

STATEMENT OF RUSSELL F. STRYKER, ASSOCIATE ADMINISTRATOR FOR  
POLICY AND ADMINISTRATION OF THE MARITIME ADMINISTRATION,  
DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON MERCHANT  
MARINE, HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE, WITH  
RESPECT TO THE SUBCOMMITTEE DRAFT OF A SUBSTITUTE AMENDMENT TO  
THE TEXT OF THE BILL, H.R. 3399, THE "MARITIME REDEVELOPMENT BANK  
ACT OF 1983."

August 8, 1984

Mr. Chairman and Members of the Subcommittee on Merchant Marine. My name is Russell F. Stryker, and I am the Associate Administrator for Policy and Administration of the Maritime Administration, Department of Transportation.

I am pleased to appear this morning to present the views of the Administration with respect to your Subcommittee Draft dated June 12, 1984, setting forth a substitute amendment to the text of H.R. 3399, the "Maritime Redevelopment Bank Act of 1983." In my prepared statement I will refer to this substitute draft amendment as the Bill, and will focus on those provisions that most directly bear on the Administration's position on HR 3399.

Mr. Chairman. As we read the first section, the purpose of the Bill is generally to promote the U.S. maritime industry by stimulating private capital investment and technical innovation in both U.S. shipyards and commercial merchant vessels. The Administration supports this objective. However, for reasons which I shall present subsequently, we oppose the Bill.

To achieve its stated objective, the Bill would amend Title II of the Merchant Marine Act, 1936 (Act), to provide for the creation and operation of a Maritime Redevelopment Bank of the United States (Bank) and a National Shipbuilding Research and Development Corporation (Corporation). Proposed sections 216

through 223 would provide for the Bank, and proposed sections 224 through 229 would provide for the Corporation. Finally, proposed section 230 would appear to provide an expanded definition of the term "citizen of the United States" for the purposes of any program of vessel construction, reconstruction, or modification undertaken by the Bank.

The Bill stipulates that the "Bank is a for-profit corporation with the purpose of stimulating private investment with minimal Government intervention in maritime enterprise in furtherance of the economic, trade, and national security interests of the United States principally through the performance of certain supplemental intermediate credit functions in secondary capital markets."

The Bank would be initially capitalized through the transfer to it of certain assets by the Secretary of Transportation (the Secretary). Thereafter, between the beginning of the third and the end of the seventh year of its existence it would issue common and preferred stock. Its assets would also be augmented by fees it collected in connection with loan commitments, issuance of insurance, guarantees, or other services, by reimbursements, and, possibly, by retained earnings. The Bank would also have broad authority to borrow funds both commercially and through the Secretary of the Treasury in public debt transactions.

The Bank would have essentially unlimited authority to guarantee private debt, to grant direct loans, and to act as an equity participant in a wide variety of ventures, to include:

the construction, reconstruction or modification of vessels and the construction or fabrication of industrial products for export or domestic markets. It would be authorized to guarantee debt obligations, certain charter payments, equipment leases of product and process technology developed by the Corporation, and private or Government obligations incurred in leveraged buyouts of shipyards for modernization through the installation of computer-integrated manufacturing technology.

In exercising its guarantee authority it would be constrained to give priority to innovative vessel and industrial product designs, design integration with emphasis on producibility of vessels and industrial products in commercial shipyards, and zone construction and pre-outfitting plus maximum possible use of computer-aided design, robotics, numerically controlled machine tools, and flexible manufacturing systems.

Through this approach the Bill aims at offsetting U.S. shipbuilding labor cost and productivity disadvantages by exploiting the potential of automation and computerized management control systems. However, it does not directly address the fundamental issues of worldwide overtonnaging and concomitant reduced ship demand except in terms of product diversification, undefined innovative high-value-added ships, and ship construction for the government's account (e.g. Title VII build-and-charter and building ships for reserve fleet lay up). Of these, the promise of the first two is at best problematical and the third would call for up-front government investment, which is counter to current Administration policy.

The second half of the bill generally concerns the Corporation. It provides for the establishment of "a for-profit corporation for the purpose of stimulating private capital investment without Government intervention in shipbuilding research and development of both product and process technology in furtherance of the economic, trade, national security interests of the United States." The Corporation would be authorized to issue stock, which would carry voting rights and be eligible for dividends, and all stockholders would be entitled to an "irrevocable, non-exclusive equivalent license of both patentable and know-how technology developed by the Corporation with royalties," but research and development results could be licensed to nonstockholders.

The Corporation would be precluded from engaging in manufacturing except for demonstration projects or marketing of products or process technology. However, the Bank would be authorized to guarantee equipment leases of products and process technology developed by the Corporation.

Activities of the Corporation would include, inter alia, the development of computer-integrated manufacturing processes of the sort identified for priority support by the Bank, export development of high-value-added vessels and industrial products, measures to improve overall shipbuilding industry productivity, and the design and implementation of worker retraining programs. In addition, it could undertake syndication, through limited partnerships with the Corporation serving as general partner, or by other means, in research and development activities.

Mr. Chairman, the Administration strongly supports the objectives of strengthening the U.S. merchant marine and making the U.S. shipbuilding industry more competitive. It is also highly appreciative of the extensive effort expended on the development of the innovative proposals embodied in HR 3399. However, the Administration opposes the Bill.

It is opposed to the proposed Bank because:

a. There is now no lack of commercial credit for financially sound investment and no clear reason to substitute a new program for the Title XI program, either in part or in its entirety.

b. Although the Corporation would have the objective of making our shipbuilders more competitive, there is a legitimate question respecting the degree to which it is achievable. For the foreseeable future, U.S. shipbuilders continue to face a significant, if diminishing, cost disadvantage that would not be offset simply by the availability of capital.

c. In this light it is not clear why the Bank would be attractive for private investment or how the proposed financing mechanism could, within a reasonable period, stimulate new U.S. commercial shipbuilding for international trade barring the forgiveness of debts or credit terms otherwise inconsistent with fiscal solvency. This in turn leads inevitably to the thought that to be effective in achieving its objective the Bank would necessarily impose a permanent drain on Treasury resources.

d. The initial equity contribution of the United States to the Bank would include funds needed by the Secretary for the Title XI Guarantee Program, and for the National Defense Reserve Fleet.

e. Through its apparently unlimited authority to borrow funds through the Treasury, to guarantee private debt, to grant direct loans and to act as an equity participant in various ventures, the Bank could add measurably to the public debt at a time when fiscal austerity is mandatory.

With respect to the Corporation, it is not clear how it could be supported, since its stockholders, who could use its R&D developments without royalty, could comprise the entire U.S. market for such developments. As the Bill is currently written, the authorized activities of the Bank are somewhat vague and could be construed to play a significant role in support of the Corporation. The Administration supports the objectives of the Corporation, but objects to the creation and operation of this entity under the Bill to the extent Federal funds or guarantees would be directly or indirectly utilized. The Administration also objects to the guidelines to which the Corporation must adhere and to the lack of clarity regarding the activities of the Corporation and the operation of the antitrust laws.

The final section of the Bill is concerned with citizenship requirements. That section would alter the citizenship requirements set forth in section 2 of the Shipping Act, 1916, for the purposes of any program or vessel construction, reconstruction, or modification undertaken by the Bank.

Mr. Chairman. It is not clear what is intended by this section. As you know, there are currently no U.S. ownership requirements for a U.S. corporation to operate U.S.-flag vessels in the foreign trade of the United States. However, problems can arise with respect to the citizenship requirements for a U.S. corporation which has availed itself of the promotional programs provided by the Merchant Marine Act, 1936. Such a situation invokes the citizenship definitions set forth in the Shipping Act, 1916, which requires that the controlling interest of a U.S. corporation must be owned by U.S. citizens.

Any amendment to existing U.S. citizenship requirements must be precise, and we are unable to determine the scope of the proposed section on citizenship requirements. Until it is clear that the national security of the United States is not compromised in any way, we are opposed to this proposed amendment to our existing citizenship requirements.

In closing, Mr. Chairman, the Administration believes that the Bill would not accomplish its stated purpose, but it would (a) increase government involvement in and influence upon the private capital markets, the shipbuilding industry, and the ship operating industry; (b) increase the level of the Federal deficit; and (c) increase inefficient subsidies to the maritime industries. For these fundamental reasons, the Administration opposes the enactment of the Bill.

Mr. Chairman. That concludes my prepared statement. I will be happy to answer any questions you or the Members of the Subcommittee may have.

Thank you.