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U. S. DEPARTMENT OF TRANSPORTATION
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TESTIMONY BY ALAN S. BOYD, SECRETARY OF TRANSPORTATION
PREPARED FOR DELIVERY BEFORE THE HOUSE MERCHANT MARINE
AND FISHERIES COMMITTEE, ROOM 1334 LONGWORTH HOUSE
OFFICE BUILDING, JULY 13, 1967, 11:00 A.M.

I have been asked to appear before this Committee to comment on a number of bills which would set up the Maritime Administration as an independent agency.

First of all, I would like to say that the paramount maritime need today is for a progressive program and not so much for an administrative home. By considering the question of where to lodge the Maritime Administration now, I fear, is raising the old question of the juxtaposition of cart and horse.

The opposition of the Administration to the substance of these bills is well known. My opposition to them is well known and has often been stated. I am happy to state that opposition again at this time and to expand on the reasons for it. However, I would like to do so in the context of what the real maritime problem is.

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On May 1 of this year I testified before the Senate Subcommittee on Merchant Marine and Fisheries on the status of the U. S. Merchant Marine and I detailed at that time a new maritime program which had been developed in conjunction with all segments of the maritime industry. As I said at that time, that program was not being offered as an Administration program because a small number of holdouts prevented us from obtaining the kind of agreement that would make that program a reality.

As I said in May, and as I probably will still be saying in December ...

The basic problem borders on paradox. We are faced with an industry which many describe as dying because of a lack of adequate Federal support. We are told that the death of this industry, or its continued decline, would be a tragic blow to our military and economic strength as well as to our national prestige. I have been told that, unlike most other similar problems we face, the only solution to our maritime problem is one that will fully protect every single interest and meet the demands of every single group. Acceptance and agreement is eternally conditioned on meeting these requirements.

The truly tragic realization is that the demands confronting us will produce the very thing that everyone fears the most -- continuation of the present financial and administrative patchwork -- fewer maritime jobs -- a shrinking fleet -- less work for American shipyards -- continuing deterioration of our competitive position.

It is clear that two things must not happen: the maritime industry must not be allowed to die and it must not be in effect nationalized. To do nothing would assure the former and to meet everyone's demands would require the latter.

You do not revitalize an industry by flooding it with Federal dollars and imprisoning it within a wall of protection. What is needed is the provision of incentives so that the inherent energy of free private enterprise is able to do the job.

A productive and revitalized merchant marine obviously makes good sense and can benefit every American and every industry. There is, however, a level of Federal subsidy beyond which the public interest is not served. The maritime program which I outlined two months ago approached that level. Basically, it contained the following:

1. A separate subsidy for U.S. shipyards to enable construction of merchant ships at competitive prices. This would be a multi-year program with funding levels up to nearly double the present annual ship construction subsidy. Shipyard subsidy rates would be calculated by type of vessel rather than on an individual vessel basis as at present.

2. An operating-differential subsidy for bulk carriers. This subsidy would be available to operators seeking long term charters and to those who depend on shorter term arrangements.

3. The retention of cargo preference. Eligibility for carriage of the U.S. share would be expanded to include ships built abroad, documented under U.S. laws and paid liner or bulk operating subsidy.

4. Operating subsidy for liners. The four present unsubsidized liner operators, or other operators, would be offered experimental contracts for a 3-5 year period to develop an operating subsidy system with greater incentives to efficient, productive and competitive operation.

5. Nuclear ship program. An extensive research and development effort would be undertaken to advance the technology, and hence the economics, of the nuclear ship program.

6. A \$25 million a year research and development program for five years. Major emphasis would be placed on areas involving high risks but having potentially large benefits. Research on improving

terminal operations and reducing shipbuilders costs would be given high priority.

7. A program to convert up to 100 victory troop ships to cargo ships for revitalization of the reserve fleet. This will provide a surge capacity and reduce disruption of commercial services during emergency periods.

8. Arrangements for the availability of ships from the active fleets on an incremental basis without the need for requisitioning.

9. Subsidized operators in foreign trade would be permitted to build ships abroad for their subsidized operations. This would mean that all U.S. shipping operators could take advantage of world market prices in purchasing their ships--either under the shipyard subsidy program or in foreign yards.

10. The location of the Maritime Administration in the U.S. Department of Transportation.

The disagreement that arose over this program centered on only three elements: the projected level of construction--whether to try and build 30 ships a year, 50 ships or some other escalation; the provision for construction of some U.S. ships in foreign shipyards; and the administrative disposition of the Maritime Administration. This last, while the least important of the three issues, engenders arguments which are basic to the whole maritime problem and any solution to it.

I regard the maritime industry as a vital, but not exclusive element in this nation's transportation system. The progression of transportation and transportation policy in this country, which logically led to the creation of the new Department last year, has been towards integration and inter-relation of the various modes. The overwhelming tendency in the transport of goods in the world today is away from single mode shipment -- the transport of raw material through the manufacturing process to product in the hands of the consumer involves all modes.

Planning, research and involvement of government funds must consider this interrelationship and must be influenced by it. The fact that the U.S. maritime industry is the weakest link in this chain, demands that water-borne transportation be part of the overall effort -- not isolated and separated from it.

The "containerization revolution" is the best example of what I am talking about. This revolution is characterized by the sound concept of our transportation services operating as a total system. A random reading of current news items that are daily reported on activities of the transportation service industry clearly portray the trend towards integration of all transport modes whether by ship, rail, air, truck or barge, and the benefits of improved and efficient service to the American shipper which result from this approach.

The promotional responsibilities of Federal programs make it incumbent that parallel support at the Government level be carried out in harmony with this approach by industry.

Allow me to recite briefly for you a number of items from the transportation pages of our major news media. These quotes taken at random span approximately one month.

Journal of Commerce, June 30, 1967

An expert of the South Carolina Farm Bureau Marketing Association stated that "As everyone knows who ships perishables for sale on the foreign markets speed in delivery is vital. It has become a split second business with us because if the trucks miss the ships our fruit shippers are in trouble. . . . Now the container has just about solved all the problems. . . . Many of the early problems such as handling procedures, coordination and timing of shipments have been overcome."

Journal of Commerce, June 29, 1967

The Pacific Coast European Conference -- a shipping group linking ports here (San Francisco) with Europe by way of the Panama Canal - - are now moving to counter a serious trade threat from transcontinental railroads moving containers cross country to ships on the East Coast. In recent weeks Holland American Line has tendered space from Europe to Houston, with the movement of containerized cargo onward to California by rail.

Equally disconcerting is the growth in overland rail shipments of fresh fruit from the Pacific Northwest or citrus from the Southwest, with the movements generally going to Halifax for loading on ships to the Continent. The use of refrigerated containers and two-day faster rail routing has begun to lure significant portions of Northwest apples and pears trade away from the longer voyage through the Panama Canal. At least three member lines have told the Conference they are holding up their own container system developments to determine the nature of future intermodal shipping and the ultimate effects on regular berth line operations.

Journal of Commerce, June 29, 1967

Savannah Port Faces Future Confidently -- There is no doubt in anyone's mind that Savannah could play a key role in the Nation's container ship planning. This optimistic feeling is based on the rapid industrial growth of the State, the emergence of Atlanta as probably the key transportation and distribution area in the south and the State's potential as an industrial center when the Savannah River deepening, leading into the Port of Savannah, eventually is completed. High speed highways into Savannah nearing completion are being considered plus items for future contain container ship handling at the port.

The News American, June 26, 1967

Railroads to get Panama Traffic - - Containerized cargo from Europe

to the Pacific Coast -- even to the Far East -- will be landed at Atlantic Coast ports and carried by unit train across the U. S. rather than through the Panama Canal by ship. According to a prediction by a study, "Containerization: The Key to Low-Cost Transportation," prepared for the British Transport Docks Board to McKinsey & Company, Inc.

According to the Journal of Commerce, one non-vessel operator already has announced a London to Yokohama services via U.S. overland by rail rather than through the Suez Canal. Transit time is 24 days against 44 days via Suez Canal.

New York Times, June 25, 1967 .

Administrative and possibly legislative changes are necessary before consolidation and door-to-door delivery of containers moving in international trade can become a meaningful reality in the United States. Container Transport International, Inc. has filed an application with the ICC for authority to become a freight forwarder and engage in consolidating at several inland points. Steamship companies and conferences are trying to solve a number of problems in the container field. Among these are how far steamship lines should go toward becoming active over-the-road truck operators.

Journal of Commerce, June 21, 1967

Five steamship conferences have asked the Federal Maritime Commission to limit the agreements proposed by two groups of foreign freight forwarders in the New York area. The freight forwarders would like to set up an international container conference and an intermodal container conference to let them "cooperatively engage in consolidating, unitizing and transporting shipments in the export and import commerce of the United States."

My own conclusion is that there are no unique and specialized problems of ocean shipping which require independent and specialized handling at the Government level. On the contrary, the problems of ocean shipping dramatically portray the need for viewing ocean transportation services as an integral part of the total transportation picture. The attempt to turn back the clock by immunizing the ocean shipping industry in a shell of isolation from the progress that is being experienced in exploiting the best characteristics of each mode, to the benefit of all is a retrogression which will be looked upon with great dismay by the users of such services.

The emphasis on development, research, and promotion is required to stimulate the changes in transportation which are necessary to meet the increasing demands of our economy for safe, efficient, and responsive

service. All modes and all functions of transport are equally important in this development of an effective transportation system to meet the Nation's needs. Efficiency in transportation is dependent upon cooperation among the different modes, and upon the different modes being developed in relation to each other and being operated under common policies. Cooperation in this kind of integration cannot be fully realized by the Department of Transportation if such an essential element as the Maritime Administration's functions are excluded from the Department.

It is a governmental fact of life that an independent agency, such as the one envisaged here for the Maritime Administration, cannot compete successfully with the cabinet level departments in the essential budgeting and appropriations process. If the Maritime Administration is removed from that level of consideration, it is entirely logical to reason that there will be less chance and not more of proper Federal dollar involvement in the maritime industry. That is a prospect that none of the proponents of these bills want.

It has been said on many an occasion that a Maritime Administration would be lost in the Department of Transportation. We have lost a letter or two and occasionally lose track of a Assistant Secretary, but we haven't yet lost an administration. As a matter of fact, there has been press speculation that it is far more likely that the Department of Transportation will be lost in the FAA building.

Another argument which has been advanced in Congressional testimony, is that the maritime industry was doing just fine until it was administratively pigeon-holed in the Department of Commerce in 1950 and that ever since its troubles stemmed from decisions made in the panelled office on the fifth floor at the corner of 15th and E Streets, N.W. Here, I think the historical perspective is a bit off -- maritime troubles or successes were due more to the tenor of the times and not to the bureaucratic roof over their heads. I would also note that as far back as 1876, Frederick Engels in a preface to one of Karl Marx's essays cited the U.S. maritime industry as the perfect example of why Capitalism would die.

An independent Maritime Administration is not the answer to the industry's problems. A separate chapter in the Government Organization Manual is not going to be any magic elixir from the maritime industry. I believe that the industry has probably been hobbled by over-protection, by too much government involvement in management decisions, and by lack of proper incentives and competition. You don't cure a cripple by trading in his crutches for a wheel chair. It is not reasonable to suppose that the primary step towards getting the maritime industry back on its feet is to make the maritime administration an independent agency.

I believe that the program which I outlined in my Congressional testimony last May is a sound beginning for the maritime industry to regain its once competitive and productive position. A key ingredient of that program was the inclusion of the Maritime Administration in the Department of Transportation. I think there is no question but that the maritime industry can benefit from the Department's responsibility to advise the President and the Congress on the allocation of national resources to the transportation industry.

The President has said that he expects the Secretary of Transportation to be his principal advisor on all transportation matters. This Secretary of Transportation operates under only one definition of the word "all." The advice that I intend to give will be based on my firm belief that this Nation's transportation is and must be a system -- integrated, interrelated and interdependent. The advice that I give will be given with vigor whether it involves allocation of Federal funds, legislative proposals or suggestions as to use of a Presidential veto. This is what I see as the duty and responsibility of a member of the Cabinet. I believe that a Maritime Administration within the Department of Transportation would greatly benefit from this procedure, and conversely would suffer by not being part of it.

The months and years ahead are going to be crucial for the transportation system of this Nation. The impetus and effect of the decisions that must be made will touch many aspects of American life and its attendant problems. It does not take a particularly talented seer to predict that if the maritime industry is not an integrated part of this transportation effort, it will not share in the economic benefits that will follow.

I strongly urge that the Congress put aside consideration of making the Maritime Administration independent and turn its full attention and talents towards initiating a sound and sorely needed new program for the U.S. maritime industry. We are very close to agreeing on the beginning that must be made. It would be tragic if that vital effort were extinguished by what is proposed in the bills now before this Committee.

It seems to me that in many ways what we are trying to do for the maritime industry is like the fairy godmother offering to make Pinocchio a real boy instead of a puppet. The only difference is that we didn't expect an argument out of Pinocchio.