

STATEMENT
OF
THE HONORABLE JOHN A. GAUGHAN
MARITIME ADMINISTRATOR
OF THE
DEPARTMENT OF TRANSPORTATION
BEFORE THE
SUBCOMMITTEE ON MERCHANT MARINE
OF THE HOUSE MERCHANT MARINE
AND FISHERIES COMMITTEE

ON H.R. 4024, H.R. 3141, H.R. 4581,
H.R. 4582, H.R. 4583, AND H.R. 4584;
BILLS TO PROMOTE THE U.S.-FLAG MERCHANT MARINE

MAY 1, 1986

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE ON MERCHANT MARINE. MY NAME IS JOHN A. GAUGHAN AND I AM THE MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION.

IT IS A PLEASURE FOR ME TO BE HERE THIS MORNING TO PRESENT THE VIEWS OF THE ADMINISTRATION WITH RESPECT TO VARIOUS MARITIME PROMOTIONAL BILLS THAT HAVE BEEN INTRODUCED. BEFORE I GET INTO MORE DETAIL ON THE PARTICULAR BILLS, I'D LIKE TO BRIEFLY SHARE THE ADMINISTRATION'S VIEWS WITH REGARD TO THE ODS PROGRAM AND OUR PROMOTIONAL INITIATIVES.

AS PART OF ITS 1982 MARITIME POLICY, THE ADMINISTRATION ANNOUNCED THAT IT WOULD HONOR EXISTING ODS CONTRACTS, BUT WOULD NOT SIGN ANY NEW CONTRACTS. THIS POLICY REFLECTED THE ADMINISTRATION'S BELIEF THAT THE U.S. FLEET MUST BECOME COMPETITIVE WITHOUT SUBSIDY TO THE MAXIMUM EXTENT POSSIBLE. THIS BELIEF WAS REINFORCED BY THE ODS PROGRAM'S FAILURE TO SPUR EFFICIENT, COST-EFFECTIVE OPERATIONS AND CONCERN THAT

THE PROGRAM MAY ACTUALLY HAVE EXACERBATED THE UNCOMPETITIVENESS OF THE U.S.-FLAG FLEET BY ENCOURAGING AND PROTECTING AN EXTREMELY HIGH U.S. COST STRUCTURE.

TODAY THERE IS APPARENT AGREEMENT WITHIN THE U.S. MERCHANT MARINE INDUSTRY AND IN THE CONGRESS, AS WITNESSED BY THIS HEARING AND THE NUMBER OF PROMOTIONAL BILLS THAT HAVE BEEN INTRODUCED, THAT THE PRESENT SUBSIDY SYSTEM IS NOT PARTICULARLY EFFICIENT AND MUST THEREFORE BE RESTRUCTURED.

THE ADMINISTRATION BELIEVES THE MOST EFFECTIVE WAY TO REVITALIZE THE INDUSTRY AND INCREASE THE U.S. CARRIAGE OF GOODS IN OUR FOREIGN TRADE IS (1) TO ELIMINATE UNNECESSARY IMPEDIMENTS TO COMPETITIVE MARITIME OPERATIONS, (2) TO ELIMINATE RESTRICTIVE REGULATORY CONSTRAINTS, (3) TO SUPPORT A BUSINESS ENVIRONMENT IN WHICH OPEN COMPETITION CAN EXIST, AND (4) TO PERMIT U.S. FLEET EXPANSION THROUGH WORLDWIDE SHIP ACQUISITIONS. THE ADMINISTRATION BELIEVES THAT IMPLEMENTATION OF THESE INITIATIVES WILL GO A LONG WAY TOWARD ENHANCING THE COMPETITIVENESS OF THE U.S.-FLAG FLEET AND SETTING THE STAGE FOR A REFORMED SUBSIDY SYSTEM THAT IS EQUITABLE, MINIMAL IN COST, AND PROVIDES THE OPERATORS WITH INCENTIVES TO ENHANCE THEIR COMPETITIVE POSITION VIS-A-VIS FOREIGN FLAG OPERATORS.

IN THIS LIGHT, I AM PLEASED TO POINT OUT THAT THERE ARE MANY FEATURES OF THE BILLS BEFORE YOU THAT THE ADMINISTRATION SUPPORTS.

IN FURTHERANCE OF OUR POLICY OF DEREGULATION, AND OUR PROPOSAL FOR UNRESTRICTED VESSEL ACQUISITION, THE

ADMINISTRATION SUPPORTS SEVERAL SECTIONS OF H.R. 4024, AND OF COURSE THE ADMINISTRATION'S PROPOSAL, H.R. 3141, INTRODUCED BY YOU, MR. CHAIRMAN, AND CHAIRMAN JONES AND CONGRESSMEN LENT AND SNYDER. MR. CHAIRMAN, YOUR MARITIME PROMOTION BILL, H.R. 4024, CONTAINS A PROVISION TO PERMANENTLY AUTHORIZE THE WORLDWIDE VESSEL ACQUISITION OPTION. THE AUTHORITY FOR U.S.-FLAG OPERATORS TO CONSTRUCT OR ACQUIRE MODERN, EFFICIENT VESSELS AT WORLD MARKET PRICES IS ESSENTIAL TO MODERNIZE TONNAGE IN THE PRIVATE U.S.-FLAG FLEET, AND INCREASE SEALIFT CAPACITY FOR THE DEFENSE OF THE NATION. LARGE, LOW-COST, FUEL-EFFICIENT SHIPS WILL ALLOW U.S.-FLAG OPERATORS TO COMPETE MORE EFFECTIVELY IN THE FOREIGN TRADES WITH THEIR FOREIGN COUNTERPARTS.

TO FURTHER THE OBJECTIVE OF REDUCING ODS COST, THE ADMINISTRATION ALSO PROPOSED THAT CERTAIN REFLAGGED VESSELS SHOULD BE IMMEDIATELY ELIGIBLE TO CARRY U.S. GOVERNMENT-IMPELLED CARGOES. WE SUPPORT THE SECTION OF YOUR BILL WHICH INCORPORATES THIS REFLAGGING PROPOSAL.

THERE ARE SEVERAL OTHER FEATURES OF YOUR BILL WHICH WE SUPPORT.

WE SUPPORT AN AMENDMENT TO 605(C) OF THE ACT TO REPEAL THE FORMAL HEARING PROCEDURES AND AUTHORIZE SUBSIDIZED CARRIERS TO OPERATE ON AN ESSENTIAL TRADE ROUTE UNLESS THE SECRETARY MAKES CERTAIN DETERMINATIONS. THE DELAYS CAUSED BY THE TIME-CONSUMING, FORMAL 605(C) HEARINGS HAVE PROMPTED THE ADMINISTRATION TO PROPOSE AN AMENDMENT TO SUBSECTION 605(C) TO SIMPLIFY THIS PROCEDURE. THE SECOND ELEMENT OF

OUR PROPOSAL WOULD PROVIDE FOR A PROPORTIONAL REPAYMENT OF ODS WHEN MILITARY CARGO IS TRANSPORTED, AND WHEN OTHER PREFERENCE CARGOES ARE TRANSPORTED AT ABOVE WORLD FREIGHT RATES. WE BELIEVE BOTH A SECTION 605(C) AMENDMENT AND A PROPORTIONATE REPAYMENT OF SUBSIDY AMENDMENT REPRESENT EXAMPLES OF MEANINGFUL REFORM OF THE ODS PROGRAM.

YOUR BILL WOULD ALSO REQUIRE ALL ODS PAYMENTS TO BE MADE MONTHLY, RATHER THAN ONLY FOR THE VOYAGES COMPLETED DURING THE MONTH. WE SUPPORT THIS APPROACH, AS IT IS IN KEEPING WITH PRESENT BUSINESS PRACTICE IN THE INDUSTRY.

THE AMENDMENT TO SECTION 804 OF THE MERCHANT MARINE ACT, 1936 WOULD GRANT THE SECRETARY DISCRETIONARY AUTHORITY TO PERMIT A U.S.-FLAG OPERATOR RECEIVING OR APPLYING FOR ODS TO OWN, CHARTER OR OPERATE A NONSUBSIDIZED U.S.-FLAG VESSEL OR A FOREIGN FLAG VESSEL. THIS SECTION WOULD GIVE VESSEL OWNERS MORE FLEXIBILITY TO CONDUCT EFFICIENT OPERATIONS AND WE SUPPORT IT.

THE ADMINISTRATION STRONGLY OPPOSES THOSE FEATURES OF H.R. 4024 WHICH WOULD EXPAND CARGO PREFERENCE REQUIREMENTS BY EXTENDING SUCH REQUIREMENTS TO THE OCEAN TRANSPORTATION OF U.S. MAIL.

WE HAVE ALSO REVIEWED THE FOUR BILLS DRAFTED BY INDUSTRY REPRESENTATIVES AND INTRODUCED BY CHAIRMAN JONES, EACH ENTITLED THE LINER DEVELOPMENT ACT OF 1986: H.R. 4581, 4582, 4583 AND 4584. EACH OF THE FOUR BILLS WOULD ABOLISH THE ESSENTIAL TRADE ROUTE CONCEPT IN FAVOR OF COMPLETE OPERATING FLEXIBILITY, LIMIT SUBSIDY TO WAGE DIFFERENTIALS,

COMPEL 15 YEAR SUBSIDY CONTRACTS, PERMIT WORLDWIDE VESSEL ACQUISITION WITH OPERATING SUBSIDY ELIGIBILITY, ESTABLISH A CAP ON SUBSIDIZED SHIPYEARS BUT ALLOW SALE OF SUBSIDIZED SHIPYEARS, AND CHANGE SUBSIDY PAYMENTS TO A MONTHLY PAYMENT BASIS INSTEAD OF UPON TERMINATED VOYAGES. A NUMBER OF THE BILLS ALSO HAVE SPECIAL FEATURES WHICH IN MOST INSTANCES RESULT IN ADDITIONAL GOVERNMENT EXPENDITURES.

AS I ALREADY STATED, THE ADMINISTRATION RECOGNIZES THAT THE PRESENT ODS PROGRAM STIFLES MARKETING INITIATIVES. THEREFORE, WE WOULD BE WILLING TO LOOK AT ANY REASONABLE INITIATIVE WHICH WOULD NOT INCREASE THE GOVERNMENT'S COSTS, WHILE, AT THE SAME TIME, MAKING U.S. CARRIERS MORE COMPETITIVE IN THE WORLD MARKET. AS IN YOUR BILL, MR. CHAIRMAN, THERE ARE MANY FEATURES OF THE FOUR BILLS DRAFTED BY THE INDUSTRY THAT WE COULD ENDORSE. OVERALL, HOWEVER, IT WOULD BE VERY DIFFICULT TO JUSTIFY ANY NEW ODS SYSTEM WHICH WOULD REQUIRE THE SECRETARY TO ENTER INTO NEW AND AMENDED ODS CONTRACTS WITHOUT REGARD FOR THE SUBSTANTIAL INCREASES IN COSTS TO THE GOVERNMENT. WE ARE, HOWEVER, CONTINUING TO ASSESS WHAT SYSTEM WILL MAXIMIZE FREE MARKET OPERATIONS, PERMIT U.S.-FLAG CARRIERS A REASONABLE OPPORTUNITY TO COMPETE WITH FOREIGN CARRIERS, BE FAIR TO ALL U.S.-FLAG OPERATORS, AND STRIKE A FAIR RETURN FOR THE NATIONAL INTEREST.

I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE CONCERNING PARTICULAR SECTIONS OF THESE BILLS. I KNOW THAT WE HAVE A COMMON PURPOSE IN THIS ENDEAVOR AND I LOOK FORWARD

TO WORKING WITH YOU AND REPRESENTATIVES OF THE INDUSTRY TO
RESOLVE THE DIFFERENCES AMONG US, AND WORK TOWARD MEANINGFUL
REFORM FOR THE U.S.-FLAG MERCHANT MARINE INDUSTRY.