

STATEMENT  
OF  
H. E. SHEAR  
MARITIME ADMINISTRATOR  
ON  
BEHALF OF  
THE  
MARITIME ADMINISTRATION  
DEPARTMENT OF TRANSPORTATION  
BEFORE THE  
SUBCOMMITTEE ON MERCHANT MARINE  
SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION  
ON THE BILL S. 664  
AND OTHER PROPOSALS TO LIMIT THE APPLICATION  
OF THE CARGO PREFERENCE LAWS.

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Good morning, Mr. Chairman and members of the Subcommittee. My name is Admiral Harold E. Shear, and I am the Maritime Administrator.

Thank you for the opportunity to present the Administration's views with respect to cargo preference requirements under U.S. law and to comment on S. 664 and certain other bills. There has been a lot of interest in this issue in recent days in the aftermath of the district court decision in Transportation Institute v. Dole. That decision found that the Department of Agriculture's so-called Blended Credit program was subject to cargo preference requirements. Both maritime and agricultural interests have reacted strongly. There have also been statements - perhaps at times confusing statements - from representatives of the Administration concerning this matter. I hope my remarks this morning will serve to clarify the views of the Administration with respect to these events.

Cargo preference requirements must be considered within the context of our maritime policy as a whole. Since the outset of this Administration, President Reagan has been committed to the reversal of the decline in our merchant marine industry and to the development of an industry that is capable of meeting the nation's economic and defense needs. In contrast to 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.

This Administration has worked to eliminate unnecessary regulations adversely affecting the shipping and shipbuilding industries. An example of these efforts was our support for the Shipping Act of 1984 which governs liner shipping in our foreign trades. We have sought extension of the authority for subsidized operators to acquire their ships abroad. As a result of the temporary authority to "build foreign" in effect during FY 1982, U.S. operators are now taking delivery of some of the best and most competitive diesel-powered liner and bulk ships. We have also proposed that U.S. operators that acquire new ships abroad be immediately eligible to carry preference cargoes.

These measures have enabled U.S. operators to seize the initiative in our foreign commerce and to aggressively seek to increase the U.S. share of our foreign trade cargoes. With modern, competitive ships, costs have been reduced and the level of operating subsidies has been declining.

The cost reduction is demonstrated by the dramatic 41% decline in the cost differential for carriage of agricultural commodities by U.S.-flag carriers in the years 1981-1984. It would fall still further if our proposals were enacted. As you are aware, these dramatic improvements in the economic efficiency of the maritime industry benefit all concerned. The industry's reliance upon direct subsidies is reduced. Exporters and other users of U.S.-flag ocean shipping services benefit. The cost per ton to the government of U.S.-flag carriage for government-sponsored exports under programs like the Department of Agriculture's (USDA) P.L. 480 program has declined.

We realize the great importance of U.S. farm exports. We also realize that neither agricultural interests nor maritime interests benefit if the cost of U.S. carriage detracts from our ability to reach foreign markets. There is room for further improvement. Greater efficiency in government agency handling of the bidding and negotiating process for ocean shipping services can reduce costs even further and we are preparing specific proposals for further cost reduction in this area.

At the same time that our merchant marine industry is becoming less dependent on direct subsidies, the Administration recognizes the importance of our cargo preference laws in providing needed support of the merchant marine as a vital element of our seaborne

defense capability. In 1982, then Secretary of Transportation Drew Lewis reaffirmed this Administration's support for the Jones Act and for existing cargo preference laws covering U.S.-flag carriage of government-impelled cargoes. That policy has not changed. It continues to be the position of this Administration that we support the existing cargo preference laws as interpreted prior to the District Court decision, and that those laws should neither be expanded nor contracted. These laws require that all military cargoes be carried in U.S. ships and fifty per cent of government-sponsored cargoes be carried in U.S.-flag commercial ships, when such ships are available at fair and reasonable rates. Each agency administers its own shipping activities, and the Maritime Administration monitors and assists these agencies in their compliance with the preference requirements. The Maritime Administration reports annually to Congress on the cargo preference compliance status of all government shipper agencies.

As I have noted, great strides have been made in modernizing the U.S.-flag fleet and reducing the cost differential with foreign competitors, but there remains and will remain somewhat higher costs for using U.S. ships, primarily in the bulk services, due to the higher standard of living in the United States. Added costs for using U.S.-flag vessels for agricultural exports under

cargo preference are paid by the government shipper agency and, in some cases, by the recipient countries. For example, USDA pays the cost differential for its P.L. 480, Title I, Food for Peace Program. USDA also generally pays full ocean transportation costs for donations of agricultural stocks.

At this point, Mr. Chairman, I would like to address USDA's Blended Credit program, an export promotion program, that began in fiscal year 1983. As you know, the program consisted of loan guarantees of commercial credit for approximately 80% of the commodity's value, "blended" with interest-free direct government loans of approximately 20% of the value. The net effect was a financing package competitive with world market levels. We originally estimated that the program would generate approximately 5.5 million metric tons during three fiscal years. Approximately 90-95% of the shipments was expected to be classified as bulk cargo shipments.

In early 1983, Secretaries Dole and Block held a series of discussions concerning the applicability of cargo preference requirements to the Blended Credit program. It became apparent that the costs of U.S.-flag carriage for cargoes shipped under the program would completely offset the benefits of the program, to the point where exporters would no longer be likely to avail themselves of the program's promotional incentives.

We at the time estimated that the additional costs involved in reserving 50% of the blended credit cargoes to U.S.-flag ships would have been approximately \$116 million.

In response to this action, the Transportation Institute and the Joint Maritime Congress filed suit on October 14, 1983, against the Secretary of Transportation and the Secretary of Agriculture, seeking to force the Government to apply cargo preference. On February 21, 1985, the Federal District Court decided in favor of the plaintiffs, ruling that cargo preference should be applied to the Blended Credit program. In response, USDA indefinitely suspended the Blended Credit program last month. We estimate that the balance of cargo to be shipped under this program is approximately 3.6 million metric tons valued at \$536 million.

The appropriate response to the district court decision has been considered at the highest levels of the Government. It has been decided to appeal the decision. As I stated before, the administration's policy is neither to expand nor contract the scope of the cargo preference laws.

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