

**STATEMENT OF JOAN B. YIM
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DEPARTMENT OF TRANSPORTATION

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

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Mr. Chairman, members of the Subcommittee, my name is Joan Yim and I am the Acting Maritime Administrator for the Department of Transportation. I am pleased to be here today to comment on cargo preference issues pertaining to Russian aid and the \$10 billion loan guarantee program to Israel. I appreciate the opportunity to address these programs which support our national security and domestic and international economic policies.

By way of background, it may be useful to note that U.S. cargo preference programs have been statutorily prescribed for military cargo since 1904 and for non-military cargo on a permanent basis since 1954. These laws require that government owned cargoes or foreign assistance cargoes which are either donated or government

financed at concessional terms be shipped wholly or partly on U.S.-flag vessels.

The underlying concept for these requirements is twofold. First, taxpayer money that underwrites donated aid should return a portion of its value to the U.S. economy through shipment on U.S. vessels. Secondly, supporting the vitality of the U.S. merchant marine helps to assure the availability of U.S.-flag vessels and crews during times of national emergency and the development of our commerce in peacetime.

President Clinton has signalled that his administration intends to abide by longstanding maritime policy in the movement of aid financed by the American taxpayer to the Russian people. This Administration is also committed to resolving the long-term policy disputes among Federal agencies over the use of U.S.-flag vessels.

I will now touch upon the cargo preference programs as they relate to areas of Congressional concern: Aid to Russia and the Israeli Loan Program.

AID TO RUSSIA

President Clinton's new aid program to the Commonwealth of Independent States (CIS) consists of low cost concessional agricultural credits under the Food for Progress program. Since it is a U.S. food assistance program, it is subject to preference. U.S. carriers are thus entitled to move at least 75 percent of this traffic and the American taxpayer should be assured that unnecessary charges will not be imposed, either by the recipient nation nor the vessel operator, simply because the U.S. Treasury is footing the bill.

A number of problems in the Russian trade have put upward pressure on U.S.-flag rates. MARAD has had a system in place for years to prevent excessive rates, called the fair and reasonable guideline rate. Each potential contract award is scrutinized relative to vessel costs

which are filed annually with MARAD. No bid is accepted if it exceeds the "guideline rate" calculated on that vessel's cost plus a modest profit. USDA became concerned that high rates would cause them to run out of freight money. MARAD approached USDA to establish a working group to deal with the problems. Our goal was to assure that the President's commitment of \$700 million in agricultural aid reaches Russia in a timely fashion, and at the same time U.S. carriers receive their fair share of cargoes at the most economical cost possible. Further, it was our intent to dispel some of the controversy regarding inflated U.S.-flag freight rates that were being bandied about which, if offered, were rejected as not meeting the fair and reasonable guideline rate. To allow such a controversy to continue within the agencies does not serve the Administration well nor the American people.

The group met numerous times over several weeks and identified issues in a number of important areas. In doing so, an overriding concern was to distinguish fact from opinion so as to concentrate on actions which could address the problems. The issues included:

1) Discharge terms

"Free out" terms (which provide that expenses associated with cargo discharge are for the charterer's rather than the vessel owner's account) function as an incentive to the receiver to discharge quickly. A fast discharge earns the receiver additional money; a slow discharge incurs additional costs to the receiver. Free out, along with priority berthing for U.S. carriers at Russian ports, was important to lower U.S. flag rates.

2) Payment Terms

Commercial voyages are paid upon leaving the load port whereas preference voyages are not paid until after arrival at the discharge port. There are frequent payment delays. However, MARAD has asked and USDA has agreed, to pursue this issue as part of our longer term discussions.

3) Fumigation

These costs and delays are normally the charterer's

responsibility. Under preference they are the vessel owner's risk. USDA and MARAD agreed to pursue a dual rate system. We were unable to implement it in the short time available with the current Russian aid package, but future tenders will include dual rates. There will be further discussions with the Russians regarding who will pay the fumigation costs for the program.

4) Vessel Discrimination

Exclusion of vessel types, such as tankers or barges, lessens competition. USDA has issued a policy that importing countries may exclude tankers from carriage of 1993 feed corn. However, they are performing their own analyses and will examine the data. If the facts support a change, the Russians may wish to include tankers. We are planning to sponsor meetings between the feed corn representatives and tanker operators to review this issue and we will continue to monitor this issue closely with USDA.

I am sure USDA will discuss the details of their agricultural agreement with Russia, but I would like to report on the outcome of key freight issues. Russia agreed to establish a joint U.S./Russian working group which will monitor Russian port conditions on an ongoing basis. The group will be available to answer any questions U.S. carriers have as they develop their bids. We are closely tracking food aid shipments under earlier programs and will assess these vessels' experiences in unloading their cargoes. This information will be made available to the other carriers as they prepare bids. In other words, U.S. vessel owners will have a clearer picture of their true risks. On the Russians' part, they will have incentive to discharge quickly because they have been assured that any freight savings will be available to them for more commodities of their choosing. I think we made very significant strides.

Before I leave this subject, I want to point out that MARAD and AID sent a team to scrutinize port conditions in Russia during 10 days in May. They have reported congestion problems in Novorossiysk and St. Petersburg, and that there is a potential shortage of rail cars when

the Russian harvest begins in July. If there are not enough rail cars and no storage facilities, ships will have difficulty unloading their cargoes. This is an area we will be monitoring very carefully. MARAD's ports expert will be returning to Russia June 12 as part of a U.S. Government mission to examine the ports and make recommendations on how to improve their efficiency. He will be on the spot for about three weeks, providing us with up-to-the minute reports on port conditions.

I have discussed our inter-agency efforts to solve problems in our preference programs. This is not a one-shot thing. MARAD is committed to an on-going effort. USDA and AID will join us in looking at the problems faced by both shippers and carriers. Some of the issues we will try to solve I have already mentioned. We will all work toward a preference program that serves the national interest as well as the agriculture industry and the maritime industry.

ISRAELI LOAN GUARANTEE PROGRAM

Now I would like to turn to the Israeli \$10 billion loan guarantee program. Last winter, we contacted the Israeli embassy to request that they voluntarily assure carriage of cargoes generated by the program for U.S. carriers. We have had an ongoing dialogue with the Minister of Economic Affairs at the Israeli Embassy. It is our understanding that much of any freight moving will be high value, low volume commodities that will probably be air freighted. However, the minister was receptive to working with our industry to identify market leads. In this regard, the maritime industry is considering a mission to Israel to pursue market contacts. MARAD is working with the Department of Commerce to develop market lead information which we will pass on to the carriers as well.

MARAD has suggested that language be included in Israeli bank loan documents which encourages the purchase of U.S. commodities and transportation services. We will continue to discuss the purchase of U.S. goods and services, including shipping, with the Israeli

government. MARAD will continue to work to ensure the maritime industry receives a fair share of the cargo shipped to Israel.

UNIFORM CHARTER PARTY

Finally, I would just like to touch upon the regulation being considered regarding uniform charter party terms that would address, for example, the problems I mentioned earlier in relation to the Russian grain program. We are now trying to answer questions raised by USDA and AID over MARAD's authority under Section 901(b)(2) to issue such a regulation. It is our desire to resolve any problems quickly and to move forward with a proposal in the near term.

CONCLUSION

Finally, and most significantly, Secretary Peña and Secretary Espy have set the cooperative direction for their efforts to address cargo preference issues. Our respective agencies are taking steps to deal

with cargo preference issues for the benefit of agricultural producers, shippers, and carriers. We at MARAD plan to move forward and not lose momentum as we begin discussions on longer term issues. We intend to comply fully with the letter and spirit of the law. That concludes my prepared statement, Mr. Chairman. I will be happy to respond to any questions you or Subcommittee members may have.