

STATEMENT OF JAMES E. ORLANDO
DIRECTOR, OFFICE OF TRANSPORTATION AND INTERNATIONAL SERVICES
MAIL PROCESSING DEPARTMENT, UNITED STATES POSTAL SERVICE

H.R. 4024
MAY 1, 1986

CHAIRMAN BIAGGI, AND MEMBERS OF THE HOUSE MERCHANT MARINE AND FISHERIES SUBCOMMITTEE, I AM JAMES E. ORLANDO, DIRECTOR, OFFICE OF TRANSPORTATION AND INTERNATIONAL SERVICES, MAIL PROCESSING DEPARTMENT, AT THE UNITED STATES POSTAL SERVICE. WITH ME HERE IS JAMES D. YOUNG, TRANSPORTATION SPECIALIST, ALSO OF THE OFFICE OF TRANSPORTATION AND INTERNATIONAL SERVICES.

ON BEHALF OF MYSELF AND THE POSTAL SERVICE I APPRECIATE THE SUBCOMMITTEE'S COURTESY IN EXTENDING THIS OPPORTUNITY TO TESTIFY CONCERNING SECTION 2 OF H.R. 4024.

THE PROPOSED LEGISLATION WOULD AMEND THE MERCHANT MARINE ACT TO REQUIRE THE POSTAL SERVICE TO UTILIZE VESSELS OF U.S. REGISTRY TO ORIGINATE OCEAN TRANSPORTATION OF INTERNATIONAL MAIL, TO BE PROCURED THROUGH A COMPETITIVE BIDDING PROCESS AMONG AMERICAN FLAG CARRIERS WITH A DETERMINATION OF THE REASONABLENESS OF THE RATES MADE BY THE SECRETARY OF TRANSPORTATION. THE POSTAL SERVICE WOULD BE PERMITTED TO USE FOREIGN REGISTERED SHIPS WHEN AMERICAN REGISTERED SHIPS ARE NOT AVAILABLE TO PROVIDE SERVICE MEETING THE NEEDS OF THE POSTAL SERVICE.

THE PROPOSED LEGISLATION, IF ENACTED, WOULD SIGNIFICANTLY INCREASE INTERNATIONAL MAIL TRANSPORTATION COSTS AND MAY REDUCE THE POSTAL SERVICE'S ABILITY TO DELIVER MAIL TO VARIOUS PARTS OF THE WORLD IN A TIMELY MANNER. THEREFORE, THE POSTAL SERVICE MUST CONTINUE ITS STRONG OPPOSITION TO THIS PROPOSAL.

COST REDUCTIONS: THE ELIMINATION OF THE AMERICAN FLAG PREFERENCE REQUIREMENT HAS GENERATED A TREMENDOUS INCREASE IN THE NUMBER OF CARRIERS COMPETING FOR INTERNATIONAL MAIL CONTRACTS. THIS INCREASED COMPETITION HAS BEEN A SIGNIFICANT FACTOR IN REDUCING THE AVERAGE COST FOR SHIPPING A CONTAINER FROM \$1,932.50 IN 1981/82 TO AN AVERAGE PER CONTAINER COST OF \$1,087.54 IN 1985/86. THIS REPRESENTS A (43.72) PERCENT REDUCTION IN COST. (SEE ATTACHMENT A.)

IMPOSSIBILITY OF COMPETITIVE CONTRACTING: THE PROPOSED LEGISLATION ASSUMES THAT THE POSTAL SERVICE WOULD CONTINUE TO BE ABLE TO USE COMPETITIVE CONTRACTING TO PROCURE INTERNATIONAL OCEAN TRANSPORTATION SERVICE. HOWEVER, MOST FOREIGN DESTINATIONS ARE SERVED BY, AT MOST, ONE OR TWO U.S. FLAG CARRIERS, WHICH IS NOT ENOUGH TO BRING ABOUT EFFECTIVE RATE COMPETITION, ESPECIALLY IN AN INDUSTRY ACCUSTOMED TO SETTING COMMON RATES THROUGH CONFERENCES. (SEE ATTACHMENT B.)

A COMPARISON WITH DOMESTIC OFFSHORE ROUTES IS ILLUSTRATIVE. DOMESTIC OFFSHORE SERVICE IS RESTRICTED UNDER THE JONES ACT TO U.S. FLAG CARRIERS. MOST DOMESTIC OFFSHORE POINTS ARE SERVED BY TWO OR THREE U.S. FLAG CARRIERS. (SEE ATTACHMENT C.) THE AVERAGE RATE PER MILE

FOR THESE DOMESTIC ROUTES IS ABOUT 800 PERCENT HIGHER THAN THE AVERAGE PER MILE RATE ON INTERNATIONAL ROUTES, WHERE FOREIGN FLAG CARRIERS ARE PERMITTED TO COMPETE. (SEE ATTACHMENT C.)

PROJECTED COST INCREASES: BASED STRICTLY ON COMPARISON WITH THE RATES OFFERED IN THE DOMESTIC OFFSHORE MARKET THE BILL ^{could} ~~WOULD~~ RESULT IN RATE INCREASES IN THE RANGE OF 800 PERCENT, OR FROM THE CURRENT \$16 MILLION ANNUALLY TO \$128 MILLION. WHILE WE DO NOT PREDICT SUCH EXTREME INCREASES, IT SEEMS SURE THAT THE BILL WOULD INCREASE COSTS THAT MUST BE PAID BY POSTAL RATEPAYERS BY MANY MILLIONS OF DOLLARS.

SERVICE CONSIDERATIONS: THE PROPOSED LEGISLATION INDICATES THAT THE POSTAL SERVICE MAY USE A VESSEL NOT DOCUMENTED UNDER THE LAWS OF THE UNITED STATES IF A DOCUMENTED VESSEL IS NOT AVAILABLE, OR IF THE SERVICE PROVIDED BY OPERATORS OF DOCUMENTED VESSELS IS NOT ADEQUATE TO MEET THE NEEDS OF THE POSTAL SERVICE. IN THE CURRENT INTERNATIONAL MARKET THERE ARE NUMEROUS ORIGIN/DESTINATION PAIRS THAT REQUIRE WEEKLY OR TWICE-WEEKLY DISPATCHES (E.G.; NEW YORK/OAKLAND-SYDNEY/MELBOURNE, AUSTRALIA, YOKOHAMA, JAPAN.) THE BILL INDICATES THAT SERVICE REQUIREMENTS SUCH AS THESE CAN BE ACCOMMODATED. WE, THEREFORE, DO NOT ENVISION ANY SERIOUS DETERIORATION IN SERVICE DUE TO THE PASSAGE OF THIS BILL.

COMMUNIST BLOC COUNTRIES: BASED ON ACCOUNTS PUBLISHED IN VARIOUS MEDIA OUTLETS, IT WOULD APPEAR THAT THIS LEGISLATION IS BEING JUSTIFIED AS A WAY TO PREVENT THE TAKEOVER OF POSTAL TRANSPORTATION CONTRACTS BY EASTERN BLOC NATIONS. IF THAT IS THE INTENT, IT COULD

BE COMPARED TO SENDING THE BATTLESHIP NEW JERSEY TO KILL AN ANT. CURRENTLY, ONLY ONE CONTRACT FOR INTERNATIONAL MAIL MOVEMENTS IS HELD BY AN EASTERN BLOC CARRIER. THAT CONTRACT WAS AWARDED TO POLISH OCEAN LINES AT A RATE OF \$1,350 PER CONTAINER, WHICH, AT A PROJECTED ANNUAL CONTAINER COUNT OF 40, YIELDS \$54,000 ANNUALLY, OR LESS THAN 1 PERCENT OF THE TOTAL DOLLARS SPENT FOR CONTRACTED INTERNATIONAL OCEAN MAIL MOVEMENTS. THE CONTRACT WAS AWARDED TO POLISH OCEAN LINES BECAUSE NO OTHER CARRIER, U.S. OR FOREIGN, OFFERED TO PROVIDE DIRECT, PORT-TO-PORT SERVICE. ALTHOUGH EASTERN BLOC CARRIERS CARRY AN INSIGNIFICANT AMOUNT OF MAIL, IF IT IS CONGRESS' INTENT THAT THESE CARRIERS BE ELIMINATED FROM THE MARKET THAT GOAL SHOULD BE ACCOMPLISHED THROUGH THE ENACTMENT OF SPECIFIC LEGISLATION RATHER THAN THROUGH AN OVER-BROAD REMEDY WHICH PLACES A FINANCIAL BURDEN ON THE POSTAL SERVICE, AND HARMS OUR VALUED TRADING PARTNERS.

HARM TO FRIENDLY NATIONS: THIS LEGISLATION, RATHER THAN THWARTING COMMUNIST BLOC INTERESTS, WOULD HARM SOME OF OUR TRADITIONAL ALLIES AND MOST VALUED TRADING PARTNERS. BASED ON CONTRACTS IN PLACE ON APRIL 1, 1986, 37 PERCENT OF INTERNATIONAL CONTRACT DOLLARS GO TO U.S. FLAG CARRIERS. AN ADDITIONAL 37 PERCENT GOES TO BRITISH CARRIERS. THE REMAINING 26 PERCENT (EXCEPT FOR THE LESS THAN 1 PERCENT PAID TO POLISH OCEAN LINES UNDER ITS ONE CONTRACT) IS DISTRIBUTED BETWEEN CARRIERS OF OTHER FRIENDLY NATIONS. (SEE ATTACHMENT D.)

MAINTENANCE OF THE U.S. MERCHANT MARINE: THE POSTAL SERVICE IS AWARE AND FULLY SUPPORTIVE OF THE VITAL NATIONAL INTERESTS THAT ARE SERVED THROUGH THE MAINTENANCE OF A VIABLE MERCHANT MARINE. WE BELIEVE, HOWEVER, THAT IF IT IS DETERMINED THAT THE AMERICAN SHIPPING INDUSTRY IS TO BE SUBSIDIZED FURTHER, IT SHOULD BE ACCOMPLISHED THROUGH A DIRECT GOVERNMENT SUBSIDY RATHER THAN AS A FINANCIAL RESPONSIBILITY FORCED ON A SMALL NUMBER OF INTERNATIONAL POSTAL PATRONS, WHO WOULD BEAR THE ULTIMATE BURDEN OF THIS BILL.

WE UNDERSTAND THAT A NUMBER OF THE OTHER LEGISLATIVE PROPOSALS UNDER CONSIDERATION BEFORE THE COMMITTEE ARE ADDRESSED TO THE FUNDAMENTAL ISSUE OF HOW TO ENHANCE THE ABILITY OF THE U.S. FLAG CARRIERS TO COMPETE IN THE WORLD MARKET. WE DO NOT BELIEVE THAT AN ANTI-COMPETITIVE MEASURE LIKE THE MAIL RESTRICTIONS BELONGS IN SUCH A REFORM PACKAGE. THE POSTAL SERVICE WOULD WELCOME THE OPPORTUNITY TO SEE A HEALTHIER AMERICAN FLAG INDUSTRY ABLE TO WIN A LARGER SHARE OF OUR CONTRACTS BY COMPETING IN THE MARKETPLACE.

I WILL BE PLEASED TO ANSWER YOUR QUESTIONS.