Revised

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 MERCHANT MARINE AND FISHERIES
U.S. HOUSE OF REPRESENTATIVES

IN SUPPORT OF

FISCAL YEAR 1986 AUTHORIZATIONS

FEBRUARY 28, 1985

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Mr. Chairman and Members of the Committee:

The Maritime Administration is charged with promotion and maintenance of a U.S. Merchant Marine capable of meeting the nation's shipping needs for both domestic and foreign commerce and national security. We are requesting authorizations which sustain this responsibility at a time when worldwide shipping rates are still depressed and when there is an increased need to reduce the Federal deficit. Before I address our budget request, I want to briefly review the current status of the maritime industry as it has evolved under the Administration's program.

In contrast with the steady decline in competitiveness and the related steady increase in dependence on subsidies which had for many years characterized the U.S. maritime industry, we are now entering a new era of vigorous, aggressive competition for cargo in world markets. A combination of factors has contributed to this turnaround.

An important first step was the Congress' provision in 1981 for the foreign acquisition of ships by subsidized operators. Although for practical purposes the foreign build authority lasted only a year, authority for 34 new ships and 14 conversions was granted. As a result, U.S. operators are now taking delivery of some of the best and most competitive diesel-powered new liner ships in the world - at a third of U.S. prices - and at no cost to the taxpayers. Excellent bulkers are also being acquired.

It is true that the number of ships under the U.S.-flag is declining. Much of the decline, however, is traceable to the disposal of overaged relics, which we have actively encouraged. More than 80 privately-owned ships of all types have been scrapped in the past few years. Furthermore, despite the decline in numbers our liner fleet has not lost delivery capacity because the new ships are much larger and more efficient than their predecessors.

With modern, competitive ships a number of our operators are aggressively seeking to increase the U.S. share of our foreign trade cargoes and the level of the operating subsidy budget is declining.

Equally important is the new spirit of realism that is being exhibited by the seafaring unions, with our strong encouragement. Wage and fringe costs, which had gotten out of hand with the cushion of subsidy, are being significantly reduced, and the unions are consistently agreeing to the much smaller crew complements of the new ships in recognition of the present economic realities.

Few, if any, new merchant ships will be built for the foreign trade in U.S. shipyards in the foreseeable future, given their three-to-one cost disadvantage. However, although the industry is undergoing some compressions, there is a continuing, solid base of shipyard business. Navy work is at an all-time high and there is a modest amount of Jones Act work. In addition, the sizeable expansion of the Navy/MARAD Ready Reserve Force is providing considerable new work and Navy plus commercial conversion and repair work will continue. Few of the world's shipbuilding nations offer this level of business opportunity in a period of shipbuilding recession.

In short, Mr. Chairman, the Administration's maritime program is working. It is also consistent with the President's budget objectives.

With respect to the budget, I would like to summarize several related initiatives that don't affect our dollar request before I turn to the dollars.

In the area of promotional legislation, the Administration:

- o Will again pursue legislation which will authorize ship operators to build or acquire vessels overseas without loss of eligibility for operating-differential subsidies (ODS). This is essential if we are to continue the progress I have outlined.

- o Will also pursue legislation which will give immediate eligibility to foreign-built vessels brought under U.S.-flag to carry cargoes for the U.S. Government.

Other proposals which are reflected in the President's budget will serve to reduce the Federal deficit. These are:

- o Elimination of "double subsidy." The Administration proposes to proportionately reduce subsidies when tonnage includes military and premium rated preference cargoes which are not available to foreign competition. The 1986 ODS budget request has been reduced by $20 million in light of this initiative.

- Increased fees for Federal Ship Financing (Title XI) Guarantees. As part of a multi-agency initiative, the Administration proposes to initiate a five percent up-front fee on new loans guaranteed and also on advances as well as a one percent annual loan guarantee fee. The increase in fee revenues, which is estimated to be $13 million, will not affect appropriations, but will be credited to the Federal Ship Financing Fund.

Our 1986 request is for the authorization of a total of $368,712,000. This comprises $299,500,000 for Operating-differential Subsidies, $9,900,000 for Research and Development, and $59,312,000 for Operations and Training. Some of the details behind these elements of our request follow:

Operating-differential Subsidies

The Administration continues to meet its obligations under existing operating-differential subsidy contracts. The 1986 appropriation request totals $299,500,000--$29,700,000 less than the current estimate for 1985. Three proposed ODS reforms are expected to take effect: (1) a change in the method of determining foreign competition for subsidy rate calculations will reduce subsidies by an estimated $4,000,000; (2) elimination of the requirement for subsidized operators to get prior MARAD approval before entering non-subsidized operations will stimulate diversions to such operations and thus further reduce subsidies by an estimated $11,584,000; and (3) in accordance with a recommendation of the Grace Commission, the Administration will seek to eliminate the "double subsidy" resulting from the payment of ODS while a vessel carries military and premium rated civilian preference cargoes. ODS is designed to cover the difference between certain U.S. and foreign ship operating costs and thus to offset the competitive disadvantage of the American operators. However, the cargo in question is not carried at conference rates and is not subject to foreign competition. These three reductions will offset $35,584,000 of the estimated $335,084,000 cost of subsidizing operations of 108 ships during 1986.

Research and Development

The requested Research and Development program is frozen at the 1985 funding level. This provides $2,965,000 to achieve greater shipbuilding productivity and to develop new and improved shipbuilding machinery; $2,525,000 to improve the efficiency, competitiveness, and safety of U.S.-flag operations; $2,860,000 for the Computer-Aided Operations Research Facility at Kings Point, New York; and $1,550,000 for Advanced Maritime Technology.

Operations and Training

Our authorization request for Operations and Training for 1986 is $59,312,000. This level combined with sums previously made available would result in an Operations and Training program level for 1986 of $67,812,000.

The overall reduction of $9,655,000 from the 1985 appropriation of $77,467,000 reflects the non-repetition of a one-time 1985 cost of $5,000,000 for refurbishment of the SANTA MERCEDES and the exclusion in 1986 of State training ship fuel costs, which were funded at $2,000,000 in 1985. Further savings are derived from a five percent Government-wide reduction in salary scales (-$1,155,000); certain administrative savings (-$1,900,000); compliance with the Deficit Reduction Act (-$888,000); and other management reductions (-$507,000).

The above savings are partially offset by 1986 costs of the 1985 payraise ($1,200,000) and other unavoidable cost increases ($940,000).

Finally, the Operations and Training request for 1986 reflects a five percent decrease in the number of freshmen entering the U.S. Merchant Marine Academy (-$60,000) and a reduction in the estimate for student incentive payments at the State maritime schools (-$285,000).

Thank you very much, Mr. Chairman.