BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON ARMED SERVIES

Strengthening the U.S. Defense Industrial Base

FEBRUARY 26, 2025

TESTIMONY OF:

MATTHEW O. PAXTON
PRESIDENT
SHIPBUILDERS COUNCIL OF AMERICA
20 F ST NW, SUITE 500
WASHINGTON, DC 20001

On behalf of the Shipbuilders Council of America (SCA), I would like to thank Chairman Rogers, Ranking Member Smith and members of the House Armed Services Committee for the opportunity to provide testimony on *Strengthening the U.S. Defense Industrial Base*.

I am Matthew Paxton, President of the Shipbuilders Council of America, the largest national trade association dedicated to representing the U.S. shipyard industry. The SCA has been in existence in some form since 1920 and currently represents more than 150 companies that own and operate shipyard facilities across the United States and partner companies that comprise the vital supply chain that makes up the nation's shipyard industrial base.

The U.S. shipyard industrial base is a diverse and critical manufacturing sector of our nation's economy. A 2021 study by the U.S. Maritime Administration[1] found that the industry supports more than 390,000 direct and indirect jobs across the United States and contributes $42.2 billion annually to GDP. Shipyards are engaged in building, maintaining, modernizing and repairing vessels of all sizes for the U.S. Navy, U.S. Coast Guard, U.S. Army, NOAA, the Maritime Administration, local and state government customers and the 40,000 commercial vessels that operate in domestic commerce. Additionally, there is a vast supplier base that provides goods and services that support all facets of the domestic shipyard industrial base.

I testified before this committee in 2023 and noted that industry had weathered significant recent challenges including historically high inflation, supply-chain disruptions, workforce challenges, a lack of stable and predictable acquisition and maintenance plans from our government customers, sequestration, and continuing resolutions.

Since that time, not only has industry continued to support our nation, but additional challenges, including misleading statements from senior Navy leaders, political appointees and others that challenge the foundations of our industry and whether we have the capacity and capability to compete with, and defeat, a near-peer adversary.

I know that this committee and hearing is focused on the defense industrial base, however I want to take a moment to highlight the importance of the Jones Act for the domestic shipyard industry and what that commercial segment provides to our defense industrial base. The domestic commercial market is sustained by the Jones Act, which provides market certainty and stability. This law helps to ensure the existence of a domestic shipbuilding and ship repair industrial base. The Jones Act sustains a domestic market for which carriers, operators and shipyards vigorously compete.

Additionally, SCA has been very actively engaged with members of this Committee, including Seapower Chairman Kelly and Readiness Ranking Member Garamendi to support critical pieces of legislation like the SHIPS for America Act. This legislation would represent a significant step forward in strengthening the nation's shipyard industrial base and would establish a comprehensive national maritime strategy. We are encouraged by its focus on bolstering American shipbuilding and ensuring a robust maritime sector capable of supporting our nation's economic and national security. SCA is committed to continuing its engagement with these Congressional members and staff to refine and enhance the legislation, especially to better support our domestic

[1] https://www.maritime.dot.gov/sites/marad.dot.gov/files/2021-06/Economic%20Contributions%20of%20U.S.%20Shipbuilding%20and%20Repairing%20Industry.pdf

ship repair industry, and we look forward to collaborating with policymakers to ensure the success of initiatives that secure the future of America's shipyard industrial base and maritime workforce.

I absolutely admit that U.S. shipyard capacity is not what it once was. However, contrary to popular belief, the U.S. shipbuilding market did not wane because we rested on our laurels or rejected innovation or capability. Our market has changed dramatically since World War II, when shifting administrative priorities, from Republican and Democratic Administrations, curbed programs to support our industry. At the same time, other countries, including our allies like Korea and Japan, and current pacing threats like China and Russia, recognized the sovereignty benefits of a domestic shipyard industry and doubled down on subsidizing, financing, and otherwise distorting the global market in shipbuilding. Those shifts have not been recognized by more recent U.S. leadership, which instead has blamed industry for the international change in market conditions.

Let me be clear, U.S. shipyards do not compete on a yard-to-yard basis when benchmarked against other international shipyards. Each of our individual, privately-owned or publicly traded shipyards competes with a state-backed or state-owned enterprise. When other market conditions are factored in, including generous financing, single-ship orders of 50+ ships, no design changes and other government support efforts, the current state of play emerges. We can see through recent events, whether it's Korea exiting the container shipbuilding business[2], Japan suing Korea in the WTO over subsidization of the shipyard industry[3], European government bailouts of various shipyard companies[4] [5], and the USTR findings on how China targeted the maritime and shipbuilding sectors for dominance[6], that the distortions in the market become even more clear.

If we are going to better support our domestic shipyard industry and enable our shipyards and maritime industrial base to compete with near-peer adversaries, we need to better understand how we got here. Therefore, I am here today to implore this body, the Congress as a whole, and this Administration to recognize the challenges that have led us to where our industry is today and to take steps to remedy critical issues, including: lack of efficient use of current domestic shipbuilding and repair capacity, excessive oversight and reporting requirements, unrestrained change orders, lack of vessel design discipline in government shipbuilding programs, and excessive focus on competition rather than partnership with industry.

How We Got Here

In 1993, following the end of the Cold War, the Congress and the Department of Defense made a decision to reduce the size of the military in light of the world being rid of the Soviet threat.[7] At a dinner that later came to be known as the "Last Supper" the CEOs of major defense contractors were sat down by the then-Secretary of Defense and told that there were too many companies in the defense industrial base and that industry needed to consolidate. And industry did – since then

---

[2] https://www.kedglobal.com/shipping-shipbuilding/newsView/ked202401080007

[3] https://www.reuters.com/article/business/japan-takes-second-complaint-to-wto-over-south-korean-shipbuilding-idUSKBN2041X4/

[4] https://maritime-executive.com/article/shipyard-sale-expected-as-harland-wolff-is-insolvent-sets-administration

[5] https://maritime-executive.com/article/german-bailout-of-meyer-werft-is-coming-together

[6] https://ustr.gov/about-us/policy-offices/press-office/press-releases/2025/january/ustr-finds-chinas-targeting-maritime-logistics-and-shipbuilding-sectors-dominance-actionable-under

[7] https://www.wbur.org/onpoint/2023/03/01/the-last-supper-how-a-1993-pentagon-dinner-reshaped-the-defense-industry

nearly 70% of the companies that served the DOD in 1993 were absorbed and others combined to serve the reduced needs of the Pentagon. Ultimately, this resulted in less competition for shipbuilding and ship repair.

I provide this history lesson to highlight that it was a shift in demand from the Navy and DoD customer that decided to hollow-out the defense budget. In the decades since, there has been a significant reduction in the number of ships purchased, maintained and modernized by the Navy. In 1992, before the "Last Supper" took place, there were 471 active ships in the Navy[8], and there are 295[9] in today's Navy.

Not only has there been a reduction in the size of the overall number of Navy ships, but there has been a commensurate increase in complexity, scope, and requirements added to the nation's Naval vessels. A recent industry report [10] demonstrated that "Navy shipbuilding contracts over the last several decades have shifted risk disproportionately to industry without concomitant."

Recent programs have seen an increase in "competition" from "those beyond the traditional, well-established" shipyards" giving fresh hope that "market competition would enable new government management and contracting approaches beneficial to the taxpayer and the U.S. Navy." Unfortunately, those benefits were not realized on these recent programs because, at the root, there have been no changes to "how the Navy and industry manage the programs, significantly contributing to delays and cost overruns."

We don't need another study to discuss how to better shipbuilding and repair in the United States, we need action to address the following issues:

- Utilization of current and existing shipyard capacity
- Excessive oversight and requirements from the government customer
- Excessive focus on competition at the expense of partnership
- Volatile markets as a result of budgets not being implemented, regular appropriations bills not being passed, and the constant doom-loop of continuing resolutions

Utilizing Current Capacity
Over the last several years, I have heard from multiple Navy, Congressional, and other thought leaders that there are only 4 or 7 shipyards in the United States.

This is not true. The MARAD report I mentioned in my opening remarks notes that there are more than 120 shipyards across the United States and the SCA alone represents 39 shipyard companies that own and operate over 60 shipyard facilities nationwide.

The confusion comes from a few places, most notably that there are 7 shipyards that currently have construction contracts for large Navy ships: Austal USA, GD Bath Iron Works, GD Electric Boat, GD NASSCO, HII Ingalls Shipbuilding, HII Newport News Shipbuilding, and Fincantieri Marinette Marine. However, those shipyards represent only a certain percentage of total US drydock capacity. Additionally, these yards are working within industry, in new and innovative ways, to subcontract

[8] https://www.history.navy.mil/research/histories/ship-histories/us-ship-force-levels.html#1993
[9] https://news.usni.org/2025/02/10/usni-news-fleet-and-marine-tracker-feb-10-2025
[10] https://www.linkedin.com/pulse/us-navy-shipbuilding-contract-risk-sharing-ajay-patel-4nvoc

the construction of critical components to other U.S. shipyards to meet milestones for various classes of ships. While 7 companies may have the major Navy acquisition contracts, U.S. shipyards of all sizes are building dry docks[11], submarine modules[12], structural steel components[13], aircraft carrier elevators[14], berthing barges, strategic tugs, submarine tenders and auxiliary oilers[15] and other elements to support the Navy's Fleet acquisition plans.

The second source of confusion is the role that the private shipyards play vs. the public yards. The state of the public shipyards is dire, and the Congress has authorized a $21 billion Shipyard Infrastructure Optimization Plan (SIOP) to upgrade those facilities. There are 4 public shipyards in the U.S.[16], that are responsible for the maintenance and readiness of the nation's nuclear fleet, particularly the propulsion systems. In fact, these 4 public shipyards repair, modernize, and maintain exclusively nuclear-powered warships.

All other Navy, Maritime Administration, and MSC ships are repaired, maintained, and modernized by the private sector shipyards. The SCA only represents *private* shipbuilding and repair facilities which are not operated by the government.

It is also critical that the nation, including our government customers, understand that shipbuilding and ship repair are *heavy* manufacturing industries – not traditional manufacturing industries. Building and maintaining one ship, let alone several hundred, is a complex undertaking and is much different than procuring weapons, aircraft or other military hardware. That is not to say that our industry cannot be responsive or innovative, but it is to put a marker down to better understand what can be achieved so that our ships can successfully complete their required missions and bring our sailors home safely.

I want to state very clearly that CAPACITY is not the major contributor to meeting on-time delivery dates in both new construction and repair. In fact, the industry's current capacity is underutilized, resulting from a myriad of issues including multi-pronged budget and acquisition strategies, shifting maintenance plans, and budgets that are neither predictable nor stable.

Fewer Ships & More Requirements

I was recently asked by a colleague about where the failure point was on a certain ship program and "who was responsible for the decisions that were made." That is an extremely difficult question to answer, and it should not be, but it speaks to the enormous levels of oversight provided by our customer – from requests for proposals (RFP) to ship delivery. I am not advocating for a single point of failure system, but there needs to be accountability for the true reasons programs are being delayed – whether by industry or the government. Currently nobody owns cost and schedule and that needs to change.

---

[11] https://www.bollingershipyards.com/news/bollinger-awarded-contract-for-state-of-the-art-floating-dry-dock-for-the-nations-new-columbia-class-ballistic-missile-submarine/

[12] https://usa.austal.com/news/submarine-industrial-base

[13] https://www.navalnews.com/naval-news/2024/10/bae-systems-ship-repair-begins-production-of-submarine-components/

[14] https://www.navalnews.com/naval-news/2023/06/austal-begins-construction-on-aircraft-elevators-for-us-navy-carriers/

[15] https://crsreports.congress.gov/product/pdf/RL/RL32665

[16] https://www.navsea.navy.mil/Home/Shipyards/

I would invite any member who considers themselves to be good stewards of the taxpayer's dollars to look at a single contract through the entire lifecycle – from RFP to completion. Notice how many levels of approval each contract must take before moving on to the next step, how long the changes at each stage take, and how much waiting around, on both sides, there is to move the contract forward. Anecdotally, I can see this on the ground – for example, I was recently in a shipyard where the ratio of shipyard workers to NAVSEA oversight was 16 to 1 and in another shipyard (admittedly smaller) had a 2 to 1 ratio. In any objective view this is simply not efficient and overly burdensome, resulting in bureaucratic breakdowns impacting schedule and cost. In reference to the smaller shipyard that had the 2 shipyard workers to every 1 NAVSEA personnel ratio; it lost so much money building for the Navy it has decided to never bid on such a contract again, reducing the overall industrial base that would otherwise be available to compete for these projects.

SCA does not advocate for one program or ship class over another, however, I wanted to highlight a few examples of programs that demonstrate the overbearing nature of our government customers and how requirements creep bears itself in other ways.

Per the recent industry report I referenced earlier on shipbuilding contract risk sharing, the Navy added 3,000 pages of performance and design specifications to an existing parent design for the FFG(X) frigate program before the contract was even awarded. Each offeror then worked, in great detail and at great expense, to modify their design specifications to meet the Navy's new needs. Despite this process, NAVSEA technical warrant holders continued to impose "unilateral design changes" after the contract was awarded. According to the report's analysis, while some of the contract delay is due to staffing and supply chain issues, a significant portion of the delay on the frigate is due to changes required by NAVSEA to the original proposed design. GAO concluded with similar findings[17].

A similar issue arose on the Landing Ship Medium (LSM) where five concept design studies were awarded to industry in 2021 with the Navy requesting industry use a parent design, with evolving modifications through a series of impact studies. As with FFG(X), the Navy continued to add requirements, including shock and firefighting systems, which drove the cost of the ships well above the $150 million average initially estimated by the Navy.

What examples like these demonstrate is that by the time the contract is awarded, industry is already operating at a loss. Shipyards invest significant effort preparing designs, conducting extensive feasibility assessments, and shaping workforce plans based on initial requirements. Even when a company wins the contract, they are still dealing with shifting NAVSEA requirements mid-program, pushing even more cost burden onto shipbuilders while adding delays and inefficiencies.

Instead of fostering stability for industry, the acquisition process has instead produced a race to the bottom wherein contractors "win" by taking on unsustainable margins, unexpected cost growth, and near-guaranteed program losses. The emphasis on "competition" comes at the expense of partnering with industry, understanding and utilizing best practices and ultimately completing successful acquisition programs.

---

[17] https://www.gao.gov/products/gao-24-106546

Sailors deserve the best we can offer. However, we are over-designing the platforms to the point that they are not able to be manufactured, and thus, sailors are asked to perform on older vessels with less capabilities. There must be some level of "mission-sufficient" when it comes to design.

We in industry absolutely want to be good stewards of the taxpayer's dollar, which is why we are here, as partners to the Navy and other services to find solutions. We want to increase industry accountability via more autonomy. However, there are similar contracting struggles on the maintenance side of the ledger as well.

Navy Non-nuclear Surface Ship Maintenance and Modernization

During the last two decades, many of the same maintenance availability "lessons learned" have been relearned or repeated. These issues, however, appear much more significant now when the contracting strategy awards each ship separately and independently in the name of competition. To achieve on-time-completion in ship repair, the following key factors must be performed by the collective maintenance team from industry and the Navy for execution success and efficiency:

- Definitive scope of work, which is complete, accurate and well understood. This would greatly limit the amount of change management and therefore result in less days of maintenance delay by the Lead Maintenance Activity (LMA).
- Material available which supports the scope of work. This includes all material (Contractor Furnished Material (CFM), Government Furnished Material (GFM), and Long Lead Time Material (LLTM).
- An accurate plan which supports a purposeful schedule integration for the executing LMA. This includes all maintenance and modernization providers.
- Adequate manning and facilities to support the planned execution, including the on-time arrival of the Navy berthing barge to support the crew move off.
- Additional focus on cycle times versus just the delivery date. Continuing to drive down cycle time will increase the throughput of availabilities across a choke point of infrastructure. This effort should be tied directly to minimizing the cost per day of the ship availability and therefore maximizing the ship's operational availability.

Add continuing resolutions and an increased operational tempo from the Navy Fleet on top of these issues, and you can see why industry is challenged to improve on time completion of maintenance availabilities.

U.S. Ship Repair Comparative

The domestic industry is also often compared to our international counterparts, with some going as far as to suggest that we should outsource our critical maintenance availabilities to overseas facilities.

Not only would outsourcing these critical U.S. jobs devastate our domestic ship repair capabilities, but I cannot stress enough how outsourcing work overseas would further reduce the Navy's ability to meet it's on time maintenance goals.

There is a significant difference in how the U.S. shipyards execute surface ship maintenance availabilities in the five fleet concentration areas and how surface ship maintenance is executed overseas. The current acquisition and contracting strategy for non-nuclear surface ships in the U.S. shipyards are administered by NAVSEA. Overseas, in Rota, Spain, Yokosuka and Sasebo, Japan and soon South Korea, the contract is administered by NAVSUP over multiple years.

The different approaches to contracting strategies and execution result in huge disparities between these markets and result in apples-to-oranges comparisons between the two. The ship repair industry has been alarmed at proposals from previous Senior Navy leadership to outsource even more of the availabilities in private ship repair to foreign markets. While we absolutely support the Fleet's needs to do voyage repairs or to repair battle-damage as needed, recent proposals would move existing domestic repair work overseas – not battle-damage or contingency work that we would predict to see in a conflict.

As noted above, this only exacerbates the instability in the domestic private ship repair market. Additional factors, including increased complexity of work, available Government Furnished Materials (GFM) and Long Lead Time Materials (LLTM), a reduced regulatory structure and other elements that enable those foreign contracts to be conducted more efficiently than those executed by NAVSEA. Industry is hopeful that Navy leaders will come to better understand these differences and work with and support the domestic industrial base to ensure more predictable and stable ship repair opportunities.

Budget Uncertainty and Continuing Resolutions

The current prospect that we are facing a year-long Continuing Resolution is agonizing to industry. Since 2010, the private shipbuilding and ship repair industry has grappled with the constant up-and-down nature of budget cycles because of sequestration and, more recently, the embrace by Congress of Continuing Resolutions. It is paramount that Congress does its part and returns to passing regular appropriations bills on time before the end of each fiscal year.

Unstable budgets and continuing resolutions are devastating to the shipyard industry by undermining the industry's ability to operate effectively and plan for the future. CRs introduce uncertainty, making it difficult for contractors to plan long-term investments and secure the necessary resources for critical projects in advance. The lack of consistent funding also stifles innovation and efficiency, as contractors are hesitant to invest in research and development when future budgets remain unclear.

Moreover, the short-term nature of CRs hampers workforce stability, as shipyards may be forced to delay hiring or face layoffs, which in turn erodes the specialized skills required for complex defense projects.

Ultimately, the stop-start nature of Continuing Resolutions punishes industry by delaying resolution and awards of contracts in new construction and repair, ultimately making ships more expensive and behind schedule.

Righting the Ship

I have laid out a lot of the problems and challenges facing our industry, but I want to take a look at steps that industry, the Congress and the Navy can take to "right the ship."

SCA would encourage the Congress to continue to support stable, realistic, and predictable budgets for the U.S. Navy and Coast Guard and we appreciate the work this committee has done to add authorities and dollars to critical accounts to see these goals realized. While we recognize it is hard to accurately forecast needs 30 years into the future, there must at least be stability and fidelity in the Five Year Defense Plan (FYDP) and the 10-year shipbuilding horizon, otherwise there

will be significant disruption to the industrial base. Additionally, we encourage this committee and the Congress to continue to hold the services to account through effective oversight.

To meet Fleet Force structure goals, Congress can authorize the use of acquisition strategies that enhance cost reduction rather than requiring the entire procurement cost of a ship to be funded in one fiscal year. Authorizing alternative funding approaches such as advanced procurement, incremental funding, and block buy contracting could increase stability in Navy and Coast Guard shipbuilding plans and increase the number of ships that could be built for the same amount of procurement funding. These same acquisition strategies must be considered and implemented for Navy non-nuclear surface ship maintenance and modernization.

By using advanced procurement in shipbuilding, Congress can define the full cost of a ship in an initial appropriations act but defer some of the appropriation to future years. For the shipbuilding industry and the supplier base, this creates an early financial commitment that enhances job security and encourages capital investment. Additionally, advance procurement can reduce the total construction cost of a ship through improved sequencing or year-to-year balancing of shipyard construction work and the purchase of batch items that can be manufactured in an efficient and economic manner.

Authorization of incremental funding, where cost is divided into two or more annual portions, allows for expensive items, such as large Navy ships, to be procured in a given year while avoiding or mitigating budget "spikes" and major fluctuations in year-to-year budget totals. While this authorization also requires appropriations support, industry believes that incremental funding would also allow construction to start on a larger number of ships each year so as to achieve better production economies. And an added benefit often not considered is a reduction in the amount of unobligated balances associated with DoD procurement programs.

Managing new construction requires long-term, steady inputs and a recognition that construction timelines cannot be changed rapidly. To address this, I would recommend the Congress consider a proposal from a recent CRS report called continuous production[18], which would emphasize Navy shipbuilding plans that provide continuous, steady production rates. An approach like this would allow for the industrial base to maintain a steady drumbeat of work, and the Navy could manage the size of the fleet on the “back end” of a ship life-cycle rather than the front.

Additionally, we need the Navy to become a better customer for buying ships. As I mentioned previously, there needs to be some level of “mission-sufficient” when it comes to design of our Navy ships. There also needs to be accountability for maintaining cost and schedule.

There also must be similar commitments to fund the “tail”, or the maintenance, of the current and new ships entering the fleet to ensure that they remain in commissioned service through their expected life cycle. Much like shipbuilding, ship repair and modernization would benefit from the use of acquisition strategies that promote private sector investment in people and infrastructure, increase the volume of work in existing shipyards and promote the speed of execution to meet the unique challenges of the maintenance and modernization environments. Current strategies appear to reduce the very complex nature of repair and modernization to a commodity rather than

[18] https://crsreports.congress.gov/product/pdf/RL/RL32665

appropriately implementing a strategy that optimizes the capacity of industry's existing workforce and facilities.

Lastly, we ask this body to do its part to regularly authorize and appropriate funds to provide predictability and stability for government shipbuilding and repair programs.

Conclusion

In conclusion, the shipyard industry stands ready to meet the challenges ahead and to work with our government partners to deliver ships on time and on budget. Looking toward the future, we hope that the Congress, and this committee in particular, continues championing the domestic shipyard industry and works with our government customers to provide stability and predictability for the men and women of the U.S. shipyard industrial base.

Thank you again Chairman Rogers and Ranking Member Smith for allowing me to testify alongside such distinguished witnesses today. I look forward to your questions.