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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 20, 1967, 10:00 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. Considering the question of where to lodge the Maritime Administration now, I fear, is raising the old question of the juxtaposition of horse and cart.

The opposition of the Administration to the substance of these bills is well known. My opposition to them is also well known. I am happy to reiterate that opposition 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.

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. 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 contains the following elements:

-- Expand support for U. S. ship construction industry: Construction subsidies would be substantially increased over present levels. This proposed level would subsidize construction of about 30 ships annually (depending on the mix of types) as contrasted to recent subsidy support for an average of 13 ships annually. This program level would be maintained for 5 years and thereafter continued at a slightly lower level (about 25 ships per year). Subsidy would be paid directly to shipyards to

help them compete for customers on world market. While the present subsidy principle of reducing U. S. cost-differential with foreign competitors to parity would be continued, the computation would involve types of ships rather than individual ships and would be constant for a fixed period of years.

-- Increase Federal support to sustain expanded U. S. flag fleet operation: Extend operation subsidies to all U. S. flag ships (liners and bulk carriers) in foreign trade (except proprietary carriers). The cost parity principle would be retained but a more flexible system of administration with less Government involvement in management decisions would be introduced. The subsidy is anticipated to cover about 490 ships in 19⁷⁸ and 560 ships by 19⁸⁶. To the extent that ship operators are unable to purchase vessels at world prices under expanded construction program in U. S. yards they would be permitted to purchase foreign-built vessels and register them under U. S. flag to be manned by U. S. crews. These vessels would be eligible for both operating subsidy and cargo preference privileges.

-- Provide promotional incentives to expand waterborne domestic trades: Domestic ship operators (including Great Lakes) would be permitted to purchase ships at world market prices (U. S. or foreign shipyards) under a licensing procedure, involving public hearings, to protect the competitive operation of vessels which represent unamortized

investments that were constructed or substantially converted at U. S. prices. Such ships would be admitted on a trade-by-trade basis without freedom of changing trades. (For example, permission to operate world-market price ships in the Hawaiian trade would not give operators the privilege of extending such operations to coast-wise or other non-contiguous trades.)

-- Retain cargo preference as established in existing law: Cargo preference would be retained but rate differential would gradually disappear as new and more efficient bulk carriers are brought into trade. New bulk carriers could carry commercial cargoes on return trips and would receive appropriate operating subsidies. Most consolidation of cargo preference administration under the Department of Transportation is being considered. A declining portion of preference cargoes would be reserved for older ships dependent upon this carriage until they are phased out and new tonnage is available.

-- Guarantee availability of ships for Defense needs: Agreements will be executed with ship operators to assure ship availability keyed to particular levels of Defense activity. On a selective basis vessels in the National Defense Reserve Fleet would be renovated and upgraded (cost of \$60 million per year) to provide "surge capability" for peak emergency needs. Defense experience clearly demonstrates that maintenance of the reserve fleet in the manner proposed can be a least-cost approach to support emergency requirements.

-- Promote nuclear powered merchant marine: Research would be extended in the technology and economics of advanced nuclear ships looking to the possible construction of one or more vessels and the continued operation of the SAVANNAH.

-- Expand maritime research and development program: Maritime research support in shipbuilding, ship operations, port development and other maritime areas would be increased to level of \$25 million annually as part of the Department of Transportation research program.

-- Transfer Maritime Administration to Department of Transportation: Maritime-related transportation programs would be transferred to the Department of Transportation thus assuring that ocean shipping receive similar promotional support as presently provided to other transportation modes in top policy councils of the Executive Branch. Maritime Subsidy Board would be reconstituted to exercise greater degree of independence than presently afforded in Maritime Administration.

The proposed program approximately doubles the level of Federal support to U. S. merchant marine for period 1969-1973 which means earmarking approximately \$3 billion for maritime programs during that period. Domestic shipbuilding jobs supported by subsidy would build up to level of 20,000 annually by 1972 as opposed to present level of 10,500 under projected present program levels. Industry would be placed in stronger competitive position in our foreign trade.

Both Government and industry will benefit from higher ship construction levels in U. S. shipyards, expanded U. S. flag fleet, and assured and stable employment levels. Combined, these will improve substantially the economic position of the industry and promote U. S. prestige abroad through a more efficient and diversified U. S. merchant marine, with improved economic strength to compete in the carriage of our foreign commerce.

I firmly believe that this is the best possible maritime program. The reason I believe this is that it achieves all of the major objectives which any maritime program must achieve. First the opportunity for American shipowners to purchase their ships at world market prices, without restraint imposed by the need for Government appropriations.

Second, an operating subsidy system that would have built-in incentives toward more productive, competitive and efficient operations; and with less Government involvement in industry management decisions.

Third, rationalization of the cargo preference system to minimize costs while retaining "routing preference."

Fourth, availability of active commercial shipping for use by the Department of Defense in situations of less than full-scale emergencies, where use of requisitioning authority is not desirable.

Such a long-range program would permit a magnitude and a stability of effort that would bring about great savings in American ship

construction. Under a block construction program, the cost of the tenth ship of an order is roughly 80 percent of the first ship.

But we do not want to so over-stimulate the capacity of American shipyards that at the end of our replacement program -- when we have added the comparable tonnage of approximately 600 vessels which the American fleet requires -- we would see a depression in the ship construction industry. We can avoid that if we permit a reasonable amount of ship construction abroad.

There has been a lot of fear raised about all construction going abroad once the door has been opened to any foreign construction. This argument deliberately distorts what I have said to every member of the industry.

First of all we would permit construction abroad only to an extent related to but less than subsidy funds for U.S. construction for a given period. Second, I would consider the establishment of a ratio which would tie the overall volumes of foreign construction to U.S. construction. Such a relationship would obviously limit the total volume of foreign construction.

It is clear that American ship operators would, provided shipyard subsidy dollars are available, prefer to buy ships here in the U.S. where they can be much more closely involved in construction planning and scheduling and where the ease of repairs or refitting is obvious.

The disagreement that arose over this proposed maritime program centered on only three elements: the projected level of construction -- whether to try and build 25 or 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.

An example of limited foreign building which I am proposing combined with building 30 ships per year in U.S. shipyards for at least 5 years. Foreign building vs. U.S. building on a ratio of 2.5 to 1! During first four months of each year contract for a "unit" of ten ships to be constructed in the U.S. shipyards -- and then -- authorize up to four ships to be constructed in foreign yards -- repeat same during the second and third "four" months period during each of five years.

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 toward 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.

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 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 an 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 1887, 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 for 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 wheelchair. It is not reasonable to suppose that the primary step toward 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.