



U.S. Department of
Transportation

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REMARKS OF DEPUTY SECRETARY OF TRANSPORTATION, JIM BURNLEY
AT REGIMENTAL REVIEW,
U.S. MERCHANT MARINE ACADEMY
KINGS POINT, NY
NOVEMBER 1, 1986

I am delighted to be with you today.

Admiral King, I'm very impressed both by the Regiment and
your beautiful campus.

As you are aware, the U.S. shipping industry and its foreign
counterparts are experiencing the worst recession since the
1930's. In fact, it should be more accurately characterized as a
depression. This, of course, has constrained shipboard
employment opportunities available to graduates of this academy
in recent years.

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Secretary Dole and I recognize the importance of a strong American merchant marine. We are trying to help the industry get back on its feet through a restructuring of Federal maritime policies to deal with the intense international competition confronting our shipping lines.

For example, to enable subsidized carriers to upgrade their fleets with modern, efficient vessels, we have proposed legislation permitting them to build their ships in foreign yards at one-third the price charged by U.S. yards.

We also are going to provide our subsidized carriers with greater operating flexibility by replacing the rigid essential trade routes to which they are presently confined with eight essential trade areas.

Basically, we believe the industry must become less dependent upon Uncle Sam and more self-reliant in shaping its destiny. However, the U.S. Government must continue to revise those laws and regulations that are burdensome to the industry, hindering its ability to become more efficient. There are already some encouraging signs that our shipping industry is moving in that direction. The innovative, intermodal technology pioneered by U.S.-flag liner operators is providing faster, lower-cost shipping operations, while seafaring labor has cooperated to bring U.S. crew sizes down to competitive levels.

Another major responsibility the Federal Government has is to aggressively challenge protectionist practices by foreign countries that lock our flag vessels out of opportunities to compete. Free trade and fair trade are not inconsistent and the United States must make clear that it cannot tolerate discriminatory treatment against our U.S.-flag companies. In fact, Maritime Administrator John Gaughan and I are leaving Monday to deliver that message to our major Asian trading partners.

The U.S. maritime industry is no stranger to hard times, but it has demonstrated a resiliency to bounce back. We believe it will rebound from its present difficulties and again become a strong competitive force on the world's trade routes.

Meeting that competitive challenge requires well-trained and intelligent personnel both aboard ship and in management ashore. The training you have acquired here and aboard ship have provided you with the credentials to contribute to the resurgence of our merchant marine.

Maritime issues aside, however, I know the minds of the young men and women in this Regiment are focused on the competitive struggle that will take place here on Tombs Field this afternoon.

I have to be neutral, but with us today is the Deputy Maritime Administrator, Elaine Chao, who is predicting a strong victory over the Coast Guard Academy.

I do want to extend my best wishes and good luck to your Mariner team.

Thank You for your warm hospitality to my family and me.



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REMARKS PREPARED FOR DELIVERY BY
DEPUTY SECRETARY OF TRANSPORTATION JIM BURNLEY
BEFORE THE
INTERNATIONAL PROPELLER CLUB
TOKYO, JAPAN
NOVEMBER 17, 1986

The International Propeller Club of Japan is well known for its dedication to the international maritime community and I appreciate the opportunity to speak before so many people who are vitally interested in the transportation aspects of foreign commerce. I am told you are affiliated with the Propeller Club of the U.S. and I know of the outstanding work it does in support of maritime interests. The U.S. Propeller Club's annual merchant marine conference is a great benefit in airing and promoting maritime issues. To those of us associated with the maritime industry, as quite a few of us in this room are, the issues of free trade, fair trade, and protectionism are not new. Far from it. In the next few minutes I want to add a perspective to these age old issues in hopes of developing a greater understanding of the challenges ahead for the U.S. and Japan.

In observing the strong commitment to economic growth that characterizes the countries I have visited on this trip, I could not fail to be impressed by the potential that world trade offers as a unifying force

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among nations. Strong trades create global interdependencies that foster peace and forge relationships between peoples.

The growth of these interdependencies, however, requires a strong determination to keep our trades free of protectionist elements -- a commitment to make them fair as well as free. For as President Reagan has repeatedly noted, "...if trade is not fair for all, then trade (can be) free in name only." As the principal strategy for achieving this basic fairness in international trade, the Reagan Administration has sought to open foreign markets rather than close U.S. markets. In furtherance of this strategy, the Reagan Administration has identified and attacked unfair trade practices with vigor, securing more open trading conditions for everything from pharmaceuticals and insurance to computers and agricultural products. At the same time, President Reagan has consistently opposed protectionist trade legislation because of his strong belief that it would damage the U.S. economy, destroy American jobs, reduce our international competitiveness, and embroil us in trade conflicts with virtually all of our major trading partners.

Our concerns about fair trade and protectionism relate not just to trade in goods, but also to trade in services. And I would not be candid if I did not share with you my deep concern over the barriers now impeding the efficient conduct of international oceanborne shipping services that facilitate the movement of the world's manufactured products. It is because the United States cares about the quality of transportation services and their development that I am here today.

The maritime policy of the United States is to preserve and promote competition in ocean shipping, and equally important, to seek the elimination of unfair practices and regulations that adversely affect the operations and market share of its ocean carriers.

In the Department of Transportation, the Maritime Administration is charged with promotion of the U.S.- flag fleet as a part of U.S. trade and national security policies. I want to make the distinction between the Maritime Administration and the Federal Maritime Commission which is, of course, an independent commission responsible for the economic regulation of the ocean liner industry. The Federal Maritime Commission's commissioners are appointed for a set term and can only be removed by the President of the United States for cause. Consequently, the Federal Maritime Commission exercises quasi-judicial authority completely free of the political process. Perhaps most relevant to the thrust of my speech today, it is the Federal Maritime Commission that is empowered to invoke sanctions against foreign shipping lines in retaliation for restrictions imposed on our carriers' ability to operate freely as direct and cross traders. On the other hand, the Maritime Administration is clearly a part of the executive branch of government. The Maritime Administrator serves at the pleasure of the President. And, as I said, we promote ocean shipping instead of regulating it. While we can petition the Maritime Commission on a variety of issues, it does not have to follow our advice. Furthermore, it does not have to

wait for us to ask for sanctions against discriminatory policies. It can initiate certain actions on its own.

Now, the United States has signaled its maritime industry that it must become competitive, but at the same time the United States Government has taken on the responsibility of fostering an international environment where such competition can flourish. Thus, while we have opposed protectionist maritime legislation at home, we have worked diligently to eliminate barriers to market access and efficient operations abroad.

The roots of U.S. procompetitive shipping policy run deep. They date back to the Shipping Act of 1916 and the legal requirement to keep U.S. trades and shipping conferences open, in essence, to all comers -- this, in contrast to the closed conference regimes practiced in most of the rest of the world. Most recently, the Shipping Act of 1984 has reaffirmed our commitment to competitive ocean shipping in an environment where carriers and shippers are free to engage in commercial transactions with a minimum of government interference. The Shipping Act of 1984 injected even greater competition into ocean shipping with the inclusion of mandatory independent action, service contract and intermodal rate provisions. I am sure that no one is more keenly aware of the effect of those measures on competition than the carrier representatives who are in the audience today.

But our commitment to competitive ocean shipping extends well beyond a simple reading of the law. The Reagan Administration has repeatedly and firmly declined invitations from other countries to join in schemes that would arbitrarily divide commercial cargo between our carriers and theirs. Believe me, the easier road in our political and economic relations with numerous countries would be for us to accept these invitations -- to carve up the U.S. trades on a bilateral basis, squeezing out third-flag carriers. And I can assure you that we would have more than a little support from the U.S. Congress if we were to pursue such a course. But, that way disaster surely lies -- disaster for shippers who seek competitive and responsive service and for carriers endeavoring to provide that service in an efficient and rational manner.

In recent years the rise of state-owned merchant fleets and the maritime aspirations of both developed and developing countries have spurred the growth of barriers to competition in ocean services. These barriers have included such practices as cargo reservation, export incentives, unfair taxation schemes, restrictions on access to berths and other shore facilities and similar devices. These measures substantially reduce competition in our ocean trades and those that resort to them merely seek to ensure cargo for their ocean carriers.

Probably the most notable protectionist act in recent years has been the implementation of the United Nations Code of Conduct for Liner Conferences, which suggests the allocation of cargoes on a 40-40-20 basis, that is to say 40 percent shares for each trading partner and a 20 percent share for third-flag carriers.

The United States opposes the Code and has sought to dissuade others from accepting it. Even with modifications, such as the so-called Brussels Package, which has been adopted by many western European countries, we will continue to oppose the Code and will not accede to it. The United States is gratified that Japan has undertaken to study the difficult issues posed by the Code with much deliberation. Given the detailed study that Japan is pursuing, it has refrained from ratifying the Code thus far. We hope that Japan will make a permanent decision not to ratify.

At the same time, we think that it is equally important for Japan to take steps to ensure that indirect acceptance of the Code will not take place through restrictive commercial arrangements to which the government turns a blind eye. Governments simply cannot wash their hands of the responsibility to make certain that their carriers, through restrictive commercial deals, are not permitted to do something the governments themselves profess to be against. We believe that the governments of national-flag carriers involved in such restrictive commercial arrangements bear a responsibility to oversee those arrangements and overturn them if necessary.

Our maritime relationship with Japan is among the most important we have in the world today, but as in any relationship sometimes problems arise. Fortunately, we have seen some signs of progress in resolving several thorny issues. I attribute this progress to active efforts of our two governments.

We are pleased U.S.-flag vessels are now carrying some of the leaf tobacco exports to Japan in response to our repeated efforts to break the monopoly of Japanese carriers. However, the U.S.-flag carriage of this trade remains very small.

We are also gratified that three U.S.-flag lines have negotiated charters with Japanese auto manufacturers and have contracted for the construction of four pure car carriers. We hope there will be further consideration of use of U.S.-flag carrier.

I feel Japan understands that Congress is paying increasing attention to service issues, including shipping. As you may know, legislation was introduced into the past Congress which would have required exporters of Japanese motor vehicles to the United States to transport an equal number of these vehicles on U.S.-flag vessels as are transported on Japanese vessels. The Reagan Administration opposed this legislation, but I can assure you we can expect similar legislation to be submitted next year, as well.

In other areas of our bilateral relationship with Japan as well as with other countries, the picture is not as clear.

The barriers to fair competition do not always take form under such a grandiose international umbrella as the U.N. Liner Code. Just as debilitating and frustrating are those rules, regulations and administrative

practices adopted by countries -- and private commercial agreements adopted by carriers -- that prevent the qualitative and quantitative growth of efficient shipping services. Growth of intermodalism has been important in increasing the efficiency of the liner industry.

Now, land transport and shipping have become totally interdependent, but some countries have erected barriers to land transport of containers. In the last several years, U.S.-flag shipping companies -- and a number of foreign-flag companies as well -- have made substantial investments in the intermodal ship, rail and truck infrastructures in the United States so as to provide more efficient links with importers and exporters throughout the world. In addition, U.S. companies have made similar investments overseas. One U.S.-flag liner company estimates that in the last eight years, over \$800 million dollars have been invested by U.S. firms in such facilities and equipment in Japan alone. After having proven their commitment to the development of trade partnerships in this dramatic fashion, U.S. carriers are often faced with foreign governmental restrictions related to the operation of trucking services, shipping agencies and container terminal operations. They are also subjected to special taxes on intermodal operations and, in some cases, have difficulty repatriating their earnings.

Let me be more specific. Japan has not allowed the economical use of the one-foot taller high cube containers on the road system in this country. While initially the problems were characterized as safety concerns, the net impact has been protectionist in nature. I recognize and appreciate concern for safety. Nevertheless, the delay by Japan in allowing the use of these more efficient high-cube containers on its roads has increased the level of frustration of U.S. carriers, and it is one issue I would like to see resolved as quickly as possible.

So there you have an overview of some of the issues which brought us to Japan, and of our plans to discuss them with appropriate officials.

In the 1980's a tremendous amount of tonnage has been committed to worldwide container trades. As a result, many liner operators have had their profits squeezed and have had to struggle to stay in business. With current trade forecasts projecting limited growth in the international trade of tangible goods for the remainder of the decade, protectionist measures can only worsen conditions in ocean shipping by creating market distortions that threaten the existence of even the most efficient operations, U. S. and foreign-flag carriers alike.

A vital part of the message our delegation has been delivering in the countries we have visited is that our trade relationships must permit the international maritime industry to take full advantage of technological innovations. We are requesting reform of public policies and private practices that impede efficient ocean transportation services. Such barriers exist throughout the world and are by no means limited to the Far East. But to U.S. shipping companies, the transpacific trade accounts for the greatest volume of U.S. liner tonnage. In 1984, the liner vessels of

the world carried 23 million tons of cargo in this trade, or 40 percent of the total liner trade to and from the United States.

I would emphasize to this audience that our concerns over protectionist tendencies in shipping should not be taken lightly. We prefer to deal with them now before they fan the flames of retaliatory protectionist sentiment in the United States. Secretary of Transportation Elizabeth Dole has directed the Maritime Administration to undertake a sustained effort toward eliminating such barriers to efficient ocean transportation. This will entail working with other concerned agencies of the U.S. Government to ensure that our carriers' problems abroad get priority attention.

Once again, thank you for the opportunity to address these serious maritime issues. I am sure that all of us here share a commitment to harmonious trade growth. But we must recognize the current threats to carriage of world cargo and deal with them effectively if we are to achieve fully the enormous advantages of sustained growth in international trade.