

STATEMENT

OF

GARY S. MISCH, ASSOCIATE ADMINISTRATOR
FOR MARKETING AND DOMESTIC ENTERPRISE
MARITIME ADMINISTRATION

OF THE

DEPARTMENT OF TRANSPORTATION

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT AND
INVESTIGATIONS, HOUSE MERCHANT MARINE
AND FISHERIES COMMITTEE

ON THE GAO REPORT "GREAT LAKES SHIPPING,
U.S.-FLAG SHARE OF THE U.S./CANADA
TRADE ON THE GREAT LAKES."

JULY 22, 1986

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS. MY NAME IS GARY S. MISCH, AND
I AM THE ASSOCIATE ADMINISTRATOR FOR MARKETING AND DOMESTIC
ENTERPRISE OF THE MARITIME ADMINISTRATION. I AM PLEASED TO
APPEAR AT THIS HEARING ON THE FINDINGS OF THE MAY 1986 GAO
REPORT ON GREAT LAKES SHIPPING.

MR. CHAIRMAN, THE GAO REPORT DISCUSSES THE RECENT
HISTORY AND CHARACTER OF THE WATERBORNE TRADE ON THE GREAT
LAKES AND THE ST. LAWRENCE SEAWAY BETWEEN THE UNITED STATES
AND CANADA AND ACCURATELY IDENTIFIES THE FORCES THAT HAVE
SHAPED THAT TRADE.

THE GAO REPORT FOUND THAT CANADIAN-FLAG SHIPS HAVE
HISTORICALLY CARRIED MOST OF THE WATERBORNE TRADE THAT MOVES
BETWEEN THE UNITED STATES AND CANADA ON THE GREAT LAKES/ST.
LAWRENCE SEAWAY SYSTEM. WE BELIEVE THAT THE REPORT
ACCURATELY REFLECTS THE FACTS SUPPORTING THE REASONS WHY
CANADIAN SHIPS CARRY MOST OF THIS TRADE.

THE GAO REPORT IDENTIFIES THE FOLLOWING MAJOR REASONS FOR THE DECLINE OF THE U.S.-FLAG SHARE OF THE GREAT LAKES U.S./CANADA TRADE:

A. EARLY CANADIAN FLEET RENEWAL PLANNING AND CANADIAN GOVERNMENT FINANCIAL AID TO SHIPPING;

B. A MARKET DECISION BY U.S. OPERATORS TO CONCENTRATE ON THE DOMESTIC STEEL AND UTILITY MARKETS;

C. THE DIFFERENTIAL BETWEEN U.S. AND CANADIAN VESSEL OPERATING AND CONSTRUCTION COSTS; AND

D. AN EXCHANGE RATE DIFFERENTIAL WHICH FAVORS CANADIAN SHIPPING.

I WOULD LIKE TO DISCUSS SOME OF THE MOST IMPORTANT BACKGROUND INFORMATION WHICH SUPPORTS THE GAO CONCLUSIONS.

THE OPENING OF THE ST. LAWRENCE SEAWAY IN 1959 PROVIDED NEW OPPORTUNITIES FOR BOTH CANADIAN AND U.S. OPERATORS. THE CANADIANS UNDERTOOK AN EXTENSIVE PROGRAM OF FLEET RENEWAL. THEY CHOSE TO TARGET THEIR OPERATIONS TO TAKE ADVANTAGE OF THE NEW SEAWAY LOCK AND BASIN DIMENSIONS, AND CONSTRUCTED VESSELS OF THE MAXIMUM SIZE ABLE TO TRANSIT THE WELLDAND CANAL AND SEAWAY LOCKS. THE U.S. OPERATORS, ON THE OTHER HAND, FOCUSED THEIR RESOURCES ALMOST EXCLUSIVELY ON THE DOMESTIC TRADE IN COAL, ORE, AND LIMESTONE, AND DID NOT TAILOR THEIR VESSEL OPERATIONS TO TAKE ADVANTAGE OF THE SEAWAY IMPROVEMENTS. SINCE THEIR VESSELS WERE ALREADY WELL-SUITED TO THIS DOMESTIC TRADE, THERE WAS NO LARGE SCALE U.S.-FLAG FLEET RENEWAL AT THAT TIME.

CANADIAN OPERATORS HAD ENJOYED ACCELERATED (3 YEAR) DEPRECIATION OF VESSELS FOR TAX PURPOSES SINCE 1949 AND ALSO TAX DEFERRAL OF SHIP SALE PROCEEDS WHICH WERE USED TO BUILD REPLACEMENT VESSELS IN CANADIAN YARDS. THIS PROGRAM WAS SIMILAR TO OUR CAPITAL CONSTRUCTION FUND PROGRAM ESTABLISHED IN 1970. BEGINNING IN 1957, CANADIAN PROGRAMS INCLUDED LEVERAGED LEASING OF VESSELS FROM OWNERS NOT INVOLVED IN SHIPPING WHO RECEIVED THE ADVANTAGE OF ACCELERATED DEPRECIATION AS A TAX SHELTER FOR INCOME FROM OTHER SOURCES. IN ADDITION TO THESE INDIRECT SUBSIDIES TO THE CANADIAN SHIPPING INDUSTRY, VESSEL OWNERS ALSO BENEFITTED FROM THAT NATION'S CABOTAGE LAWS, WHICH ALLOW THE USE OF FOREIGN-BUILT VESSELS IN CANADIAN DOMESTIC COMMERCE, DECREASING VESSEL ACQUISITION COSTS. BY 1961, THERE WERE ALSO DIRECT SUBSIDIES TO CANADIAN SHIPYARDS.

U.S. SHIPPING ON THE GREAT LAKES IN THE POSTWAR PERIOD WAS HEAVILY ORIENTED TOWARD DOMESTIC CARRIAGE OF COAL, ORE, AND LIMESTONE FOR THE STEEL AND ELECTRIC UTILITY INDUSTRIES. THE MAJORITY OF THE U.S. VESSEL OPERATORS WERE PRIVATE TRANSPORTATION ARMS OF THE LARGE MINING AND MANUFACTURING FIRMS IN THE GREAT LAKES BASIN. THE COMPANIES' VESSELS WERE CONSTRUCTED TO MEET THE PARTICULAR NEEDS OF THE OWNER SHIPPER; SHIPPING WAS VIEWED AS AN ELEMENT OF PRODUCTION RATHER THAN AS AN END IN ITSELF.

GIVEN THE SITUATION EXISTING IN 1959, IT IS NOT SURPRISING THAT THE U.S. AND CANADIAN VESSEL OPERATORS MADE THEIR RESPECTIVE MARKET DECISIONS. AT THE TIME, THE

CANADIANS HAD GREATER INCENTIVES TO MODERNIZE AND EXPAND THEIR EXISTING CROSS-BORDER TRADE THAN DID THE U.S. OPERATORS.

AS THE MAJORITY OF U.S.-FLAG SHIPS ON THE GREAT LAKES ARE BULK VESSELS, MAJOR U.S. GOVERNMENTAL ASSISTANCE WAS NOT PROVIDED UNTIL ENACTMENT OF THE MERCHANT MARINE ACT OF 1970. THAT ACT AUTHORIZED CONSTRUCTION AND OPERATING SUBSIDIES FOR BULK VESSELS, AND ALSO PROVIDED FOR THE TAX DEFERRAL MECHANISM OF THE CAPITAL CONSTRUCTION FUND. CAPITAL CONSTRUCTION FUNDS WERE ESTABLISHED BY MANY LAKES OPERATORS, AND CONTRIBUTED TO OVER 150 VESSELS BEING BUILT, REBUILT, OR MODIFIED WITH OVER \$613 MILLION IN FUND DRAWDOWNS. NO CDS VESSELS WERE BUILT FOR GREAT LAKES SERVICE, HOWEVER, AND ONLY ONE U.S. OPERATOR - AMERICAN STEAMSHIP COMPANY - ENTERED INTO AN ODS CONTRACT UNDER WHICH IT BRIEFLY EMPLOYED THREE VESSELS IN THE CANADIAN TRADE. THE PROFIT FROM THAT SERVICE WAS REPORTEDLY DISAPPOINTING IN COMPARISON WITH THAT AVAILABLE FROM DOMESTIC SERVICE - NOT SURPRISING IN LIGHT OF THE LIMITED OPPORTUNITY FOR BACKHAUL CARGO FOR A U.S. VESSEL.

TITLE XI SHIP FINANCING GUARANTEES WERE ULTIMATELY EXTENDED TO 20 GREAT LAKES VESSELS, INCLUDING HALF OF THE 1,000 FOOT SELF-UNLOADERS WHICH HAVE GREATLY RAISED FLEET PRODUCTIVITY. MOST OF THE GREAT LAKES VESSELS CONSTRUCTED WITH TITLE XI GUARANTEES HAVE OPERATED ALMOST EXCLUSIVELY IN THE U.S. DOMESTIC TRADE.

THE MARITIME ADMINISTRATION ALSO SUPPORTED TECHNICAL, PORT, AND MARKET RESEARCH RELATIVE TO LAKES SHIPPING. WE PARTICIPATED IN THE WINTER NAVIGATION SEASON EXTENSION PROGRAM; CO-SPONSORED THE GREAT LAKES SEAWAY PORT AND SHIPPER CONFERENCE AND SUCCEEDING REVIEW MEETINGS; AND CONDUCTED A STUDY OF SKILL REQUIREMENTS FOR GREAT LAKES FLEET PERSONNEL. WE HAVE PROVIDED 1) FULL OR PARTIAL SPONSORSHIP OF TRAFFIC AND COMPETITION ASSESSMENT FOR FOREIGN TRADE; 2) AN ANALYSIS OF PRODUCTIVITY FOR BULK COMMODITY TRANSFER FACILITIES (INCLUDING A LOW PRESSURE CONVEYOR SYSTEM); AND 3) TECHNICAL STUDIES OF SUCH TOPICS AS VESSEL MANEUVERING CHARACTERISTICS IN CRITICAL CHANNELS, IMPROVED SHIPBOARD ENERGY MANAGEMENT AND PRODUCTIVITY, AND FEASIBILITY OF A COMBINATION BULK/CONTAINER/RO/RO CARRIER ABLE TO TRANSIT THE SEAWAY. FROM FY 1975 TO PRESENT, WE HAVE SPENT NEARLY \$4 MILLION DOLLARS ON SOME 40 RESEARCH AND DEVELOPMENT PROJECTS CONCERNING GREAT LAKES SHIPPING.

MR. CHAIRMAN, THE GAO HAS PRODUCED A THOROUGH AND THOUGHTFUL PROFILE OF THE GREAT LAKES U.S./CANADA TRADE. WE BELIEVE THE CONDITIONS THAT PRESENTLY EXIST IN THIS MARKET ARE LARGELY THE RESULT OF PAST DECISIONS MADE BY CANADIAN AND U.S. VESSEL OPERATORS BASED ON ECONOMIC INCENTIVES. WE SHARE THE CONCERN OF THE MEMBERS OF THE SUBCOMMITTEE AND THE GREAT LAKES SHIPPING COMMUNITY OVER THE DECLINING U.S. SHARE OF THE CROSS BORDER TRADE, BUT WE BELIEVE THAT NEW FEDERAL SUBSIDIES OR OTHER TYPES OF GOVERNMENTAL INTERVENTION ARE NOT EFFECTIVE WAYS TO INCREASE U.S.-FLAG PARTICIPATION IN THAT TRADE.

MR. CHAIRMAN, I WILL BE HAPPY TO ANSWER ANY QUESTIONS
YOU OR THE MEMBERS OF THE SUBCOMMITTEE MAY HAVE.