

Tab 1

## **Section 301 Investigation of China's Targeting of the Maritime, Logistics, and Shipbuilding Sectors for Dominance**

### **Testimony of Jennifer Chen, Balsa Research**

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Good afternoon. Thank you for the opportunity to testify today. My name is Jennifer Chen, and I lead Balsa Research, a nonpartisan, nonprofit organization focused on federal policy to promote human flourishing.

Balsa Research appreciates the USTR's commitment to addressing China's concerning practices in the maritime sector. I would like to focus my testimony today on the proposed restrictions to promote transport of U.S. goods on U.S. vessels.

One proposed restriction mandates a progressive increase in the share of U.S. exports transported on U.S.-flagged vessels, reaching 15% within seven years. Our analysis shows this requirement is untenable given current U.S. fleet capacity and shipbuilding capabilities. Let me explain why with some specific data.

As of 2024, there are only 185 large oceangoing cargo-carrying vessels in the U.S. flag merchant fleet. Of these, 92 are dedicated to domestic Jones Act routes and cannot be diverted without cutting off goods and energy to regions such as Hawaii, Alaska, Florida, and New England.

This leaves just 93 U.S.-flagged vessels available for international trade—41 containerships, 19 tankers, 18 vehicle carriers, and 15 vessels of other types, with a combined capacity of approximately 4.3 million deadweight tons.

According to our analysis, in 2023, U.S. maritime exports required almost 200 deadweight tons of vessel capacity. The current U.S.-flag international fleet can provide only 2.1% of that needed capacity.

The consequences of the first proposed schedule are as follows:

By year 2, the 3% requirement would mean the US could export only 72% of its current volume.

By year 3, the 5% requirement would further limit the US to 43% of current exports.

By year 7, the 15% requirement would restrict the US to 14% of its current export volume. That is 28 million deadweight tons of exports, down from 200 million. Again, that is just 14% of our current export volume.

The alternative requirement to export 20% of all U.S. exports on U.S.-built, U.S.-flagged ships would be even more devastating, immediately limiting the U.S. to approximately 10% of its current export volume.

The bottleneck is in U.S. shipbuilding capacity. The US only has four shipyards capable of constructing large oceangoing commercial vessels. These yards collectively produce about four or five large commercial ships per year - the same output the U.S. has maintained since the 1980s.

There is simply no feasible path to creating enough U.S. ship capacity even within seven years without drastically reducing the volume of American exports, to one sixth or even one tenth of its current level.

Furthermore, this proposal has a tenuous connection to addressing Chinese maritime dominance. Any foreign-built vessel, including Chinese ones, can reflag to become U.S.-flagged for international trade as long as it meets U.S. Coast Guard safety standards, meets U.S. ownership requirements, and employs U.S. crews. This means Chinese shipyards, or shipyards from any other nation, could themselves help meet the demand induced by one of these proposed requirements by rapidly scaling up production of vessels that are suitable for reflagging at a pace faster than vessels can be built domestically.

In conclusion, Balsa Research strongly recommends reconsidering the export restrictions. Implementing these requirements as proposed would either impose a steadily tightening cap on American exports, falling to just 14% of current levels by year seven, or immediately restrict American exports to approximately 10% of its current volumes. Either option would be a devastating blow to American exporters and the broader U.S. economy, while the impact on Chinese shipbuilding would be ambiguous at best.

Thank you for your consideration. I welcome any questions you may have.

## **Anticipated Questions and Prepared Responses**

### Jones Act Imposed Limitations

92 ships operate within the Jones Act fleet, mostly serving essential domestic routes where land transportation isn't viable—primarily connecting Alaska, Hawaii, Puerto Rico, and pipeline-constrained regions like New England and Florida. While these vessels could technically be reassigned to international routes, the Jones Act prohibits foreign-built or foreign-flagged vessels from replacing them in domestic service. Consequently, any such reassignment would effectively cut off many states from essential goods and fuel supplies.

### Model Accounting for Increased Vessels

Our analysis has not accounted for vessels that can be built or reflagged, for the following reasons: One, currently, American shipbuilders have a turnaround time of 3-4 years for vessel orders, and we were unable to ascertain to which year their order books were already filled to. We expect that even in the best case scenario, the output of new ships would be negligible to overall U.S. export capacity. Two, as mentioned, ships built in any nation can be re-flagged, so we believe that while this can lessen the burden to U.S. exporters, it does not do so in a way that supports the domestic U.S. shipbuilding industry or targets the Chinese shipbuilding industry.

Meanwhile, the overall volume would still be capped by physical capacity constraints, meaning many exporters would simply be unable to ship their products regardless of what they're willing to pay.

### US Shipyard Market

Since the 1980s, the domestic shipbuilding market has since shifted to building smaller vessels or vessels focused on coastwise trades. Specifically, the domestic shipbuilding industry is largely focused on shipbuilding for government programs and would need to transition to develop the capacity to build commercial vessels suitable for international ocean trade.

### US Shipyard Locations

Hanhwa Philly Shipyard: Philadelphia  
General Dynamics NASSCO: San Jose  
Bollinger Mississippi Shipbuilding: Pascagoula, Mississippi  
Keppel AmFELS: Brownsville, Texas  
Fincantieri Bay Shipbuilding: Sturgeon Bay, Wisconsin

## Alternative Approaches for US Maritime Strengthening

Several approaches would be more effective, although this is orthogonal to the goal of targeting China's unfair shipbuilding practices. We would suggest a long-term shipbuilding investment program with realistic benchmarks tied to actual production capacity expansion. This could be combined with a phased approach with requirements that don't exceed 3% until we've demonstrated an ability to expand capacity.

## U.S. Shipyard Challenges

According to a recent GAO report from February this year on Navy procurement, American shipbuilders face several challenges, shared between military and commercial shipbuilding needs. The report spoke to both extreme challenges in maintaining a skilled workforce, and facility modernization. Even with unlimited capital, these physical and human resource constraints create a ceiling on how quickly production can be scaled.

The report emphasized that these challenges are ongoing and are expected to continue despite a collective investment of 5.8 billion dollars within the last nine years and an anticipated additional investment of 12.6 billion dollars by 2028.

The limited number of shipyards and the actual physical space required to build ships, and the 3-4 year completion time per vessel, create a physical bottleneck that can't be quickly resolved. The established shipyards are on the waterfront largely in large population settlements, which also makes physical expansion difficult. Hanhwa Philly Shipyard and NASSCO, the two largest American commercial shipbuilders, are located in Philadelphia and San Diego respectively, and are both boxed in by highways, railroads, and other industrial facilities. Any sort of physical expansion is no small matter.

A more measured approach with capacity-based benchmarks rather than arbitrary percentages would be far more effective in building sustainable American maritime strength without capping exports.

## Viable Conditions for Investment

Investment requires viable economic conditions. The abrupt implementation of these requirements would create market chaos rather than orderly investment. Shipbuilders need confidence in long-term demand before committing hundreds of millions in capital investment. A more effective approach would create predictable incentives and gradually escalating targets tied to demonstrated capacity growth. The current proposal puts the cart before the horse—mandating usage of capacity that doesn't exist and cannot be built in time. This approach risks damaging both U.S. exports and undermining confidence in the maritime sector rather than strengthening it.

Prev Draft

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Balsa Research appreciates the USTR's commitment to addressing China's concerning practices in the maritime sector. Though our submitted written comments touch on several points, I would like to focus my testimony today on the proposed restrictions on services to promote the transport of U.S. goods on U.S. vessels.

One proposed restriction mandates a progressive increase in the share of U.S. exports transported on U.S.-flagged vessels, reaching 15% within seven years. Our analysis shows that this requirement is untenable given current U.S. fleet capacity and shipbuilding capabilities.

Let me explain why with some specific data:

As of 2024, there are only 185 large oceangoing cargo-carrying vessels in the U.S. flag merchant fleet. Of these, 92 are dedicated to domestic Jones Act routes. These vessels cannot be diverted to international trade without cutting off essential goods and services to regions such as Hawaii, Alaska, Florida, and New England.

This leaves just 93 U.S.-flagged vessels available for international trade - consisting of 41 containerships, 19 tankers, 18 vehicle carriers, and 15 vessels of other types. Combined, these ships have a capacity of approximately 4.3 million deadweight tons.

In 2023, U.S. maritime exports constituted 8.49% of global maritime trade, requiring roughly 200 million deadweight tons of vessel capacity. The current U.S.-flag international fleet can provide only 2.1% of that capacity.

This means that in year one, we can transport the required 1 percent of U.S. products by U.S.-flagged vessels.

But by year 2, the 3% requirement would mean that we could export only 72% of our current volume.

By year 3, the 5% requirement would limit us to 43% of current exports.

By year 7, the 15% requirement would restrict us to 28 million deadweight tons of exports, down from 200 million. Again, that is twenty-eight, down from two hundred, or just 14% of our current export volume.

The alternative proposed restriction, a flat requirement to export 20% of all U.S. exports on U.S.-built, U.S.-flagged ships, is even more extreme, and would limit us to 10.5% of our current export volume from day one of enactment.

Not only would this be straightforwardly devastating to the U.S. economy, this regulation would be creating market opportunities for Chinese exporters to fill even more global supply gaps.

The bottleneck is in U.S. shipbuilding capacity. The US only has four shipyards capable of constructing large oceangoing commercial vessels. These yards collectively produce about four or five large commercial ships per year - the same output the U.S. has maintained since the 1980s.

There is simply no feasible path to creating enough U.S. ship capacity even with a seven-year timeframe to meet these requirements without reducing the volume of American exports to basically one tenth of its current level.

Furthermore, this proposal has a tenuous connection to addressing Chinese maritime dominance. Any foreign-built vessel, including Chinese ones, can reflag to become U.S.-flagged for international trade as long as it meets U.S. Coast Guard safety standards, meets U.S. ownership requirements, and employs U.S. crews. To be clear, the first proposed regulation has extensive carve outs for American-flagged but non-American-made ships. This means Chinese shipyards, or shipyards from any other nation, could themselves help meet the demand induced by these requirements by rapidly scaling up production of vessels that are suitable for reflagging at a pace faster than vessels can be built domestically.

In conclusion, Balsa Research strongly recommends reconsidering the export restrictions. Implementing these requirements as proposed would either impose a steadily tightening cap on American exports, falling to just 14% of current levels by year seven, or immediately restrict American exports to approximately 10% of its current volumes. Either option would be a devastating blow to American exporters and the broader U.S. economy.

Thank you for your consideration. I welcome any questions you may have.