

REMARKS PREPARED FOR DELIVERY BY  
DEPUTY SECRETARY OF TRANSPORTATION ELAINE L. CHAO  
FHWA ANNUAL MEETING  
PHOENIX, ARIZONA  
DECEMBER 7, 1990

Good afternoon, and thank you, Tom. I am delighted to be here.

Since becoming Deputy Secretary, I have had the great pleasure of meeting and working with Tom Larson and Gene McCormick, and I know they have had outstanding support from the staff in Washington and across the country. But this is the first time I have had the opportunity to meet FHWA's nationwide top management, so I've been looking forward to this event.

Of course, I worked closely with Tom and Gene, Dean Carlson, Tony Kane and others from FHWA on the NTP staff, and with Steve Lockwood as we developed our legislative proposals for next year. Ed Wood has also been very helpful to me on the Pathfinder IVHS and on the San Francisco Earthquake, and I want to take this opportunity to thank him.

I also want to mention some people I have never met, but who are essential in their help to me: Those of you who write the briefing papers. Whenever I travel, briefing materials on the key issues at my destination

are essential. The deadlines are always short, but you and your people have met every one of them.

I know these briefing papers are a group effort between field and headquarters, so I'd like all of you to know how much I appreciate your help.

I'm delighted to be here, especially this year, because we are on the eve of a great year of change. That is nothing new for the FHWA, because you have changed many times in your nearly 100-year history. With a total annual budget of \$10,000 in 1893, you are now an agency with 3,500 employees and an annual budget of just under \$17 billion. As I look out at you, I know I am seeing people who helped create the modern economy and brought unprecedented mobility to all Americans.

That was the vision of President Eisenhower when he announced his Grand Plan for the nation's highways in 1954. He was supposed to announce his plan at a Governor's Conference on July 12, 1954, but a death in the family kept him away, and Vice President Nixon did the honors.

In his remarks, Mr. Nixon declared that "the United States must be an example of national progress in the standard of living measured by prosperity, the culture, and the health of the free individual."

The Interstate Highway System has helped America reach this goal. We have created a national network that is the envy of the world, and the FHWA has been a steady force in achieving that vision.

But as composer Irving Berlin once said: "The toughest thing about success is that you've got to keep on being a success." It is tough, because we can't simply repeat what led to success in the past. This is especially true of transportation. No solution to a transportation problem is permanent. Sooner or later, one discovers that today's solution is only one part of an ongoing construction project.

When President Bush was inaugurated almost 2 years ago, we were at a crossroad in our transportation history. With aviation, highway, and urban mass transit programs up for reauthorization in the not-too-distant future, we had an opportunity to step back, decide what we want from our transportation network, and explore new ways to achieve it.

First, we needed an overall strategic framework -- not just a plan for each mode. Throughout 1989, we evaluated our transportation network and its impact on safety, economic development, the environment, and international competitiveness.

We used many sources, including AASHTO's 20/20 efforts, your own "Futures" initiative, and an extensive outreach to the public and government officials around the country. This first phase came to an end on March 8, when President Bush unveiled the National Transportation Policy.

That type of event used to be the end of the story. Somehow, national transportation proposals of earlier years never made it to the implementation stage. This time, things are different. There is general recognition that our national transportation network is not performing the way we would like. That message came across early in our hearings during phase one.

Phase two of the NTP -- institution building -- began immediately. If you generate a new policy, it is vital to actively support it and try to deliver on its promises.

FHWA's leadership took this message to heart in a thorough review of the agency. By experimenting with new structures for regional organization and reorganization of the Washington Headquarters, your experience parallels a process throughout the Department. Those of you serving on the numerous task forces in this effort are to be commended. The agency is now better prepared for the demands that will be placed on it.

You may not be as familiar with our successes in aviation. I am referring to aviation reauthorization. We made a particularly strong commitment to relieving air traffic congestion as part of the effort to provide new mobility for America. The result was a stunning success in Congress. The national press lost sight of it because at the same time, Congress was debating budget reconciliation.

But the Aviation Safety and Capacity Expansion Act of 1990 is landmark legislation. It lifted the federal prohibition against airports levying a passenger facility charge and established a national noise policy. It is pro-environment, pro-capacity and pro-competition.

Surface transportation reauthorization, will build on this success. This phase has actually been underway for some time, with the FHWA and the Department reaching out to key groups to give them a stake in the legislation we will submit to Congress early next year.

Our experience with aviation legislation demonstrates why it is critical to build coalitions within each element of the transportation sector. And we will succeed with leadership that makes sure everyone is heard and makes sure nobody is bowled over.

The aviation reauthorization proved that various groups that may not agree on all political and economic

issues can work together to produce something beneficial for all parties. That is an important lesson, and we must keep it in mind regarding surface transportation programs.

As you well know, the battle lines are already being drawn among the various interests. Most groups agree on the need for change, but after that, they part company. I don't need to mention there are trucks versus railroads; rural versus urban; highways versus transit; region versus region; and State versus State. All are pushing their own agenda.

It is vital that we lay a foundation so that all interests find the common ground to bring them on board for reauthorization.

That was the motivation for the 20/20 effort by AASHTO and the Highway Users Federation. They wanted to avoid the paralyzing conflicts that held up the Interstate highway legislation in 1955.

In many respects, this effort has succeeded. It generated new awareness in the transportation community and identified ideas, such as highways of national significance, that are now cornerstones of our reauthorization plan.

The consensus is not solid, but then again it is hard to achieve agreement on controversial subjects two or three years in advance. Also, the issues are not simple. We are not just dealing with technical, engineering questions but rather with complex and often contradictory value systems.

The automobile, for example, is the primary source of increased mobility, and the truck is a major factor in our economic well-being. At the same time, cars and trucks are major culprits in the congestion that saps productivity, reduces air quality, and threatens our health.

If Surface Transportation reauthorization is to succeed, we must find a new balance among many diverse needs. Looking over the agenda for your meetings this week, I see that the intention is to help us achieve that balance.

Let me add my own voice to the issue. The highway program has been an unqualified success by almost any measure. Whether you go back to the beginning in 1893, to 1916 when the Federal-aid program began, to 1921 when the program was revitalized, or to 1956 when the Interstate Program was finally funded -- the highway program has fulfilled its mission.



Now, we have a mature highway network. We also have strong State highway agencies that are fully capable of operating at a level not possible in those earlier landmark years. We must take advantage of the increased capability at the State and local levels by giving them a commensurate role in transportation development.

Moreover, our society has changed in the last 35 years. The change is reflected in your work. The men and women of the FHWA learned long ago that you are not just in the highway business, specializing in straight lines from point A to point B. You have to be aware of the city planning business, the ecology business, the economic development business, the international competition business, and a dozen other businesses, too.

The Clean Air Act of 1990 is a perfect example of the evolving role. In 1956, we as a society and the Bureau of Public Roads as an Agency were not particularly worried about the effect of automobiles on air quality. Today, we may have to pay dearly for what we once took for granted.

Our concept of mobility will be redefined -- moving away from the old independence of one car/one occupant. Rather the goal must be to broaden choices,



maintain urban mobility, and preserve the environment. Your role in government is already changing as a result, and it will change even more in the years ahead.

Our reauthorization proposal next year will build on the strength of the longstanding Federal-State partnership. The concept of Highways of National Significance is a good example. It is a way of re-defining the role of the Federal government and focusing our primary attention on the roads of greatest national importance. This new system is necessary to accommodate the vast demographic and travel changes in this country since the basic map of the Interstate System was drawn over 40 years ago.

Our proposal will also address a problem that limits the flexibility of State and local officials by providing funds in too many rigid, either/or categories. Too often, officials must make decisions based on the criteria governing a particular fund category -- not on what provides the best overall transportation solution.

Under our proposals, a large portion of highway funds and all the mass transit funds would be available for highway or transit projects, based on the best judgment of State and local government decisionmakers.

Another important aspect of our reauthorization proposal deserves mention. For too long, we hesitated to let the marketplace into the highway program. Whatever the merits of the historic arguments, we can no longer afford to ignore any valuable resource for transportation development.

Our legislation will increase flexibility in the use of federal funds for the construction of toll roads, and promote private sector investment through alternative financing methods such as tax districts, developer participation, and so on. These techniques are dollar stretchers that give the taxpayer the highest possible return on investment in the Highway Trust Fund.

This is a crucial time for transportation in the United States. We are witnessing the dramatic end of non-market economies in Eastern Europe and the continuing challenge from Pacific Rim nations.

Clearly, the U.S. transportation system is a key factor in this country's ability to maintain its position in the new international market.

President Eisenhower knew this, and his visionary transportation policies have reaped huge dividends for America. The Interstate system, which has contributed so much to our economic vitality and national security, resulted from ambitious -- yet pragmatic --

policymaking, sensible allocation of scarce resources, and cooperation among all levels of government and the private sector.

I know that all of us are committed to maintaining a strong national transportation network. As FHWA managers, you are in a unique position to help us achieve that goal.

Within the Department, I am grateful for the spirit of teamwork and dedication that has energized and sustained our work. The key support from the field offices has been invaluable, and is vital to the success of all our programs.

Thank you and God bless you.

REMARKS PREPARED FOR DELIVERY BY  
DEPUTY SECRETARY OF TRANSPORTATION ELAINE L. CHAO  
U.S. COAST GUARD OFFICER CANDIDATE SCHOOL GRADUATION  
YORKTOWN, VIRGINIA  
DECEMBER 14, 1990

Thank you, Captain Teeson. Good morning.

Members of the Officer Candidate School Class of December 1990, your husbands, wives, friends, parents, loved ones, and distinguished guests. Welcome. And let me also extend a special greeting to Ambassador Miguel Salaverria of El Salvador.

Mr. Ambassador, we are honored by your presence. Captain Teeson and his staff have done an outstanding job over the years in helping to train the navies and Coast Guards of our allies around the world. I know that the superior training received by the three of your countrymen graduating today will be of valuable service to the people of El Salvador.

I was very proud of what I saw out on the parade ground this morning, and I am very proud of what I see before me right now. It is truly a time to celebrate, and a great pleasure for me to join you at this beautiful and historic place.

This is an important day in your lives, so allow me first to congratulate you all on your accomplishments, and challenge you to accomplish even more in the future.

Today, you embark on new challenges of your own. But before you leave this place, do not forget why you came. You came not only to learn -- but also to lead -- and I have every confidence you will do your duty with the same excellence that marked your performance here at OCS.

It is no secret that the standard you have to live up to is very high. Perhaps Alexander Hamilton said it best in 1790, when he urged the new Coast Guard, then called the 'Revenue Cutter Service' to demonstrate "activity, vigilance, firmness, prudence, moderation, and good temper." Your mission has changed over the years, but these are still the very same qualities that characterize today's Coast Guard.

When the other armed services are at peace, you and your colleagues are at war against the forces of carelessness and crime.

When a fishing vessel capsizes off the Massachusetts coast in a bad winter storm, we expect the Coast Guard to go out in that storm and rescue those people. When others describe Coast Guard exploits as heroic, you say you are just doing your duty. When others describe your

drug interdiction efforts as saving Americans from the plague of illegal drugs, you say it is all in a day's work.

Whether it is the internationally recognized search and rescue school, your innovative boat crew training program, or your alcohol education efforts among recreational boaters -- over and over again, the Coast Guard is a guardian of commerce, insurer of lives, and friend to all in need on our seas and waterways.

You help keep our country strong. As accident preventers and rescuers, you keep it safe. As law enforcers, you make it tough on the drug smugglers. In other words, you help to keep America secure -- in every way. All of this makes you virtually unique: A military force which battles to preserve life, and which measures its success by the absence of casualties.

In Operation Desert Shield, we are seeing another side of a great Coast Guard tradition. The events taking place in the Persian Gulf remind us once again that in the Coast Guard, this country has more than a humanitarian group of dedicated men and women. It also has a ready, highly-skilled professional force to join the other armed forces in defending American interests.

President Bush has said that Operation Desert Shield is one of the most important deployments of allied military power ever attempted. It is a challenge that

requires American planning, patience, and personal sacrifice -- but one that we must and will meet if we are to stop aggression, and protect our own vital interests.

The Coast Guard is making an outstanding contribution to achievement of this goal. After receiving much of their training right here at Yorktown, Coast Guard boarding teams have led the majority of boardings conducted in the Persian Gulf to enforce the economic embargo.

Those of you graduating today are part of this great effort. Your ambition and hard work in completing OCS sends a message to the rest of the world about America.

And now you, the latest graduates of OCS, undertake your own adventures, your own careers as officers. As you leave here to accept your new assignments, remember this: No matter what job you take in the Coast Guard, the main motivation should be public service.

It is important to know that you are privileged to serve the American people. With that privilege comes responsibility, trust, and the obligation that the product we deliver -- each in our own way -- is a quality product.



We need your idealism and your energy because the Coast Guard of the future will not be the byproduct of great equipment -- but of great people.

Whether you view the future as the next 200 years, or the mere decade separating us from the 21st century; Whether you see the future as a period of tremendous promise, or a period of enormous peril -- the one thing that will transcend all other considerations is the element of change.

There can be no doubt that our nation stands on the brink of tremendous changes. We must adapt to a new post-Cold War world, emerging international markets, and breakthroughs in technology. At the same time, we must protect individual freedom, remembering always the fundamental lessons that preserve democracy in the midst of political and economic revolutions.

You will be called upon as never before to rise to this challenge. It is a challenge I am confident you will meet. We have the technology, the national spirit, and the vision to move ahead. With your commitment and support, we will chart a course that will see our country through any storm, and maintain our leadership among the nations of the world.

And so we gather here, surrounded by reminders of the past, but inspired by glimpses of the future. If this

room could speak, it could tell a powerful story of America. Like the officer classes of the past, you must now move forward, enlarging the greatness of this country with confidence in it and in yourselves.

I have great respect for your traditions, your missions, and your leaders, and it has been a pleasure to participate in this special occasion. To you, who represent the Coast Guard motto "Semper Paratus," I offer you my gratitude and best wishes for a long and successful career.

Thank you and God bless you.

## Seatrade Q&A for Deputy Secretary Elaine Chao

Question 1: Can you please comment on the financial attitudes of the U.S. Government toward shipping. Is the budget deficit so devastating that no money will be coming forward? I refer to schemes underway to give all U.S. liners operating differential subsidy?

Answer 1: The U.S. Government continues to honor its commitment of financial support to the U.S. ship operators through operating differential subsidy (ODS) agreements administered by the Maritime Administration. For Fiscal Year 1991, a budget of \$261 million has been requested to fulfill the ODS contract.

Nevertheless, the decline of the U.S. flag merchant fleet is of great concern to policymakers in the Pentagon and DOT. Since the ODS program was established with the passage of the Merchant Marine Act of 1936, the nature of the U.S. industry and the foreign competition it faces have changed dramatically. The program as it is presently structured does not provide sufficient operating flexibility in a dynamic marketplace and it lacks incentives for cost efficiency that are necessary to make the U.S. fleet competitive in the world market.

We look forward to working with the U.S. liner companies in crafting a financially responsible and mutually acceptable ODS reform program.

Question 2: Can you elaborate on the rationale for not linking U.S. yards and U.S. liners. Isn't there a strict interpretation of the Jones Act which mandates the linking of the two?

Answer 2: Shipbuilding and ship operations have been traditionally viewed as the two primary components of the larger maritime industry. While there are obvious linkages between these components, they are separate industries with their own unique problems. The two need to be separated so that each set of problems can be dealt with effectively.

The Jones Act provides that material and people being transported by water between U.S. points must move in U.S. -built, -owned, -documented, and -manned vessels. The "linking" of U.S. yards and U.S. vessels in the Jones Act stems from the requirement that domestic fleet vessels must be built in the U.S. yards.

The Jones Act serves to reserve domestic trade to the U.S. domestic merchant fleet for the purpose of promoting and maintaining a strong merchant marine. The U.S. vessel construction requirement helps to sustain a shipbuilding and repair establishment which represents a critical national mobilization resource.



Question 3: Subpart F of the tax code. Is DOT involved? Do you know where the GAO stands on their investigation? Is there any chance the U.S. owner might get the tax break back?

Answer 3: That's primarily up to the Treasury Department and the Congress. During the past decade, the Maritime Administration has periodically proposed that Subpart F income be allowed to be deposited into the tax-deferred Capital Construction Fund for U.S. shipbuilding projects. However, as part of the 1986 Tax Reform Act, the provision pertaining to Subpart F income were actually tightened rather than liberalized. Under the provisions of the Tax Reform Act, effective January 1, 1987, earnings of foreign shipping operations are subject to U.S. tax to the extent that such income was reinvested in foreign shipping operations.

Many U.S. companies have Subpart F income in addition to foreign shipping companies, therefore, MARAD provided only a small portion of the information requested by GAO and shipping companies were not the exclusive focus of the GAO inquiry.

Question 4: The citizenship issue which affects investment patterns into U.S. ownership (control of vessels) -it is currently very difficult for foreign lenders to feel comfortable lending-in because they're precluded from control. Do you have any opinion on this? Can you talk about the internationalization of capital and how the U.S. is approaching this?

Answer 4: As a former banker involved in securing new sources of capital for a variety of transportation companies, I am particularly sensitive to the significance of this issue. Currently, the Department has a rulemaking underway pursuant to the Congress (H.R. 3921) and I would like to defer comment pending its completion.



Question 5: Please discuss DOT's participation in GATT, if any, and removal of shipyard subsidy worldwide.

Answer 5: The expansion of the General Agreement on Tariffs and Trade (GATT) to as many service sectors as possible is a key Administration objective for the four year Uruguay Round of negotiations that will end this December. The Department of Transportation wants this goal to be achieved, and has worked closely with the United States Trade Representative and other government agencies since the beginning of the round. We have held regular sessions at DOT where the U.S. service negotiator briefs the industry. Our staff participates in the negotiations in Geneva and contributes to every meeting and document. For example, the formal U.S. paper that was submitted last July to the group on the Negotiation of Services and which explored the implications for the maritime and aviation sectors of applying GATT disciplines was drafted by the DOT. As the paper suggests, the Administration is keenly aware of the unique nature of the maritime sector--including the national security underpinnings of its cabotage rules, subsidy and cargo preference programs to name just a few--not just for the United States, but for other countries as well. It is also aware of the extent to which inclusion in the GATT could affect our efforts to halt and roll-back implementation of the U.N. Liner Code's cargo-sharing provisions as well as similar regimes of individual countries. We believe that our active participation in this issue has helped to create sensitivity to the problems that would be posed for maritime services by application of GATT obligations such as national treatment.

At this time, the U.S. position is that (1) broad coverage is desired and no sector has thus far been excluded from coverage; (2) in rare circumstances entire sectors could be excluded; but that (3) no decision has been made on the treatment of maritime or any other sector. The Department's position is that neither maritime nor aviation should be included in a GATT Agreement on Services, but there is no interagency agreement on this point.

Regarding removal of shipbuilding subsidies worldwide, the USTR, State, DOT and other agencies, with USTR lead are cooperating within the framework of Working Party-6 (Shipbuilding) (WP-6) of the Organization for Economic Cooperation and Development to develop an agreement to phase out all measures of government support for export shipbuilding. The aim of the talks is to establish a regime in which the U.S. shipbuilding industry can compete effectively in the international market by eliminating foreign governmental supports of all kinds. The U.S. shipbuilding industry has not had any significant government assistance for almost a decade and we will work for a level playing field worldwide.

Question 6:

DOT's work on the Oil Spill Bill. DOT's idea on double hulls/double bottoms. Do you think the U.S. will sign the international Protocols?

Answer 6:

DOT has been actively engaged in all facets of the Oil Spill Bill. In May 1989, the Administration submitted to the Congress its Comprehensive Oil Pollution Liability and Compensation Legislation, which was introduced as S.1066 and H.R. 2325. This consensus legislation has helped bridge the gap between the House and Senate approaches. After struggling with the oil pollution legislation for fifteen years, the Congress is expected to pass and send to the President for signature a bill shortly. The active involvement of DOT will be reflected in the final conference bill.

At the Department's request, the National Academy of Sciences is conducting an independent study on the safety and efficiency of double hulls and double bottoms on oil tank vessels. We are awaiting the results of that study. Double hulls and double bottoms may decrease the amount of oil lost into the water in certain incidents. However, under certain circumstances, they may contribute to the instability of the ship which, in a worst case scenario, could lead to: the possible sinking of the ship, the discharge of more oil, or the loss of life.

The Department is convinced of the need for United States participation in the 1984 Oil Spill Protocols. We have vigorously pursued inclusion of implementing provisions in the Oil Spill Bill. The treaties are not completely self-executing. Passage of implementing legislation in the Oil Spill Bill is very important to future implementation of the 1984 Protocols.



Question 7: DOT's work and progress in the drug war.

Answer 7: The Department of Transportation was the first executive agency to implement a random drug testing program for employees in response to President Ronald Reagan's Executive Order 12564 (Drug Free Federal Workplace). This program includes drug awareness, drug testing, and provisions for counseling and assistance. Random drug testing of critical safety and security employees was implemented in September 1987. In addition to random drug testing, the DOT conducts reasonable suspicion, post-accident, pre-employment, follow-up and voluntary testing. Since the program was implemented, more than 45,000 drug tests have been conducted, with a positive rate of less than one percent.

In December 1989, the DOT published its final rule on Procedures for Transportation Workplace Drug Testing Programs. Implementation for drug testing for more than four million safety sensitive employees in the transportation industry has begun. Random, pre-employment, post-accident, reasonable suspicion and follow-up testing will continue to be phased in during 1990. The DOT is conducting a series of nine symposia across the United States to assist employers with program implementation.

In direct support of drug law enforcement agencies (LEAs), the Federal Aviation Administration has expanded its capability to provide real time aircraft flight data on suspected drug smuggling aircraft. In addition, it has started the process of updating and modernizing the Airman and Aircraft Registry to allow it to provide accelerated information to LEAs on the status of aircraft registration and pilot's licenses. It has also established Special Drug Investigation Support Units in strategic locations to provide investigative support to LEAs on drug investigations and to initiate enforcement actions against airmen involved in drug smuggling.

The U.S. Coast Guard has had continued success in its maritime drug interdiction efforts. Coast Guard air interdiction efforts include acquisition of additional specially equipped aircraft. Surface interdiction efforts resulted in more than 35,000 vessel boardings in FY 89. In the past year, the Coast Guard has seized more than 33,000 pounds of cocaine and 200,000 pounds of marijuana, and assisted other agencies in the seizure of approximately 70,800 pounds of illegal drugs.



Question 8: Is it possible to reveal some of the assumptions and directives that have manifested themselves in the cluster groups on the National Transportation Policy?

Answer 8: What we learned from the cluster groups and from the American people all over this country in more than 100 public meetings was that people are ready to make an investment in transportation which is an investment in our nation's future, our economy and our jobs. Our national transportation policy provides a framework for decision making. Simply put, it emphasizes doing the right things with our limited resources, focusing on systems of national significance and promoting national priorities, improving mobility, improving efficient movement of goods, providing jobs and improving the quality of life for all Americans.

We deliberately structured our policy to be intermodal in nature. We understand the importance of promoting intermodalism and recognize its benefits.

The U.S. merchant marine and shipbuilding industries have declined steadily in recent decades. It is clear that federal programs, including cargo preference rules and direct subsidies, have not kept the U.S.-flag merchant marine fleet viable and competitive in world trades. Many of the program's provisions are anachronisms and an ill-advised burden on the nation's merchant marine.

Subsidy programs for the U.S. merchant marine must be reexamined. For example, the current operating subsidy program for U.S.-flag liner ship operators does not provide sufficient flexibility for the carriers to compete in the rapidly changing world markets, or sufficient incentives for efficiency gains to improve the competitiveness of the fleet. Adjustments are needed to provide commercial operators flexibility as to trade routes and other operating matters. Federal policies should allow use of foreign-flag feeder vessels and recognize the need for U.S. operators in foreign trades to be competitive in the acquisition of vessels. The federal government must explore means to strengthen the competitiveness of the U.S.-flag non-liner fleet also.

The Coast Guard must continue to maintain a policy of substantial equivalence between national and international shipping regulations affecting safety and the environment, to ensure that the U.S. merchant marine does not bear unjustified costs and still maintain adequate safety and environmental protection.

Therefore, the national transportation policy calls for:

- Removing unnecessary federal requirements that prevent U.S.-flag ships from competing effectively in world trade; and
- Reviewing and restructuring federal maritime programs, including operating differential subsidy program, to promote cost efficiency in the U.S. fleet, strengthen the fleet's competitive position in the international market, and encourage necessary modernization and expansion.



Question 9:

From a banking point of view, an explanation on how CDS repayments, ship sales, foreclosures look economically.

Answer 9

As you may know, MARAD has experienced over \$2.3 billion in defaults in its Title XI ship guarantee program since 1982. Sales of defaulted equipment is approximately \$805 million over the same period.

These defaults were caused by a variety of factors including over concentration in MARAD's portfolio in energy related equipment. Starting in 1982, MARAD made a substantial number of guarantees to the offshore drilling industry in oil rigs, oil supply tugs and barges. MARAD also made a number of guarantees to barges in the inland waterways trade. Many of these barges were structured as tax partnerships with principals who were not experienced or long term players in the operating business. In other cases, guarantees were made to single ship-owning companies with minimal collateral required. In still other cases, guarantees were extended on vessels at the height of the market. Once the market dropped, the minimal security position rendered these guarantees extremely under-collateralized and vulnerable.

I think this experience shows the difficulties the federal government has in administering credit guarantee programs. By its very definition, lending involves discrimination of bad credit risks versus good credit risks. In the political world that governments operate, discrimination is a dirty word. So, what many times happens is that minimal standards of credit are established in the interest of public fairness. There is little flexibility for government officials to truly be creative in structuring transactions that respond to the applicant's need and protects the government's financial stake.

In my time at MARAD, I instituted new guarantee guidelines such as cross-collateralization, cross-guarantees, parent company support. All this required a different approach to processing the applications. It required that each examiner know who the principal is behind a single shipowning company, what the total financial condition of the group is.

I also pushed for instituting a portfolio risk assessment system whereby MARAD's portfolio of guarantees is categorized by certain levels of risk so that management could have some idea as to the projected levels of default in the coming months.

It took me 18 months but I finally got 100 personal computers for the agency. For an agency responsible for dispensing hundreds of millions of dollars, MARAD staffers had no computers to review the cashflow projections that applicants submitted. Everything was done by hand. This severely limited the capability of MARAD staffers to adequately review the forecasts of these applications.