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INTRODUCTION

Mr. Chairman and Members of the Committee, I am pleased to be here today. When I appeared before you just a few months ago for my confirmation hearing, you strongly emphasized the need to evaluate our Nation's maritime policy. Since that time, along with other members of the Administration, I have been giving maritime issues a great deal of time and attention.

As many of you in this room are well aware, and as I quickly learned, developing a maritime policy is much easier said than done. There have been occasions during this process when I identified with the character from Greek mythology who was condemned to pushing a stone up a hill, only to have it escape near the top, and roll back down, requiring him to start all over again. With your help, I'm convinced that meaningful maritime reform need not be a Sisyphean enterprise.

Operations DESERT SHIELD/DESERT STORM reinforced the importance of reliable sealift for our national security. In total, over 3.2 million short tons of dry cargo and over 6 million tons of petroleum product were delivered through March 10, 1991, the official date of the end of the reinforcement operation. Of the total cargo needed to support allied forces in the Persian Gulf, 95 percent went by sea. Over 80 percent of the dry cargo sealift required for Operations DESERT SHIELD/DESERT STORM was carried on U.S.-flag ships. The Department of Defense (DOD) used not only dedicated vessels, but also U.S.-flag vessels operating in "normal" commercial service.

But today, America's merchant marine is in a state of decline. The privately owned U.S.-flag merchant fleet currently ranks 16th in the world in number of ships with 393 seagoing vessels. Forecasts indicate that by the year 2000 -- absent any change in maritime policy -- the fleet will shrink to 117 ships, with a carrying capacity of 5.9 million deadweight tons, down from nearly 20 million today.

In 1979, 18 major U.S.-flag liner companies operated in the foreign trades. Today, there are only 6, and these companies operate only 120 vessels. Recently, the two largest U.S.-flag liner operators, American President Lines (APL) and Sea-Land, said they will withdraw their vessels from the U.S. flag starting in 1995 unless reforms are implemented to help U.S.-flag operators compete in world markets.

As the number of ships in the U.S.-flag fleet declines, so does the number of civilian merchant seafarers in the active workforce. In 1960, the U.S. flag fleet supported slightly over 100,000 active seafarers. By 1990, these numbers had dropped to about 27,000 active seafarers. Additionally, no commercial ships for the foreign trades are being built in American shipyards.

Consequently, America must rely on foreign-flag ships and foreign crews to carry the vast majority of its import and export cargoes. In fact, since 1985, foreign-flag ships have carried more than 80 percent of the U.S. oceanborne liner trade, and more than 95 percent of our bulk commodities.

Without reform of our archaic maritime laws, America's foreign trade merchant fleet may be virtually extinct by the year 2000.

The U.S. maritime industry provides a significant benefit to the U.S. economy. Having a strong merchant marine provides jobs and an income stream to the economy. It also supports a maritime infrastructure that includes an educational and training base that is needed for national security. Increasingly, in today's world, our strong maritime companies have been in the forefront of intermodalism, contributing to a strong comparative advantage we hold vis-a-vis our major competitors.

Total revenues earned by the U.S. water transportation industry are nearly \$21 billion. Nearly \$10 billion in revenues are earned from the movement of freight by water. Over \$8 billion in revenues are earned from services incidental to water transportation. More than \$2 billion in revenues are earned from the water transportation of passengers.

The U.S. maritime industry also contributes toward the U.S. Gross Domestic Product. In 1990, it generated over \$12.1 billion in balance of payments receipts. This includes over \$4.2 billion in export freight and charter hire payments to U.S. carriers by foreign entities.

Maritime Review. Shortly after my confirmation, the Department of Transportation undertook a vigorous examination of existing and potential commercial maritime policies and programs. In April, the White House Policy Coordinating Group (PCG) created a Working Group on Maritime Policy that included the heads of 17 departments and agencies. Its purpose was to advise the President on what is needed to meet the requirements of national security sealift capacity while sustaining a viable commercial presence.

As the result of this effort, the Administration will propose legislation and take administrative actions that will set a new course for America's merchant marine, one which will enhance its competitiveness and improve its viability into the 21st Century. Our efforts have been guided by the President's desire to deregulate the industry and to increase its productivity and international competitiveness.

Turning first to the domestic shipping industry, the Jones Act requires that the domestic waterborne commerce of the United States be carried on vessels constructed in the United States, owned by U.S. citizens, and registered under the American flag. The Jones Act has fostered a domestic shipping industry and provided a commercial market for American shipyards. The recent Department of Defense Mobility Requirements Study included a reliance on the Jones Act fleet to provide some of the sealift needed for sustainment shipping in national emergencies. The Administration supports the integrity of the Jones Act.

Several laws require federal agencies to ship a significant portion of Government-generated cargoes on U.S.-flag ships. These laws guarantee the availability of cargo to U.S.-flag ships and, for some operators, make possible their continued existence. Of the agricultural humanitarian aid cargoes alone, the amount carried by U.S. flag operators has declined from 6 million tons in 1987 to a projected 4.6 million tons in 1992, a decline of almost 25 percent. Existing preference cargo requirements should continue to be enforced.

THE COURSE FOR ACTION

The Administration has reaffirmed that an operating U.S.-flag merchant fleet contributes toward meeting our national defense needs. Regulations that unreasonably inhibit our carriers' operations must be removed. To be successful, our fleet must have flexibility to respond to rapidly changing opportunities and market conditions.

U.S.-flag carriers cannot meet these challenges without the ability to build or buy new, more efficient vessels needed to upgrade and modernize their fleets.

Key Proposals. The Administration proposes the following specific actions:

(1) The Capital Construction Fund (CCF) is a tax-deferral program designed to assist U.S.-flag operators in amassing the capital needed to acquire vessels. The Administration proposes allowing CCF deposits generally to be used to acquire vessels in the worldwide market for operation in international trades. We also propose broadening the list of eligible uses to include lease payments for new vessels, and acquiring U.S.-built vessels for the coastwise and inland waterways trades. To allow for these benefits, no new contributions would be permitted for some specified period of time and the inside buildup of earnings would be taxable.

In providing this flexibility, the Administration in no way intends to limit vessel acquisition to foreign sources.

(2) The Credit Reform Act requires a specific appropriation to cover the risk and administrative costs of new loan guarantee commitments made under the Title XI federal ship financing program. The Administration supports continuation of the Title XI program to help finance construction and reconstruction of vessels in domestic shipyards. The

appropriations request for this loan guarantee program will be determined in and through the annual budget process.

(3) In order further to promote more competitive U.S. shipyards, the Administration will continue to work vigorously toward elimination of subsidies provided by foreign governments to their shipyards. To accomplish this objective, it will engage in bilateral negotiations with shipbuilding nations with a view toward achieving a multilateral agreement as the preferred solution. Where neither elimination of subsidies nor agreements are attained, the Administration will pursue disciplinary measures against countries that subsidize shipyards, which could include an expedited Section 301 action, a GATT (General Agreement on Tariffs and Trade) case under the Subsidies Code, or other feasible approaches. Any sanctions on the procurement of ships would be prospective only and determined at the end of the investigative process. In addition, the Administration will initiate a modest research and development program to promote shipyard productivity and will initiate an export promotion program for U.S. shipyards, subject to annual appropriations review.

(4) The Administration will seek greater flexibility for U.S.-flag carriers to operate more efficiently under cargo preference laws. The requirement that new foreign-built or foreign-registered liner vessels must wait three years to carry preference cargoes after switching to U.S. registry should be eliminated. Foreign-built bulk vessels constructed after the date of enactment of new legislation and registered under the American flag also should be immediately eligible for preference cargoes. In addition, foreign-flag feeder vessels should be eligible in conjunction with U.S.-flag line haul vessels to carry preference cargoes.

(5) The Administration will accelerate efforts to align U.S. ship design and construction and stability standards more closely with accepted international standards, which will reduce costs and significantly enhance carriers' ability to compete internationally.

(6) Current laws impose citizenship tests for ownership and control of U.S.-flag vessels that now benefit from some maritime promotional programs. The Administration proposes relaxing U.S. citizen ownership requirements for maritime promotional programs. This action will allow U.S. ship-owning companies meeting U.S. citizenship requirements to attract more foreign equity capital. It also will make it easier for them to enter into joint ventures with foreign companies.

(7) In addition, currently the U.S. Government must approve the sale or transfer of any U.S.-flag vessel from a citizen to a non-citizen. This restriction, along with the one outlined above, discourages investment in the U.S.-flag fleet. The Administration will, in effect, eliminate the need for Government approval of transfers of vessels that are not militarily useful, except during periods of national emergency. These changes should encourage the acquisition of additional newer tonnage into the U.S.-flag fleet. This enhanced asset mobility will assist in the infusion of capital into the U.S.-flag fleet by both American and foreign investors.

(8) U.S.-flag operators who elect to have non-emergency vessel repair work done by foreign shipyards are presently required to pay a duty of 50 percent on the cost of the work performed. This policy was enacted over 120 years ago to encourage operators to use U.S. shipyards, but it has not worked. The Administration supports, subject to budget offsets, decreasing, then repealing, the ad valorem duty to reduce substantially the cost of vessel maintenance and repair for the U.S.-flag fleet.

(9) Issues of tax treatment of foreign-source income, including Subpart F, and alternative minimum tax are relevant to a number of U.S. multinational businesses, including the maritime industry, and will be considered comprehensively by the Department of Treasury within the upcoming months.

(10) The Administration will continue to work with the Federal Maritime Commission to achieve as much operating flexibility and as many benefits of competition as the 1984 Shipping Act permits, such as: permitting parties to amend "essential terms" of service contracts; permitting global service contracts to be filed with the FMC; ensuring that ocean conferences do not impede an individual carrier's ability to take independent rate actions; and reducing tariff restrictions on non-vessel operating common carriers, including eliminating tariff filing for small business NVOCCs and permitting cargo consolidators greater pricing flexibility. At the conclusion of the FMC's rulemaking on its approximately thirty possible regulatory changes, we will reassess the status of the entire structure and determine whether further changes are warranted.

In addition to this, shippers and carriers must sit down together on ocean shipping issues and seek ways to enhance our ability to move commerce efficiently and cost effectively. I will therefore immediately call for a serious dialogue and will monitor its progress closely.

(11) A number of recommendations encourage increased productivity within both the shipbuilding and ship operating industries. The Administration strongly believes that productivity enhancements, such as those that could be realized through the collective bargaining process, are essential to making our fleet more competitive. We urge maritime labor and management to sit down to assess critically existing work rules with a goal to improving shipboard productivity in line with technological advances in the fleet. The Administration will, for the time being, defer submission of legislation on productivity enhancements in order to allow the collective bargaining process time to address these issues.

Importantly, various benefits from our maritime policy will not be allowed to accrue to those shipyards found by the U.S. Trade Representative to be excessively subsidized.

National Defense Determinations. Several policy decisions directly affect the relationship between the merchant marine and the Department of Defense.

(12) For example, DOD will not pursue any build-and-charter programs for the lease of ships that would be detrimental to U.S. liner operators or distort the market for commercial

ships. DOD will consult with the Maritime Administration to determine the effect on the commercial market of any such program.

(13) In addition, a parallel National Security Council Defense Policy Coordinating Committee review reported to the PCG Working Group that "The Department [of Defense] needs well-trained and reliable crews for both government-owned and commercial ships and depends on the U.S. commercial fleet to provide these crews for government-owned ships." To meet this need, a reserve program may be required to assure that government-owned sealift vessels can be crewed rapidly and reliably in an emergency. The Departments of Transportation and Defense will continue to study such an approach.

(14) For now, persons leaving jobs ashore to crew sealift ships during national emergencies should have reemployment rights similar to those of military reservists who are called to active duty, and we strongly endorse passage of the pending Administration bill to provide such reemployment rights.

(15) As an additional step, the Administration will review Government procedures for the procurement of ocean transportation by all agencies, military and civilian. We seek to identify areas that can be modified to achieve greater efficiencies and benefits to U.S.-flag ocean carriers and the Government, while not increasing the cost of shipping services to the Government.

A Contingency Retainer Program. The Department of Transportation determined that even if the Government were to adopt all these recommendations, the costs of operating U.S.-flag merchant ships would remain higher than those of many foreign-flag competitors. Lower wage rates and direct and indirect subsidies by foreign governments contribute to the disparity.

(16) Therefore, in order to assure the continued operation of American-flag merchant ships, the Administration will propose legislation to create a contingency retainer program for U.S.-flag operators. The program will ensure that ships will remain available to meet national security requirements while also maintaining an American presence in international commercial shipping. To be eligible to participate in this program, an operator would be required to keep the vessel in active commerce under the U.S. flag, commit to improving its productivity and operating efficiency, and make it available in times of emergency. To dovetail with vessel financing timetables, we believe that the government program should extend over a seven-year period. We envision payments for up to 74 vessels beginning at \$2.5 million per ship for the first two years and phasing down to \$1.6 million per ship in the final year.

While we have not yet worked out all the details of the new program, we know that it must return to the taxpayer good value for money spent. The program must contain incentives to encourage efficient, cost conscious operations.

This system of contingency payments would differ significantly from the present operating-differential subsidy (ODS) program. It would not be based on a wage differential. The Administration affirms its previous policy statement that existing ODS contracts will be honored through their remaining terms, but that no new ODS contracts will be signed and current contracts will be allowed to expire. However, we will encourage presently subsidized operators instead to participate in the new program.

The new program will not be encumbered by the operating restrictions that are applied to the ODS program. For example, operators would be able to acquire vessels worldwide (except from shipyards found to be excessively subsidized), operate them anywhere in the foreign trade and in conjunction with foreign-flag feeder vessels. Operators will be free to compete efficiently and flexibly for international cargoes.

CONCLUSION

In summary, Mr. Chairman, the role of the privately owned American merchant marine remains valid.

I have outlined for you today the elements of a policy that has as its centerpiece an incentive program that significantly contributes toward meeting our national security sealift requirements, keeps ships under the U.S. flag, and makes them more competitive. This program is supplemented by a series of administrative, regulatory and legislative proposals to enhance the competitiveness of the American merchant marine and the efficiency of ocean shipping services.

We will proceed promptly with those actions that can be implemented administratively. We will also submit legislation for our remaining proposals.

Mr. Chairman, I appreciate the opportunity to present the Administration's maritime reform package, and I look forward to working with the Committee in securing the future for America's vital maritime industries. Thank you very much. I will be pleased to respond to any questions you may have.