

May 4, 1983

STATEMENT OF
ADMIRAL HAROLD E. SHEAR
MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION
BEFORE THE HOUSE SUBCOMMITTEE ON MERCHANT MARINE
MERCHANT MARINE AND FISHERIES COMMITTEE
ON H.R. 1242

Mr. Chairman and Members of the Committee:

I am pleased to accept your invitation to give the Administration's position on H.R. 1242, a bill "To promote increased ocean transportation of bulk commodities in the foreign commerce of the United States in United States-flag ships and to strengthen the defense industrial base."

H.R. 1242, the Competitive Shipping and Shipbuilding Act of 1983, would require that 5 percent of all U.S. bulk imports and exports be carried on U.S.-built, U.S.-flag vessels in the calendar year following enactment, with the percentage increasing by 1 per centum per year until a level of 20 percent is reached. The proposed legislation would also require the Department of Transportation to establish and publish guideline rates for the carriage of bulk cargoes subject to the Act, and to establish an advisory committee to assist in finding ways to reducing U.S.-flag vessel operating and construction costs by at least 15 percent, which would be accounted for in computation of the guideline rates.

The Administration supports the objectives of encouraging a newer, more efficient and less costly U.S.-flag fleet by lowering both shipbuilding and ship operating costs. One of the major concerns of this Administration has been the long-term decline of the American Maritime Industry. America needs a strong and viable merchant fleet, with modern cargo capabilities to enable it to compete on world markets. The pride this nation once had in its merchant fleet

must be restored. A modern, revitalized American merchant fleet, manned by skilled and trained American seamen, is a goal which must be achieved.

However, we cannot support the approach taken by H.R. 1242, which employs the mechanism of cargo reservation, a measure which distorts the free market, to achieve those objectives. Our objections also reflect a number of other major concerns with the proposed legislation.

Cargo preservation would increase shipping costs of bulk imports and exports which would not be offset by the savings proposed by this bill. The annual cost of 20 percent cargo reservation for bulk cargoes has been estimated to be as much as \$3 billion. This increase in shipping costs would increase the cost to the consumer and other users of bulk imports primarily petroleum, residual fuel oil, iron ore and bauxite; it would also increase the cost of U.S. bulk exports, such as coal and agricultural products, to the point that they could lose market opportunities.

A related concern is the severe adverse effect this legislation would have on U.S. agriculture. If historic rate differentials provide an accurate means of forecasting, the additional freight cost of H.R. 1242 on U.S. bulk agricultural exports could be as high as \$1.9 billion. This would no doubt have a dampening effect on U.S. agricultural exports which are already decreasing. Further, since U.S. export and domestic prices for major bulk commodities are inextricably linked, the only way to maintain U.S. export volume would be for the price of bulk commodities to fall in the domestic market to compensate for higher freight costs from cargo preference. In addition, U.S. traders could become immobilized by the bill's procedures.

Further, the proposed legislation would place an additional administrative burden on the Government to monitor the program, set the guideline rates and administer the advisory committee on cost reduction. Such an expansion, requiring additional personnel and regulations, is clearly against the Administration's policy to simplify and minimize government interference in the market. The legislation would also be costly to employment in other sectors of the economy, and would restrict importation of maritime services with the attendant adverse impact on American jobs.

Finally, H.R. 1242 would have a negative effect on our foreign relations. Passage of the proposed bill would have adverse consequences for the Administration's commitment to liberalize trade in service industries, and to resist cargo allocation regimes in international liner shipping. This country has a commitment to, and a greater stake than any other country in, free trade. If this legislation were enacted, the U.S. would be viewed by its allies as endorsing a protectionist measure substantially at variance with this basic policy.

Experience has shown that an approach which relies on government intervention in the market does not serve the long-term interests of this country. It is imperative that we find ways to make the free market work for the benefit of this industry. Only in that way can we seek to secure the long-term viability for the U.S. merchant marine.

Over the past two years, the Administration has developed initiatives based on the premise that the forces of competition can be made to work for the benefit

of the U.S. merchant marine. Our promotional bill, recently transmitted to this Committee, takes this approach. We are also exploring ways to streamline and make more efficient the administration of our operating differential subsidy program. In addition, we are reviewing regulations which affect the maritime industry in order to lessen the regulatory impact on the industry by eliminating unnecessary and duplicative regulations. These and other measures will strengthen and revitalize the U.S.-flag fleet by making the industry more cost competitive and efficient.

Mr. Chairman, let me reiterate the President's and the Administration's strong commitment to the revitalization of the U.S.-flag fleet. We will continue to work together with you to achieve this objective.