

**Statement of Federico Peña
Secretary of Transportation
before the
Senate Committee on Commerce, Science, and Transportation
Subcommittee on Merchant Marine
Maritime Security and Trade Act Hearing
April 25, 1994**

Mr. Chairman, I am very pleased to be here today, accompanied by the Maritime Administrator, Albert J. Herberger, to support the Administration's Maritime Security and Trade Act of 1994, S. 1945. I believe strongly in what we are trying to accomplish, and I appreciate the privilege of testifying before this Subcommittee. I bring with me the President's support for our efforts to secure America's future as a maritime nation.

At the outset, I want to thank you for your leadership on this important issue and to thank Chairman Hollings for introducing the President's proposal.

Maritime revitalization has been a top priority of mine ever since becoming Secretary of Transportation, and I look forward to working with you to secure its passage this year.

The Administration wants to set a new course for America's merchant marine, one that will enhance the competitiveness of this industry into the 21st century.

Let me emphasize that the Administration has proposed separate programs for two vital maritime industries -- the United States-flag fleet and the United States shipbuilding industrial base.

Regarding the recent Organization for Economic Cooperation and Development (OECD) negotiations to eliminate unfair foreign shipbuilding subsidies, we have received a summary text of a shipbuilding agreement prepared by the Chairman of the shipbuilding negotiations and are studying it to see whether it provides a basis for returning to the negotiating table. The Administration's preference has always been to level the international playing field through OECD

negotiations. If these efforts fail, we will consider support for the shipbuilding trade reform bills, S. 990 and the revised House bill, H.R. 1402.

The President's shipbuilding initiative announced last fall also includes Title XI funding of about \$150 million, supporting approximately \$1.5 billion in loan activity. The Department of Transportation's Fiscal Year 1995 budget request supports this initiative with a \$50 million Title XI request to implement this shipbuilding program.

The Department is also working with the Advanced Research Projects Agency (ARPA) and industry through MARITECH to improve commercial competitiveness. The President's shipbuilding initiative includes \$220 million over 5 years for research and development to accelerate technology transfer and process change.

In addition to the above mentioned funding requests, the President's shipbuilding plan will expand government activities to assist

marketing efforts for U.S. shipyards, and revise regulations that impose unnecessary burdens on the shipbuilding industry.

President Clinton's comprehensive five-point shipbuilding initiative will strengthen U.S. shipyards and move towards improved competitiveness in the international marketplace.

President Clinton's second maritime initiative, the Maritime Security and Trade Act, guarantees the continued existence of a fleet of privately owned, commercial United States-flag ships crewed by skilled American civilian seafarers and owned by United States citizens. This legislation is designed to maintain a modern American merchant fleet, ensure continuing American presence in the transportation of our international commerce, and provide sealift for national emergencies. As the members of this Subcommittee know, a comprehensive revitalization of maritime policy for the United States merchant marine has been needed for many years.

United States-flag carriers have been the leaders in the development of technological innovations, such as containerization, double-stack rail cars, specialized containers, electronic equipment identification, and satellite tracking, all of which has formed the basis of the best intermodal transportation system in the world. As a result of intermodal transportation innovations pioneered by United States-flag carriers, U.S. manufacturers and the rest of our industrial and agricultural sectors benefit from a seamless transportation system. This means lower costs -- not only for transportation but also for warehousing, inventory, insurance and damage claims. The American public, as consumers of imports and producers of exports, are the prime beneficiaries of this efficient intermodal system.

The Administration's bill proposes a ten-year Maritime Security Program (MSP), which would provide total funding of \$1 billion, approximately \$100 million a year, to support U.S.-flag liner vessels in our international commercial trade. To be eligible for the MSP, U.S. operators would be required to keep vessels in active foreign commerce under the United States flag. Commercially and militarily

useful ships would be selected for this program, as determined by the Department of Transportation, after consultation with the Department of Defense.

United States-flag ships entering the program would be generally required to be 15 years of age or less; recently acquired liner ships from foreign sources would be allowed if five years of age or less. Under this program, ship operators would receive \$2.5 million per ship per year, through fiscal year 1997, decreasing to \$2.0 million per ship per year in fiscal year 1998 through the end of the program in fiscal year 2004.

The cost of this program is substantially less than the current operating-differential subsidy (ODS) program. The current average per liner ship cost in the ODS program is \$3.7 million per year. The \$2.5 million per ship cost in the first three years of the new program represents a 33 percent reduction per vessel. The lower costs in the Maritime Security Program are possible with newer, more efficient ships. We anticipate that the flat payments outlined above will

encourage the carriers to reduce operating costs. The new program would support approximately 52 ships at an average cost of \$100 million per year, instead of the former program's costs of over \$200 million per year.

This proposal also ensures that U.S.-flag ships would remain available to meet national security requirements. Participating ship operators would be required to make their ships and other commercial transportation resources available to the Government in time of national emergency, or when decided by the President to be in the national interest. The commercial transportation resources to be provided would include ships, capacity, intermodal systems or equipment, terminal facilities, and management services. This infrastructure provided an intermodal pipeline during the Persian Gulf conflict, moving critical supplies on commercial containerships in door-to-door service. In time of need, therefore, the United States will have the finest intermodal sealift support available in the world.

To move toward more competitive shipping rates for the carriage of preference cargoes, this legislation would allow newer vessels to be eligible to carry preference cargoes. In addition to commercial vessels built in the United States, liner vessels acquired outside the United States that are less than five years of age, and bulk cargo vessels delivered after January 1, 1993, would be immediately eligible for these cargoes if registered under our flag. Another provision permits United States-flag line haul vessels, in conjunction with foreign-flag feeder vessels, to be eligible for these cargoes. These provisions support more efficient operations under our current cargo preference laws, which remain in effect.

This legislation also provides flexibility for participants in the last years of the existing ODS program. They may keep their ships in the ODS program until the current contracts expire, or they may apply to include these or other ships in the Maritime Security Program. Applications to renew or extend current ODS contracts would not be considered, however.

The competitiveness of the United States-flag merchant fleet would be enhanced by enactment of this bill, because all operators joining the new program would be deregulated, and trade route and service restrictions in the current ODS program would be eliminated. Both MSP participants and ODS operators would be permitted to operate foreign-flag feeder vessels in U.S. foreign trade.

In addition, the Administration's proposal contains a specific plan to pay for this maritime revitalization program. To do this, we propose an increase in the existing vessel tonnage duty. The duty initially was created in 1789 by the first Congress. The duty is assessed on a vessel's net register tonnage (NRT), a universal measure of cargo capacity. All vessels entering U.S. ports from foreign ports pay this fee. If a ship enters the United States from a nearby Western Hemisphere foreign port, the fee is nine cents per NRT; if its last call was outside that area, the fee is 27 cents per NRT. Our proposal is to increase this two-tiered fee by 15 and 44 cents, respectively. Under current law, no fee is collected after a ship has made five calls in a

year in U.S. ports, and we propose retaining this practice, which has been in effect since the late 19th century.

Tonnage fees are deposited into the general fund of the Treasury. In 1990, Congress increased the tonnage fee and directed that the increase be deposited into the general fund as offsetting receipts for the department in which the Coast Guard is operating and ascribed to Coast Guard activities. The tonnage fee currently raises approximately \$63 million a year. The Administration's proposed increase for the MSP would be treated similarly in our budget. Today, our Coast Guard provides an estimated \$800 million in services to ships of all nations for aids to navigation, search and rescue, vessel inspections and many other activities. The increase in tonnage fees in our proposal would cover some of the costs of these Coast Guard services.

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We believe the fee increase will have no significant adverse impact on our foreign trade, or any segment of our maritime and international trade industries. Our analysis shows that about \$1.50 will be added for an entire year to the cost of moving a twenty-foot

container. The added cost on a typical cruise ticket is 38 cents. Tankers would pay about one additional penny per barrel of oil and increased fees for dry bulk cargo ships would amount to about 14 cents per ton.

The size of our foreign commerce and the vigorous growth we see ahead mean this increased duty should have no harmful effect on any port, shipper or company, and only a negligible impact on consumers. The 1990 increase in tonnage duties that Congress initiated has not adversely affected trade; in fact, foreign trade has increased since 1990.

This is the President's proposal to maintain a United States owned and crewed fleet of vessels available for economic and national security.

As the President said when announcing this proposal, "A modern merchant United States-flag fleet, with skilled U.S. mariners, will

provide not only jobs and economic benefits, but also an important sealift capability in times of national emergency."

Along with the President, Admiral Herberger and I look forward to working with you to secure approval this year for this important legislation to implement a long-awaited, comprehensive revitalization of the United States merchant marine.

Thank you for giving me the opportunity to appear before you today. I will be glad to answer any questions you and the members of the Subcommittee may have.

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