

U.S. maritime industry crisis: no merchant ships on order

by Marcia Merry

There is perhaps no period of crisis in U.S. maritime history comparable to today's, save the era of the ill-advised presidency of Thomas Jefferson, when traitorous Vice President Aaron Burr prevailed in replacing a vigorous Navy and shipbuilding capacity with the pathetic "mosquito fleet." Then came the British invasion during the War of 1812.

Today, the battleship *Iowa* disaster raises the issue of the battleworthy condition of the U.S. Navy. But of even more strategic importance is the rapidly sinking U.S. shipbuilding industry. By every measure—number of yards, number of orders for ships, size and modernity of capacity, skill levels of the workforce, the U.S. shipbuilding industry needs emergency attention. Proposals have been forthcoming, but Congress and succeeding administrations have refused to act.

The accompanying bar diagram shows the decline down to absolute zero in the number of new merchant vessels under construction or on order at private U.S. shipyards. Only U.S. Navy contracts are keeping the industry alive—but barely.

In just the last 10 years, the number of U.S. yards building ships for the Navy and for commercial customers declined from 25 in 1979, down to 16 today. Those 16 are doing work for the Navy. As of the end of 1989, five of those yards will have completed their existing contracts; that will leave only 11 yards with new Navy contracts.

The last order for a merchant ship to be built in a U.S. yard was placed in 1984, with Bay Shipbuilding Corp. of Sturgeon Bay, Wisconsin. The containership *Kodiak* was delivered to the owner, Sea-Land Services of New Jersey, in November 1987.

In tonnage terms, in January 1978, U.S. shipyards had nearly 7% of the world's orderbook for commercial deadweight tons. But as of today, the U.S. has nothing.

Implications for defense

The implications of this for U.S. defense are dire. This subject is presented in depth in the report by the Shipbuilders Council of America, "Ship Construction Report." In the overview to the report, Council President John J. Stocker warns, "Obviously, with no commercial work in place, all 16 yards are effectively held hostage to the budget process. Reductions to the Navy's shipbuilding budget, in the absence of a

commercial market, will have a devastating impact on the industry."

The projections made by the council for expected Navy ship construction and conversion projects over the next five years show that U.S. shipyard capacity will be devastated. The report states, "Of the total of \$53,281.1 million projected over five years [Department of Defense naval shipbuilding], programs now held by the six largest Navy builders account for \$48,628.6 million in total program dollars representing 91.3% of the total. This is a strong indication that the future Navy program, as has been the case in the past, cannot support current shipyard capacity. We see no relief in this plan, particularly for the second-tier yards which are facing closure. If immediate help is not forthcoming in the form of government sealift ships [government-commissioned merchant vessels] or new commercial building, four of the five most capable second-tier yards in the country will almost certainly be closed or reduced to repair yard status by the end of calendar year 1989, and we will be left with a maximum of six major yards, fully committed to Navy work, with which to face any mobilization requirement."

The lack of merchant vessel orders which led to this attrition in shipyard capacity is attributable to a number of factors over the past 20 years which could all have been prevented, with the right government policies. Beginning in 1981, the U.S. government moved to end all federal assistance programs to domestic yards. In addition, U.S.-flag merchant ship owners were encouraged to place orders abroad, because special legislation was passed to waive the law which says that all U.S.-flag ships must be built in U.S. yards. U.S. commercial ship construction collapsed to the point that, today, nearly 95% of the remaining workload in domestic yards is either U.S. Navy or other government orders.

The passing away of shipyard capacity has been characterized by many twists and turns of "restructuring." For example, the Avondale Industries, Inc. yard in New Orleans was "saved" through an employee stock ownership plan in 1985.

In 1986, the famous General Dynamics Fore River Shipyard in Quincy, Massachusetts, shut down outright. Then came the news in April that Drexel Burnham Lambert and

Michael Milken would back a deal to partially finance re-opening the plant. The catch is that there must be a worker-buyout arrangement, under which workers must commit themselves in advance to pay cuts of between 17% and 20% from their former General Dynamics wages.

The most-cited cause for the demise of U.S. yards is the issue of wage levels. However, the reality is, wage levels are high in Japan—the national yards with the most work. Today, there are 139 vessels on order in Japan. The next highest nation for work orders is South Korea, with 91 vessels. There, while wage levels are lower, the modernization of equipment has been remarkably high.

Strategies to turn around this crisis decline in U.S. ship-building capacity have come forward from several quarters in the recent period. One constant sticking point is what is made to appear to be the conflict between the need of U.S.-flag shipping lines to purchase new vessels at the lowest cost, as against the need of U.S. shipyards to have a flow of commercial business to stay in operation for the good of the national military-industrial base.

U.S. Rep. Robert W. Davis (D-Mich.) has introduced a bill that requires U.S. merchant vessels to be built in U.S. shipyards. Davis has expressed concerns about allowing foreign-built ships to operate in the U.S. merchant fleet and to still be eligible for certain government subsidy and cargo preference privileges.

Speaking April 19 to a maritime club in the Port of Washington, Davis said, "The buildup of our wartime mobilization base—both shipyard and sealift—are equally supportable." He said that while rapid modernization of the commercial fleet—which might take place utilizing foreign yards—is a

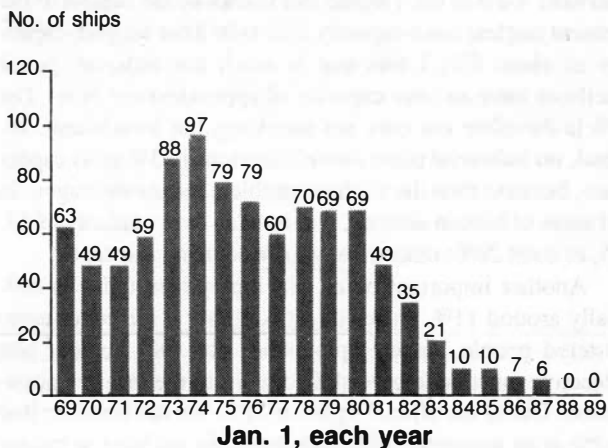
laudable goal, it must not be accomplished at the expense of American shipyards, which also have a role as a "critical element in our wartime mobilization base."

The new president of the Society of Naval Architects and Marine Engineers, Arthur J. Haskell, has taken a compromise position. On April 14, at his organization's meeting in New Orleans, Haskell presented a proposal to allow U.S.-flag operators engaged in international trade to procure and repair their vessels anywhere in the world without losing certain rights to U.S. cargo preferences. However, lines engaged in domestic trade, with coastal privileges, would be subject to special tax duties on any work carried out in overseas yards.

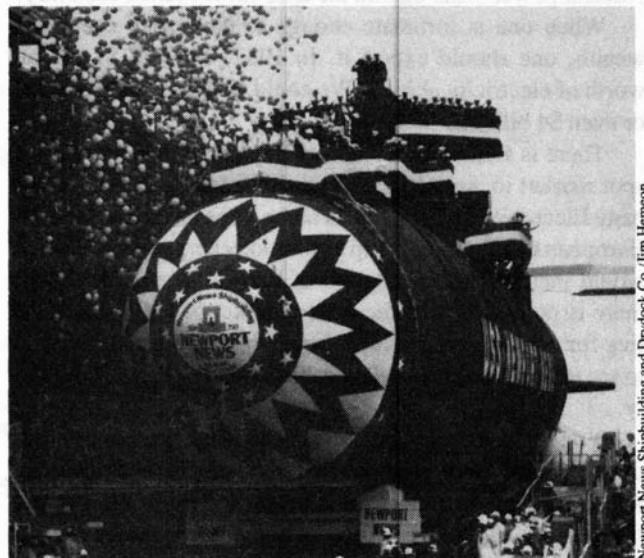
The Shipbuilders Council of America politely said in their newsletter, "We applaud Mr. Haskell's intent in trying to formulate a solution that is equitable to both maritime segments. Attempting to solve the problems of one industry at the expense of the other just doesn't work. The last administration tried it, and look what happened: The situation of the merchant fleet didn't get any better, the shipyards were devastated, and the nation's maritime defense mobilization base deteriorated to its lowest point in history."

Proposals made repeatedly by the Shipbuilders Council envisage revitalization of commercial maritime research and development in new ship design and ship production process improvements, and development of a comprehensive defense sealift program—involving federal backing of a certain number of merchant fleet vessels to be part of the sealift readiness group. Detailed financial projections have been made for how these new sealift commercial ships could be used to then amortize the investment made in America's shipyards.

FIGURE 1
New merchant vessels under construction or on order at U.S. private shipyards



Source: Shipbuilders Council of America.



In 10 years, the number of U.S. shipyards declined from 25 to 16, and those 16 are working for the Navy. By the end of 1989, only 11 will still have Navy contracts. Shown here is the launch of the U.S.S. Newport News in 1986.

Newport News Shipbuilding and Drydock Co./Jim Hemeon