

STATEMENT FOR THE RECORD

OF

H. E. SHEAR
MARITIME ADMINISTRATOR

ON

BEHALF OF

THE

DEPARTMENT OF TRANSPORTATION

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE
MERCHANT MARINE AND FISHERIES COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

ON

H.R. 5091, A BILL TO AUTHORIZE APPROPRIATIONS FOR THE
MARITIME CONSTRUCTION DIFFERENTIAL SUBSIDY FOR
FISCAL YEAR 1985, AND FOR OTHER PURPOSES

AND

H.R. 5220, A BILL TO PROTECT THE NATIONAL DEFENSE
SHIPYARDS OF THE UNITED STATES, AND FOR OTHER PURPOSES.

APRIL 10, 1984

STATEMENT OF ADMIRAL H. E. SHEAR, MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE OF THE HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE WITH RESPECT TO H.R. 5091, A BILL "TO AUTHORIZE APPROPRIATIONS FOR THE MARITIME CONSTRUCTION DIFFERENTIAL SUBSIDY FOR FISCAL YEAR 1985, AND FOR OTHER PURPOSES," AND H.R. 5220, A BILL "TO PROTECT THE NATIONAL DEFENSE SHIPYARDS OF THE UNITED STATES, AND FOR OTHER PURPOSES."

April 10, 1984

Mr. Chairman and Members of the Subcommittee on Merchant Marine. My name is Harold E. Shear, and I am the Maritime Administrator of the Department of Transportation.

I appreciate the opportunity to present the views of the Administration with respect to H.R. 5091, a bill "To authorize appropriations for the maritime construction differential subsidy for fiscal year 1985, and for other purposes," and H.R. 5220, a bill "To protect the national defense shipyards of the United States, and for other purposes."

H.R. 5091 would authorize to be appropriated to the Secretary of Transportation for construction-differential subsidies (CDS) under Title V of the Merchant Marine Act, 1936, (Act) for the fiscal year ending September 30, 1985, not to exceed \$250 million, to remain available until expended. The 50 percent CDS limitation set forth in Section 502 of the Act would not be applicable to funds authorized by H.R. 5091.

With respect to the second bill, H.R. 5220 would authorize the appropriation of \$200 million to the construction subsidy account for subsidies under Title V of the Act, in addition to amending that Title extensively. It would also require

competitive bidding by U.S. shipyards limited to shipyards with less than 60 percent government work and would provide for subsidy in an amount equal to 40 percent of the lowest qualified bid. Differentials between U.S. and foreign ship costs would not enter into consideration under this concept. It is also our understanding that this subsidy would be disbursed to the construction yard in a lump sum at the time of contracting rather than through progress payments as under past practice. This would give the yard the benefit of interest on the unexpended balance of the subsidy amount during the construction period, which, by our calculations, would yield an effective subsidy rate likely to fall somewhere between 45 and 50 percent, with the actual rate dependent on prevailing interest rates.

As you know, Mr. Chairman, the Administration has not funded the CDS program for commercial ship construction because such subsidies have failed to achieve their stated objectives over the past 30 years, during which our yards have become progressively less competitive in international markets. In this light, the Administration cannot support the enactment of either H.R. 5091 or H.R. 5220. We do applaud the H.R. 5220 goals of improving shipyard efficiency and competitiveness and repealing the existing Title V as having failed to be effective.

It must be clear that the Administration's non-support of these bills does not betoken failure to recognize the problems that currently face U.S. shipyards in today's worldwide shipbuilding slump. At its very outset, this Administration

initiated a Navy shipbuilding program more ambitious in terms of real dollar outlays than any other since World War II. No other national shipbuilding industry in the free world has the benefit of a Government program that approaches the magnitude of this Navy effort.

This said, the Administration recognizes that work under the Navy program will be concentrated in a relatively small number of major yards, and that there is an increasing amount of underutilized capacity in the industry. For this reason, review and analysis of various possible initiatives to provide assistance consistent with current fiscal limitations has been encouraged and will continue.

In addition to provisions related to construction subsidy, Mr. Chairman, H.R. 5220 would grant the Secretary authority to enter into ODS Buy Out Agreements where a vessel has more than ten years remaining on its ODS contract. In this regard, the bill provides that: the Secretary and the operator "may agree to liquidate the contract on payment to the operator of an amount equal to five times the amount of subsidy due under the contract in the last full calendar year before the agreement, if at least 60 percent of that amount will be used to purchase vessels constructed with the aid of subsidy under" the National Defense Shipyard Protection Act of 1984.

At the present time, not all U.S.-flag carriers operating in our foreign trade are subsidized. Additionally, some carriers receiving ODS have asked the Secretary to amend their long-term

contracts for a substantial Government payment in return for early termination and release from ODS restrictions. On October 17, 1983, there was published in the Federal Register proposed guidelines by the Maritime Administration on amendments and terminations of ODS contracts. In that publication comments were also requested on the issue of whether the Government had the authority to terminate contracts early in return for substantial Government monies and release from ODS restrictions. The comments received were split on that issue, which has been quite controversial. We support the clarification of the legal authority of the Secretary to enter into such agreements. We do not support the restrictions in H.R. 5220 on those agreements, such as requiring the amount of the ODS termination payment to be five times the amount of subsidy due under the contract in the last full calendar year before the agreement. We believe the Executive Branch should have the flexibility to respond to various different factual situations so long as the national interests are served.

Mr. Chairman, this concludes my statement. I am prepared to address any questions you may have.

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