TESTIMONY OF MR. TOM GODFREY

CHAIRMAN, SHIPBUILDERS COUNCIL OF AMERICA

BEFORE THE

SENATE COMMERCE, SCIENCE AND TRANSPORTATION COMMITTEE

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Good Afternoon Mr. Chairman and Members of the Committee. My name is Tom Godfrey and I am President of Colonna's Shipyard in Norfolk, Virginia. Colonna's Shipyard is a 128 year old family owned business currently engaged in commercial and Navy ship repair and new barge construction activities.

I am also the Chairman of the Shipbuilders Council of America. SCA is the oldest and most broad based trade association representing all sectors of the commercial shipyard industry. Founded in 1920, SCA today represents 71 shipyard companies that own and operate over 150 shipyards in 24 states and employ approximately 35,000 workers. Our member companies build and repair America's commercial vessel fleet as well as support vessels for the U.S. military, U.S. Coast Guard vessels and other small and mid-sized government craft. We also repair and maintain Navy combatant ships, vessels in the National Defense Ready Reserve Fleet and other vessels needed to maintain our military readiness.

Mr. Chairman, the spate of recent oil spills around the world and the reaction to those spills in the European Union and elsewhere is proof that Congress took the right course when it enacted the Oil Pollution Act of 1990 ("OPA-90") in response to the EXXON VALDEZ disaster. In its simplest terms, that law mandates that all vessels calling at U.S. ports be double-hull by 2015. The environmental benefit of moving petroleum product in double-hull vessels far outweighs the negligible cost to the consumer that the double-hull requirement imposes. It is estimated that the total transportation cost of refined petroleum product moving from the Gulf of Mexico to New England is less than $.07 per gallon, a small price to pay to protect our coastlines from potentially devastating oil spills.

It has taken the EU two major spills and several minor ones over the last few years to make the difficult economic and political decisions you made in 1990. Recent spills off the coasts of France and Spain could have been prevented, or at least minimized with more modern, double-hull ships. The most recent accident which occurred in the English Channel last week was minimized to some extent because the vessel in question was double-bottomed. Some have suggested that the spill could have been minimized even more with a vessel that was entirely double-hulled. No vessel, or any form of transportation for that matter, can protect 100 percent against potential spills, but double-hulls are safer under most circumstances.

Now the Europeans in reaction to these spills are likely to take action, which will almost assuredly create more comprehensive protections against spills in EU waters than enacted in the OPA 90 law. Specifically, the EU proposals would prohibit carriage of heavy fuel oil in single-hull vessels immediately; ban single-hull vessels more than 23 years old immediately; phase out all single-hull tonnage by 2010; and, require vessels 15 years old to comply with more frequent and stringent inspection requirements. Individual European countries are considering even tougher actions such as banning all single-hull vessels from their ports immediately.

This new EU action raises several questions:

- Will accelerated EU phase-outs create a tonnage shortage in the international market, which could constrain the ability of the U.S. to import crude and/or petroleum products?

- What are our domestic energy transportation needs and are we doing what is necessary to ensure that adequate environmentally safe petroleum product transportation will be available under the OPA 90 requirements?

- Should the OPA 90 retirement schedule be accelerated to meet or exceed EU plans and what would the impact of an accelerated phase-out schedule be?

Accelerated retirement schedules being considered by the EU will not create a petroleum transportation crisis worldwide. There is sufficient capacity to build tankers worldwide. Analysis performed by Poten & Partners, a well-known energy and transportation brokerage and consulting firm, estimates that the entire world tanker fleet of 1654 vessels can be replaced every 6.6 years given current shipbuilding capacity worldwide. In fact, Poten & Partners reports that 107 tankers have been delivered in the last four years and that 70 large tankers are on order, and this before the EU enacted an accelerated phase-out requirement. International-flag operators have for some time been taking advantage of subsidized construction prices, mostly in Asian shipyards, to add to their tanker fleets well in advance of international regulations requiring them to do so.

The result of this added tonnage is overcapacity in the oil transportation sector and depressed shipping rates as more double-hull tonnage is added to the international marketplace, while international owners try desperately to keep single-hull vessels operating for as long as possible. Until now, there simply has not been a clear and unequivocal signal to the world that old tonnage must be retired. As long as domestic and international charterers are unwilling to pay a premium for transportation in modern, double-hull vessels, operators will continue to utilize all single-hull tonnage available, much of which is registered in "flags of convenience" states that pose significant security risks when they call on U.S. ports and around the world.

While an accelerated phase-out of single-hull tank vessels servicing European markets should not create an insurmountable shortage of vessels available elsewhere, additional vessel retirements especially of older, cheaper tonnage is expected to put upward pressure on international shipping rates potentially affecting decisions on whether to import or produce petroleum product at home through efforts such as the opening of ANWR. Higher international shipping costs could lead to more domestic production and increased domestic shipping demands.

The larger question in my opinion, Mr. Chairman, is whether there will be sufficient U.S.-flag, double-hull capacity to meet domestic petroleum product transportation requirements. It has been a dozen years since OPA 90 was enacted and much remains to

be done with the first major phase-out date for large, ocean-going tank vessels less than two years away.

Demand for coastwise petroleum product movement is difficult to project with certainty. Weather, economic activity, the cost of petroleum overseas, and other transportation options all impact demand for coastwise transportation; however, a private study cited by the National Research Council in 1998 estimates that approximately 4.150 million deadweight ton (dwt) or roughly 29 million barrels of capacity (tanker and tank barge) will be needed to meet domestic coastwise petroleum transportation requirements in 2005. These projections do not include transportation of crude oil from Alaska, nor do they take into account military requirements.[1]

Product Tankers[2]

	Double-Hull		Other		Total Capacity
	# of Vessels	DWT	# of Vessels	DWT	DWT
2005	21	815,000	29	1,297,000	2,112,000
2006	21	815,000	25	1,118,000	1,933,000
2007	21	815,000	25	1,118,000	1,933,000
2008	21	815,000	22	1,002,000	1,817,000
2009	21	815,000	22	1,002,000	1,817,000
2010	21	815,000	22	1,002,000	1,817,000
2011	21	815,000	16	723,000	1,538,000
2012	21	815,000	10	457,000	1,272,000
2013	21	815,000	6	265,000	1,080,000
2014	21	815,000	1	46,000	861,000
2015	21	815,000	0	0	815,000

Tank Barges < 5,000 gross tons[3]

	Double-Hull		Other		Total Capacity
	# of Vessels	DWT	# of Vessels	DWT	DWT
2005	69	1,233,000	43	707,000	1,940,000
2006	69	1,233,000	36	570,000	1,803,000
2007	69	1,233,000	30	462,000	1,695,000
2008	69	1,233,000	25	344,000	1,577,000
2009	69	1,233,000	23	318,000	1,551,000
2010	69	1,233,000	16	205,000	1,438,000
2011	69	1,233,000	16	205,000	1,438,000
2012	69	1,233,000	16	205,000	1,438,000
2013	69	1,233,000	16	205,000	1,438,000
2014	69	1,233,000	16	205,000	1,438,000
2015	69	1,233,000	0	0	1,233,000

[1] Statistics in this testimony do not include vessels that service the Alaska crude oil market. Vessels constructed for the Alaskan trade are significantly larger than those needed for domestic coastwise petroleum product transportation and are prevented by the economics of operating larger vessels from being interchangeable with vessels utilized in the coastwise trades.

[2] Sources: U.S. Maritime Administration, 2001; Clarkson's Tanker Registry, January 1, 2000.

[3] Sources: U.S. Corp of Engineers, Master File, 2001; coltoncompany.com, U.S. Maritime Administration, 2001.

Total Tank Vessel Capacity/Demand (DWT)[4]

	Double-Hull	Other	Total	Projected Demand	Building Requirement
2005	2,048,000	2,004,000	4,052,000	4,150,000	98,000
2006	2,048,000	1,688,000	3,736,000	4,215,000	479,000
2007	2,048,000	1,580,000	3,628,000	4,281,000	590,000
2008	2,048,000	1,346,000	3,394,000	4,347,000	953,000
2009	2,048,000	1,320,000	3,368,000	4,415,000	1,047,000
2010	2,048,000	1,207,000	3,255,000	4,484,000	1,229,000
2011	2,048,000	928,000	2,976,000	4,554,000	1,578,000
2012	2,048,000	662,000	2,710,000	4,625,000	1,915,000
2013	2,048,000	470,000	2,518,000	4,697,000	2,179,000
2014	2,048,000	251,000	2,299,000	4,770,000	2,471,000
2015	2,048,000	0	2,048,000	4,844,000	2,796,000

Today, there is approximately 815,000 dwt (21 tankers) (roughly 5,705,000 barrels) of double-hull capacity in the domestic coastwise self-propelled tanker fleet. Of this available tonnage, only 456,000 dwt (11 tankers) was built or rebuilt after OPA 90 was enacted and 359,000 dwt (10 tankers) of this capacity will be 20 years old or older in 2005. In addition to the double-hull self-propelled tonnage available, an additional 1,297,000 dwt (29 product tankers) of single-hull or double-bottom capacity will be available in 2005.[5] Total coastwise tanker capacity in 2005 will be 2,112,000 dwt under the current retirement schedule.

If the U.S. were to enact policies similar to the EU proposal and ban non double-hull tankers more than 23 years old from U.S. coastwise trade, all but one of the non double-hull U.S. flag tanker fleet would be forced into retirement by 2007. OPA 90 currently does not prohibit trade by double-hull vessels regardless of their age. The lack of double-hull tanker replacement construction and the age of the fleet that can remain in service under OPA 90 clearly illustrates that we are fast approaching a crisis point, and as the experience in Europe has shown there is clearly a greater risk of disaster with older single-hull vessels.

The one bright spot in this picture has been U.S.-flag tank barge operators who have been much more responsive to OPA 90 retirement schedules and requirements than those operating self-propelled vessels. U.S. shipyards and tank barge operators have worked together to develop new technologies such as articulated tug/barges (AT/Bs) to meet coastwise petroleum transportation requirements. AT/Bs are less expensive to build and operate than self-propelled tankers. They are safer and faster than traditional tug/barges

[4] Demand: Wilson, Gillette & Co. (as cited in *Double-Hulled Tanker Legislation: An Assessment of the Oil Pollution Act of 1990*, National Research Council, 1998.

[5] This includes six 46,000 dwt integrated tug/barges classified as tankers by the Coast Guard and the Corp of Engineers. These vessels phase out under OPA 90 in 2012, 2013, and 2014.

or even integrated tug/barges.[6] Almost every large tank barge constructed in the last five years has been built in the AT/B design. Today, operators are considering even larger AT/Bs, equivalent in size to a handy-size product tanker, to replace portions of the self-propelled tanker fleet.

Since OPA 90 was enacted, U.S.-flag tank barge operators have built or contracted for 48 large coastwise tank barges equaling roughly 800,000 dwt (5,665,000 barrels) of capacity. In the last three years alone, U.S.-flag coastwise tank barge operators have ordered 32 large ocean-going barges with a capacity of 530,000 dwt from U.S. shipyards. There is 543,000 dwt of double-hull tank barge capacity built prior to 1990 in the marketplace. In addition to double-hull tonnage, an additional 1,012,000 dwt (40 barges) of large ocean-going tank barge capacity will remain available for coastwise movements in 2005, bringing total U.S.-flag tank barge capacity in 2005 to approximately 1,940,000 dwt (13,580,000 barrels).

Total coastwise tank vessel – tankers and barges - capacity in 2005 assuming all vessels currently under contract are delivered will be approximately 4,052,000 dwt, approximately 100,000 dwt below projected demand. The shortfall grows to 756,000 dwt by 2008 assuming no growth in transportation demand and the OPA 90 retirement schedule remains unchanged. The shortfall will grow to 953,000 dwt assuming the modest growth in coastwise petroleum transportation demand projected in the National Research Council analysis. To put these numbers into perspective, 953,000 dwt equates to approximately (10) 40,000 dwt self-propelled product tankers, (6) 280,000 barrel AT/Bs, (6) 150,000 barrel barges, (10) 100,000 barges, and (10) 80,000 barrel barges.

Can U.S. shipyards build the tonnage needed to meet demand by 2008? The answer is yes as long as vessel operators place orders in a timely and orderly manner. Indeed, if they would approach it in this way, significant cost reductions could be obtained through series construction efficiencies. Seven shipyard companies are building/converting or have recently delivered large ocean-going tank barges. There are several additional shipyards with the capabilities and infrastructure needed to build tank barges in the range of 150,000 barrels or below if the demand requires it. There are at least six shipyards today that have the capability to build larger – 280,000 barrel range – AT/Bs. Construction of these larger "handy-size tanker equivalent" AT/Bs is expected to take 12 to 14 months with follow-on vessels every four to six months.

The number of shipyards with the capacity today to build self-propelled tankers is smaller. There are currently three commercially-oriented shipyards capable of beginning construction of self-propelled tankers immediately and several others have expressed interest in this market, but they are either engaged in ship construction of another type or would require facility modifications. Construction of the first of a series of 40,000 dwt product tankers will take 20 to 24 months to complete depending on engineering and design requirements. Follow-on vessels can be delivered every four to six months

[6] AT/B systems allow the tug to connect into a notch built into the barge with a fixed connection that enables the tub and barge to move independently of each other. Integrated tug/barge systems look similar but have a rigid connection which does not enable independent movement of the tug and barge.

thereafter. The first ships can be delivered in 2005 assuming contracts materialize very soon. U.S. shipyards can deliver at least a dozen product tankers by 2007; however, this simply cannot be achieved if U.S. owners persist in delaying investments in new tonnage. In our view, failure to sign construction contracts within the next 12 months will make it virtually impossible for new tonnage to be delivered in advance of the current OPA retirement schedule.

Mr. Chairman, there has been some discussion over whether the U.S. should accelerate vessel phase-outs under OPA 90 in reaction to likely actions by the EU. This is a decision that ultimately lies with Congress, but I would ask you to consider that a large number of tankers and large tank barges must be built over the next several years to meet the current OPA 90 retirement schedule and to consult with the vessel operator and shipbuilding industries before taking any such action.

Because the commercial marketplace does not differentiate in rates between new vessels and older, fully depreciated assets, commercial operators are in effect encouraged to keep old tonnage operating for 25 years and beyond. We ask you today to send a clear message to the marketplace that Congress and the American people will not tolerate any delay in complying with the OPA 90 dictate that petroleum product must be moved in modern, double-hull, U.S.-flag tonnage. In fact we would ask you to consider options to encourage voluntary compliance more quickly than the current law requires, such as extending the liability, to a greater extent, for future damages to the oil producers, refiners and distributors. You might also consider reinstituting the assessment on petroleum product moved in single-hull vessels with the assessment to be deposited into the Oil Spill Liability Trust Fund. This would bring the transportation cost for product moved in newer, more expensive double-hull vessels into parity with the cost of using older, fully depreciated, vessels. We would also ask you to consider requiring a more comprehensive and frequent inspection regime, similar the EU proposal, for U.S.-flag vessels to ensure that all vessels used to move heavily pollutant cargoes are in sound condition.

Mr. Chairman, my testimony focuses primarily on the OPA 90 law as it relates to supply and demand of the domestic coastwise petroleum transportation market from the shipbuilders perspective. I would; however, be remiss if I did not at least mention the importance to our military readiness of an adequate U.S.-flag tanker fleet. Our armed forces depend on a mix of vessels in the Military Sealift Command (MSC), the National Defense Ready Reserve Fleet, U.S. flag commercial fleet and "Effective U.S. Control"[7] fleet to meet sealift readiness requirements. Recent studies by MSC and the U.S. Maritime Administration project significant tanker capacity shortages as early as 2005 for this critical sealift need based on single-hull retirements in all of these fleets. We must find a way (other than through reflagging of foreign built vessels) to ensure adequate U.S.-flag tank vessel tonnage to meet our commercial and military needs.

[7] EUSC fleet is made up of vessels owned by U.S. citizens but operated under the flags of the Marshal Islands, Honduras, Liberia, Panama and the Bahamas.

Mr. Chairman, I want to thank you for holding this hearing today. America's commercial shipyards stand ready to construct vessels necessary to meet our domestic petroleum transportation requirements in an efficient manner. Very few issues are as important to our economic and national security as our access to oil and petroleum products and our ability to transport these products on U.S.-built, U.S.-owned and U.S.-crewed vessels.

In closing, Mr. Chairman, I urge the committee to send a clear message to the marketplace that Congress will not under any circumstance consider any delay in the double-hull requirement in the OPA 90 law.

Thank you and I will be happy to answer any questions.