

**STATEMENT**

**OF**

**H. E. SHEAR  
MARITIME ADMINISTRATOR  
DEPARTMENT OF TRANSPORTATION**

**BEFORE THE**

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

**WITH RESPECT TO**

**SENATOR STEVENS' PROPOSED AMENDMENT TO S. 1234,  
THE MERCHANT MARINE PROMOTION ACT OF 1984**

**AUGUST 9, 1984**

STATEMENT OF ADMIRAL HAROLD E. SHEAR, MARITIME ADMINISTRATOR,  
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August 9, 1984

Mr. Chairman and Members of the Subcommittee on Merchant Marine. I appear before you this morning to present the views of the Administration with respect to the proposed legislation to be known as "The Merchant Marine Promotion Act of 1984."

Mr. Chairman. The Administration and the Congress have made significant strides in attempting to revitalize the maritime industry. The enactment of the Shipping Act of 1984 reflects the most significant legislation in this regard to date. All agree that more needs to be done. While the proposed legislation represents a thoughtful attempt to take some significant and beneficial action, the problems of the industry would not be eliminated by enactment of its provisions. Further, the Administration is unable to support those measures in the proposal that by increasing Government expenditures would have adverse budgetary consequences.

We strongly support section 3, which would amend the Merchant Marine Act, 1936, to authorize subsidized U.S.-flag liner operators receiving or applying for Operating-Differential Subsidy (ODS) to

construct or acquire liner vessels outside the United States. The Secretary would have to find that any acquired foreign vessel is fewer than three years of age. The authorization would expire in 18 months but would permit vessels so obtained to be eligible to receive ODS, and immediately to carry preference cargoes.

Mr. Chairman. As you know, historically, subsidized operators have constructed their vessels in the United States with the aid of construction-differential subsidy (CDS). Public Law 97-35, approved August 13, 1981, added a section 615 to the Merchant Marine Act, 1936, pursuant to which subsidized operators or prospective subsidized operators could build vessels abroad and still be eligible to receive ODS and immediately to carry preference cargo. The Secretary had to find that the operator's request for CDS could not be approved due to unavailability of CDS during FY 1982. Congress intended by that legislation to assist subsidized operators in meeting their contractual obligations to replace overaged ships. Because of restrictions placed on authority for FY 1983, the authority provided by section 615 expired for all practical purposes after FY 1982. Authority in section 134 of Public Law 98-151, approved November 14, 1983, provided similar, but limited, permission for two U.S.-flag operators.

The proposed legislation to amend section 615 represents one of the elements of the Administration's promotional program. The Administration continues strongly to support build-foreign

authority for U.S. operators. However, this legislation, unlike our proposal, would exclude bulk vessels and unsubsidized operators from its coverage. We urge broadening the proposed authority to include bulk vessels and to allow nonsubsidized operators of foreign-built vessels to document or redocument their vessels under U.S.-flag with immediate eligibility to carry preference cargoes on terms comparable to those accorded subsidized U.S.-flag operators.

Section 2 of the proposed legislation would amend the Merchant Marine Act, 1936, to extend the tax deferral benefits of the Capital Construction Fund (CCF) to the U.S. coastal and intercoastal trades. The Administration also supports this provision of the Merchant Marine Promotion Act of 1984.

As Members of this Subcommittee know, section 607 of the Merchant Marine Act, 1936, permits a U.S. shipowner to defer the tax on certain income from so-called Eligible Vessels. An Eligible Vessel, which generates the tax-deferred funds, means any vessel constructed or reconstructed in the United States, documented under U.S. law and operated in the foreign or domestic commerce or fisheries of the United States. The shipowner deposits these funds into a CCF for use in acquisition, construction or reconstruction of so-called Qualified Vessels or related complement of barges and containers or payment of principal indebtedness on such vessels or complement. A Qualified Vessel, for which these funds can be spent, means any vessel constructed or reconstructed in the United States, documented under U.S. law, and operated in the foreign,

Great Lakes, fisheries, or noncontiguous domestic trade of the United States.

The proposed legislation would allow expansion of the benefits of the CCF so that Qualified Vessels could also operate in the coastal and intercoastal trades. With this addition, CCF benefits would extend to all domestic trades except the inland waterways. This legislative initiative has the strong support of the Administration. At the present time, the owners of U.S.-flag vessels operating in the coastwise or intercoastal continental U.S. trades are in the anomalous position of being authorized to set up a CCF, but are precluded by statute from using it for the construction of vessels for these same trades.

Sections 4, 5 and 6 of the proposed legislation would generally provide for a three year fuel conservation program pursuant to which propulsion machinery on certain U.S.-flag merchant vessels would be replaced or upgraded. The Secretary could pay up to half the cost of upgrading or replacing the propulsion machinery on certain U.S.-flag merchant vessels if the grant will provide the maximum engine room automation realistically attainable and result in a fuel savings of not less than 25 percent. The Secretary could also make use of an Energy Conservation Account at Treasury established for making energy conservation grants under section 4, and for the purchase of

vessels for the National Defense Reserve Fleet pursuant to section 5 of the bill. Section 6 of the bill would provide for an energy tax credit of 15 percent of the contract amount, in addition to the standard investment tax credit now available, to a vessel owner who entered into such a fuel conservation contract with the Secretary.

Mr. Chairman. The Administration appreciates the efforts of Congress to develop a program to revitalize the U.S.-flag fleet. However, any such program has to be considered in the broader context of the immense current drive to control Federal spending and reduce the Federal deficit. Therefore, because the Energy Conservation Account and energy tax credit would adversely affect the Federal Budget, the Administration cannot support this proposal. Furthermore, we object to it to the extent it provides for the re-engining of Jones Act vessels. The proposal would disturb the historical dichotomy between the subsidized foreign trade fleet and the unsubsidized Jones Act fleet.

In addition, we have several other concerns about the proposals contained in sections 4, 5, and 6. First, we note that re-engining is not economically feasible for a large number of ships in the fleet. Second, the Administration opposes further subsidies, such as the 15% energy tax credit, which typically are "hidden" from scrutiny during the annual budget process. Finally, as to the purchase of additional vessels for the National Defense Reserve Fleet, since the Navy is already acquiring a significant number of vessels for the Ready Reserve Fleet, the authority provided in this legislation is not necessary.

Finally, Mr. Chairman, section 7 of the bill would provide for the U.S. documentation of the CUNARD PRINCESS and CUNARD COUNTESS, with the privilege of engaging in the coastwise trade. The Administration has not taken a position on this controversial legislation. We continue to weigh the advantages of immediate new seafaring employment and additional U.S.-flag presence in the cruise market against the disadvantages of jeopardy to the cabotage laws and possible loss of work for U.S. shipyards.

Mr. Chairman, that concludes my prepared statement. I will be pleased to answer any questions you or the Members of the Subcommittee may have. Thank you.