

FINAL

DEPARTMENT OF TRANSPORTATION

STATEMENT OF THE MARITIME ADMINISTRATOR

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**BEFORE THE SUBCOMMITTEE ON SURFACE TRANSPORTATION
AND MERCHANT MARINE**

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

ON

THE MARITIME SECURITY ACT OF 1995

JULY 26, 1995

Mr. Chairman and Members of the Subcommittee:

I welcome the opportunity to discuss the Administration's proposed bill, the "Maritime Security Act of 1995."

I appreciate your holding this hearing on the Maritime Security Program because its enactment is vital to America's future as a maritime nation.

The Administration 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.

This is a position held by the previous Administration as well, and I believe it is fair to say our proposal owes much to the efforts begun by Andrew Card, Secretary of Transportation, under President Bush. Indeed, officials of both parties throughout our history have understood the necessity of a viable American merchant marine.

Political alliances, military realities and economic circumstances have changed greatly over the years, but America remains a trading and maritime nation dependent on secure ocean transportation for our economic success and military strength.

National Security

Let me emphasize that in today's world, the U.S. merchant marine is important to the United States for reasons of national security.

Historically, 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 World War II Liberty Ship, S.S. JEREMIAH O'BRIEN, during the observance of the 50th anniversary of D-Day.

During that epic war, it was General Dwight D. Eisenhower, who said, "When final victory is ours there is no organization that will share its credit more deservedly than the merchant marine."

The merchant marine also served with valor 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.

I, for one, believe these words from General Colin Powell in 1992 are a testament to the role of the U.S. merchant marine in the Persian Gulf conflict:

"Since I became Chairman of the Joint Chiefs of Staff, I have come to appreciate first-hand why our merchant marine has long been called the nation's fourth arm of defense.

"The American seafarer provides an essential service to the well-being of the nation, as was demonstrated so clearly during Operations Desert Shield and Desert Storm."

In 1991, President George Bush said:

"Recent events have fostered renewed pride in America's merchant seafarers: providing essential support for Operations Desert Shield and Desert Storm, these individuals played a key role in the liberation of Kuwait . . .

"The recent coalition victory in the Persian Gulf has demonstrated, once again, the importance of the American merchant marine to maintaining an adequate and reliable sea lift capacity for the United States. It has also underscored the

patriotism and the devotion to duty shared by generations of U.S. merchant mariners."

In today's world, 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.

Our sealift capacity must include the commercial U.S.-flag fleet for what is known as "sustainment" sealift. The sustainment lift provided by the commercial fleet is an exceptionally low-cost and effective source for continuous resupply of our armed forces. This fleet complements the Maritime Administration's Ready Reserve Force and the Department of Defense's sealift fleet. I am convinced that without the merchant marine fleet, the government would have to duplicate the fleet elsewhere, at a much higher cost. The commercial sealift fleet is the best example I know of a federal-private partnership benefitting both parties.

The RRF and the DOD fleet provide "surge" shipping for the rapid deployment of cargo and supplies in an emergency. Civilian seafarers from the U.S.-flag commercial fleet are used to crew these government-owned ships as well.

Economic Security

In recent years, there has been dramatic change in the efficiency and productivity of ocean and intermodal transportation, and the prime innovators have been 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. It would be tragic to turn our backs on American leadership in marine transportation.

The American public, as consumers of imports and producers of exports, greatly benefit from this efficient and expanding intermodal system. Likewise, American shippers have gained considerable competitive advantages from more efficient transportation systems.

The U.S.-flag fleet also benefits the American economy by helping to reduce the overall trade deficit. When a U.S. shipper chooses to move cargo on a U.S.-flag vessel as opposed to a foreign-flag vessel, most of the revenue that is paid for freight remains in the U.S. economy. On the other hand, freight that is paid to foreign-flag operators increases our trade deficit, because that revenue goes to foreign nationals.

During 1993, for every dollar paid to a U.S.-flag company carrying cargo to and from foreign ports, the United States saved eighty cents in the balance of payments account.

Furthermore, the United States would lose an effective voice at the International Maritime Organization. Without a U.S.-flag fleet, we could not effectively influence the setting of worldwide shipping standards.

Maritime Security Program

Mr. Chairman and Subcommittee members, I will now discuss the highlights of the Maritime Security Program (MSP). Under the proposed "Maritime Security Act of 1995", 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. This fleet will include a diversity of ship types, capable of satisfying a variety of commercial and sealift demands.

The fleet will also help sustain a pool of active, U.S.-citizen mariners available to crew commercial vessels as well as those in the Ready Reserve Force and the Department of Defense's sealift fleet during times of emergency. One important lesson re-learned during the Gulf war is that American seafarers can be counted on to respond during times of crisis. Without the MSP, the United States would have a much smaller pool of trained citizen mariners to crew the Ready Reserve Force and the Department of Defense prepositioned ships and Fast Sealift Ships.

The legislation also requires ship operators participating in the MSP to make their ships and entire intermodal transportation systems available for sealift support during war or national emergency, thereby maximizing the benefits of this government partnership with the private sector.

Under the Emergency Preparedness Program, to be established by the Secretary of Transportation in consultation with the Secretary of Defense, participating operators will provide commercial transportation resources to the government during national emergencies. This will include vessels or vessel capacity, intermodal systems or equipment, terminal facilities, or management services. DOD can use the carriers' vessels and intermodal transportation systems to transport equipment and supplies for the armed forces.

The preparedness agreements will provide access to more shipping capacity and related services than the existing ship requisitioning authority of the Secretary of Transportation under section 902 of the 1936 Merchant Marine Act. Requisitioning authority may be exercised

only in time of war or national emergency and reaches only vessels, not containers, shipping capacity or related services. Also, the preparedness agreements will provide access to all these assets and related services during scenarios for which requisitioning may not be appropriate.

The MSP is essentially the same ten-year program the Administration supported last year, but the funding source is completely different.

The MSP is funded as part of the Department of Transportation budget and not from increased tonnage duties as proposed last year.

The MSP will replace the more costly operating-differential subsidy program whose contracts expire during the next few years and will not be renewed. Under the MSP, payments to each U.S.-flag ship operator engaged in foreign trade would not exceed \$2.5 million annually for Fiscal Years 1996 through 1998, and would be reduced to \$2 million annually for Fiscal Years 1999 through 2005. Annual appropriations of \$100 million will be necessary to fund the program for ten years.

The payment per vessel is about one-third to one-half less than the average payment under the current operating-differential subsidy program, thus giving operators built-in incentives to reduce their operating costs.

The proposed Maritime Security Act of 1995 will also substantially deregulate the maritime industry by relaxing existing restrictions on vessel acquisitions, permitting ship operations without trade route and service restrictions, and operating foreign-flag feeder vessels in U.S. foreign trade. These reforms will benefit all U.S.-flag vessels, including those in the new MSP.

Enactment of an MSP cannot come too soon, because the process of transferring U.S.-flag ships to foreign registries has begun. Earlier this year, MARAD granted Sea-Land Service, Inc. permission to transfer five containerships to Marshall Islands 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. They also indicated that, without the MSP, they will be compelled to reflag their remaining U.S.-flag ships.

America's future as a maritime nation is at stake. This year will make or break what remains of our U.S.-flag presence on the high seas.

Without the Maritime Security Program, for the first time in modern American history, a U.S.-flag presence in international trade will vanish, along with our civilian sealift support, seafaring jobs, and the technological leadership of American carriers. American sealift is essential to our participation in peacekeeping and humanitarian relief efforts overseas, and an American commercial fleet is the best way to provide sealift capability.

In conclusion, both the previous and present Administrations have supported the Maritime Security Program. The MSP received bipartisan support in the last Congress. America needs a U.S.-flag commercial

fleet to maintain the United States' position in the world as a maritime nation. We need your support to maintain the fleet.

I look forward to working with the members of this Subcommittee and Congress to achieve enactment this year of the Maritime Security Act.

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

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