

Written Testimony of Representative John Garamendi (CA-03)
Make It in America: What's Next?
PANEL 3: The Future of Manufacturing

The U.S. shipbuilding industry and U.S. natural gas market are strategic national assets essential to U.S. national and economic security. It is in the U.S. national interest to utilize the emerging coastwise and export trades for liquefied natural gas (LNG) to provide reliable, long-term markets for U.S. commercial shipbuilding and for U.S. flag operators; to expand and increase the U.S. shipbuilding industrial base; and to use the LNG export trade to strengthen U.S. strategic interests and alliances with LNG trading partners. Congress must look for ways to use American 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.

Create Good Middle Class Jobs

Tens of thousands of American jobs, both inside shipyards and found 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.

The global LNG fleet currently has 394 vessels. 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. 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. Should we set the course now to equip U.S. industry to win future orders, the economic prospects are tremendous.

Maintain Critical National Security Assets

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 to our ability to control the safety and security of the global supply chain. It 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 same cutting edge ship construction technologies used by our foreign competitors.

Other countries have recognized the critical national security implications of a strong shipbuilding industry, and have taken strides to use LNG trade as an opportunity to bolster their technology and capabilities. India has

made a commitment to require one-third of its LNG import vessels to be Indian-built. South Korea also 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.

Enhance Public Safety

Despite the importance of the U.S. Merchant Marine, our foreign trade fleet has declined from 1,200 ships in the 1950s to less than 100 today. This threatens another strategic national asset in reducing key personnel. 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. 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.

Strengthen the American Maritime and Shipbuilding Industry

Shipments of LNG to serve the U.S. coastwise market are required by law to be carried on American-built, flagged, and crewed tankers, thus creating domestic demand for new ships. U.S. shipyards are already receiving orders to repower vessels to burn LNG, as well as additional orders for new-builds. As international LNG shipments expand, additional ships will be required, creating a long-term book of orders. The export of LNG will slowly ramp up over the next two or three years and will then quickly accelerate over the next decade or more. This allows both time and a stable, long-term market demand, which—if given the correct incentives—could spur the U.S. shipbuilding industry to re-tool its infrastructure and processes to ramp up the production of domestic tankers and ultimately produce vessels for export of this strategic national asset.

What is Needed

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. In December of 2014, the President signed into law the *Coast Guard and Maritime Transportation Reauthorization Act*, which contained a provision that requires the Secretary of Transportation to develop a program to promote the use of U.S.-flag vessels in the export of LNG, and to give priority processing of export applications for deepwater terminals that would utilize U.S.-flag vessels. But this incentive is not enough. 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 this strategic national asset, Congress should seek:

- 1) A commitment by the exporting LNG companies to use American-built, flagged, and crewed ships.
- 2) The amendment of U.S. law to encourage to the maximum extent possible, and consistent with U.S. trade obligations, that all LNG exports from the U.S. to be carried on American-built, flagged, and crewed ships.
- 3) Adoption of a requirement that all ships transporting LNG entering and leaving U.S. ports be manned by licensed and credentialed American officers and mariners.