary for the Nation's defense. Furthermore, the cost of naval ships will increase. The American Shipbuilding Association encourages Congress to authorize and appropriate \$60 million for the program in fiscal year 2008. This funding would generate more than \$1.2 billion in commercial ship construction.

In addition to funding, there is a need to add in the statute a priority review and approval process for traditional applications to expedite the financing for replacement tonnage serving the Jones Act. ASA asks the subcommittee to consider an amendment, which would add a new priority for loan guarantees for replacement vessels under section 53743 of the Merchant Marine Act. Section 53743 of the statute was added in the Oil Pollution Act of 1990 to govern priority applications for Title XI guarantees for replacement vessels due to changes in operating standards as a result of double hulls. For an applicant to receive priority under this proposed new category, the applicant would have to be an established vessel owner and/or operator in a proven market; the application would have to be for the construction of replacement tonnage for vessels over 20 years of age, and;

the replacement vessels would have to be militarily useful to augment dedicated DOD sealift assets in time of war or national emergency.

Our recommended amendment, which is attached to my statement, proposes that applications under this new priority category be evaluated and processed by the Maritime Administration without the additional review of the Department of Transportation Credit Council. This recommendation is made to expedite the review process while still minimizing risk exposure to the Government given that the owners applying for guarantees under this category would be established ship operators in proven trades where the Maritime Administration has extensive knowledge and familiarity with the cargo demands. This amendment further recommends that the Maritime Administrator be directed to develop and apply to applications under this priority category a more broad-based financial evaluation other than the current regulatory uniform two-to-one debt-to-equity criteria alone. ASA recommends that the broader-based financial evaluation also take into account an applicant's cash flow performance and collateral assets in determining the applicants credit worthiness.

This amendment is needed because the Credit Council review has added months to an application review and approval process that heretofore took 60 days. More disturbing, is the appearance that the role of the Council is to deny new loan guarantees in reflection of this Administration's opposition to the Program. The Department purportedly put the Credit Council in place to guard against

applications being potentially approved that had high risk of default. Given that the applications under this priority category would be traditional applications from proven owners in proven trades, the risk of default is low. The Maritime Administration would be required to follow and apply all of the risk assessments, supplemental security provisions for default, and guarantee fees in the statute in its review and process of the priority replacement category applications.

In closing, thank you for having this hearing on the importance of the Title XI Ship Loan Guarantee Program in sustaining the defense shipbuilding industry of the United States. Your favorable consideration of my industry's recommendations for program funding and improvement would be appreciated. Thank you.

Membership of the American Shipbuilding Association

Shipyards

Avondale

New Orleans, LA

Bath Iron Works Corporation

Bath, ME

Electric Boat Corporation

Groton, CT

Quonset Point, RI

Ingalls Shipbuilding

Pascagoula, MS

National Steel & Shipbuilding Co.

San Diego, CA

Newport News Shipbuilding

Newport News, VA

Partners

Advanced Structures Corp.

Deer Park, NY

American Bureau of Shipping

Houston, TX

American Iron & Steel Institute

Washington, DC

American Metal Bearing Co.

Garden Grove, CA

AMSEC

Virginia Beach, VA

San Diego, CA

APEX Steel Corp.

Englewood, NJ

ATSCO

Mentor, OH

AVEVA Inc.

Wilmington, DE

Baker Sheet Metal Company

Norfolk, VA

BWXT

Lynchburg, VA

Idaho Falls, ID

Mt. Vernon, IN

Barberton, OH

Communications Company, DRS

Wyndmoor, PA

Converteam Inc.

Pittsburgh, PA

Curtiss-Wright Flow Control Corp.
Cheswick, PA

D.G. O'Brien, Inc.
Seabrook, NH

Dresser-Rand
Olean, NY
Painted Post, NY
Wellsville, NY
Houston, TX

DRS Technologies
Parsippany, NJ

Earl Industries, LLC
Portsmouth, VA

EBC Industries
Erie, PA

**Electric Power Technologies, Inc.,
DRS**
Hudson, MA

Electronic Systems Inc., DRS
Gaithersburg, MD

EMS Development Corporation
Yaphank, NY

ESAB Welding & Cutting
Florence, SC

Fairbanks Morse
Beloit, WI

Flo-Tork, Inc.
Orrville, OH

G. E. Marine
Cincinnati, OH
Lynn, MA

General Atomics
San Diego, CA
Tupelo, MS

General Cable Corp.
Highland Heights, KY

Guill Tool & Engineering Co., Inc.
West Warwick, RI

Henschel
Newburyport, MA

Hose-McCann Telephone Co.
Deerfield Beach, FL

IMECO, Inc.
Iron Mountain, MI

IMO Pump
Monroe, NC
Columbia, KY

International Paint
Houston, TX
Union, NJ

Jamestown Metal Marine Sales
Boca Raton, FL

Jered LLC
Brunswick, GA
Iron Mountain, MI

L3 Communications Marine Systems
Leesburg, VA

L3 Communications
New York, NY

LaserCut, Inc.
Branford, CT

Laurel Technologies, DRS
Johnstown, PA

Lister Chain & Forge, Inc.
Blaine, WA

Marlo Coil
High Ridge, MO

Marotta Controls, Inc.
Montville, NJ

Motion Industries, Inc.
Birmingham, AL

Nelson Stud Welding, Inc.
Elyria, Ohio

ODI Advanced Technology Systems
Daytona Beach, FL

Oil States Industries
Arlington, TX

Pacific Consolidated Industries
Riverside, CA

PacOrd
San Diego, CA

PCE
San Diego, CA

Portland Valve, Inc.
South Portland, ME

Power & Control Technologies, DRS
Danbury, CT
Milwaukee, WI

Power Paragon
Anaheim, CA

Power Technology Inc.
Fitchburg, MA

Raytheon Integrated Defense Systems
Tewksbury, MA

Rolls-Royce Naval Marine
Walpole, MA
Pascagoula, MS
Annapolis, MD

Sargent Controls & Aerospace
Tucson, AZ

The Sherwin-Williams Company
Cleveland, OH

SPD Electrical Systems
Philadelphia, PA

Sperry Marine
Charlottesville, VA

**Surveillance Support Systems.,
DRS**
Largo, FL

Tano/EDI
Metairie, LA

Technical Services, DRS
Chesapeake, VA
San Diego, CA

TECO-Westinghouse Motor Co.
Round Rock, TX

**Training & Control Systems, Inc.,
DRS**
Ft. Walton Beach, FL

Tyco Electronics
Harrisburg, PA

UCT Coatings, Inc.
Stuart, FL

US Joiner
Waynesboro, VA

U.S. Pioneer, Inc.
Tulsa, OK

VACCO Industries
South El Monte, CA

Village Marine
Gardena, CA

Waggaman Crane Services
Waggaman, LA

Warren Pumps
Warren, MA

Wartsila Lips, Inc.
Chesapeake, VA

Westwood Corp.
Tulsa, OK

Winchester Roll Products, Inc.
Winchester, NH

W & O Supply Inc.
Jacksonville, FL

York International
York, PA

NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2008

*DIVISION C—DEPARTMENT OF ENERGY NATIONAL SECURITY AUTHORIZATIONS
AND OTHER AUTHORIZATIONS*

TITLE XXXV—MARITIME ADMINISTRATION

SEC. 35XX. APPROVAL OF LOANS AND GUARANTEES APPLICATIONS.

(a) APPROVAL OF TRADITIONAL APPLICATIONS—Traditional applications under Loans And Guarantees (46 U.S.C.A. Chapter 537) shall not be subject to additional review or approval by any council, panel, board, group, or similar entity, or by an individual, beyond the scope of the Maritime Administration. For purposes of this section, any such application shall be considered traditional provided it involves a market, technology, and financial structure of a type that has been approved with applications in past instances by the Maritime Administration as of the date of the enactment of this Act, as determined by the Maritime Administrator. Any such application shall also be considered traditional if submitted for a vessel in accordance with 46 U.S.C.A. 53706(c) and 53734, as amended by this Act.

(b) Section 46 U.S.C.A. 53706(c) is amended—

(A) by striking Section 53706(c)(2) and (3) and inserting the following:

"(2) after applying paragraph (1), a vessel that is otherwise eligible for a guarantee and is a replacement vessel under section 53734 of this title, and

"(A) the applicant for the guarantee or commitment is an established vessel owner and operator in a proven market;

"(B) the vessel will be constructed in a United States shipyard, and

"(i) will facilitate commercial activities in the shipyard through efficiency gains associated with increased volume, or;

"(ii) will preserve shipbuilding assets essential in time of war or national emergency, and

"(C) the vessel will be militarily useful and could be used in time of war or national emergency;

"(3) after applying paragraphs (1) and (2), a vessel that is otherwise eligible for a guarantee and that the Secretary of Defense determines—

"(A) is suitable for service as a naval auxiliary in time of war or

national emergency; and

"(B) meets a shortfall in seafight capacity or capability."

(c) Section 46 U.S.C.A. 53734 is amended—

(A) by striking Section 53734(a)(2) in its entirety and inserting the following:

"(2) the construction or reconstruction is necessary —

"(A) to replace a vessel that cannot continue to be operated because of a change required by law in the standards for the operation of vessels, and the applicant for the guarantee or commitment would not otherwise legally be able to continue operating vessels in the trades in which the applicant operated vessels before the change; or

"(B) to replace a vessel that is over twenty (20) years of age, and the applicant for the guarantee or commitment would not economically be able to continue operating the vessel in the trades in which the applicant operated vessels;

(B) by adding "or the age of the vessel" at the end of Section 53734(a)(3);

(C) by striking Section 53734(a)(4) in its entirety and inserting the following:

"(4) the capacity of the vessels to be constructed or reconstructed under this section will not substantially increase the cargo capacity in any of the applicant's existing trades;

(D) by striking Section 53734(c) in its entirety and inserting the following:

"(c) Applicability of other provisions.—A guarantee or commitment to guarantee under this section is also subject to sections 53701, 53702(a), 53704, 53705, 53706(c), 53707(a), 53709(a), 53710(a)(1), (2), and (4) and (c), 53711(a), 53713, 53714, 53717, and 53721-53725 of this title. The Administrator shall establish relevant metrics for measuring debt leverage in comparison to cash flow performance and collateral values of the applicants and shall not apply a fixed debt to equity ratio under this section."