

**DEPARTMENT OF TRANSPORTATION
STATEMENT OF THE ACTING 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 FEDERAL AGENCY COMPLIANCE WITH
AND ENFORCEMENT OF CARGO PREFERENCE LAWS**

FEBRUARY 24, 1993

Mr. Chairman, members of the Committee, my name is Richard Bowman and I am the Acting Maritime Administrator of the Department of Transportation. I am here today at your request to comment on cargo preference issues and respond to your questions.

U.S. cargo preference programs are part of the overall statutory scheme to support the privately owned and operated U.S.-flag merchant marine. They require that a certain percentage of government-impelled cargo be carried on U.S. vessels. This is a very important program for the maintenance of a U.S. merchant fleet. Our Nation continues to require militarily useful U.S.-flag vessels.

As this Committee knows well, the ships that carry these cargoes provide important jobs for American seafarers. Cargo preference guarantees the availability of cargo to U.S.-flag ships and is important to the financial viability of U.S.-flag operators.

In your letter of invitation, Mr. Chairman, you requested that the Department of Transportation express its views on cargo preference as it relates to the Government of Kuwait's efforts to rebuild its country, and to the Government of Israel's use of U.S. goods and services in connection with the five-year \$10 billion loan guarantee program passed by Congress last year.

MARAD is extremely disappointed that the Government of Kuwait has avoided significant utilization of U.S. carriers in the rebuilding of its country. The response to our attempts to secure Kuwait's reconstruction cargo has been particularly disheartening given the major role that the U.S. military played in helping to free Kuwait from Iraqi aggression, and the role of the U.S. merchant marine in carrying military cargo to support that effort.

U.S.-flag ships have been virtually excluded due to a clause in Kuwait's Council of Minister's Resolution 47/86 which gives the right of first refusal to carry this Kuwaiti government-controlled cargo to the United Arab Shipping Company. For almost two years MARAD has worked with the Department of State to encourage Kuwait to rescind this discriminatory policy. MARAD and U.S. Embassy officers met many times trying to convince the Government of Kuwait to change this policy. The U.S. Ambassador to Kuwait was personally involved. As recently as a January 6, meeting with Kuwaiti government officials, the Ambassador relayed a letter from the former Maritime Administrator denying Kuwait a retroactive waiver to carry Export-Import Bank cargoes on Kuwaiti-flag vessels. MARAD's denial of the waiver was based on Kuwait's continued discriminatory treatment of U.S.-flag vessels. Unfortunately, these efforts have produced no results.

We have examined the cargo preference implications of the program for loan guarantees to Israel that was established by Title VI of the Foreign Operations Appropriations Act for FY 1993. These

guarantees provide a significant economic benefit for Israel, and the law anticipates that the amount of U.S. goods and services purchased by Israel will substantially increase as the Israeli economy improves. We therefore see the potential for increased use of U.S. goods and services, including U.S.-flag vessels, resulting from this program or the improved economic climate in Israel.

Along these lines, on December 3, 1992, the former Administrator wrote to the Assistant Secretary of State for Near Eastern Affairs regarding cargo preference language in the \$10 billion loan guarantee program. The Maritime Administration received a response on January 6, 1993. The Department of State pointed out that the authorizing legislation did not contain any cargo preference requirement, and further stated that most individual projects could not be identified separately. With your permission, Mr. Chairman, I have copies of these letters to be submitted for the record of this hearing.

Mr. Chairman, you have also requested the Department's views on H.R. 57, introduced by Congresswoman Bentley, to amend the Cargo Preference Act of 1904 in title 10 of the United States Code, to clarify the preference for U.S.-flag merchant vessels in the carriage of Department of Defense (DOD) cargoes. The 1904 Act requires only U.S.-flag vessels to be used in the transportation by water of supplies bought for the armed forces, unless the freight charged for those vessels is excessive or otherwise unreasonable. H.R. 57 would revise the 1904 Act to update and codify the Wilson-Weeks Agreement of 1954 between the Secretary of Defense and the Secretary of Commerce, dealing with the utilization, transfer, and allocation of merchant ships for use by DOD.

The Administration is developing a position on this bill. The Department believes that, before any legislation is considered by this Subcommittee, the Secretary of Transportation should be given the opportunity to review the important issues raised in H.R. 57 and attempt to resolve them through the collaborative process within the Administration. The guiding principles are to preserve the military's

flexibility to meet international crises and to proscribe competition by the government with the commercial sector.

As was noted at this Subcommittee's first oversight hearing on cargo preference issues, MARAD takes its mandate to monitor the implementation of cargo preference laws by other government agencies very seriously, including our authority to establish rules under which preference programs operate. At his Senate confirmation hearing, Secretary Peña stated his support for our Nation's cargo preference laws. MARAD will continue to aggressively monitor compliance by both military and civilian agencies.

Mr. Chairman, this completes my statement and I will be glad to answer any questions that you and members of the Subcommittee may have.