

DEPARTMENT OF TRANSPORTATION
STATEMENT OF THE MARITIME ADMINISTRATOR

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BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE
OF THE COMMITTEE ON MERCHANT MARINE AND FISHERIES
U.S. HOUSE OF REPRESENTATIVES

OVERSIGHT HEARING ON OPERATING-DIFFERENTIAL SUBSIDIES (ODS)
IN THE LINER TRADES

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Mr. Chairman and members of the Subcommittee:

It is my pleasure to appear before you today at this oversight hearing on operating-differential subsidies (ODS) in the liner trades. We in the Department of Transportation continue to be committed to developing a revitalized maritime policy as one of our priorities. An important part of the development process is the stimulation of discussion and the consideration of a broad range of options. Several issues will be raised before the Subcommittee today that go beyond the traditional approaches of the past, which have led only to the current impasse on ODS reform. This full and frank discussion of issues should be considered an essential component of the policy development process.

If the current impasse continues, by the year 2000 there will be significantly fewer than 100 privately owned and operated U.S.-flag liner ships active in commercial service. This major decline in sealift capacity is unfortunate and, I believe, an

unnecessary retreat from the long-term goal of having a merchant marine sufficient for both domestic and foreign commerce and capable of serving as a naval and military auxiliary in time of war or national emergency.

Much of maritime policy today is premised on the 1936 Merchant Marine Act (1936 Act), which was passed in response to the problem associated with ocean mail contracts with private U.S.-flag operators. Recall, Mr. Chairman, that the 1936 Act was crafted following six national conferences on the merchant marine, which were called for by Congress and held before the U.S. Shipping Board, predecessor of the U.S. Maritime Commission. These allowed for a wide-open debate from all segments of the industry -- and, more importantly, the public -- on the problems of the maritime industry.

The original ocean mail contracts were subject to widespread fraud and abuse and were viewed as a national scandal. Both the Executive and Legislative Branches were very concerned that a new maritime program not be perceived as a "give away" to shipowners. Therefore, this new program was based on contractual principles, so that the Government would receive demonstrable services for the outlay of Federal funds. This effort recognized the importance of a strong American maritime industry for both defense and economic reasons. U.S. citizens could apply for 20-year contracts to operate liner vessels in our foreign commerce and receive ODS payments in accordance with the provisions of

Title VI. Bulk operators were included with the passage of the 1970 amendments to the 1936 Act.

Over time, the shortcomings of the 1936 Act surfaced. One of the most serious shortcomings was that the future of ship operators was tied to the future of the shipyards. This is due to the statutory requirement that in order to be eligible for ODS, an operator's vessels had to be constructed in domestic shipyards. In addition, the rigid trade route concept, coupled with Section 605(c) hearings, prevented operators from responding to the demands of the marketplace. It was not uncommon for these hearings to last three years; by that time, the commercial opportunity had passed. Moreover, lengthy regulatory hearings under Section 805 kept operators fighting and led to administrative inflexibility. Thus, the existing structure has been overly burdensome and driven by legalities rather than the marketplace. Many existing statutory provisions are outdated and should be either modified or eliminated in recognition of today's competitive environment.

The positive results of Title VI of the 1936 Act include keeping a corps of active merchant ships under the U.S. flag and available to support the deployment of our Armed Forces. Liner operators carry a significant portion of U.S. exports and imports, about 20 percent. Thus, they provide a contribution to our balance of payments. During Operation DESERT STORM, U.S. liner operators carried the majority of sustainment cargo to the Persian Gulf. If the conflict had continued, the U.S. liner

operator share of sustainment cargo would have increased dramatically.

As you requested, Mr. Chairman, we have consulted with the Navy on the extent to which vessels receiving ODS are viewed as contributing to our Nation's military sealift capability. The Navy provided the following comments:

In May 1990, the Department of Defense National Security Sealift Strategy Task Force determined that 60 to 80 containerships and 39 other unit equipment capable ships were necessary to meet minimum sealift requirements. During Operation DESERT STORM, 42 of the current 58 militarily useful liner vessels receiving ODS were utilized.

The Navy points out that, without a program in place to stimulate retention of these ships, it is expected, based on MARAD forecasts and under current conditions, that none of these ships will be under the United States flag by the year 2000. This will cause increased reliance on foreign-flag ships to provide essential sealift. The alternative is an expanded, costly Government-owned fleet with lower operational reliability than actively sailing commercial vessels. Based on the President's National Sealift Policy statement that we must have enough U.S.-owned ships to support a go-it-alone scenario, this U.S.-flag fleet erosion could represent a significant risk to national security.

The soon-to-be-completed, Congressionally mandated Mobility Requirements Study (MRS) will provide greater detail on the

Department of Defense's (DOD's) sealift requirements and will be an important component of future policy discussions.

Liner shipping requirements have changed drastically since 1936. While both ODS and CDS programs were designed to make up the difference between U.S. and foreign costs for crewing and building ships, the maritime industry has become substantially less labor intensive and more capital intensive. Further, increasing mobility and globalization make it necessary to adjust quickly to changing trade conditions, which is a prerequisite for successful operations. The statutory provisions have done little to promote efficiency in the operation of U.S.-flag vessels. The resulting administrative inflexibility that accompanied agency ODS proceedings has not promoted the industry's competitive position in the context of today's global economy.

I do not have to remind the members of this Subcommittee of the many efforts to reform and modernize the ODS program. The attempt to achieve maritime reform has not succeeded. The industry has not been able to reach a consensus and efforts to develop a reform package have not worked.

Experience has demonstrated that the existing structure, although designed with good intentions, has been overly burdensome and unable to adapt to the rapid changes necessary for the carriers to be competitive. Many existing statutory provisions are outdated and must be modified to allow for a deregulated regime responsive to the dynamics of the marketplace.

Last year, we shared our emerging ideas for a new ODS program with members of the industry, but their representatives reacted negatively due to the broad differences among them. The future must include the introduction of debate in the industry and with the interested public of issues that will be excruciatingly difficult. Unfortunately, in these times of fiscal constraints, there are no easy answers. At the present time, the most critical requirement for U.S. carriers is the need for worldwide acquisition of vessels and trade route deregulation. The broader, long-term issues must be discussed publicly, so that meaningful policies can be put in place before a further precipitous decline in our fleet takes place.

In the course of this debate, I suggest we consider a few basic questions:

Given budgetary constraints, can the United States devise a more effective policy for ensuring that national defense requirements are met? Is Government support necessary to maintain sealift capability for defense purposes? Is the answer to assuring sufficient sealift, a larger Government-owned fleet versus a commercially active fleet? What are the costs and benefits of each approach? What is the best way to effect a transition to a new policy?

I believe we must address alternatives to existing programs. There should be no limits to the ideas that are considered. We must call for meaningful debate from all segments of the maritime industry. If this full and frank public discussion does not

occur, the signs are clear -- by the year 2000, there will be significantly fewer than 100 privately owned liner ships active in commercial service.

As we commence the debate, some of the following issues should be considered:

(1) The advisability of a shortened, common termination date for existing ODS contracts in order to provide a period of certainty to prepare for a market-based, totally deregulated industry;

(2) The need for revision of current statutes affecting the operation and acquisition of vessels;

(3) How the cargo preference and Jones Act statutes can be used to meet our future sealift needs; and

(4) The feasibility of a second registry as one alternative to enhance the competitive position of the U.S.-flag fleet.

Mr. Chairman, this concludes my statement. I commend you for scheduling this hearing and providing a forum for discussion of these issues.