

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 COMMERCE, SCIENCE AND TRANSPORTATION
U.S. SENATE
CONCERNING
FISCAL YEAR 1986 AUTHORIZATIONS
AND OTHER MARITIME LEGISLATIVE PROPOSALS
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UNITED STATES SENATE
IN SUPPORT OF FISCAL YEAR 1986 AUTHORIZATIONS

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you this morning to comment on S.102 and to present the Maritime Administration request for appropriations authority for fiscal year 1986. Before I address these two subjects, I want to briefly review the current status of the maritime industry as it has evolved under the Administration's program and to mention the promotional legislation that we plan to initiate this year.

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. Some 90 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 compression, 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 as well as 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.

In the area of promotional legislation, the Administration:

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

I would like to turn now to S.102, which would authorize \$300 million in fiscal year 1986 for acquisition, construction, or reconstruction of vessels, and construction differential subsidy (CDS), plus national defense features. It would also increase the allowable CDS rate from 50 percent to 60 percent and raise the Title XI commitment ceiling from \$12 billion to \$15 billion.

The Administration is opposed to this bill. A CDS appropriation would add inevitably to the national debt and would not be justified. An increase in the maximum rate from 50 percent to 60 percent would bring the rate closer to the current actual difference between U.S. and foreign prices for commercial

vessels. However, this subsidy cost is not justified when excellent vessels can be obtained abroad by U.S. operators with no addition to the national debt and with delivery times much shorter than those which can be offered domestically. That is why we are proposing the renewal of the build-foreign authority for subsidized operators.

As to the proposed increase in the Title XI ceiling to \$15 billion, we consider it unnecessary. At the current level of Title XI activity, the level of outstanding commitments is declining rather than increasing. We estimate that by the end of fiscal year 1986 it will have gone down to \$6,673,000,000 from \$7,303,000,000 at the end of fiscal year 1984, and that there will be a further decline before any increase in program activity reverses the trend. It is clear that there is no need for a ceiling increase at this time. That concludes my comments on S.102.

At this point I would like to turn to our budget request, starting with certain related program proposals and then addressing the budget details.

- 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.

- o 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 being carried forward from previous appropriations for a school ship replacement, 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 pay raise (\$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). Such reductions were recommended by the Grace Commission, and reflect the fact that there is an over-supply of officers. Also, included is a reduction in the estimate for student incentive payments at the State maritime schools (-\$285,000).

Overall, the State academies have fared well during this period of Federal budget constraint. We are continuing schoolship maintenance at the \$8,000,000 level. Student incentive payments are proposed at a level consonant with expected demand without imposing reductions in quotas. The deferral of schoolship replacement funds is proposed simply because replacement is not necessary at this time.

Thank you very much, Mr. Chairman.