

# Sound the alarm: U.S. shipyards have zero merchant vessel orders

by Marcia Merry

In testimony before a public hearing May 18, the head of Bethlehem Steel's shipyard division, David H. Klinges, warned that, although the shipbuilding industry "is well characterized as highly cyclical in nature, the cycles continue to plumb new depths with the current depression in the industry approaching bottom for the commercially oriented."

The director of Todd Shipyards Corporation said that there is "an untenable financial climate for the nation's shipyards in the years ahead." Within two weeks of this testimony by Hans K. Schaefer, who also serves as chairman of the board of directors of the Shipbuilders Council of America, Todd Shipyards announced it was considering sale of the company, or various types of restructuring. On May 28, company officials announced that its revolving credit agreement was in technical default, negotiations were under way with its lenders, and Brown Brothers, Harriman and Co. had been appointed to investigate corporate alternatives.

Todd is one of the top yards in the country, that just

completed a major overhaul contract for the Coast Guard, but lost a bid for a Navy contract to build a new line of DDG-51 guided-missile destroyers. For the fiscal year ending March 29, the company is expected to post losses of \$40 million.

**Table 1** presents the decline in merchant ship orders, and reliance on Navy construction, that now characterizes the U.S. shipbuilding industry. The five-year Navy plan for fiscal years 1987-91, includes 106 new ships and 20 conversions, acquisitions, and activations. Overall, in constant U.S. dollars, work completed this year by the shipbuilding industry is expected to decline at least 3%.

**Figure 1** shows that, as the number of new orders for ships (1,000 gross tons and over) went down, total tonnage capacity constructed has declined dramatically. Yards are lobbying and bidding intensely for fishing vessels, down to garbage scows.

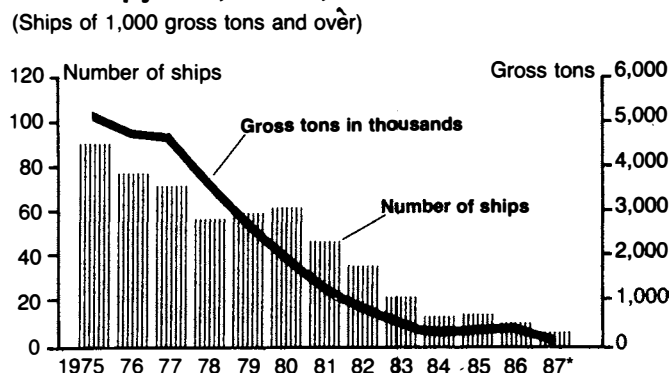
**Figure 2** shows the decrease in manpower employed in the industry in the last several years. Major names in U.S. ship construction have closed down whole yards. In 1986, General Dynamics shut down its entire facility in Quincy, Massachusetts for lack of work.

TABLE 1  
**Decline of new shipbuilding contracts and deliveries for U.S. merchant and naval vessels, 1978-87**

Year	Merchant vessels		Naval vessels	
	New contracts	Deliveries	New contracts	Deliveries
1978	30	19	25	
1979	21	21	13	
1980	7	23	11	
1981	9	22	28	26
1982	3	17	28	18
1983	4	15	27	21
1984	5	5	11	31
1985	0	3	11	35
1986	0	1	16	23
1987	?	4*	?	27*

\*Estimated  
Source: Shipbuilders Council of America.

FIGURE 1  
**Merchant vessels building or on order in U.S. shipyards, Jan. 1, 1986**

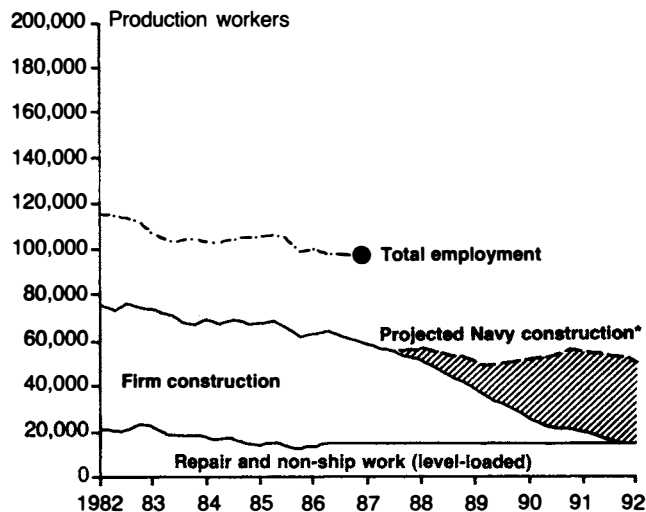


\*Forecast  
Source: Maritime Administration

FIGURE 2

## U.S. shipbuilding industry workload projection, Oct. 1, 1986\*

Active shipbuilding base summation  
Number of yards = 22



\*Navy projection: FY 1987 Five-Year Shipbuilding Plan  
Source: Maritime Administration

The crisis over marine fleet construction and capacity now confronting the nation has been taken up by the so-called Bennett Commission, named after Rep. Charles E. Bennett (D-Fla.), and which included six other experts representing shippers, labor, and shipyards. This group, whose first report to the President and Congress is due in September 1987, has

held a series of public hearings this spring on aspects of the dangerous status of the U.S. flag fleet, the shipbuilding industry, and its suppliers.

The picture shown clearly to this panel is that shipyards have reoriented to a situation in which the Navy is de facto the sole customer for American yards. The federal budgetary constraints on the Pentagon have resulted in a policy of "low-cost fleet" strictures that have pressured shipyards beyond financial tolerance, since there is no compensating cash flow from merchant fleet construction.

In recent years of declining trade, there developed what is wrongly called an "over-supply" of shipping capacity, which had to be "excessed," to use the terminology fostered by the International Monetary Fund-dominated policies of disinvestment in world productive capacity. Serviceable ships have been scrapped or mothballed; new ships were not ordered.

In 1973, then-Secretary of State Henry Kissinger initiated the killer phase of this general process. He negotiated a shipping protocol with the Soviet Union (part of the famous grain deal), in which Russian ships were given the right to go into any U.S. ports and bid for freight (of all kinds, not just grain) at any low-cost rate. Because of numerous Russian bottoms returning home empty from Cuba, the Soviets easily charged next to nothing for freight, and undercut the independent U.S. freight lines, which in turn, could hardly survive, let alone expand and augment their fleets.

In addition, under these circumstances, there started up new, commodity cartel-backed lines, such as Overseas Shipping Group (OSG), which is nominally a U.S.-flag line, but which was begun around 1973 by the Friourgs of Continental Grain Co., and the Recanati family, identified in a 1986 Israeli government report as acting to subvert the Israeli banking system. OSG and such operations have been involved in infamous swindles—such as the windfall profits made by OSG carrying grain to Russia under Kissinger's grain deal. OSG and similar firms are operated without any regard for the well being of the maritime industrial base of the United States. Under these circumstances, independent U.S. shipping lines, and U.S. shipyards alike have become less and less competitive, and less and less numerous. Japanese and Korean shipyards forged ahead on modern shipbuilding techniques and gained a dominant market share of merchant vessel construction.

Even a veteran shipping innovator like Malcom McLean, who blazed a trail for containerization in the 1960s with SeaLand, and then in 1978 bought U.S. Lines, in an attempt to create the most modern containerized fleet in the world, has had to succumb to the disaster of shipping and shipbuilding now at hand in the United States. Earlier this year, U.S. Lines declared bankruptcy, and as of March, McLean put up for auction, 12 "econships"—each of which can carry 2,240

# SILVER SHORT SQUEEZE

● WHO? ● WHAT? ● WHY? ●

Not what you think! Daily limits soon. Exchange cannot stop this one because it is different. **Send \$5 to SIBBET for information. He is the one advisor who predicted the other two squeezes. Make \$50 per oz.!**

**SIBBET PUBLICATIONS**

1091 E. WOODBURY RD., PASADENA, CA 91104

Name \_\_\_\_\_

Address \_\_\_\_\_

State \_\_\_\_\_ Zip \_\_\_\_\_

## World War II mobilization

*Speaking at the May 18 Bennett Commission hearing, David H. Klinges, president of the Marine Construction Group, Bethlehem Steel Corp., Bethlehem, Pennsylvania, compared the performance capability of his yards in World War II, with the de-mobilized state they are in at present:*

Fortunately for the United States, Congress enacted the Merchant Marine Act of 1936, which was designed to rebuild the merchant marine and the shipyard mobilization base. To meet the requirements of the Merchant Marine Act, a long-range shipbuilding program was initiated in 1938.

Contracts for 50 merchant vessels were placed that year to initiate a 10-year program anticipating the construction of 50 vessels a year. From this base, the program grew in 1939 to 150 ships per year and further to 200 ships a year in August 1940. Clearly, the running start that the American shipyards got on the most ambitious shipbuilding program in history saved this nation from likely military defeat. The vessels built under this program supported our forces abroad in the face of the devastating U-boat packs encountered in the early years of the war.

This program permitted Bethlehem to enter World War II operating 10 shipyards which provided the base of facilities, manpower and technical resources to expand the number of yards to 16—10 repair yards and 6 for new

construction from which 1,136 ships were delivered. Also, during this period, 42,542 vessels were repaired and re-conditioned, aggregating over 300 million deadweight tons. This is an interesting figure when you realize that the total world fleet today aggregates some 656.3 million deadweight tons.

What is Bethlehem's capability today? To effect even a small percentage of what was accomplished some 40 odd years ago, I regret to say that is far beyond our present resources. . . . Modern ships do not lend themselves to the "Rosy the Rivetter" processes of the Second World War. . . .

Bethlehem's marine operations have dramatically contracted during the recent past. At the outset of the Reagan administration, some 12,000 workers were employed in some seven Bethlehem yards. Today, the 2,000 remaining are employed in three yards, one in Maryland and two in Texas. Some erroneously believe that when yards are inactivated, they are mothballed but still remain as a national security asset. Let me disabuse anyone of this line of thinking with a recitation of what happened to our five shut-down operations.

When Bethlehem management concluded that the level of ship repair work was inadequate to support our five repair yards, every effort was expended to sell these yards as ongoing concerns to others, principally small businesses, in an effort to preserve the jobs of the yard personnel. But one of our yards was sold to a competitor who shut down his own yard in the area and moved into our better facility. Another yard was sold to another organization which has successfully operated the facility on a non-union basis.

containers. These are the most modern container ships ever built.

U.S. fleet tonnage has been "excessed" in great numbers, and not merely "de-flagged" to another country. At the same time, the fleets of NATO allies are shrinking. British-owned and registered commercial vessels fell from 15.7 million dead weight tons at the end of calendar 1985 to 8.2 million dwt in 1986. In 1978, just eight years ago, the British fleet consisted of 1,229 vessels aggregating 46.8 million dwt.

The West German flag fleet fell from 429 vessels to 344 ships during 1986, and fell in gross registered tonnage from 4.4 million to 3.3 million dwt.

On the other hand, the United States is now a flag-of-convenience for tankers owned by such commodity cartel companies as British Petroleum, and registered in Kuwait.

In the United States, the only thing keeping the shipbuilding industrial base going at all has been the "600-ship Navy" program, now in its sixth year. And that is now not enough. Without evaluating the military adequacy of the proposal here, the point to be made is that the military-industrial base of the country has shrunk to the point of shutdown.

Logistics experts concur that in the postwar period, if Allied economies had grown at or near their potential, by now there should be a nuclear merchant marine, rapidly hauling and distributing goods around the globe. Jumbo, nuclear-driven "mother ships" of well over the 50,000-ton class could speed point to point, from which smaller distributor vessels could serve coastal and inter-island ports. The technologies have existed for this for some time, only the wrong-headed national and international policies have obstructed this course.