

U.S. Department of Commerce

Statement of Alan S. Boyd
Under Secretary of Commerce for Transportation
before the Subcommittee on
Federal Procurement and Regulation of the
Joint Economic Committee

May 19, 1966

Mr. Chairman and Members of the Committee:

I wish to thank you for this opportunity to discuss some of the economic problems in international maritime transportation.

I would like to begin by referring to your recent letter to me on the role of the Department of Commerce in your investigation. Your letter referred to the "final" report on departmental research made on June 30, 1965, and asked two penetrating questions about the payment of subsidy to U.S.-flag carriers and one in regard to the centralization of cargo preference administration.

First, I want to report on the Commerce Department's continued interest in the economic research area. As you may recall last June, certain restrictions prevented a full disclosure in the testimony of the Department before your Committee with regard to a study on ocean transportation costs carried out by Ernst and Ernst. These restrictions were imposed by the provisions of the Federal Reports Act of 1942 (5 USC 139) and the criminal sanctions against the disclosure of trade secrets found in 18 USC 1905.

Cost information of this type is an important reference base in our data collection and analysis program for the maritime industry. For this reason, late last summer, the contract with Ernst and Ernst was extended to explore availability of alternative sources of

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information other than the official cost reports made to the Maritime Administration by the carriers involved. The objective of the second phase of the study was the development of new cost figures which could be made public. Earlier this month, Ernst and Ernst advised my office that:

"Facts and figures concerning cargo handling cost have been scarce. As you know, an effort was made to establish contact with MSTIS, MIMIS and other Government agencies which ship large quantities of cargo throughout the world so that we could review their records. These arrangements were only recently made and a review of their records indicated cost data from these sources is of little value. However, we have since had some promising success in dealing with commercial firms engaged in various aspects of cargo handling and it appears the data source problems in this category may be resolved. If not, an alternative study approach which considers cargo handling costs indirectly is possible and we will discuss this with you should it become necessary.

"Since a considerable delay was experienced in making arrangements to review the data of the Government agencies, the target date for completion of our study will necessarily be extended. We now anticipate completing our report by no later than the end of August."

When this unclassified cost information is received, the Department will review the feasibility of continuing the research program jointly developed in cooperation with your Committee several years ago--including the type of analysis that former Assistant Secretary Brimmer suggested during his testimony before you last June.

I would like to call to the Committee's attention the publication of the shippers handbook which was discussed in our previous testimony. The Federal Maritime Commission and the Department

cooperated in the preparation of this document entitled Ocean Freight Rate Guidelines for Shippers. It will be a significant aid in meeting the needs of small and potential exporters for information about the rate aspects of ocean transportation, and we are pleased with the widespread distribution it has already received.

Mr. Chairman, I also want to mention the support which the Department of Commerce has given to a special transportation action group of the National Export Expansion Council. I understand that you made the report of this group part of the Committee record on May 6 because a number of its resolutions called for action in areas which are of interest to this Committee. You may be pleased to know that at the last meeting of the National Export Expansion Council, this transportation group was given a status of permanency by the Council.

There is a need for deeper consideration of the export expansion aspects of our national transportation program and I anticipate a productive relationship with the transportation action group. More specifically, with a continuation of our unfavorable balance of payments position, I plan to look further at the transportation facets of the problem with the objective of encouraging remedial measures which are consistent with national policy.

I would now like to turn to the specific questions raised in your letter. My remarks, of course, will be circumscribed by the fact that the future configuration of maritime policy is a matter currently under review by the Administration.

1. Should the Department of Commerce reduce or eliminate operating differential subsidy payments to U.S.-flag carriers who charge rates determined to be discriminatory by the Federal Maritime Commission?

This question should be considered in the context of where within the Federal Government responsibility is lodged for performing ocean shipping regulatory functions. The Federal Maritime Commission, under provisions of the Shipping Act of 1916, is responsible for the regulation of shipping in our foreign commerce. Regulation in this field primarily concerns surveillance over the practices of ocean shipping conferences -- organizations of common carrier lines -- established primarily to work out rate agreements. The Federal Maritime Commission has the power, as provided by law, for approving or disapproving agreements establishing these conferences and is responsible for policing their operation.

If the Federal Maritime Commission determines that specific conference practices involving U.S. subsidized lines are discriminatory, the Department of Commerce is then faced with the question of how such practices by U.S. subsidized operations affect the promotional responsibilities exercised pursuant to the Merchant Marine Act of 1936.

It is the policy of the Department of Commerce to await a statutory finding of unjust discrimination by the Federal Maritime Commission prior to taking action. The facts relating to whether such discrimination exists are complex, and the FMC has the appropriate legal mechanism to make such findings assuring due process to all concerned.

However, if unjust discrimination has been legally determined, the Department of Commerce would strive to eliminate such discrimination, to prevent its recurrence and to prevent subsidy from continuing to be paid to a carrier found to be charging unjustly discriminatory rates or engaging in discriminatory practices.

2. Should the administrative responsibility for all non-military cargo preference programs be placed within the Department of Commerce?

In my view it would be unwise to centralize the responsibility for cargo preference programs in the Department of Commerce. The agency responsible for arranging for the shipment of government cargo should be primarily concerned with obtaining the best price and terms for such shipment but should not be responsible for the promotion of the cargo carriers. This is not to say that it may not be to the government's advantage to centralize the "booking" or shipping arrangements for all cargo preference cargoes in one agency, thereby providing the maximum opportunity for greater efficiency through consolidation of shipments and the price-leverage that the larger volumes under one agency would give. However, such a central chartering agency should not be under the same official who is responsible for maritime promotion.

3. Under the new MSTS competitive bidding policy, should subsidy payments to U.S.-flag ships carrying Department of Defense cargo in liner operation be reduced so that subsidized and non-subsidized U.S.-flag operators may be able to compete for military shipment on an equal footing?

In prepared testimony the Navy Department has outlined a study, which is now underway, to establish a new shipping procurement program for

carrying out the recently announced policy of the Secretary of Defense. The Navy has indicated that it is still too early to provide the Joint Economic Committee with findings by its Advisory Committee or by internal MSTs studies but that final plans should be available to the Committee within the next few weeks. The Department of Commerce is aware of the instructions given to the Advisory Committee to guide this study. However, as indicated by the Navy, work of the MSTs under this project has not been made available to any organization or individual outside of the Department of Defense. Until this Department is fully aware of the procurement procedures which finally are established by the Navy Department, we believe it would be premature to comment specifically upon their impact on maritime promotional programs.

The Department however does believe that subsidized and non-subsidized U.S.-flag operators should compete for MSTs cargoes on an equal basis. That is, the subsidized operators should not have a competitive advantage as a result of the subsidies they receive. The Department has responsibility for promoting all segments of the U.S. Merchant Marine and recognizes that the presently unsubsidized segment is a vital part of our merchant fleet and that its continued existence must be fostered. We realize that the procurement policy outlined by Defense may necessitate certain adjustments in the present subsidy program if we are to assure that no unfair advantage of subsidized lines over the unsubsidized competitors is permitted. The Department is also firmly opposed to the provision of a "double subsidy," for example, through simultaneous payment of operating subsidy and higher freight rates which are not economically justifiable.

Until more precise information is available on the procedures to be followed in carrying out the Department of Defense policy, the Department

of Commerce is not prepared to state precisely its recommendations on these issues. This Department has been asked for guidance by the Navy Department's Advisory Panel on a number of these issues and the subject is currently under study. As you well realize decisions to overturn practices of the past 30 years must be carefully assessed in terms of their prospective economic impact and legal implication. For example, consideration must be given to (1) creation of an equitable system for prorating subsidy, (2) the relationship of any revised subsidy procedures to statutory requirements; and (3) existing contractual arrangements which the Government has with subsidized operators.

Since the Department of the Navy anticipates that it will report to you within a few weeks on its proposed procedures, the Department of Commerce requests that it be given an opportunity to study these new procedures once they are issued before providing the Committee with more definite answers to this last question.

In conclusion, I should also reiterate that these questions also closely relate to maritime policy considerations which are now under review within the Administration and any revised subsidy scheme must be developed in the light of these considerations.

Thank you.