

STATEMENT

OF

THE HONORABLE JOHN GAUGHAN
MARITIME ADMINISTRATOR

OF THE

DEPARTMENT OF TRANSPORTATION

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE
OF THE SENATE COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION

WITH RESPECT TO S. 1935 AND S. 1929,
PROPOSED LEGISLATION RELATING
TO THE PASSENGER SHIP INDUSTRY

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE ON MERCHANT MARINE. MY NAME IS JOHN GAUGHAN, AND I AM THE MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION. IT IS A PLEASURE TO APPEAR THIS MORNING TO PRESENT OUR VIEWS WITH RESPECT TO S. 1929 AND S. 1935, TWO BILLS PERTAINING TO THE U.S.-FLAG CRUISE SHIP INDUSTRY.

THE ADMINISTRATION STRONGLY SUPPORTS THE U.S.-FLAG CRUISE INDUSTRY AND STRONGLY SUPPORTS OUR CABOTAGE LAWS. ECONOMIC BENEFITS NATURALLY FLOW FROM THE OPERATION OF MODERN, EFFICIENT PASSENGER VESSELS UNDER THE U.S.-FLAG. WHILE ADDITIONAL TROOP SHIP CAPACITY IS NOT A DEFENSE PRIORITY, ADDITIONAL U.S.-FLAG PASSENGER VESSELS WOULD HAVE AN INDIRECT NATIONAL SECURITY BENEFIT OF PROVIDING MORE FLEXIBILITY DURING A NATIONAL CONTINGENCY AND ADDITIONAL JOBS FOR U.S. MERCHANT SEAMAN. ALTHOUGH THE COASTWISE LAWS RESERVE THIS EMPLOYMENT FOR U.S. VESSELS, REPEATED ATTEMPTS TO REVITALIZE THIS INDUSTRY HAVE BEEN UNSUCCESSFUL.

UNFORTUNATELY, IN SPITE OF THE OPTIMISM WE ALL FELT SEVERAL YEARS AGO, THE DEVELOPMENT OF A STRONG U.S.-FLAG CRUISE PRESENCE HAS NOT YET MATERIALIZED. AMERICAN HAWAII CRUISES OPERATES TWO LARGE, TRADITIONAL PASSENGER/CRUISE VESSELS IN WEEKLY CRUISES AMONG PORTS WITHIN THE STATE OF HAWAII. THE REMAINDER OF THE DOMESTIC CRUISE MARKET IS CURRENTLY SERVED BY SMALLER VESSELS SUCH AS RIVER STEAMSHIPS, EXCURSION BOATS, AND COASTAL VESSELS. THESE SHIPS OFFER CRUISES BETWEEN U.S. PORTS, ON THE INLAND WATERWAYS OR ALONG THE U.S. COASTS.

AS YOU KNOW, TO BE ELIGIBLE TO OPERATE IN THE U.S. DOMESTIC TRADES A VESSEL MUST BE CONSTRUCTED IN THE UNITED STATES, OWNED BY A U.S. CITIZEN, AND DOCUMENTED UNDER U.S. REGISTRY. IN ADDITION, A U.S.-FLAG VESSEL WITH COASTWISE TRADING PRIVILEGES CAN LOSE THAT RIGHT IF IT IS TRANSFERRED TO FOREIGN REGISTRY.

THE BURGEONING DEEP SEA CRUISE INDUSTRY BASED ON OUR SHORES IS VIRTUALLY DOMINATED BY AN EVER GROWING NUMBER OF FOREIGN SHIPS. THIS IS POSSIBLE BECAUSE THE FOREIGN CRUISE LINES OPERATE EITHER BETWEEN THE U.S. AND FOREIGN PORTS OR CALL AT U.S. PORTS ON AN IN TRANSIT BASIS AS PERMITTED BY CURRENT LAW AND REGULATIONS. THE BILLS BEING CONSIDERED HERE TODAY ARE PRAGMATIC ATTEMPTS AT ESTABLISHING AN AMERICAN BEACHHEAD IN THIS MARKET. THE POTENTIAL BENEFITS TO THE SERIOUSLY DEPRESSED U.S. MERCHANT MARINE COULD BE SIGNIFICANT. IT HAS BEEN ESTIMATED BY THE PROPONENTS OF S. 1935 THAT THAT BILL ALONE WOULD PROVIDE OVER 1,000 BADLY

NEEDED SEAGOING JOBS. BOTH BILLS WOULD ALSO RESULT IN NEW SHIPYARD WORK WITH CONSEQUENT EMPLOYMENT BENEFITS.

WITH RESPECT TO THE BILLS BEFORE THE SUBCOMMITTEE THIS MORNING, THE FIRST BILL, S. 1935, PERMITS FIVE FOREIGN-FLAG PASSENGER VESSELS THAT WERE CONSTRUCTED ABROAD TO BE REFLAGGED U.S. AND OPERATED IN THE COASTWISE TRADE. TEN FOREIGN-FLAG VESSELS APPEAR TO BE ELIGIBLE FOR CONSIDERATION UNDER S. 1935. THESE ARE THE CUNARD PRINCESS, CUNARD COUNTESS, STARDANCER, ATLANTIC, FAIRSKY, TROPICALE, NIEUW AMSTERDAM, NOORDAM, SONG OF AMERICA, AND POSSIBLY THE ROYAL PRINCESS. WE HAVE NO FACTUAL INFORMATION AS TO WHICH OF THESE VESSELS WOULD BE THE FIRST FIVE TO APPLY FOR REFLAGGING AND OPERATION IN THE U.S. COASTWISE TRADE UNDER THE BILL, BUT PAST LEGISLATIVE EFFORTS INDICATE THAT THE CUNARD PRINCESS AND THE CUNARD COUNTESS WOULD PROBABLY BE AMONG THESE VESSELS.

MR. CHAIRMAN, IN PRINCIPLE, THE DEPARTMENT FAVORS LEGISLATION PROVIDING A LIMITED AND TEMPORARY EXCEPTION TO THE CABOTAGE LAWS FOR REFLAGGING PASSENGER VESSELS FOR OPERATION IN OUR COASTWISE TRADE. ANY SUCH LEGISLATION SHOULD NOT UNNECESSARILY RESTRICT THE NUMBER OF THE SHIPS THAT COULD APPLY FOR A LIMITED NUMBER OF REFLAGGINGS. THERE SHOULD BE ADEQUATE ASSURANCE THAT EXISTING OR FUTURE COASTWISE QUALIFIED U.S. CRUISE OPERATORS WILL NOT BE DISADVANTAGED. REFLAGGED SHIPS SHOULD BE MODERN AND EFFICIENT VESSELS THAT ARE BOTH COMMERCIALY AND MILITARILY USEFUL ACQUISITIONS TO THE FLEET. FINALLY, PROVISION SHOULD

BE MADE FOR THE MAXIMUM FEASIBLE PARTICIPATION OF U.S. SHIPYARDS IN ANY NECESSARY CONVERSION OR REPAIR WORK. INDEED, THE U.S. SEAGOING AND SHIPYARD EMPLOYMENT GENERATED BY ANY SUCH LEGISLATION IS ONE OF THE PRIME CONSIDERATIONS FOR OUR APPROVAL. S. 1935 IN ITS CURRENT FORM DOES NOT MEET THE CRITERIA I HAVE JUST OUTLINED. HOWEVER, IF LEGISLATION WERE DEVELOPED TO MEET THE CRITERIA, THE DEPARTMENT WOULD SUPPORT SUCH A BILL.

LAST SEPTEMBER, WE TESTIFIED BEFORE THIS SUBCOMMITTEE ON S. 1461, A BILL THAT AUTHORIZES THE REFLAGGING OF CERTAIN U.S.-CONSTRUCTED PASSENGER VESSELS THAT LOST THEIR COASTWISE TRADING PRIVILEGES BY BEING TRANSFERRED TO FOREIGN REGISTRY. AT THAT TIME, WE INFORMED THE SUBCOMMITTEE THAT REFLAGGING SUCH PASSENGER VESSELS COULD BE CONSISTENT WITH THE TWIN GOALS OF REVITALIZING THE FLEET AND PRESERVING THE COASTWISE LAWS IF SUCH A PROPOSAL WERE COUCHED IN MORE LIMITED TERMS THAN THOSE PROPOSED IN S. 1461. WE FURTHER TESTIFIED THAT IF THE PROPOSAL NOT ONLY REQUIRED THAT ANY SHIPYARD WORK ON ELIGIBLE VESSELS BE DONE IN THE UNITED STATES, BUT ALSO THAT EXISTING U.S.-FLAG SHIPS WERE NOT DISADVANTAGED, THAT SUCH VESSELS BE BOTH COMMERCIALY AND MILITARILY USEFUL ACQUISITIONS TO THE FLEET, AND THAT SUCH VESSELS BE MODERN AND EFFICIENT, THE DEPARTMENT WOULD SUPPORT REFLAGGING FOR CRUISE OPERATIONS.

THE SECOND BILL BEFORE THE SUBCOMMITTEE THIS MORNING, S. 1929, PERMITS THE HOTEL STRUCTURE AND FACILITIES OF CERTAIN NEW PASSENGER VESSELS FOR THE COASTWISE TRADE TO BE

CONSTRUCTED ABROAD. UPON THE INTRODUCTION OF S. 1929, SENATOR MATHIAS INDICATED THAT THE PURPOSE OF THE BILL WAS AN ATTEMPT TO PROVIDE WORK FOR CERTAIN DOMESTIC SHIPYARDS.

MR. CHAIRMAN, AS YOU KNOW, UNDER CURRENT CRITERIA APPLIED BY THE U.S. COAST GUARD FOR THE DOCUMENTATION OF PASSENGER VESSELS FOR OPERATION IN THE COASTWISE TRADE, THE RECONSTRUCTION OF HOTEL SPACES MAY BE PERFORMED IN FOREIGN SHIPYARDS, BUT THE NEW CONSTRUCTION OF HOTEL SPACES MUST BE PERFORMED IN U.S. YARDS. S. 1929 RESOLVES THIS DISPARITY BY AUTHORIZING SUCH CONSTRUCTION IN FOREIGN SHIPYARDS. WE BELIEVE THAT THE WORK GENERATED FOR U.S. SHIPYARDS BY THIS APPROACH JUSTIFIES A DEPARTURE FROM THE CURRENT PRACTICE WHICH HAS HAD THE PRACTICAL EFFECT OF PRECLUDING THE CONSTRUCTION OF NEW U.S.-FLAG DEEP-SEA CRUISE VESSELS. AS A RESULT, WE COULD SUPPORT S. 1929 IF IT WERE AMENDED TO MEET THE CRITERIA WE HAVE ENUNCIATED THIS MORNING. WE WILL BE PLEASED TO WORK WITH YOUR SUBCOMMITTEE STAFF IN DEVELOPING SUITABLE LEGISLATION.

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. THANK YOU.