STATEMENT

OF

H. E. SHEAR
MARITIME ADMINISTRATOR

ON

BEHALF OF

THE

MARITIME ADMINISTRATION
DEPARTMENT OF TRANSPORTATION

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE
OF THE
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
U.S. SENATE

CONCERNING

FISCAL YEAR 1984 AUTHORIZATIONS
AND OTHER MARITIME LEGISLATIVE PROPOSALS

APRIL 14, 1983

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Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you this morning to seek support for the Administration's proposed Merchant Marine Act of 1983, to comment on S. 125, and to present the Maritime Administration (MARAD) request for appropriations authority for fiscal year 1984. I shall address these three subjects in order.

The extensive maritime policy review conducted by the Administration during the past year yielded major statements by the Secretary of Transportation in May and in August. Of the proposals put forth in those statements, the proposed Merchant Marine Act of 1983 incorporates five that require legislative action. These include: (1) renewal and indefinite extension of authority to permit subsidized operators to construct and acquire vessels outside of the United States and still receive Operating-differential Subsidy (ODS); (2) immediate eligibility for reflagged vessels less than five years old, and in some cases ten years old, for the carriage of Government-impelled cargo; (3) an increase from 49 percent to 75 percent in permissible foreign investment in U.S.-flag shipping supported by promotional programs; (4) extension of capital construction funds (CCF) to foreign-built ships; and (5) elimination of the current 50 percent tax on the cost of non-emergency repairs made abroad on U.S.-flag vessels.

Each of these five items needs to be considered on its own merits. The build-foreign proposal would give operators, without forfeiting subsidy eligibility, the opportunity to acquire modern, fuel-efficient ships at competitive prices and with assured early delivery. This is critically important for the renewal of the fleet at a time when the U.S./foreign construction cost differential has climbed to 65 percent, well above the statutory 50 percent CDS limit, and when the unarguable need for strict fiscal austerity stands in the way of CDS renewal. Without a build-foreign provision, ships simply will not be built in today's environment.

Immediate access to preference cargo is important to the bulk ship operator contemplating ship acquisition abroad.

Without such immediate access he is unlikely to go ahead with construction plans in today's depressed market. This provision is important to our efforts to strengthen the fleet.

The proposed increase in permissible foreign investment in U.S.-flag shipping supported by the promotional programs would serve the obvious purpose of broadening our investment base, thus increasing the prospect of new maritime venture. With respect to the two questions heard most frequently on this initiative: (a) it would not apply to Jones Act ships; and (b) U.S. citizen control of the affected companies would continue to be required.

As to the extension of the CCF's to foreign built ships, this is merely the logical corollary of the build-foreign proposal; it is intended to help promote the expansion and modernization of the U.S.-flag fleet in a period when domestic construction of foreign-trade ships appears precluded. It is important that we provide such assistance to American operators who must compete in a deeply depressed market characterized worldwide by extensive national assistance to flag fleets.

Finally, the elimination of the 50 percent ad valorem duty on non-emergency ship repairs performed abroad would remove a persistent barrier to competitive efficiency in U.S.-flag ship operations. Foreign operators in international trade are free to plan operations to maximize cargo and revenue, with flexibility to schedule maintenance as necessary. The U.S.-flag operators who compete in the same international market do not have this freedom when they must schedule maintenance only in one area, with the alternative of paying a heavy ad valorem tax penalty. This measure would eliminate that element of the U.S.-flag operator's competitive disadvantage.

I hope that the Congress will give a favorable reception to these proposals. I should also remind you that they are not isolated. I won't try to cover here all of the initiatives the Administration has advanced. However, I must note our strong support for the maritime regulatory reform measure so ably supported by this Subcommittee in its recent passage by the Senate. The Administration's affirmation of existing Jones Act and cargo preference laws also bears mention, as does our initiative to eliminate the unnecessary regulation of the shipbuilding and shipboard operations.

I have also been asked to comment on S. 125, which would authorize $200 million in CDS funds for FY 1984 and raise from $12 billion to $15 billion the limit on total ship financing guarantee commitments under Title XI.

Briefly stated, assuming it could be used, we believe that such a CDS appropriation, which would add inevitably to the national debt, would not be justified. Relief from the current 50 percent statutory limit on the CDS rate would undoubtedly be necessary before it could be used. With current U.S. merchant ship construction costs two to three times foreign prices, today's CDS rate would have to be about 65 percent, and the proposed $200 million would cover CDS for only three modern liners. This would be an unnecessarily costly and inefficient way to renew the fleet. Furthermore, subsidies do little to improve the efficiency and competitiveness of U.S. shipyards.

As to the proposed increase in the Title XI ceiling to $15 billion, we consider it unnecessary because under current market conditions it will probably be at least 1987 before we reach the limit of current Title XI authority. In addition, we are considering measures beyond those already in effect to help us stretch the current authority.

Speaking for the Administration, I would like to say that although we cannot support S. 125 itself, we do support and share its authors' objective of a revived and strengthened merchant marine. It is our sincere hope that we can work together to achieve a mutually acceptable common approach.

I would like to turn now to the third and final subject of this statement, the Maritime Administration budget authorization for Fiscal Year 1984. Our 1984 authorization request, calls for the authorization of a total appropriation of $483,807,000. This comprises $401,294,000 for Operating-differential Subsidies, $11,500,000 for Research and Development, and $71,013,000 for Operations and Training activities. Some of the details behind these three elements of our request are as follows:

OPERATING-DIFFERENTIAL SUBSIDIES

The Administration continues to meet its obligations under existing Operating-differential Subsidy contracts. As noted, the appropriation request for Operating-differential Subsidies totals $401,294,000, to which will be added a carryover estimated at $38,416,000, yielding a total of $439,710,000 to cover outlays, which will include $15,000,000 in payments for prior year operations. As in 1983, the program will support 151 ships, 130 liners and 21 bulk ships.

RESEARCH AND DEVELOPMENT

The Maritime Administration's Research and Development program works to make the U.S. shipbuilding and ship operating industries more productive and competitive. The 1984 request for this program is $11,500,000, which involves a net decrease of $3,800,000 from the FY 1983 budget of $15,300,000. The change reflects the completion of the current phase of the Arctic shipping program, which yields a decrease of $4,700,000, and a partially compensating increase of $900,000.

OPERATIONS AND TRAINING

The request for Operations and Training is $71,013,000, a net decrease of $7,100,000 from the full year amount provided in 1983.

$32,655,000 is requested for Maritime Education and Training. Of this amount, $20,266,000 is requested for the United States Merchant Marine Academy at Kings Point, New York. Increases over the 1983 total include $633,000 to cover increases in Academy operating expenses, $1,700,000 for the facilities modernization program, for which there was no appropriation in 1983, and $261,000 for operation and maintenance of the Academy's small training ship.

$10,668,000 is requested for financial assistance to the six State marine schools, which are located in California, Texas, Michigan, New York, Massachusetts, and Maine. This involves a decrease of $7,100,000 from the 1983 total, attributable to the nonrecurrence of the 1983 add-on of funds for the repair or replacement of the ship on loan to the Massachusetts Maritime Academy. The requested funds will provide $600,000 for direct payments to the schools, $2,600,000 for student incentive payments, and $7,468,000 for the maintenance and repair of schoolships. We do not believe it is appropriate for the Federal Government to pay for fuel for these ships.

$1,721,000 is requested for additional training for seafarers, primarily in firefighting and diesel operations.

$8,048,000 is sought for the National Security Support Capability program, which includes $6,999,000 for the National Defense Reserve Fleet and $1,049,000 for Emergency Planning/Operations. This account shows a net increase of $619,000 for higher operating costs of the program.

Finally, $30,310,000 is requested for other Operations and Training expenses. These funds provide for program costs, including most agency personnel and overhead costs, plus direction and administration of several agency activities. A net decrease of $3,222,000 is attributable to a reduction in personnel and associated operating costs offset to a degree by operating cost escalation.

This concludes my prepared statement, Mr. Chairman, and I will be glad to answer the Committee's questions.

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