STATEMENT

OF

ALBERT J. HERBERGER

MARITIME ADMINISTRATOR

ON

BEHALF OF

THE

MARITIME ADMINISTRATION

BEFORE THE

SPECIAL OVERSIGHT PANEL ON
THE MERCHANT MARINE

OF THE
COMMITTEE ON NATIONAL SECURITY
U.S. HOUSE OF REPRESENTATIVES

IN SUPPORT OF

FISCAL YEAR 1996 AUTHORIZATION
FOR THE
MARITIME ADMINISTRATION

MARCH 28, 1995

# DEPARTMENT OF TRANSPORTATION

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Mr. Chairman and Members of the Subcommittee:

I welcome the opportunity to be with you today, to discuss the Maritime Administration's (MARAD) budget request for Fiscal Year 1996.

The Maritime Administration's authorization request recognizes the military and economic value of having a fleet of private commercial vessels owned by American citizens, crewed by American civilian seafarers, and operated in compliance with American safety and environmental standards. It also recognizes the importance of the American shipbuilding industry by furthering the objectives of the National Shipbuilding Initiative, contained in the National Shipbuilding and Conversion Act of 1993, which seeks to strengthen that industry through the Title XI loan guarantee program.

**National Security**

American ships and American seafarers have always come through for us during times of war or national emergency. Just this past year, we celebrated the outstanding role the merchant marine played in World War II with President Clinton's visit aboard the Liberty Ship, S.S. JEREMIAH O'BRIEN, off the coast of Normandy on June 6th. The merchant marine also served in Korea and Vietnam, and more recently, American seafarers and American ships served with honor in support of our armed forces in the Persian Gulf, Somalia and Haiti.

Our national military strategy is facilitated by the two complementary strategic concepts of overseas presence and power projection. In order to remain engaged globally with fewer U.S. forces permanently stationed overseas, we must proportionately increase our capabilities to project forces abroad. This requires airlift and sealift, and the commercial U.S.-flag fleet is a cost-effective source of sealift for resupply of our armed forces and sustainment of our capabilities overseas. The commercial fleet complements the Maritime Administration's Ready Reserve Force and the Department of Defense's organic fleet, which enable U.S. forces to be rapidly deployed overseas in an emergency.

**Economic Security**

A modern U.S. merchant fleet also supports a strong U.S. presence in international trade. Without your continued support for U.S.-flag operations, the United States will become wholly dependent on foreign-flag ships to carry its exports and imports. We will not be able to negotiate from strength with our trading partners. Furthermore, the United States will lose an effective voice at the International Maritime Organization (IMO), for without a U.S.-flag fleet, we cannot effectively influence the setting of worldwide shipping standards.

In recent years, there has been dramatic change in the efficiency and productivity of ocean and intermodal transportation, and the prime innovators have been our American carriers. They have pioneered specialized ships, containerization, double stack rail cars, specialized containers, electronic equipment identification, satellite tracking and just-in-time, door-to-door services which reduce inventory and warehousing costs for American industry. The American public, as consumers of imports and producers of exports, greatly benefit from this efficient and expanding intermodal system.

## Maritime Security Program

Mr. Chairman and Subcommittee members, I will now discuss the Maritime Administration's authorization request. It includes $175 million as the initial funding for a new ten-year Maritime Security Program (MSP). Under the draft "Maritime Security Act of 1995", which the Administration has transmitted separately, we will be able to maintain a U.S.-flag maritime fleet of up to 50 modern, efficient liner vessels crewed by skilled U.S. mariners. Ship operators participating in the MSP must agree to make their ships and entire intermodal transportation systems available for sealift support during war or national emergency. This partnership with the commercial community will provide the government with cost-effective sealift utilizing existing assets as a complement to the DOD sealift programs and the Ready Reserve Force. Furthermore, the Department of Defense can use the carriers' vessels and intermodal transportation systems for door-to-door transport of equipment and supplies for the armed forces. Maintaining this fleet will also allow us to retain a pool of U.S.-citizen crews that will be available to crew the vessels in the Ready Reserve Force and the Department of Defense's organic fleet during times of emergency.

The MSP is essentially the same ten-year program that was proposed by the Administration last year, but the funding source is completely different. It is proposed that the MSP be funded as part of the Department of Transportation budget and not from increased tonnage duties as proposed last year. Payments to U.S.-flag ship operators engaged in foreign trade would not exceed $2.5 million annually for FY 1996 through 1998, and would be reduced to $2 million annually for

FY 1999 through 2005. These payments would be about one-third less than the current operating-differential subsidy program, thus giving operators built-in incentives to reduce their operating costs. The Maritime Security Act would also substantially deregulate the maritime industry by relaxing existing restrictions on vessel acquisitions, trade routes, and foreign vessel operations.

Enactment of an MSP cannot come too soon. Just last month, MARAD granted Sea-Land Service, Inc., permission to transfer five containerships to Marshall Islands registry, and Lykes Bros. Steamship Co. permission to time charter four new foreign-built containerships under foreign registry. In November 1994, MARAD granted permission for American President Lines, Ltd. (APL), to operate six new foreign-built ships under foreign registry. These companies have indicated their strong support for enactment of the Maritime Security Act and are committed to participation in the MSP.

America's future as a maritime superpower is at stake. This year will make or break what remains of our U.S.-flag presence on the high seas. Without a maritime reform bill, in all likelihood, for the first time in modern American history, our U.S.-flag presence in international trade will vanish, along with our civilian sealift support, seafaring jobs and the technological leadership of our American carriers.

I will now briefly outline the remainder of the Administration's budget request.

Maritime Loan Guarantee (Title XI) Program

The Administration's budget request for fiscal year 1996 includes $48 million for Title XI loan guarantees. An additional $4 million is included for administrative expenses. This request supports the National Shipbuilding Initiative (NSI), and could enable MARAD to guarantee private sector loans to build ships and strengthen America's shipyards of up to $1 billion, assuming proposed legislation to increase the Title XI guarantee fee is enacted.

The Title XI loan guarantee program allows MARAD to guarantee private sector debt financing for the construction or reconstruction in U.S. shipyards of U.S.-flag vessels and export (foreign-flag) vessels, and U.S. shipyard modernization and improvement projects. Title XI loan guarantees enable ship owners and shipyards to borrow funds from the private market on terms that may not otherwise be available, at a fixed rate, with longer term maturities.

Since enactment of the National Shipbuilding Initiative by Congress fourteen months ago, we are seeing tangible results of our commitment to a vital shipbuilding industry and to the thousands of skilled workers who are part of it. Interest in this initiative from both domestic and foreign buyers has been strong, and includes recent approval of the first U.S.-built commercial ship order for a foreign buyer in over 35 years. We are putting U.S. shipyards and U.S. shipyard workers back to work, and making our shipyards competitive internationally once again in commercial shipbuilding. Foreign buyers and investors are coming back to U.S. shipyards. The FY 1996 authorization and appropriations request is essential to continue our support for the U.S. shipbuilding industry.

So far, in FY 1994 and 1995, MARAD has approved fourteen new applications totalling over $600 million in financing. These projects include MARAD's approval of the application of Fleves Shipping Corporation, for $133 million in loan guarantees for financing of the first ocean-going vessels for export built in the United States in over 35 years. These tankers will be built in Newport News, Virginia, and are expected to generate 500 shipyard jobs.

On February 7, 1995, I announced the approval of more than $160 million in new loan guarantees which includes a $134 million guarantee for United States construction of the first four double-hull product tankers that will meet the requirements of the Oil Pollution Act of 1990.

MARAD has also approved the issuance of loan guarantees for shipyard modernization projects of $22.7 million at the National Steel and

Shipbuilding Company (NASSCO) in San Diego, California and $18 million at Avondale Shipyards in Louisiana. Other applications for shipyard modernization projects are now under review. These modernization projects will allow shipyards to build ships more efficiently and at less cost, resulting in more competitive commercial facilities.

As of February 27, 1995, MARAD was reviewing 19 applications for $1.5 billion in loan guarantees.

In an effort to make the Title XI loan guarantee program even more effective, the Department has recently proposed legislation to increase the guarantee fee provisions of the Title XI loan guarantee program. These provisions apply to obligations for both U.S.-flag and foreign-flag vessels, and U.S. shipyard modernization and improvement projects under the Title XI program.

The proposed amendments would require an obligor to make a lump sum payment of the increased guarantee fee at the time of closing of the loan guarantee obligation. Such a requirement will lower the risk to the Government by ensuring that it receives the full guarantee fee due for the entire term of the obligation, and will also encourage loan guarantee applicants to enhance the financial structure of their transactions in order to qualify for the lowest possible guarantee fee.

## Ready Reserve Force (RRF)

The President's Budget proposes to fund the National Defense Reserve Fleet, including the Ready Reserve Force (RRF), from the National Defense Sealift fund in the Department of Defense beginning in fiscal year 1996. Management of the RRF will remain with the Maritime Administration. The necessary authorization will be included in the Department of Defense (DOD) authorization bill. The RRF consists of 92 ships kept in a high state of readiness to enable them to be activated in 4, 10, 20 or 30 days to meet military sealift requirements in the event of a war or national emergency. In addition to providing sealift to the U.S. military during Operations Desert Shield and Desert Storm, the RRF has supported worldwide peacekeeping and humanitarian efforts, such as those for Somalia and Haiti. Management of the RRF is governed by a Memorandum of Agreement (MOA) between the Department of Transportation and the Department of Defense.

## Operating-Differential Subsidies (ODS)

The new Maritime Security Program will replace the existing operating-differential subsidy (ODS) program with a more flexible and cost-effective program. However, we still have obligations to fulfill under the old program for a few more years. To support these obligations under the existing ODS program, the Administration is requesting $162.6 million. ODS contracts for liner vessels will remain in force until 1998; all bulk vessel contracts will expire by 2001. In fiscal year 1996, we expect to pay ODS contract obligations for 35 liner vessels and 19 bulk ships.

The requested amount is a net decrease of $51.7 million from the FY 1995 Congressional appropriation of $214.3 million due to the decrease in the number of subsidized vessels projected for FY 1996.

## Operations and Training (O & T)

An authorization of $81.6 million is requested for Operations and Training, including $42,973,000 for Maritime Education and Training and $38,677,000 for operating program expenses.

The maritime education and training program reflects the cost of officer training at the U.S. Merchant Marine Academy at Kings Point, New York, and Federal financial support to the six State maritime schools operated by California, Maine, Massachusetts, New York, Michigan and Texas. Supplemental training courses in shipboard firefighting, marine diesel engineering and national defense-related courses for licensed and unlicensed merchant mariners are also funded from this account.

The U.S. Merchant Marine Academy at Kings Point offers a four-year undergraduate, full scholarship program which leads to a Bachelor of Science degree and to a merchant marine license as Third Mate or Third Assistant Engineer, or both. In addition, the students are enrolled as midshipmen in the U.S. Naval Reserve and are commissioned upon graduation as ensigns in the U.S. Naval Reserve with an eight-year obligation. Graduates of Kings Point and the State maritime academies are the foundation of our efforts to ensure the American maritime labor force is the best educated, safest and most responsible in the world. At the same time, we must maintain a continuous renewal of highly qualified entry level officers in the civilian merchant marine, so that we are prepared to crew sealift ships quickly in a crisis. These young professionals give us that assurance.

The State maritime academies program assists states in the education and training of individuals for service in the U.S. merchant marine. Assistance is in the form of direct payments to the academies, incentive payments to cadets, and maintenance and repair of five ships on loan for use as training ships.

The Additional Training account funds MARAD headquarters personnel services for the U.S. and State academies, and the costs of developing and maintaining current data on the maritime labor force.

Expenses for maritime training at the Merchant Marine Academy at Kings Point are budgeted at $32,063,000; expenses for financial assistance to State maritime academies are budgeted at $9,325,000; and expenses for necessary additional training are budgeted at $1,585,000.

Operations program expenses include the ports and intermodal development programs that are essential segments of the Department's overall program and the plan for a seamless transportation system. These programs are integral to improving America's competitiveness in foreign trade and services while, at the same time, being responsive to the need for industrial redevelopment and a sound ecology. National defense experts are agreed that intermodalism and port readiness are the keystones of modern military logistics. Lack of capability in these areas could reduce the efficiency of any future projection of force.

Examples of intermodal/ports projects are: (1) the Cargo Handling Cooperative Program, a government/industry cost-shared program that enables commercial and defense industries to benefit from new technologies to increase competitiveness; (2) the Rail/Marine Intermodal project to examine U.S. technology needed in the year 2000 to create an efficient infrastructure for the 21st century; and (3) the Mid-American System Study to develop a strategic plan for utilization of inland waterways, thereby strengthening U.S. industry, agriculture, foreign trade, domestic employment, and ecology. These are a few of the efforts that are national in scope, leveraged with the private sector, and beneficial to the economy in many magnitudes beyond the minimal expenditure.

Operations program expenses also include research and development, operating programs and general administrative costs. This program reflects costs incurred by headquarters and region staff in the administration and direction of the various programs established to fulfill MARAD responsibilities. This program also provides for coordination of U.S. maritime industry activities under emergency conditions.

In FY 1996, $4,977,000 is requested for research and development and cost-shared cooperative programs with the maritime industry to assess innovative technology to improve competitiveness, intermodal transportation, maritime safety, environmental protection, shipyard revitalization and national security. Through these dollars we expect to leverage three times as much from the industry.

## Summary

In summary, the Maritime Administration's FY 1996 budget request reflects the President's commitment to preserving the maritime industry of the United States and maintaining the United States as a maritime nation.

Our budget maintains funding for sealift readiness and the continuation of a U.S.-flag fleet, shipbuilding initiatives, maritime education and training, and maritime support programs.

This concludes my prepared statement. I will be pleased to answer any questions you may have.

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