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AMERICAN SHIPBUILDING ASSOCIATION

Statement of

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Before the

U.S.-China Economic and Security Review Commission

On

U.S. China Trade Impacts on the Defense Industrial Base

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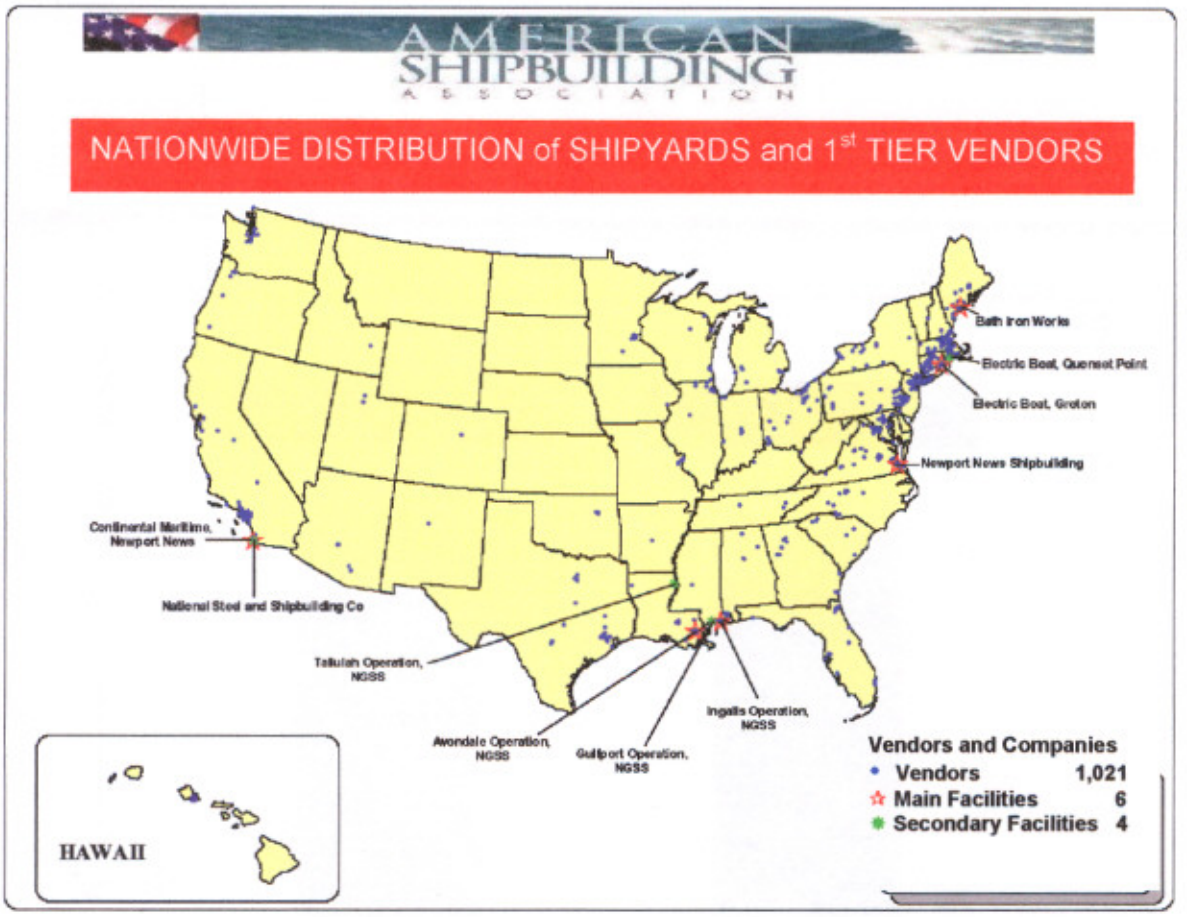
The American Shipbuilding Association (ASA) represents the six largest shipyards, which build all of the capital ships of the U.S. Navy, and 70 companies engaged in the design and manufacture of ship systems and components. A membership list is attached.

ASA welcomes this opportunity to testify on the U.S. defense shipbuilding industrial base and the emerging threat of China. My statement will focus first on the state of the U.S. shipbuilding industry followed by the build-up of the Chinese shipbuilding industry, and conclude with recommended action by DOD to preserve America's defense shipbuilding industry.

The U.S. shipbuilding industry employs approximately 350,000 people. The core defense shipbuilding industrial base is comprised of six major shipyards, owned by two corporations, and thousands of companies that manufacture major ship systems and components. Of the six major shipyards: Electric Boat of General Dynamics and Newport News Shipbuilding of Northrop Grumman build nuclear submarines and Newport News is the sole builder of nuclear aircraft carriers; Bath Iron Works of General Dynamics and Ingalls of Northrop Grumman build surface combatants; Avondale of Northrop Grumman and National Steel and Shipbuilding Company of General Dynamics build auxiliary ships; and Avondale, NASSCO and Ingalls build amphibious ships. The closure of any of these shipyards will lead to a single shipyard source for certain types of naval ships.

The map below shows the location of the shipyards and the first tier suppliers earning at least $200,000.00 a year in shipbuilding revenue. This map of vendors does not include second or third tier companies engaged in the manufacture of ship systems.



For many critical ship systems and components, there is only one remaining U.S. manufacturer in business today. For example, 80% of the Virginia Class submarine component manufacturers are sole source. Production rates are not high enough to sustain more than one company, and the companies left are struggling to stay in the business because of low production rates for all classes of naval ships.

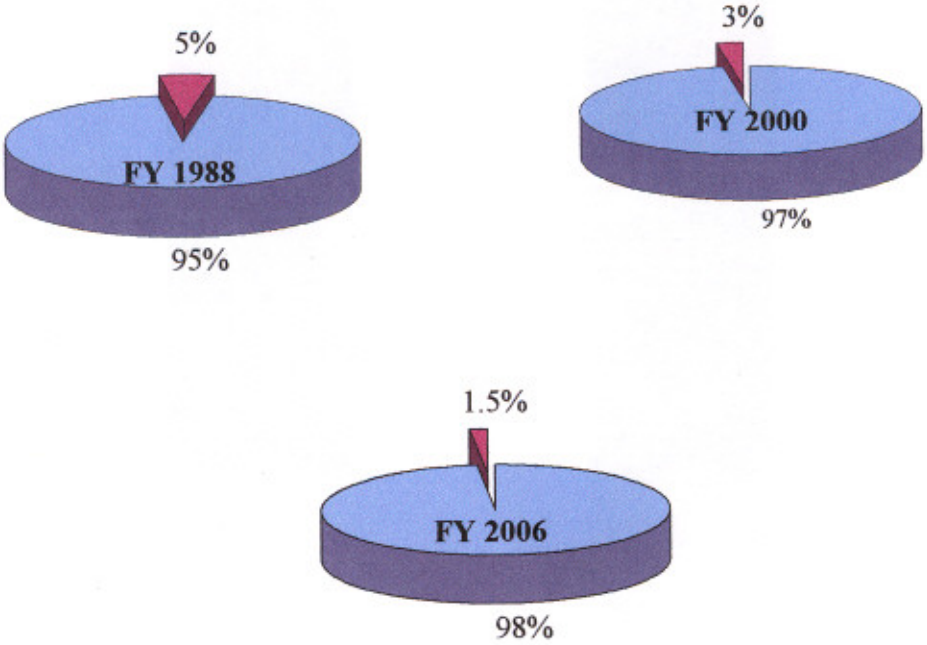
Since 1991, the major shipyards have cut their engineering and production work force by 24,000 and 120,000 jobs have been lost throughout the manufacturing supplier base. It is estimated that the shipyards will be forced to reduce their workforce by another 13,000 between now and the end of 2009 and that an estimated 58,000 people will be displaced in the supplier base. Shipyards and critical manufacturers face potential closure.

The DOD practice of cutting the number of ships planned to be procured and delaying construction schedules has caused major disruptions throughout the industry and caused unit prices to rise. Because there is no certainty in naval shipbuilding budgets and programs, the private sector is not able to plan its workload efficiently, size its workforce to match a stable workload, or have confidence with respect to facility and technology investments.

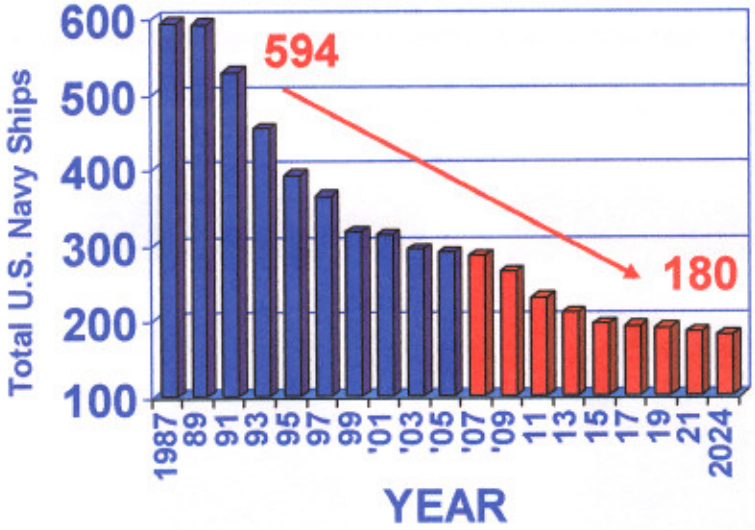
Naval Shipbuilding Budgets:

For more than a decade, the Department of Defense has been procuring the fewest number of naval ships since 1932. Annual naval ship production has averaged six ships a year. The fiscal year 06 budget calls for the procurement of just four new ships and is $3.2 billion below the dollars appropriated for naval shipbuilding in FY05. Since 2001, the DOD budget has increased 28% (excluding supplementals) while the naval ship procurement budget has decreased by 33%. These low production rates have caused our naval fleet to contract to just 288 ships – a fleet that is 22 ships below the 310-ship minimum fleet requirement identified in the 2001 Quadrennial Defense Review. The fleet will continue to shrink to fewer than 200 ships by 2015.

Naval Ship Construction Compared to Entire DOD Budget



FLEET WATCH
Decline of the U.S. Naval Fleet



Foreign Sourcing of Defense Systems:

U.S. law requires that ships and certain ship components for our armed forces be manufactured in the United States. The Department of Defense, however, has been working to repeal and weaken these laws through legislative proposals and through re-writes of Defense Acquisition Regulations.

For most ship components and systems, however, there is no law to require that they be manufactured in the United States. Because U.S. naval ships and their systems must meet the highest standards in performance and survivability, the Navy and U.S. shipyards have by in large relied on American manufactured equipment for ships. Major ship components, for example, must be shock tested to demonstrate that they can survive enemy fire. These requirements make American manufactured systems the most survivable in the world, but they also increase the costs of each system. Naval ship construction standards were demonstrated when the *USS Cole* was attacked. If that ship had been built in any other country, she probably would not have survived. Foreign manufacturers, for the most part, do not meet U.S. design and construction standards.

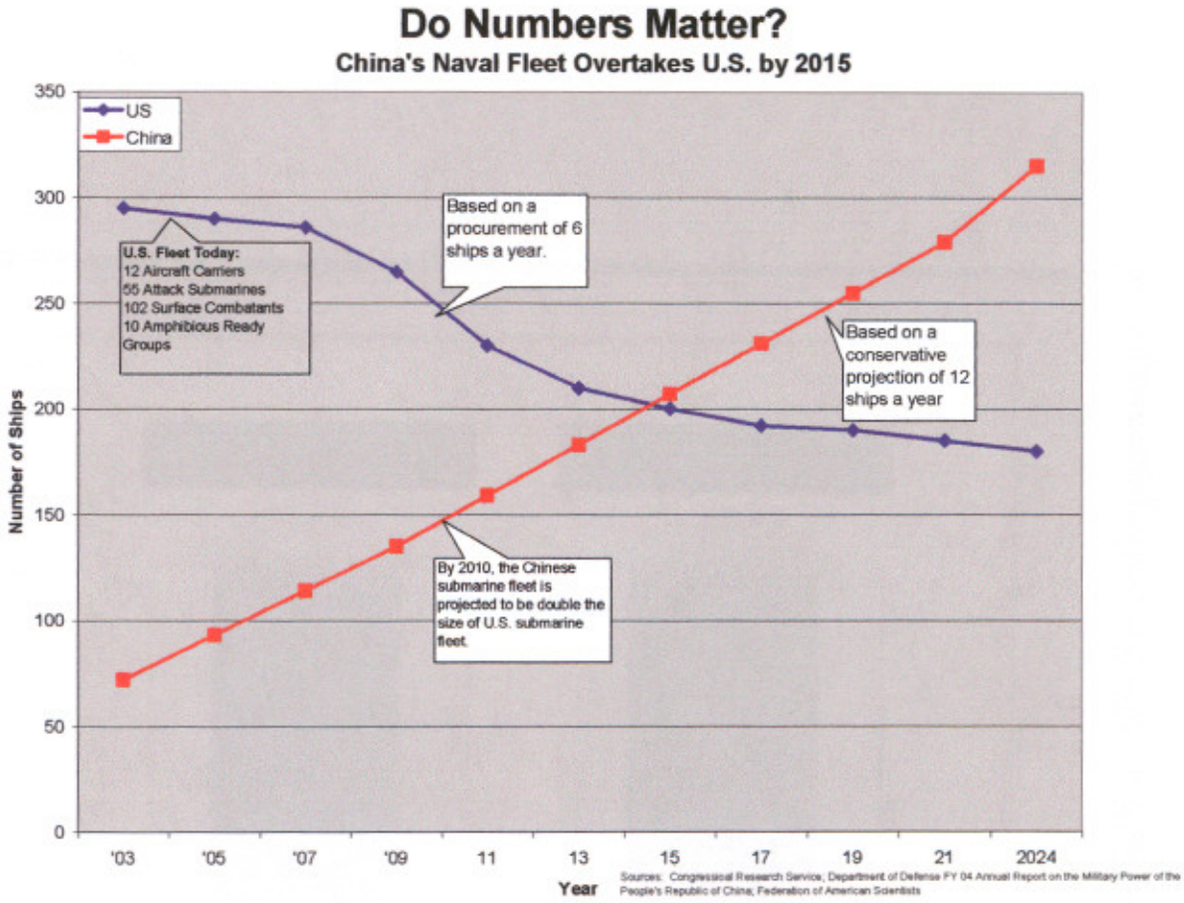
This reliance on U.S. manufactured equipment, however, is dissipating in response to pressure from DOD to open competition to foreign sources and to lower military specifications in an effort to reduce costs. DOD has been urging defense contractors to rely more on

commercial-off-the-shelf systems rather than systems built to military specifications. This emphasis on contracting with the lowest cost producer is forcing all member companies of the defense shipbuilding industrial base to source more of its material, components, and systems foreign. Historically low production rates for naval ship construction, combined with increased competition from foreign manufacturers is jeopardizing America's skill base and weakening the financial viability of countless specialized U.S. manufactures that make up the defense shipbuilding industrial base.

China's Growing Naval Fleet and Shipbuilding Industry:

While the U.S. is allowing our force projection naval fleet to decline, China is investing in building a blue water Navy to challenge the U.S. in the future, according to defense and intelligence experts. China's naval buildup began with China buying submarines and surface combatants from Russia. Now China, after years of investing in her indigenous shipbuilding industry, is building advanced submarines, surface combatants, and amphibious ships. If the U.S. allows our submarine fleet to shrink to 33 submarines, which is the projection based on the current build to retirement rate, China's submarine fleet will be twice the size of ours by 2010. If China expands her naval fleet by 12 ships a year, China's Navy will surpass that of the United States in 2015. While China's ships are not as capable as those of the U.S., the submarines and surface ships being built by China are advancing quickly in technology and capability. China is building a new class of conventional submarines, the Yuan Class. This class is a follow-on to its Song Class of diesel electric submarines. It also has nuclear submarines bought from Russia. It has begun construction of a new class of destroyers as a follow-on to its LUHAI Class. This new class is believed to match the air defense capability of the DDG-51 class.

The following chart illustrates the direction of the U.S. naval fleet compared with that of China's.



In 1989, China had essentially no shipbuilding industry or market share. In a little over a decade China has invested in its shipbuilding industry to become the third largest builder of commercial ships behind South Korea and Japan. Today, China has the capacity to produce 16 million deadweight tons a year and China's commercial shipbuilding market share is approaching 25 percent. The China State Shipbuilding Corporation (CSSC) is investing billions in building larger and larger shipyards in China in an effort to become the world's largest shipbuilding country. In June of this year, CSSC announced a $3.6 billion shipyard construction project on Changxing Island. Once completed, the shipyard is expected to have the capacity to produce more than 4.5 million deadweight tons (DWT) a year, making it the largest shipyard in the world.

The United States does not rely exclusively on DWT as a measurement for capacity. However, if you were to compare the number of ships delivered in a year, Hyundai Heavy Industries of South Korea, presently the world's largest shipyard, delivered sixty ships last year. By comparison, based on declining orders from the U.S. Navy, U.S. shipyards delivered an average of two ships per shipyard, though the individual shipyards have the capability and capacity to build many more ships per year.

China is also investing in its shipbuilding supplier base with the objective of having the domestic capability to manufacture all ship systems, components, and materials. Today, China has the capability to manufacture 40% of equipment for ships domestically.

More and more manufacturing of ship components and systems will migrate to China as DOD encourages foreign sourcing in its efforts to find the cheapest source. This has already begun with regard to materials for naval components. The manufacture of entire components and systems will migrate to China in the next several years under current DOD policy with respect to outsourcing.

Conclusion:

Decisions made on the Navy's shipbuilding budget this year and over the next few years, will determine the physical capacity and the size of the shipbuilding skilled engineering and production workforce of the United States. If China continues to expand her shipbuilding base and naval fleet, it will take the industry this country has today -- at a minimum – to match this security threat. If the industry is reduced further, the U.S. will have to reconstitute the industry if it is to counter the threat from China. Reconstitution of facilities and the skilled workforce, if possible, will be extremely costly and will take a decade.

America should learn from history. Great Britain is a recent case history lesson. The once mighty sea power nation took an extended holiday in naval ship construction, and lost most of her industrial base. Today, Great Britain is trying to rebuild a nuclear submarine, but has lost the engineering know how. We have sent 200 engineers to England to help retrain them in the art of nuclear submarine design and construction. For the first time in 50 years, no new submarine is being designed in the U.S., which threatens our future engineering capability. The U.S., a democratic country and ally of England, has been there to cover England's back defensively. China is a communist country with great ambitions to overtake the U.S. economically and militarily. There will be no one to cover our back when we lose our domestic defense shipbuilding industrial capability and sovereignty.

Recommendations:

1) The U.S. security requirement for naval ships far exceeds the fleet of today. The DOD should increase and stabilize naval shipbuilding budgets at $15 to $16 billion a year to provide for the production of 12 multi-mission combatant and logistic support ships a year to counter the rapidly growing Chinese Navy.

2) The DOD and Congress should require that naval ships and their components be manufactured in the United States to ensure the highest quality and to sustain the U.S. shipbuilding industrial base. This action will ensure America's independence in determining its own destiny.

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Membership of the American Shipbuilding Association

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Elyria, Ohio

ODI Advanced Technology Systems
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Oil States Industries
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PCE
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South Portland, ME

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