

Testimony

**Subcommittee on Seapower and Expeditionary Forces for the House Armed
Services Committee
Recommendations for Reducing Overall Acquisition Costs
July 30, 2009**

Good afternoon. My name is Ronald Ault. I am President of the AFL-CIO Metal Trades Department, representing thousands of skilled trades workers in shipbuilding, petrochemical processing, manufacturing, mining, nuclear energy and nuclear remediation. Thank you for this opportunity to share our organization's views on recommendations for improving shipbuilding effectiveness.

The U.S. shipbuilding industry has been caught in what some have called a death spiral for more than a generation as a result of policies of not-so-benign neglect. In the 1970s, with few exceptions, politicians of every stripe embraced the notion of unfettered world trade and disparaged concerns over the loss of domestic manufacturing capacity as "archaic" or "quaint." The steepest drop came during the Reagan Administration with cuts in operating and construction differential subsidies. As a result of this continuing trend, the U.S. shipbuilding industry and the network of industries that provided components began to wither along with the tens of thousands of jobs that network provided. The result today is a shipbuilding base that includes a mere six yards capable of producing large vessels supported by four U.S. Navy shipyards that perform repairs. As a point of comparison, China has one shipyard with a larger capacity than all U.S. yards combined.

Virtually the only customer that the nation's six private shipyards have is the U.S. Navy and, today, we are down to delivering around eight Navy vessels a year. The current situation is not sustainable.

For me personally and on behalf of the unions affiliated with the Metal Trades and the five million members of those unions—we are confident that given the right policies, the shipbuilding industry can revive and ultimately thrive.

Our recommendations focus on four areas:

• **Valuing the skills and training of the shipyard workforce by investing more in apprenticeship training, proper utilization of apprentices and opening up new opportunities for career growth in the industry.**

It will be impossible to recruit and train a sufficient supply of apprentices into the industry without some affirmative policy that will spur genuine growth in the industry. With the average age of the current shipbuilding workforce around 45, we can anticipate massive attrition in the coming decade. Out of the 89,000 workers currently employed in the U.S. shipbuilding industry, about half, or 44,000, are employed in the major private yards, about one-third, or 23,000 are employed as Navy civilian personnel in the four remaining Navy facilities.

We categorically reject the suggestion that some have made to expand the H2B visa program as a means of augmenting the U.S. shipbuilding workforce. The industry's experience with this alternative has been abysmal. Two recent examples of the shoddy workmanship that is characteristic of this program are available in the amount of re-work that was involved after the Navy authorized outsourcing for segments of work on four hulls of the LPD 17 class to Signal International Corp. which supplied H2B visa workers for the project. Our work units at Avondale were overwhelmed with rework issues as those vessels prepared for launch. There are some hard-headed economic concerns related to the H2B alternative because it simply glosses over the long-term issue of recruiting, training and retaining an adequate domestic workforce. There is also a fundamental human rights issue related to the program. Witness the multitude of verified complaints of exploitation, abuse, miserable working and living conditions that have emanated from the Signal H2B contract.

Contrast the Navy's experience with the four hulls of the LPD 17 class to the construction record of Avondale in building the USS New York, which was launched a year ago by Ingalls. The New York recently returned from sea trials flying three brooms from the mast—indicating a successful clean sweep for all the ship's systems. As you know, the New York contains 20 tons of steel recycled from the debris of the World Trade Center.

Sustaining a dependable, productive workforce requires commitment, not just from the employer, but from the nation as a whole. Three years ago, some 7,000 shipyard workers at Ingalls went on strike for a little over a month. Their fundamental problem was not really with the employer, but with the frustration over living conditions in a region where the ravages of three major hurricanes had wiped out schools for their children and the full range of basic services that the rest of America takes for granted. Because of balky and inadequate federal response to these catastrophes, the workers and their families were gouged for food, fuel, insurance and rent—and forced to endure substandard healthcare and housing. Our biggest employer in that area, Northrop Grumman, had come to us to seek help in recruiting more workers and we collaborated with them in that effort.

Shipyard workers sit at the apex of the hierarchy of skilled crafts. Their training and experience enables them to perform the most complex welding and metal working tasks under the most difficult conditions, in small spaces and while working with a variety materials. When a pipefitter or a welder or a carpenter is working on a building, that worker can be certain that the dimensions of a project will be the same today and the next day and for years to come. When that same craft is on a ship, there are many more variables to consider—hull pressures, distortion from vibration, the effects of moisture, and so on—that must be taken into account.

Although the skills of shipyard crafts are readily transferable into construction and skilled manufacturing work, the converse is not true. Skilled construction and manufacturing craft workers cannot move seamlessly into the shipbuilding industry without substantial additional training.

My point: as opportunities for steady employment in shipbuilding continue to erode, we see an out migration of these skilled workers into construction and manufacturing. That trend will continue; and—equally disturbing—young people who are considering career options are far less likely to enter arduous training for shipyard work as they see it as an ever shrinking universe of employment security.

• Broadening the horizons for the U.S. shipbuilding industry by living up to the letter and the spirit of Buy American regulations, enforcing the Jones Act, adequately funding Title XI, and imposing realistic limits on leasing foreign ships by the Department of Defense.

The knock that economists put on the U.S. shipbuilding industry is no longer focused on labor costs, but on inefficiencies. It's not hard to understand why those inefficiencies exist—the basic infrastructure of U.S. shipyards dates back to World War II and earlier as they try to compete with spanking new yards built in Korea, China and Eastern Europe. That being the case, it is time for the U.S. to live up to the commitments it has on the books to the industry. In other words, walk the walk.

The Department of Defense has routinely issued waivers for Buy American requirements, rendering the regulations virtually worthless over the past ten years. Moreover, the DOD continues to engage in long-term foreign leases for vessels—effectively circumventing Buy American requirements and undermining the viability of the industry. We are encouraged to see that Congress is considering imposing stricter time limits on this practice and we encourage members of this committee to support such limits.

Likewise we are supportive of actions by Congress to appropriate an adequate base of funding for Title XI loan guarantees—\$48 million in the House of Representatives this year, the first substantial appropriation since 2003, and we urge the Senate to concur. That action has apparently spurred new interest among ship owners—with Title XI applications pending for 76 new vessels, including ships, barges and drilling rigs.

• Looking to the future of maritime transportation as a growth industry that will help America improve our energy efficiency and independence.

Transportation Secretary Ray LaHood has broached an interesting idea for reviving America's maritime industry with a marine highway that would divert a lot of cargo off of clogged U.S. highways and onto container ships to move among U.S. ports. His proposal is thoughtful and could provide substantial benefits in energy efficiency, clean air and expanded demand for new, more modern cargo vessels built in U.S. shipyards as required by the Jones Act.

Secretary LaHood's idea is all the more timely when you consider the fact that the Maritime Administration's compilation of available merchant vessels reads more like a museum archive—most of those vessels were built in the 1970s and a

significant number are 50 years or older. Three were built in 1995—the newest in the entire fleet.

However, a word of caution—we reject and we will relentlessly oppose the continued disastrous interpretation of the Jones Act that permitted the virtual importation of a dozen foreign-built Kit ships, built virtually from hull to mast out of parts imported from foreign sources as has been done by Aker Shipyard in Philadelphia.

• **Improving the Navy’s strategic planning and coordination in shipbuilding.**

In the labor movement, we are constantly reminded of the stark difference between value and cost. It’s been my experience that at the highest levels of management, the distinction between the two terms becomes blurred. When dollar signs replace qualitative analysis, poor decisions follow.

We often hear that institutions of government are like enormous aircraft carriers—so large that it is impossible to turn them on a dime. I wish someone would tell that to the U.S. Navy. Over the past 20 years, the Navy has spent some \$14 billion to research and develop technologies for Zumwalt Class littoral ships—a series of ships known as DDG 1000. Now, after all that expense on planning and design, a new Chief of Naval Operations comes in and reverses the program—instructing the industry to produce no more than three ships for this series.

A number of members of Congress have winced when they see the unit costs for those three ships, and who could blame them.

Now, if General Motors took the same approach, they might still produce a Corvette, but the unit cost would be astronomical. Neither Mr. Gates of the Department of Defense, nor even Mr. Gates of Microsoft—could afford to buy one. Not only do you not get any economy of scale, you cannot develop adequate experience to develop tricks of the trade that might further reduce overall production costs.

Contrast that to the Navy’s experience with Virginia Class submarines where we have experienced a dramatic decline in unit prices as the numbers increase. Yet, despite that record, we came perilously close to closing the Portsmouth NH Navy Shipyard two years ago, not because of considerations of productivity or efficiency but because the BRAC Commission felt that it would be the easiest political target. Thanks to an active coalition between the communities surrounding that area and the yard’s 3,300 workers, and several of our strongest supporters in Congress—including Maine’s Sen. Susan Collins—that notion was eventually quashed.

Summary

Faulty decision-making at the highest levels of the Navy and the Pentagon have also reduced the value and driven up costs for Navy shipbuilding, but the Congress and the Executive Branch must also shoulder some responsibility for the lack of coordination, failure of vision and inattention to the big picture, which has plagued our industry. Ultimately, what we are lacking is a singular policy that says, yes, America needs a viable, healthy shipbuilding industry in the interest of both national defense and a healthy national economy.

America's experience in World War II is highly instructive. Both Germany and Japan enjoyed substantial superiority over America in technology, but America had a huge manufacturing capacity. Today, the reverse is true. If our nation had to engage in a shooting war today and just one strategic production facility were to be put out of action for any reason, we would not have the ability to recover. It is time, way past time, to recognize that our shipyards are national treasures that can be lost if we continue to take them for granted.

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