

STATEMENT  
OF  
THE HONORABLE JOHN 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. 953, A BILL "TO AUTHORIZE  
APPROPRIATIONS FOR FISCAL YEAR 1988  
FOR CERTAIN MARITIME PROGRAMS OF  
THE DEPARTMENT OF TRANSPORTATION AND THE  
FEDERAL MARITIME COMMISSION."

MARCH 4, 1987

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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 THE VIEWS OF THE ADMINISTRATION WITH RESPECT TO THOSE ELEMENTS OF YOUR BILL, H.R. 953, PERTAINING TO THE AUTHORIZATION REQUEST OF THE MARITIME ADMINISTRATION FOR FISCAL YEAR 1988, AND THE PROPOSED AMENDMENT TO SECTION 1304 OF THE MERCHANT MARINE ACT, 1936.

THE MARITIME ADMINISTRATION IS RESPONSIBLE FOR AND COMMITTED TO THE PROMOTION OF A STRONG U.S. MERCHANT MARINE FOR CARRIAGE OF U.S. FOREIGN AND DOMESTIC COMMERCE AND FOR NATIONAL DEFENSE PURPOSES. TO CARRY OUT THIS RESPONSIBILITY WE STRIVE TO ENSURE; (1) AN ACTIVE OPERATING FLEET OF U.S. OWNED COMMERCIAL VESSELS; (2) A SUPPLY OF LICENSED OFFICERS TO CREW THE OPERATING AND LAID UP FLEET; (3) A FLEET OF

CARGO VESSELS WHICH CAN BE ACTIVATED DURING NATIONAL EMERGENCIES; AND (4) SUPPORT TO OTHER MARITIME RELATED ACTIVITIES THAT FURTHER THE NATIONAL INTERESTS OF THE UNITED STATES. H.R. 953 WOULD AUTHORIZE APPROPRIATIONS FOR THESE ACTIVITIES DURING FISCAL YEAR 1988.

DURING THE PAST YEAR THERE HAVE BEEN SOME SIGNIFICANT AND POSITIVE DEVELOPMENTS FOR THE U.S. MERCHANT MARINE. SOME OF OUR LINER COMPANIES HAVE ENTERED INTO OR ARE FINALIZING NEW CONSTRUCTION COMMITMENTS IN ORDER TO REVITALIZE THEIR FLEETS. THERE HAS BEEN A GROWING CONSENSUS IN THE LINER INDUSTRY THAT SOME REFORM OF THE ODS PROGRAM IS NECESSARY. THE NEW PROVISIONS OF THE SO-CALLED "CARGO PREFERENCE COMPROMISE" HAVE BEEN WORKING, AND THE COST TO THE U.S. GOVERNMENT PER TON OF PREFERENCE CARGOES CONTINUES TO DROP FOR THE AFFECTED PROGRAMS. WHILE THE CURRENT STATE OF THE TITLE XI PROGRAM REFLECTS THE POOR ECONOMIC ENVIRONMENT OF THE SHIPPING INDUSTRY, THE CHANGES IN THE BANKRUPTCY CODE PASSED BY CONGRESS LAST SESSION HAVE ENABLED US TO STOP UNFAIR COMPETITION BY DEFAULTED COMPANIES AND TO ACCOMPLISH QUICKER FORECLOSURE SALES. WE HAVE SIGNED READINESS AGREEMENTS WITH A NUMBER OF OUR MAJOR PORTS TO PROVIDE FOR UNINTERRUPTED SHIPPING IN THE EVENT OF A NATIONAL EMERGENCY. MARAD'S RESPONSIBILITY FOR THE NATIONAL DEFENSE RESERVE FLEET HAS BEEN EXERCISED AND VALIDATED BY NUMEROUS SUCCESSFUL BREAKOUTS OF VESSELS IN THE FLEET. AMERICAN SHIPYARDS CONTINUED TO RESPOND EFFECTIVELY

TO THE LARGEST PEACETIME NAVAL CONSTRUCTION PROGRAM IN OUR NATION'S HISTORY. OUR AMERICAN MARITIME PERSONNEL WHETHER ON LAND OR SEA, CONTINUED TO BE DEDICATED TO FURTHERING AMERICA'S MARITIME INTERESTS.

OF COURSE, THERE HAVE BEEN PROBLEMS AND SETBACKS. THE CONTINUING WORLDWIDE DEPRESSION IN SHIPPING HAS TAKEN ITS TOLL. FOR EXAMPLE, AS YOU KNOW, UNITED STATES LINES, INC., ONE OF OUR LARGEST LINER COMPANIES IN THE FOREIGN TRADES, FILED IN NOVEMBER A PETITION FOR REORGANIZATION IN BANKRUPTCY. NONETHELESS, WE ARE MAKING PROGRESS TOWARD ACHIEVING AN ECONOMICALLY VIABLE MERCHANT FLEET. THE PRESIDENT'S BUDGET PROVIDES FOR THE FORWARD MOMENTUM TO BE MAINTAINED WITHOUT ADDING TO THE NATIONAL DEFICIT CRISIS.

#### OPERATING-DIFFERENTIAL SUBSIDY

THE FIRST ELEMENT OF YOUR BILL IS FOR OPERATING-DIFFERENTIAL SUBSIDY LIQUIDATING CASH IN THE AMOUNT OF \$300 MILLION.

MR. CHAIRMAN, OPERATING-DIFFERENTIAL SUBSIDIES (ODS) ARE THE PRIMARY MEANS OF FEDERAL FINANCIAL SUPPORT FOR THE COMPETITIVE OPERATION OF THE U.S.-FLAG MERCHANT FLEET ENGAGED IN THE FOREIGN COMMERCE OF THE UNITED STATES. AUTHORIZATION AND APPROPRIATIONS ARE PROVIDED TO LIQUIDATE CONTRACT AUTHORITY UNDER THESE LONG-TERM ODS CONTRACTS WHICH THE ADMINISTRATION CONTINUES TO HONOR.

AS I MENTIONED A MINUTE AGO, THE INTERNATIONAL SHIPPING MARKET IN WHICH OUR SUBSIDIZED SHIP OPERATORS MUST COMPETE HAS BECOME INCREASINGLY DEPRESSED. THUS, IT IS ESTIMATED THAT THE COST TO LIQUIDATE OUR CONTRACTUAL LIABILITY FOR SUBSIDIZED SHIP OPERATIONS WILL BE \$247.1 MILLION FOR 68.3 SHIP-YEARS OF OPERATIONS UNDER THE ODS PROGRAM IN 1987 AND ABOUT \$250 MILLION FOR A COMPARABLE NUMBER OF SHIPYEARS IN FY 1988.

SINCE 1936, THE CONGRESS HAS AUTHORIZED THE ADMINISTRATION TO ENTER INTO LONG-TERM ODS CONTRACTS. APPROPRIATIONS HAVE BEEN PROVIDED ANNUALLY TO LIQUIDATE OUR OBLIGATIONS UNDER THESE LONG-TERM ODS CONTRACTS. THESE COSTS ARE DIFFICULT TO PREDICT IN ANNUAL INCREMENTS DUE TO CHANGES IN THE COST OF FOREIGN COMPETITION AND SHIFTING ECONOMIC FACTORS. THEREFORE, THE ADMINISTRATION IS NO LONGER REQUESTING ANNUAL AUTHORIZATION AND APPROPRIATIONS FOR ODS FUNDS. INSTEAD THE PRESIDENT'S BUDGET PROPOSES THAT FUNDS FOR ODS BE AUTHORIZED AND APPROPRIATED ON A "SUCH SUMS AS NECESSARY" BASIS, BEGINNING IN 1988 AND THEREAFTER. THE ADVANTAGE OF THIS APPROACH IS THAT IT ASSURES THAT SUBSIDIZED OPERATORS WILL BE PAID THEIR ACTUAL ODS EXPENSES IN A TIMELY MANNER, AND THEY WILL NOT BE SUBJECT TO ANNUAL HOLDBACKS IF THEY SHOULD EARN MORE THAN THAT APPROPRIATED.

MR. CHAIRMAN, IN VIEW OF THIS, THE ADMINISTRATION REQUESTS THAT OUR AUTHORIZATION AUTHORITY, SECTION 209(B) OF THE MERCHANT MARINE ACT, 1936, BE AMENDED BY THE ADDITION OF A PROVISIO CLAUSE AS FOLLOWS: "PROVIDED, THAT SUCH SUMS AS MAY BE NECESSARY FOR FISCAL YEAR 1988 AND THEREAFTER ARE HEREBY AUTHORIZED TO BE APPROPRIATED TO MAKE PAYMENTS REQUIRED UNDER CONTRACTS MADE UNDER SECTION 603 OF THIS ACT." LET ME ADD THAT THIS IS NOT SOME DESIGN TO CIRCUMVENT CONGRESSIONAL OVERSIGHT - TO THE CONTRARY IT IS MERELY A PROCESS WHICH RECOGNIZES THE UNIQUENESS OF THE ODS CONTRACTS.

#### RESEARCH AND DEVELOPMENT

THE SECOND ELEMENT OF H.R. 953 IS FOR RESEARCH AND DEVELOPMENT ACTIVITIES OF THE MARITIME ADMINISTRATION IN THE AMOUNT OF \$2 MILLION.

MR. CHAIRMAN, THE PRESIDENT'S BUDGET PROVIDES THAT FISCAL YEAR 1987 IS THE FINAL YEAR OF FUNDING FOR THESE ACTIVITIES. EMPHASIS IS BEING PLACED ON MOVEMENT TOWARD GREATER PRIVATE SECTOR INITIATIVES IN THIS AREA. APPROPRIATIONS ARE NOT BEING REQUESTED FOR RESEARCH AND DEVELOPMENT IN 1988, AND THEREFORE NO REQUEST FOR AUTHORIZATION AUTHORITY IS BEING MADE.

OPERATIONS AND TRAINING

THE THIRD ELEMENT OF H.R. 953 IS FOR OPERATIONS AND TRAINING IN THE AMOUNT OF \$74,797,000. OPERATIONS AND TRAINING ACTIVITIES ARE DIVIDED IN MARITIME EDUCATION AND TRAINING EXPENSES, NATIONAL SECURITY SUPPORT CAPABILITIES, AND OTHER OPERATIONS AND TRAINING PROGRAMS.

MARITIME EDUCATION AND TRAINING PROVIDES FOR THE OPERATION OF THE U.S. MERCHANT MARINE ACADEMY, ASSISTANCE TO THE SIX STATE MARITIME ACADEMIES, ADDITIONAL TRAINING FOR ELIGIBLE MERCHANT MARINE PERSONNEL, LABOR STUDIES AND RELATED ACTIVITIES.

FUNDING FOR THE U.S. MERCHANT MARINE ACADEMY WILL COVER COST INCREASES TO RENOVATE THE ACADEMY'S HEATING PLANT AND RELATED DISTRIBUTION SYSTEMS AND FOR THE COMPLETION OF THE BARRACKS RENOVATION PROGRAM. THE ADDITIONAL TRAINING PROGRAM PROVIDES FOR COSTS OF ADMINISTRATION OF THE MERCHANT MARINE ACADEMY AND ALSO PROVIDES FOR TRAINING IN SHIPBOARD FIREFIGHTING, AND OPERATIONS AND MAINTENANCE OF MEDIUM AND SLOW SPEED MARINE MAIN PROPULSION DIESEL ENGINES. BOTH H.R. 953 AND THE PRESIDENT'S BUDGET PROVIDE \$22,767,000 FOR THE U.S. MERCHANT MARINE ACADEMY AND \$1,321,000 FOR ADDITIONAL TRAINING.

H.R. 953 ALSO PROVIDES \$10 MILLION FOR FINANCIAL AND FUEL ASSISTANCE TO THE STATE MARITIME ACADEMIES THAT IS NOT CONTAINED IN THE PRESIDENT'S BUDGET.

MR. CHAIRMAN, THE ADMINISTRATION HAS AGAIN PROPOSED THE DISCONTINUANCE OF FEDERAL SUPPORT FOR THE STATE MARITIME ACADEMIES. FOR 1988, THE PROPOSED STATE MARITIME ACADEMIES PROGRAM IS LIMITED TO PROVIDING STUDENT INCENTIVE PAYMENTS TO CADETS CURRENTLY RECEIVING SUCH PAYMENTS, THE COST OF WHICH WILL BE PAID FROM UNUSED 1986 AND 1987 FUNDS APPROPRIATED FOR THIS PURPOSE. DUE TO THE OVERSUPPLY OF MERCHANT MARINE OFFICERS, THE ADMINISTRATION CANNOT SUPPORT CONTINUED DIRECT PAYMENTS AND MAINTENANCE OF TRAINING VESSELS. THE STATE MARITIME ACADEMIES CAN CONTINUE USING THE EXISTING TRAINING VESSELS IN 1988 AND BEYOND PROVIDED THAT THEY PAY ALL MAINTENANCE, REPAIR AND FUEL COSTS, AND THAT THEY WILL BE RESPONSIBLE FOR FINANCING THE COST OF REPLACEMENT VESSELS.

BOTH H.R. 953 AND THE PRESIDENT'S BUDGET PROVIDE \$13,812,000 FOR NATIONAL SECURITY SUPPORT CAPABILITIES, INCLUDING \$12,519,000 FOR THE NATIONAL DEFENSE RESERVE FLEET (NDRF), INCLUDING THE RRF PORTION OF THE NDRF, AND \$1,293,000 FOR EMERGENCY PLANNING OPERATIONS. THESE MARAD PROGRAM RESPONSIBILITIES ARE DIRECTLY SUPPORTIVE OF THIS COUNTRY'S NATIONAL SECURITY RESPONSIBILITIES. THE NDRF PROGRAM PROVIDES FOR THE PRESERVATION, MAINTENANCE AND SECURITY OF SHIPS IN THE NDRF, WHICH INCLUDES RRF SHIPS, AND FOR THE ADMINISTRATION OF THE SHIP TRANSFER AND SHIP DISPOSAL PROGRAMS. UNDER THE EMERGENCY PLANNING OPERATIONS PROGRAM, THE AGENCY IS TASKED WITH DEVELOPMENT AND MAINTENANCE OF PLANS AND PROCEDURES TO ENSURE CONTINUITY

AND CONTROL OF MARITIME OPERATIONS IN TIME OF NATIONAL EMERGENCY. IT ALSO INSURES SEAMEN AND PRIVATE SHIPPING AGAINST LOSS IN TIME OF WAR.

THE FINAL ELEMENT OF THE AUTHORIZATION REQUEST IS FOR OTHER OPERATING PROGRAM EXPENSES. H.R. 953 PROVIDES \$26,987,000 FOR THIS PURPOSE, \$2 MILLION LESS THAN THE PRESIDENT'S BUDGET REQUEST OF \$28,987,000. THIS PROGRAM PROVIDES FOR THE DIRECTION AND ADMINISTRATION OF OTHER AGENCY PROGRAMS. THE BUDGET FIGURE REFLECTS AN INCREASE OF \$2 MILLION FOR MARITIME STUDIES, \$1,500,000 FOR POLICY AND PROGRAM STUDIES, \$2,133,000 FOR FULL YEAR COSTS OF THE 1987 PAY RAISE AND ADDED COSTS OF THE FEDERAL EMPLOYEES RETIREMENT SYSTEM, AND COSTS OF INCREASED OPERATING EXPENSES. THESE INCREASES ARE PARTIALLY OFFSET BY THE TERMINATION OF THE RESEARCH AND DEVELOPMENT PROGRAM.

MR. CHAIRMAN, THIS IS WHERE I COULD USE THE \$2 MILLION YOUR BILL WOULD AUTHORIZE FOR RESEARCH AND DEVELOPMENT ACTIVITIES. AS I MENTIONED, THE MARITIME ADMINISTRATION DOES NOT REQUIRE THIS AUTHORITY FOR RESEARCH ACTIVITIES, BUT WE DO NEED THIS \$2 MILLION FOR A NUMBER OF MARITIME STUDIES. THESE STUDIES WILL ENSURE THAT THE AGENCY HAS SOLID INFORMATION IN A NUMBER OF AREAS OF CRUCIAL INTEREST. THESE AREAS INCLUDE STRATEGIC MILITARY SEALIFT, CARGO HANDLING, GOVERNMENT PREFERENCE SHIPPING, MARITIME SAFETY TECHNOLOGY,

WATERWAY NAVIGATION DEVELOPMENT, NDRF/RRF FLEET  
PRODUCTIVITY MANAGEMENT, MARITIME POLICY INITIATIVES AND  
EMERGENCY PORT PLANNING REQUIREMENTS.

STUDENT INCENTIVE PAYMENT PROCEDURE

TURNING NOW TO SECTION 3 OF YOUR BILL, MR. CHAIRMAN,  
THAT SECTION WOULD AMEND 1304 OF THE MERCHANT MARINE ACT,  
1936, TO ADJUST THE METHOD STUDENT INCENTIVE PAYMENTS ARE  
MADE TO STUDENTS AT THE STATE MARITIME ACADEMIES. AS I  
MENTIONED, THE ADMINISTRATION WILL CONTINUE TO HONOR PAYMENT  
AGREEMENTS NOW IN FORCE, BUT IN VIEW OF THE CURRENT  
OVERSUPPLY OF MERCHANT MARINE OFFICERS CANNOT SUPPORT  
INCENTIVES FOR ADDITIONAL STUDENTS TO THOSE PRESENTLY  
ENROLLED. THEREFORE, WHILE WE FULLY AGREE WITH SECTION 3,  
IT WOULD NOT BE NECESSARY UNDER OUR BUDGET PROPOSAL.

TITLE XI GUARANTEE PROGRAM

FINALLY, MR. CHAIRMAN, THE ADMINISTRATION REQUESTS THAT  
TITLE XI OF THE MERCHANT MARINE ACT, 1936, BE AMENDED TO  
TERMINATE THE AUTHORITY OF THE SECRETARY OF TRANSPORTATION  
TO ENTER INTO NEW TITLE XI COMMITMENTS AS OF SEPTEMBER 30,  
1987. THIS WOULD IMPLEMENT THE REQUEST IN THE PRESIDENT'S  
BUDGET.

PURSUANT TO THE TITLE XI GUARANTEE PROGRAM, THE SECRETARY OF TRANSPORTATION GUARANTEES OBLIGATIONS TO FINANCE THE CONSTRUCTION, RECONSTRUCTION OR RECONDITIONING OF U.S.-FLAG VESSELS. THE ADMINISTRATION'S REQUEST INCLUDES TERMINATION OF SIMILAR AUTHORITY VESTED IN THE SECRETARY OF COMMERCE WITH RESPECT TO FISHING VESSELS AND FISHERY FACILITIES. THE TITLE XI GUARANTEE PROGRAM IS ONE OF SEVERAL FEDERAL CREDIT PROGRAMS THAT THE ADMINISTRATION PROPOSES TO REDUCE OR PHASE OUT IN ORDER TO LIMIT THE GOVERNMENT'S INTERVENTION IN THE NATION'S LENDING MARKET.

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.