

STATEMENT
OF
WILLIAM A. CREELMAN
DEPUTY MARITIME ADMINISTRATOR
OF THE
DEPARTMENT OF TRANSPORTATION

BEFORE THE SUBCOMMITTEE ON MERCHANT
MARINE OF THE HOUSE MERCHANT MARINE
AND FISHERIES COMMITTEE

ON THE AUTHORIZATION REQUEST
OF THE MARITIME ADMINISTRATION
FOR FISCAL YEARS 1990 AND 1991

MARCH 22, 1989

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OF THE DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON
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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE ON MERCHANT MARINE. MY NAME IS WILLIAM A. CREELMAN, AND I AM THE DEPUTY MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION. I WOULD LIKE TO OUTLINE FOR YOU THE MARITIME ADMINISTRATION'S FY 1990 BUDGET AUTHORIZATION REQUEST. THE SECRETARY OF TRANSPORTATION IS REVIEWING MARAD'S PROPOSED AUTHORIZATION REQUEST AND AN ADMINISTRATION AUTHORIZATION BILL WILL SOON BE TRANSMITTED TO CONGRESS.

THE MARITIME ADMINISTRATION IS RESPONSIBLE FOR DEVELOPING AND MAINTAINING A STRONG U.S. MERCHANT MARINE CAPABLE OF MEETING OUR COUNTRY'S REQUIREMENTS FOR BOTH COMMERCIAL TRADE AND NATIONAL DEFENSE. THIS DUAL GOVERNMENT ROLE IS BASED ON THE PRINCIPLE THAT A HEALTHY MERCHANT MARINE AND MARITIME INDUSTRY ARE VITAL COMPONENTS OF U.S. SEALIFT AND CONTRIBUTE TO THE NATION'S ECONOMIC STRENGTH AND SECURITY.

OVERVIEW

THE MARITIME ADMINISTRATION'S TOTAL BUDGET REQUEST OF \$533,450,000 IS MADE UP OF THREE DISTINCT SECTORS: OPERATING-DIFFERENTIAL SUBSIDY, THE READY RESERVE FORCE, AND OPERATIONS AND TRAINING. IF ODS REFORM LEGISLATION IS ENACTED, AN ADDITIONAL \$10,130,000 IS REQUESTED.

FIRST, THE REQUESTED ODS PROGRAM FUNDS ARE THE CASH LIQUIDATION OF EXISTING CONTRACTS BETWEEN THE U.S. GOVERNMENT AND PRIVATE COMPANIES, AND, AS SUCH, ARE NON-DISCRETIONARY.

SECOND, THE REQUESTED RRF PROGRAM FUNDS ARE IN DIRECT RESPONSE TO AND IN SUPPORT OF THE DEPARTMENT OF DEFENSE (DOD) NATIONAL DEFENSE PLANNING AND GUIDANCE AS TO THE NUMBERS AND TYPES OF VESSELS REQUIRED TO SUPPORT OUR MILITARY IN THE EVENT OF A NATIONAL EMERGENCY. THIS SECTOR REPRESENTS THE MAJOR PORTION OF THE INCREASED FUNDS REQUESTED

THIRD, FOR OPERATIONS AND TRAINING, WE ARE REQUESTING CERTAIN INCREASES IN MARITIME EDUCATION AND TRAINING PROGRAMS, AND OTHER OPERATING PROGRAMS.

OPERATING-DIFFERENTIAL SUBSIDIES (ODS)

AS AUTHORIZED BY CURRENT LAW, WE ARE REQUESTING AN APPROPRIATION TO LIQUIDATE CONTRACT AUTHORITY FOR EXISTING

SUBSIDY CONTRACTS AMOUNTING TO \$225,870,000. THIS WILL PROVIDE FOR AN ESTIMATED SUBSIDY PROGRAM OF 82 VESSELS, 60 LINER AND 22 BULK.

AS STATED IN THE OVERVIEW, THE BUDGET ALSO INCLUDES AN ADDITIONAL \$10,130,000 IN LIQUIDATING CASH WHICH WOULD FUND REFORM OF THE ODS PROGRAM. THIS REFORM, IF ENACTED, WOULD SUPPORT 113 VESSELS AT A FIRST-YEAR SUBSIDY COST OF \$236,000,000.

IN ADDITION TO INCREASING THE NUMBER OF VESSELS SUPPORTED, THE PROGRAM WOULD REDUCE THE SUBSIDY COST PER SHIP, PROVIDE FOR MODERNIZATION OF THE U.S. FLEET THROUGH THE WORLDWIDE ACQUISITION OF SHIPS, AND REMOVE UNNEEDED TRADE ROUTE RESTRICTIONS AND OTHER BARRIERS TO FREE AND ECONOMICAL TRADE.

READY RESERVE FORCE

AS I STATED AT THE OUTSET, THE COMPOSITION OF THE RRF IS DETERMINED IN ACCORDANCE WITH GUIDANCE FROM THE DOD AS TO THE NUMBER AND TYPES OF VESSELS NECESSARY TO SUPPORT OUR MILITARY FORCES IN THE EVENT OF A NATIONAL EMERGENCY.

IN FY 1989, THE FUNDING RESPONSIBILITY FOR THE RRF PROGRAM WAS TRANSFERRED FROM THE NAVY TO THE MARITIME ADMINISTRATION WITH CONGRESS SUBSEQUENTLY APPROPRIATING ALMOST \$111 MILLION TO MARITIME FOR THE RRF. THE NAVY HAD ORIGINALLY REQUESTED THIS AMOUNT FOR FY 1989. THE LEVEL OF FUNDING BY NAVY IN PRIOR YEARS RANGED FROM ABOUT \$6 MILLION IN 1977, WHEN THE PROGRAM BEGAN, TO A HIGH OF \$348 MILLION IN FY 1986.

BASED ON DOD GUIDANCE AND THE MARITIME ADMINISTRATION'S NEW ROLE WHICH CONSOLIDATES THE PROGRAM RESPONSIBILITY FOR THE RRF ALONG WITH THE FINANCIAL AND BUDGET RESPONSIBILITY FORMERLY CARRIED OUT BY DOD, WE ARE REQUESTING \$239,030,000 FOR THE EXPANDING READY RESERVE FORCE PROGRAM. THIS TRANSFER FROM DOD TO THE MARITIME ADMINISTRATION RESULTS IN AN INCREASE OF \$126,279,000 OVER OUR FY 1990 BASE.

THIS INCREASE INCLUDES FOUR ITEMS: FIRST, \$52,465,000 IS REQUESTED FOR THE ADDITION OF EIGHT VESSELS TO THE FLEET. THESE EIGHT VESSELS, WHICH ARE PRESENTLY NOT AVAILABLE IN OUR ACTIVE FLEET, WOULD BRING THE RRF TO A TOTAL OF 106 VESSELS BY THE END OF FY 1990. THIS INCREASE IS PART OF THE DOD DEFENSE REQUIREMENT WHICH CALLS FOR 142 SHIPS BY 1994.

SECOND, \$43,264,000 IS REQUESTED FOR THE ADDED COST OF MAINTENANCE AND OPERATIONS FOR AN ALREADY EXPANDING INVENTORY, ONE WHICH IS ALSO BECOMING MORE COMPLEX WITH THE ACQUISITION OF MORE TECHNOLOGICALLY ADVANCED SHIPS. THE FINAL REASON IS THE NEED FOR ADDITIONAL ACTIVATIONS IN 1990 WHICH ARE DESIGNED TO ASSURE THE 5, 10, OR 20 DAY READINESS OF VESSELS THE LAID-UP FLEET.

THIRD, \$29,550,000 IS REQUESTED TO FINANCE THE CONVERSION OF ONE CRANE SHIP. THIS CRANE SHIP WOULD BE THE ELEVENTH SHIP IN A 12-SHIP PLAN, FOR WHICH THE FIRST TEN SHIPS WERE FUNDED THROUGH DOD APPROPRIATIONS WITH THE MARITIME ADMINISTRATION CARRYING OUT ALL THE WORK. THESE SHIPS ARE NEEDED IN ORDER TO OFF-LOAD NON-SELF-SUSTAINING CONTAINER SHIPS. THE MARITIME ADMINISTRATION

INTENDS TO REQUEST FUNDS IN FY 1991 TO COMPLETE THE PROGRAM WITH THE CONVERSION OF THE TWELFTH AND FINAL SHIP.

FOURTH, \$1,000,000 IS REQUESTED FOR FACILITIES, INCLUDING DREDGING OF OUR RESERVE FLEET SITES IN ORDER TO ACCOMODATE THE LARGER SHIPS WHICH ARE NOW BECOMING PART OF THE RRF.

THE PRESENT SITUATION DICTATES THAT WE MAINTAIN A READY RESERVE FLEET OF MILITARILY USEFUL SHIPS WITH A SEALIFT SURGE CAPABILITY SUFFICIENT TO CARRY THE REQUIRED UNIT EQUIPMENT FOR THE EARLY STAGES OF ANY MAJOR MILITARY EMERGENCY. THE TYPE OF SHIPS PRESENTLY BEING ACQUIRED, SUCH AS ROLL-ON AND ROLL-OFF, ARE NOT AVAILABLE IN OUR COMMERCIAL FLEET, BECAUSE THEY ARE NOT ECONOMICALLY VIABLE IN THE PRESENT U.S. FLEET TRADING PATTERNS.

WE BELIEVE THAT IT IS IMPORTANT TO HALT THE DECLINE OF THE U.S. MERCHANT FLEET WHICH IS ALSO CRITICAL TO OUR NATIONAL DEFENSE. THE ACQUISITION OF THIS EARLY SURGE SEALIFT, WHICH IS NECESSARY TO MEET FUTURE NATIONAL EMERGENCIES, IS NOT A SUBSTITUTE FOR ADEQUATE SUPPORT FOR THE U.S. MERCHANT FLEET. THESE PROGRAMS ARE COMPLEMENTARY, NOT SUBSTITUTES.

OPERATONS AND TRAINING (O&T)

WE ARE REQUESTING \$68,550,000 FOR THE OPERATIONS AND TRAINING ACTIVITY OF THE MARITIME ADMINISTRATION, \$2,250,000 OF WHICH IS DERIVED BY TRANSFER FROM THE UNUSED BALANCES OF THE SHIP CONSTRUCTION ACCOUNT.

*No
sub. for
ODS*

TOTAL PROGRAM INCREASES OF \$2,795,000 WILL BE USED TO FUND SEVERAL NECESSARY PROJECTS, INCLUDING A LONG DEFERRED PROGRAM OF MAJOR MAINTENANCE AT THE U.S. MERCHANT MARINE ACADEMY, IN PARTICULAR, THE ACADEMY HEATING DISTRIBUTION SYSTEM. A 1986 STUDY FOUND THAT OUR 45-YEAR-OLD HEATING DISTRIBUTION SYSTEM AT THE U.S. MERCHANT MARINE ACADEMY REQUIRES REHABILITATION. DESIGN WORK ON THIS PROJECT IS PROCEEDING AND IS EXPECTED TO BE COMPLETED DURING 1989. WE ARE REQUESTING \$1,500,000 TO BEGIN THIS REHABILITATION. IN ADDITION, WE NEED \$350,000 TO FUND PROJECTS TO SHORE-UP OUR RAPIDLY DETERIORATING WATERFRONT FACILITIES AT THE U.S. MERCHANT MARINE ACADEMY.

FOR THE STATE MARINE SCHOOLS, WE ARE AGAIN PROPOSING A MORE ECONOMICAL, BUT WORKABLE, FURNISHING OF TRAINING SHIPS THROUGH A SHIP-SHARING ARRANGEMENT. OUR REQUESTED PROGRAM INCREASE ALSO INCLUDES FUNDS (\$400,000) TO INSURE THAT THE INITIAL THREE-SHIP PHASE OF SHIP-SHARING WILL HAVE SUFFICIENT MAINTENANCE FUNDS TO OPERATE THESE SHIPS SAFELY.

THREE OF THE PRESENT FIVE STATE SCHOOL SHIPS WILL REQUIRE REPLACEMENTS IN THE NEAR FUTURE AT SUBSTANTIAL COSTS WITH ESTIMATES RANGING FROM \$20 MILLION AND UP PER SHIP.

FINAL APPROVAL OF THE SHIP-SHARING ARRANGEMENT IS PENDING WHILE WE COMPLETE A SATISFACTORY RESOLUTION OF SEVERAL POINTS RAISED BY THE SCHOOLS IN REVIEWING OUR DRAFT IMPLEMENTATION PLAN.

THE PRIMARY CONCERN OF THE STATE SCHOOLS IS ¹ LACK OF YEAR-
ROUND ACCESS TO A TRAINING SHIP. THEY CONTEND THAT THE OVERALL
² QUALITY OF THEIR TRAINING PROGRAMS DEPENDS ON USE OF THE SHIPS AS
LABORATORIES WHEN NOT ACTUALLY CRUISING. IN ADDITION, THEY
BELIEVE THE SHIP-SHARING PLAN DOES NOT ALLOW FOR ADEQUATE PRE-
³ CRUISE VESSEL ORIENTATION AND THAT THE PLAN WOULD ~~ALTER~~ THEIR
ACADEMIC CALENDARS, INCLUDING VACATIONS AND GRADUATION EXERCISES.
THEY HAVE ALSO EXPRESSED CONCERNS THAT THE ⁴ PLAN SCHEDULE FOR
SHARING TWO SHIPS CANNOT BE MET. WE HAVE THESE CONCERNS UNDER
REVIEW, AND ARE CONFIDENT THEY CAN BE SATISFACTORILY RESOLVED.

THE ADMINISTRATION'S AUTHORIZATION BILL IS EXPECTED TO AGAIN
PROPOSE CHANGES IN THE STUDENT INCENTIVE PAYMENTS PROGRAM AND
SERVICE COMMITMENTS. THE STUDENT INCENTIVE PAYMENTS PROGRAM
(SIP) IS NOT FUNCTIONING AS INTENDED BY CONGRESS. ONLY ONE-
THIRD OF THE CADETS THAT GRADUATE FROM THE STATE MARITIME
ACADEMIES PARTICIPATE IN THE FEDERAL SIP PROGRAM. FEDERAL
SUPPORT TO THE STATE MARITIME ACADEMIES IS PREMISED ON THE NEED
FOR MERCHANT MARINE OFFICERS REQUIRED IN THE EVENT OF EXPANDED
SEALIFT REQUIREMENTS DURING A NATIONAL EMERGENCY. WE BELIEVE A
MORE PRODUCTIVE APPROACH WOULD BE TO PHASEOUT THE SIPs AND
INITIATE A RESERVE COMMITMENT FOR STATE SCHOOL GRADUATES TO
BE SUBJECT TO CALL UP IN THE EVENT OF A NATIONAL EMERGENCY. AS
SIPs ARE PHASED OUT, FUNDS MADE AVAILABLE WOULD BE DEDICATED TO
INCREASED DIRECT PAYMENTS TO THE SIX ACADEMIES. NO REDUCTION IN
OUTLAYS WOULD OCCUR. IN ADDITION, AS A CONDITION OF RECEIVING

FEDERAL ASSISTANCE, THE STATE MARITIME ACADEMIES WOULD REQUIRE THAT ALL OF THEIR GRADUATES PASS THE EXAM FOR A MERCHANT MARINE OFFICER'S LICENSE AND ACCEPT, IF OFFERED, AN APPOINTMENT IN THE U.S. NAVAL RESERVE OR ANY OTHER RESERVE UNIT OF AN ARMED FORCE OF THE UNITED STATES. THIS REQUIREMENT IS ALREADY IN PLACE AT THE U.S. MERCHANT MARINE ACADEMY. ASSISTANCE WOULD BE LIMITED TO THOSE STATE MARITIME ACADEMIES THAT ENTER INTO THE AGREEMENT.

DOD refused
WE ARE ALSO REQUESTING AN ADDITIONAL \$95,000 TO FUND AN EXPANDED CARGO PREFERENCE COMPLIANCE PROGRAM WHICH WOULD BE ABLE TO TRACK DEFENSE SUBCONTRACTOR COMPLIANCE. THIS WOULD BE IN ACCORD WITH RECENT AGREEMENTS WITH SIX DEFENSE CONTRACTING AGENCIES IN RESPONSE TO A DECISION OF THE ATTORNEY GENERAL. FINALLY, AN ADDITIONAL \$500,000 IS REQUIRED TO INCREASE THE CURRENT \$1,000,000 LEVEL OF TECHNICAL AND PROGRAM STUDIES IN ORDER TO SUSTAIN AN ACCEPTABLE LEVEL OF PARTICIPATION IN LONGSTANDING, SHARED JOINT GOVERNMENT/INDUSTRY ACTIVITIES.

OTHER REQUESTS

IN ADDITION, WE HAVE TWO REQUESTS FOR EXTENSIONS OF EXPIRING AUTHORITIES AND AN AMENDMENT TO THE MERCHANT SHIP SALES ACT OF 1936.

THE AUTHORIZATION BILL IS ALSO EXPECTED TO PROPOSE AN EXTENSION OF THE SECRETARY'S AUTHORITY, WITH THE APPROVAL OF THE PRESIDENT, TO PROVIDE WAR RISK AND CERTAIN MARITIME AND

LIABILITY INSURANCE, WHEN COMMERCIAL INSURANCE CANNOT BE OBTAINED ON REASONABLE TERMS AND CONDITIONS. THE PRESENT AUTHORITY HAS GENERALLY BEEN LIMITED TO PERIODS OF FIVE YEARS AND WILL EXPIRE IN JUNE 1990. THEREFORE, THE DRAFT BILL WOULD EXTEND IT FOR AN ADDITIONAL FIVE YEARS.

ADDITIONALLY, THE ADMINISTRATION IS SEEKING AN AMENDMENT TO THE BANKRUPTCY CODE TO CLARIFY THE SECRETARY'S AUTHORITY UNDER PUBLIC LAW 99-509 TO FORECLOSE ON A TITLE XI MORTGAGE WHERE THE MORTGAGOR IS IN BANKRUPTCY. WE ARE APPRECIATIVE OF THE EXISTING MARITIME BANKRUPTCY CODE PROVISIONS SPONSORED BY THIS COMMITTEE, WHICH ARE SET TO EXPIRE IN DECEMBER 1989, AND WILL REQUEST CONTINUANCE OF THIS PROVISION FOR BOTH THE SECRETARY OF TRANSPORTATION AND THE SECRETARY OF COMMERCE UNTIL DECEMBER 1992.

FINALLY, MR. CHAIRMAN, OUR AUTHORIZATION BILL WILL PROPOSE TO AMEND SECTION 11 OF THE MERCHANT SHIP SALES ACT OF 1946 TO REFERENCE THE MEMORANDUM OF AGREEMENT BETWEEN THE DEPARTMENT OF DEFENSE AND THE DEPARTMENT OF TRANSPORTATION WHICH SETS FORTH THE RIGHTS AND OBLIGATIONS OF BOTH DEPARTMENTS WITH RESPECT TO THE READY RESERVE FLEET. THIS SECTION ALSO ADDRESSES THE USES OF SUCH SHIPS ASSIGNED TO THE RRF BY THE SECRETARY OF TRANSPORTATION.

THIS CONCLUDES MY STATEMENT, MR. CHAIRMAN, AND I WILL BE HAPPY TO ANSWER YOUR QUESTIONS AND THOSE OF THE MEMBERS OF THE SUBCOMMITTEE.