

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL
TRADE AND TOURISM
February 27, 2007
11:05 a.m.

MEMBERS PRESENT

Representative Mark Neuman, Chair
Representative Carl Gatto
Representative Kyle Johansen
Representative Bob Lynn
Representative Andrea Doll
Representative Mike Doogan
Representative Vic Kohring

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Scott Kawasaki

COMMITTEE CALENDAR

PRESENTATION: ALASKA SHIP AND DRYDOCK, INC.

-HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DOUGLAS WARD, Director
Shipyard Development
Alaska Ship and Drydock, Inc. (ASD)
Ketchikan, Alaska

POSITION STATEMENT: Provided the presentation by Alaska Ship and Drydock, Inc.

REPRESENTATIVE JAY RAMRAS
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Reported on his recent tour of Alaska Ship and Drydock, Inc.

ACTION NARRATIVE

CHAIR MARK NEUMAN called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at [11:05:23 AM](#). Representatives Doll, Doogan, Lynn, Johansen, Gatto, and Neuman were present at the call to order. Representative Kohring arrived as the meeting was in progress. Representative Kawasaki was also in attendance.

CHAIR NEUMAN announced that the only order of business would be a presentation by Alaska Ship & Drydock, Inc.

Presentation by Douglas Ward of Alaska Ship & Drydock, Inc.

[11:07:14 AM](#)

DOUGLAS WARD, Director, Shipyard Development, Alaska Ship and Drydock, Inc. (ASD), informed the committee that ASD is the private sector contract operator of the state-owned shipyard in Ketchikan. The shipyard operates with the Alaska Industrial Development and Export Authority (AIDEA) as its direct partner.

CHAIR NEUMAN inquired as to the source of funding for ASD and how AIDEA is involved with the shipyard.

MR. WARD responded that the Ketchikan Shipyard was originally opened in 1985 and reopened by ASD in 1993. The state contracted with a private firm in Ketchikan to re-open the shipyard with the goal of reducing the cost to the Alaska Marine Highway System (AMHS) for maintenance and construction of ferries. The shipyard was primarily meant to be a support facility for AMHS and to provide jobs and economic diversity for Southeast Alaska. He continued to explain that the shipyard has always been an economic development project. In fact, the operating agreement with the State of Alaska Department of Transportation and Public Facilities (DOT&PF) specified the following three goals: to reactivate the Ketchikan Shipyard, to maintain AMHS ferries, and to seek capital to expand and improve the shipyard. Mr. Ward informed the committee that the shipyard is located on the Sunny Point Cannery site and shipbuilding and repair began on that site 100 years ago. Now, ASD hopes to become a globally competitive ship building facility through modern production techniques, workforce expansion and improvement, and innovative design. The directors of ASD

determined that cruise line business is necessary to be competitive in the shipping industry. The average ship operating in Alaska, not including oil tankers and large cruise ships, is roughly 250 feet in length and displaces 2,500 long tons. This average includes, for example, work boats, research boats, excursion cruise vessels, National Oceanic and Atmospheric Administration (NOAA) charting vessels, and the M/V Fairweather.

[11:14:40 AM](#)

MR. WARD, responding to a question, said that the tonnage of a vessel depends on the classification and type of construction. He noted that there is no rule equating weight to length. A ton, he explained, is 2,000 pounds and a long ton is 2,200 pounds. He continued to explain that "displacement" is equivalent to the volume of water that is displaced by the hull. The tonnage of a vessel is a volumetric measure that is needed for the U.S. Coast Guard to determine how much freight a vessel can transport. Mr. Ward continued with the presentation by noting that shipbuilding and repair in Ketchikan is not a new industry to Alaska; in fact, a fleet of 250 halibut boats was wintered there 70 years ago and U.S. Forest Service patrol boats were built nearby on Gravina Island. However, modern ships are much larger and complex and the older shipways are closed. He said the shipyard today can support a cross-section of AMHS vessels, and though incomplete, the shipyard is a functioning maintenance facility able to support a variety of marine assets. Its 10,000 ton floating dry dock is capable of hoisting a ship 450 feet in length.

[11:22:01 AM](#)

REPRESENTATIVE GATTO noted that the M/V Chenega is two years old and inquired as to the ages of the M/V Matanuska and the M/V Malaspina.

MR. WARD replied that the AMHS fleet is between 30 and 40 years old.

[11:22:58 AM](#)

REPRESENTATIVE DOLL asked for further information about how the limited capacity of the dry dock can affect future business for the shipyard.

[11:23:24 AM](#)

MR. WARD explained that the capacity of the dry dock is not the primary factor in successfully marketing the shipyard. In a global market, the shipyard must look to the volume of ships needing its services. Most of the ships operating in Alaska's waters are 250 feet in length, he noted. Therefore, the components of the shipyard will be sized to be competitive in that market. Mr. Ward described the extensive plans for expansion and improvement of the shipyard through the installation of world class facilities. At this time, he said, an additional dry dock is being built in China for delivery to Ketchikan in June. The new floating dry dock is sized for the average ship of 250 feet in length and it is equipped with unique pile-supported grounding grids that will use the changing tide to lift and launch ships.

[11:26:48 AM](#)

CHAIR NEUMAN noted that the ASD shipyard is trying to reduce the cost of repair and operation of AMHS.

[11:27:33 AM](#)

MR. WARD agreed that AMHS is important to the long-term success of the shipyard; however, the Ketchikan Shipyard must keep its costs competitive in the global market. He expressed confidence that success in the global market will result in additional revenue sharing with ASD's public partner AIDEA. Grants in the amount of \$75 million have already been secured for the expansion and improvement of the shipyard. A unique component of the operating agreement between ASD and AIDEA specifies that royalty fees will be paid to AIDEA to support a repair and replacement fund.

[11:29:34 AM](#)

REPRESENTATIVE JAY RAMRAS, Alaska State Legislature, informed the committee that he recently participated in an extensive tour of the Ketchikan Shipyard and he was pleased and excited to see the extraordinary amount of innovative, value-added manufacturing at the shipyard and throughout Ketchikan. He expressed his support of the \$3.5 million capital budget request for the Ketchikan Borough sponsored by Representative Johansen. He also reported that AIDEA Chairman, Mike Berry, is very supportive of the shipyard project. Representative Ramras said, "[The shipyard] is one of the most impressive projects that I have been privileged to see in the whole state of Alaska. [The]

project makes sense and blends Alaskan grit and know-how with true innovation."

[11:32:47 AM](#)

CHAIR NEUMAN praised ASD's program of workforce development through education at the high school and college levels.

[11:33:32 AM](#)

MR. WARD turned the committee's attention to the M/V Susitna, a \$50 million U.S. Office of Naval Research (ONR) demonstrator vessel currently under construction. Also known as the E-Craft, this vessel will be used as a ferry across Knik Arm connecting the Matanuska-Susitna Borough to Anchorage. The concept design is by Lockheed Martin Corporation and fulfills specific requirements for a U.S. Navy, Sea Base Naval Capability Pillar (NCP) craft with the capability to launch and recover men and materiel on a beach. The ship must also operate as a vehicle and passenger ferry.

[11:35:42 AM](#)

CHAIR NEUMAN congratulated ASD for its ability to fulfill the contract for the construction of this ship.

[11:36:03 AM](#)

MR. WARD informed the committee that the Matanuska-Susitna Borough submitted a request for proposal (RFP) to Lockheed Martin for a ferry to cross Knik Arm with the condition that the ship is built in Alaska.

[11:37:13 AM](#)

CHAIR NEUMAN noted that the Alaska coastline will provide the testing ground to determine if the design of the M/V Susitna meets the requirements of the U.S. Navy.

[11:37:50 AM](#)

MR. WARD went on to explain that the M/V Susitna is a small-water plane area twin-hull (SWATH) mode ship, and is now in the detail design process. The ship is a variable draft, ice-strengthened vessel that is very stable, due to the displaced hull which stays under the water. The M/V Susitna is able to travel at a speed of 30 knots in 15 foot waves. The complex

design includes a center cargo deck/hull that descends into the water and allows for the ship's approach to the beach for the launch and recovery of men and material. The ramp can also be lowered onto a boat ramp for the transfer of passengers and vehicles. This design is particularly useful in Alaska to open transportation routes that do not have shoreside facilities in place. The M/V Susitna will take two years to build and will add to the commercial stability of the shipyard. At the present time, the shipyard has a backlog of projects to 2009. In addition to the new ships, ASD is building agile and advanced manufacturing products. Using federal funds, DOT&PF constructed a fabrication structure to facilitate the hull module process that ASD will be using to construct ships. The ship building process will be semi-automated in order to allow downhand welding, which is a more efficient system than overhead welding. As the E-Craft is a science and technology vessel design, the shipyard is able to develop innovative new vessel construction processes; in fact, the gib to form the plates for the hull was made in Ketchikan.

[11:46:28 AM](#)

CHAIR NEUMAN pointed out that creative technology will be a selling point for the shipyard in the future.

[11:47:32 AM](#)

MR. WARD informed the committee that the Office of Naval Research chose ASD to build the E-Craft through an "other transaction" agreement that is only available to small businesses. This is a cost-plus agreement and its purpose is to distribute defense manufacturing contracts around the country.

REPRESENTATIVE DOLL requested further information about the "automatic welders."

[11:47:50 AM](#)

MR. WARD confirmed that there are semi-automated welding processes that can be adapted for future tasks. He continued to say that ships cannot be built by robots, and modern production methods in the industry will require skilled labor. Alaska Ship & Drydock has developed a "Job Entry Career Path to Employment" guide for use at Ketchikan High School where students are encouraged to explore employment opportunities. Jobs at the shipyard include, but are not limited to, designing, purchasing, fabricating, finishing, and support services.

[11:52:15 AM](#)

REPRESENTATIVE DOLL commented that ship building and repair must be applicable to ships of modern design and also to those 40 years of age.

MR. WARD reassured the committee that the shipyard can apply modern production standards to AMHS required maintenance of older vessels by the use of an optical imaging and measuring system.

[11:54:07 AM](#)

MR. WARD reported that ASD recently began an in-house basic welding class taught by a certified instructor. In fact, three employees have graduated from the class. ASD recognizes that the education of the next job force is a necessary part of business, and it is supporting the Alaska System of Shipyard Education and Training (ASSET), in collaboration with the Alaska Department of Labor & Workforce Development, the U.S. Department of Labor, the University of Alaska (UA), and the Northrop Grumman Newport News Shipyard (NNS). Mr. Ward, in closing, pointed out that Alaska is located at the center of the Pacific Rim, and that Ketchikan is one and one-half days "steaming time" closer to Asia than is Seattle. This geographic location is a major advantage to the shipyard when competing in the modern shipbuilding industry. The nearly complete Port of Prince Rupert Container Port in Canada will also be a source of future contracts for the shipyard. Mr. Ward said he anticipates the shipyard's future business to be one-third new shipbuilding, one-third ship repair, and one-third agile and advanced manufacturing.

[12:00:15 PM](#)

CHAIR NEUMAN stated that the projects for the U.S. Navy, the contracts from AMHS, workforce training, the fabrication and design of new products, and the partnership with AIDEA, are all factors contributing to ASD's bright future.

[12:01:08 PM](#)

REPRESENTATIVE GATTO asked Mr. Ward to compare the cost of the M/V Susitna to that of a fishing boat of similar size.

MR. WARD replied that a fishing vessel of equivalent size would cost \$10 to 20 million. In the future, commercial vessels based on the E-Craft design will not have military defense components and will cost much less.

[12:03:43 PM](#)

MR. WARD, in response to questions, informed the committee that in 1993, ASD employed 25 workers and its gross revenue was \$2.5 million. In 2007 ASD employs 130 workers and its gross revenue is \$20 million. Wages paid at the shipyard range from \$10 per hour for entry level positions to \$25 per hour for skilled production workers. Alaska Ship & Drydock employs a multi-skilled work force with a good work ethic. Mr. Ward also mentioned that to be a sustained and enduring enterprise, an industry must be able to work with a soft environmental footprint. To further that goal, ASD has included in its capital budget request sufficient funds to upgrade its process water treatment facilities. He also said ASD has a zero discharge policy in place.

[12:08:00 PM](#)

CHAIR NEUMAN noted that ASD's economic impact on the community of Ketchikan is significant.

MR. WARD noted his agreement and said that today ASD's gross revenue is \$20 million per year and that at the completion of its expansion project gross revenue is projected to be \$35 million to \$50 million per year. Total gross revenue earned by ASD since 1993 is \$150 million. In response to questions from Representative Doll, Mr. Ward stated that future Navy shipbuilding contracts will depend on the success of the M/V Susitna. He also informed the committee that ASD is receiving an increase in business from Canada, including a contract for the repair of one of the British Columbia ferries.

REPRESENTATIVE JOHANSEN thanked Mr. Ward for his presentation. He recalled that in the past the economic base in Ketchikan was supported by one large employer; however, with the help of the shipyard, Ketchikan is now moving toward a more level economy. He said the stability of the shipyard is the result of hard work by the directors of ASD. Furthermore, establishing manufacturing in Alaska is another step toward economic strength, diversity, and providing jobs for the next generation.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, Trade and Tourism meeting was adjourned at 12:17 p.m.