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U. S. DEPARTMENT OF TRANSPORTATION
Washington, D. C. 20590

Statement of Alan S. Boyd, Secretary of Transportation
Before the Senate Subcommittee on Merchant Marine and Fisheries
of the Senate Committee on Commerce
May 1, 1967

On March 4, 1935 President Franklin D. Roosevelt said in a
special message to Congress:

"An American merchant marine is one of our most
firmly established traditions. It was, during
the first half of our national existence, a great
and growing asset. Since then it has declined in
value and importance. The time has come to square
this traditional ideal with effective performance."

The maritime policy which those words presaged was imaginative,
practical, timely and sensible. It was not, however, meant to stand
forever. That fact has been painfully evident for some time.
Early this year President Johnson asked me to develop a new maritime
program which would renew and revitalize the U. S. merchant marine.
This I have done and I would like to report for the record my
findings to this committee.

Before making that report I would like to clearly state the
promise that I made to the President. I told him I would not seek
his concurrence in the new program until I could assure him that it
had general support within the maritime field -- from labor,
management and interested governmental units. I told him we would
not start out with the idea that there had to be unanimity. But we
did believe that unless those who build, manage and operate our ships
were in general accord, it would be difficult to seek administration
agreement.

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Building on past reports and investigations, we identified those elements which must be a part of any maritime program. Then came the job of seeking the support necessary to translate any major program into a legislative proposal.

I have made an effort to talk to the leading figures in the maritime industry. Every viewpoint was duly considered.

However, I must now report that we do not have the kind of agreement which will make such a program a reality. 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.

It is absolutely impossible to cut through the Gordian Knot of the maritime problem with a single stroke. It must be painstakingly untied--a beginning must be made from which a new policy will gradually emerge.

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 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 will discuss with you today approaches that level.

This program was designed to answer the questions that have plagued the merchant marine for the past several years.

The trouble with our merchant fleet can be described with relative simplicity. It has become too small, too old, and too unproductive.

The Merchant Marine Act of 1936, when enacted, was an extraordinary piece of legislation designed to meet our nation's maritime needs and problems of the mid 1930's. Its enactment provided a completely adequate definition of national maritime objectives for that period. But we are no longer in that period. We must redefine our objectives.

- We must make available the incentives for attracting to the maritime industry more of the entrepreneurial talents of American business -- the same talents that have guided all other phases of America's economic growth.

- We must provide the confidence whereby American labor and management will know that the Government stands ready to devote public resources to achieve long-term economic stability.

- We must give the public a program which will bring more economic and efficient service in the movement of our commerce.

- We must maintain the response capability of this industry to meet national emergency requirements.

- We must provide more new ships for our operators to expand their capability to serve our growing foreign trade.

- We must undertake research and development work needed to modernize and improve the competitive position of the fleet.

- We must give incentives to our shipyards to renovate and improve productivity through application of the latest industrial technology.

- We must keep pace with the advancement in streamlining and coordinating transportation administration and regulation.

- We must take full advantage of the revolution that is occurring in maritime technology and in containerization.

This program would provide industry with the flexibility it needs in making investment decisions and other management judgments to best meet this developing revolution. It would provide to labor, industry and the government cooperative opportunity to remedy the defects in the merchant fleet and to develop for this nation a modern merchant marine which could compete in the world market place of ocean shipping.

Shipyard Subsidy

The program would provide a separate subsidy for U. S. shipyards to enable construction of merchant ships at competitive prices. We have

been discussing the possibility of a multi-year program with funding levels for work in U. S. shipyards up to double the present annual ship construction subsidy. The size and continuity of this program would enable shipyards to plan plant investment and undertake modernization and retooling that would, in their judgment, be necessary to make them more competitive.

The Maritime Administration would review the general specifications of ships for United States flag operators. Shipyard subsidy rates would be calculated by type of vessel (liner vessels, dry bulk carriers and tankers) rather than on an individual vessel basis as at present. The initial rates would remain in effect for a two-year period, and would then be recalculated after actual experience with foreign ship prices had been obtained. Thereafter the rates would be recalculated every 3 years. The rates would be computed by comparing the United States and foreign cost of building that type vessel, and expressing the result as a percentage of United States cost.

Building Abroad

The proposed program would include amendments of existing law to permit ships built abroad, after such amendment, to be documented under the United States Flag for operation in our foreign and domestic trade with United States citizen crews on the same basis as vessels built in the United States. Shipping is the only mode of transportation that is required by law to acquire its capital equipment in the United States. This requirement is a great competitive disadvantage to the domestic

water carriers since it costs more than twice as much to build a vessel in the United States as it does abroad. Protection by appropriate hearing procedures would be afforded to existing operators who have constructed or reconstructed a vessel for use in the domestic trades.

Subsidized operators in foreign trade would be permitted to build ships abroad for their subsidized operations. This will permit the subsidized operators to upgrade more rapidly their fleets and take advantage of recent technological advances. This would follow the practice of other maritime powers.

Operating Subsidy for Bulk Carriers

To expand U. S. fleet participation in our foreign bulk trade, this program would provide operating-differential subsidy for bulk carriers. The subsidy would be available to operators seeking long-term charters and to those who depend on shorter term arrangements. Detailed systems would be worked out over the first few months and proposed for use during a 3 - 5 year developmental period. Legislation would be required to provide the flexibility necessary for putting this program into operation.

Cargo Preference

Cargo preference would be retained. Eligibility for carriage of the U. S. share would be expanded to include ships built abroad, documented under United States laws, and paid liner or bulk operating subsidy. Cargo preference would be administered at fair and reasonable ceiling rates, and the new subsidized ships would have the subsidy taken into account so that for all intents and purposes the world rate would be roughly the same as their ceiling rate. The result is that new bulk

carriers operating under subsidy would be enabled to carry cargo preference outbound and commercial cargoes inbound -- thus improving their competitive position in world trade. Cargo would be reserved for the older ships and tankers at fair and reasonable rates.

So that cargo preference laws can be effectively enforced and to aid the government in obtaining the most economic and efficient shipping services for movement of the cargoes, responsibility for administration of cargo preference would be consolidated under the Department of Transportation.

Operating Subsidy for Liners

The four present unsubsidized liner operators (roughly 85 ships), or other applicants, would be offered experimental contracts for a 3 - 5 year period. The purpose is to develop an operating subsidy system with greater incentives to efficient, productive, and competitive operation. It would have the added advantage of allowing the government to reduce its surveillance and involvement in the operator's management and business. Legislative authorization would be needed to conduct the experiment. Several systems could be considered and more than one tested during the 3 - 5 year developmental period. If effective and acceptable at the end of the period, the selected system could be utilized for long-term contracts. In any event, the operators would have options for long-term contracts under the system finally agreed upon for liner operating subsidy.

The present subsidized operators would be asked to participate in monitoring the experiment to determine its applicability to their

operations. At the end of their present contracts, or earlier if the operators desire, renewal contracts would be based on the best system which has been developed. Operators whose contracts terminate during the developmental period would be given periodic contract extensions.

Nuclear Ship Program

A nuclear ship program concept is a microcosm of the whole government program of support for the merchant marine. The cost, value and rationale of a nuclear ship program are questioned by some thoughtful, patriotic citizens. Such a program also has many supporters -- of whom I am one. As a part of the total program, I have envisaged that an extensive research and development effort would be undertaken to advance the technology, and hence the economics, of a nuclear ship system. This effort would seek to combine advances in ship design and nuclear propulsion into a ship system that will move the United States merchant marine a quantum jump ahead in competitive technology. It may include the construction of one or more vessels.

The program would include the establishment of a parallel 5-year AEC Research and Development Program, directed toward the development of an advanced atomic reactor system for merchant ships.

Maritime Research and Development

A greatly expanded research and development program is essential to improve the efficiency of the U.S. Merchant Marine. For this purpose the expenditure of \$25 million annually for 5 years is contemplated.

Major emphasis would be placed on problem areas involving high risks but having potentially large benefits. Advanced concepts looking toward

competitive systems would be explored. Research on improving terminal operations and reducing shipbuilder's costs would be given high priority.

Shipbuilders would be encouraged to join with the Government in developing shipyards geared to produce a pre-selected type ship at lowest possible costs.

Port authorities similarly would be urged to join with the Government in developing and demonstrating the operation of highly advanced terminals.

The research and development program would highlight systems analyses and the development of simulators and mathematical models for planning purposes. Services of interest to the maritime community, such as gathering and disseminating information would be accelerated. Research will be expanded.

Development of the surfact effect ship under a joint program with the Navy will produce a 90-ton test vehicle capable of operating at 100 knots in the open ocean.

Reserve Fleet Revitalization

Also proposed is a program to convert up to 100 Victory troop ships for cargo purposes. This would provide a surge capability in future military emergencies with less disruption of commercial services.

Ship Availability for Defense

The program would include arrangements for the availability of ships from the active fleet on an incremental basis without the need for requisitioning. The details of this system remain to be worked out between the Department of Defense, Department of Transportation and the representatives of the private operators.

Organizational Location of the Maritime Administration

The creation of the Department of Transportation has given the States an opportunity to make a fresh start in the formulation of transportation policy. Waterborne transportation is an essential part of our transportation system. The portion of the fleet that operates in the contiguous domestic trade operates in competition with the railroads, trucks and airlines. The foreign waterborne trade needs to be integrated with our domestic transportation system. Both are greatly in need of technological improvement.

In his message to Congress recommending the creation of a Department of Transportation the President proposed inclusion of the Maritime Administration in that Department. Unfortunately, this did not occur. When the President signed the Department of Transportation Act, he expressed the hope that Congress would reconsider its decision and bring the Maritime Administration into the Department at an early date.

The merchant marine, our domestic commerce, our foreign commerce, our entire transportation system and, indeed, the nation, would best be served by locating the Maritime Administration in the Department of Transportation.

CONCLUSION

The effect of the program I have discussed above would be to substantially expanded the size of the present merchant fleet . Under present policies the size of our merchant fleet will continue to decline.

An expanded fleet means expanded employment opportunities at sea. A substantial increase in ship construction in U. S. yards also means an increased level of shipyard employment. Under present policies, the total job level will continue to decline.

We believe that the full cooperation of management, labor and Government in implementing the foregoing program would give to the United States a merchant marine and commercial shipbuilding industry that is more productive, competitive, pre-eminent in quality, and fully adequate to our needs.

That is the program which we have sought.

The outstanding question is "What happens now?" I have outlined a maritime program for you this morning, not as an official administration position and not as a signal that there is now an open season on more bargaining. That would imply that there is yet an alternative which will satisfy everyone concerned -- I do not believe there is such an alternative. I firmly believe that this program is as humanly close to an acceptable solution as can be found. The history of past efforts to produce a new maritime program indicates this.

This program is not one that was pre-conceived, circulated and then modified. It is a program that was gradually constructed as each party interested in the merchant marine made their views and needs known. I personally hope that each of those parties would not now contemplate revising their views and needs just because this program does not have unanimous support. To start all over again is to do nothing.

In my years of dealing with the maritime problem, I have learned this: to come up with a reasonable and fully acceptable program takes the patience of Job, the wisdom of Solomon, the strength of Samson and the talent of Jezebel. I confess to be exhausted in all but one category -- patience. I do know the limits of good sense and good economics in any maritime program. I know they cannot be exceeded. I know that eventually a retreat to those limits will occur. My one sincere hope is that it will not be too late.