Appendixes

Appendix A
Summary of Panel Presentations and Discussion
OTA Cargo Policy Workshop, Dec. 3 and 4, 1984

PANEL ON CURRENT POLICY INITIATIVES

Panelists

Charles Angevine
Department of State

Deborah Christie
Department of Defense

Robert Ellsworth
Federal Maritime Commission

William Johnson
Department of Commerce

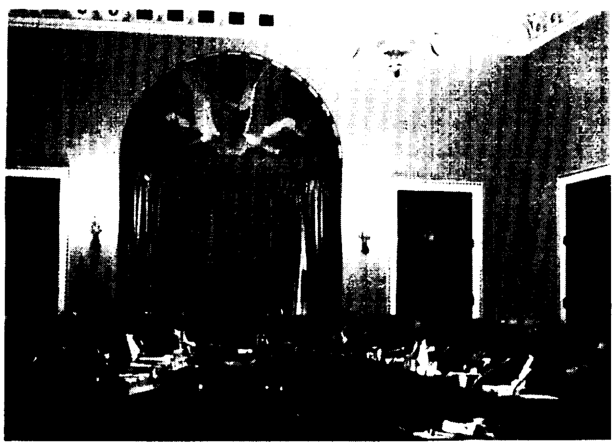
Arnold Levine
Department of Transportation

Kay McLennan
Department of Agriculture

Lewis Paine
Department of Transportation

Topics for Discussion

1. Trends in maritime trade, trading patterns, and shipping services; current policy initiatives involving the interaction of trade and shipping.
2. Present cargo preference regulations and their effects, including trends in U.S. policies to promote U.S. exports.
3. Current initiatives and responses to international cargo policies, such as the UNCTAD Liner Code and bilateral agreements with major trading partners.
4. Current trends in the use of new Shipping Act authority to gain cargo access and the effect of regulatory policy on U.S. cargo shares.
5. Impacts of military readiness requirements on-cargo policies or U, S. position in trade and shipping.



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OTA Workshop on Cargo Policy, meeting in the hearing room of the House Committee on Merchant Marine and Fisheries, Dec. 3 and 4, 1984

Summary of Discussion

At the first workshop panel, participants from Federal agencies discussed current initiatives in cargo policy. The agencies represented included the Departments of State, Agriculture, Transportation, Commerce, and Defense, and the Federal Maritime Commission. The panelists presented an optimistic outlook for both U.S. shippers and the maritime industry. They stressed that their programs were directed toward goals of maximum flexibility for shippers along with access to cargo for U.S. carriers. A common theme expressed was "open market competition. " On the international level, the panelists believed it important to protect U.S. vessels from unfair practices in order to meet the goals of access and competition.

Shipping Act of 1984

Several participants stressed the role of the 1984 Shipping Act in enabling U.S. interests to overcome barriers to market access in international liner trade. The Act allows conferences to establish intermodal rates, giving shippers the advantage of a through bill of lading. It also requires the right of independent action for any individual conference member, requiring a maximum of 10 days notice prior to such action. Shippers' associations are authorized, although antitrust exemption does not extend to them. The rate-approval process required by FMC is considerably accelerated and simplified.

The rights of all carriers in U.S. trades for protection against discrimination is provided. The Act retains section 19 of the Merchant Marine Act of 1920, under which the tariffs of any country's vessels may be suspended, effectively excluding them from U.S. trades. Provisions of the Controlled Carrier Act of *1978* are also retained in the new Act. Under this provision, action may be taken against controlled carriers of any flag which unfairly compete by offering less than compensatory rates. Finally, section 13(b)(5) of the new Act gives FMC power to suspend the tariff of any carrier in U.S. trade if the country whose flag it flies, or the commercial practices of the carrier, unduly impair the access of U.S. carriers as cross-traders in foreign-to-foreign trade. Several participants stressed the importance of this latter provision, which they viewed as vital in protecting U.S. carriers against certain cargo-sharing schemes in effect around the world.

Cargo Preference

There was considerable discussion of U.S. cargo-preference laws and policies. The stated Administration position is that current laws should be enforced, but that no expansion of preference should occur. Cargo-preference requirements on agricultural products received significant attention from the group. Under the Cargo Preference Act of 1954 (Public Law 83-664), U.S. food assistance to less developed countries (LDCs) is subject to a 50-percent U.S. carrier reservation. USDA, which manages the preference requirements for these Public Law 83-480 Title I (concessionary sales) shipments, cited a transportation differential cost of $120 million paid for U.S.-flag carriage of food assistance cargoes in 1982. The cost differential was *$65* million in 1983 and $76 million in 1984. Comparable detailed statistics are not available for the Title II (gifts of food) shipments, whose preference requirements are monitored by AID.

The panelists pointed out that while one-third (by tonnage) of all U.S.-flag waterborne shipments are preferential, only *4* to 8 percent of total liner shipments are preference cargoes. In the liner sector, there is generally no differential within conferences, where set rates apply to all carriers, notwithstanding flag. Of course, this is tempered by the situation in U.S. trades where independent action is encouraged and a number of nonconference carriers operate. It should be noted, however, that in some instances an agricultural commodity rate may be "opened" by the conference, which means that a conference-wide rate does not apply.

It is in the bulk area, where U.S. operating costs average two to three times those of certain foreign competitors, that the cost differentials are significant. However, U.S. bulk carriers are utterly dependent on preference shipments for their survival. On the other hand, panelists also pointed out that the U.S. bulk fleet is modernizing significantly. A MarAd study of the large Egyptian program showed that in 1981, 61 percent of Public Law 83-480 shipments were on bulk carriers over 22 years old, while in *1984, 63* percent of shipments were carried on vessels 5 years old or under. This does not imply that the U.S.-flag bulk fleet is nearing profitability. A severe depression exists worldwide in bulk shipping, and even the lowest cost competitors are failing to cover their costs.

Cargo Reservation

The issue of cargo reservation, whether unilateral, bilateral, or multilateral, was raised by several panel members. Flexibility of approach is perceived by several panel members as essential in assuring U.S. interests. FMC has recently instituted or completed investigations into the Venezuelan, Brazilian, Philippine, and Argentine trades based on allegations of discrimination against U.S.

or third-flag carriers and shippers, Panelists stated that the real threat to U.S. interests is foreign government intervention, rather than commercial efforts at cargo sharing.

Most panelists also felt that the UNCTAD Liner Code has not been as detrimental thus far as was widely feared. Some indicated that the potential for real harm from UNCTAD Liner Code provisions exists only where U.S. carriers are cross-traders in a foreign-to-foreign trade. Should that occur, section 13(b)(5) of the Shipping Act of *1984* allows the FMC to intervene in U.S. trades to prevent such discrimination in foreign-to-foreign trades. The overall opinion of the panel was that the UNCTAD Liner Code does not pose much direct threat to U.S. carriers. Were a bulk code to be implemented, the effect on world trade would be much greater, but this is not regarded as an imminent possibility.

Some panelists believed that a significant problem exists in negotiations between the United States and its trading allies in Europe and Japan regarding cargo access. Over the past 3 years, the Consultative Shipping Group (CSG) has met with the United States several times in an attempt to coordinate resistance to cargo sharing. The United States has steadily opposed the UNCTAD Liner Code, while some of its allies have ratified the Code (albeit with the Brussels Package reservation).[32] At the same time, however, the United States has discussed bilateral agreements with several LDCs in response to threats of unilateral cargo reservation. Both sides, in short, perceive anti-competitive actions on the part of the other, while at the same time recognizing that coordination and cooperation are in the best interests of all parties.

Defense-Related Issues

While most of the panel's allotted time was spent on the competitive environment facing both shippers and carriers, the discussion also touched on the importance of the Merchant Marine as an arm of defense. The rationale for most forms of subsidy to the maritime industry, including cargo preference, is national security. The U.S. merchant fleet would be tasked in wartime with both direct military support and continued support of the civilian economy. DOD recently completed a study to determine wartime logistics needs and the adequacy of the merchant marine to fulfill them. The findings were that sufficient container capacity exists for carriage of containerized military cargoes. However, there is a significant shortfall of capacity—breakbulk[33] and Ro/Ro[34]—to carry unit equipment. DOD has launched two initiatives to ameliorate this problem: 1) purchasing older breakbulk and Ro/Ro vessels on the open market and putting them in the National Defense Reserve Fleet (NDRF); and 2) purchasing the flat racks and sea sheds needed for converting containerships to carry large equipment, such as tanks.

Some participants raised the point that, even if sufficient sealift capacity is achieved, there may not be an adequate pool of merchant seamen to crew NDRF ships. The average age of U.S. merchant seamen is in the 50s, and newer commercial vessels are being operated with smaller crew complements. In addition, the commercial sector has little need for large numbers of replacement crews, and this reduces the pool of U.S. seamen even further.

Another issue raised was the cost of defense features on merchant ships. Theoretically, DOD pays the full cost of these features, Several participants questioned whether this is in fact the case.

[32] This states that all intra-OECD trades would be exempt from the provisions of the Code and opens portions of OECD-to-LDC trades to all OECD members.

[33] Ships that carry general cargo in a large variety of sizes

[34] Ships that carry vehicles or trailers that are loaded and discharged by "rolling on and rolling of f."

PANEL ON INDUSTRY IMPACTS OF LINER CARGO POLICIES

Panelists

Peter Finnerty
Sea-Land Corp.

Bonnie Green
American President Lines

Peter Luciano
Transportation Institute

Sam Nemirow
Council of American Flag Ship Operators

Robert Rickert
E. I. du Pont de Nemours & Co., Inc.

Roger Wigen
3M Co.

Topics for Discussion

1. Impacts of current cargo-preference laws and regulations on the trade, on shippers, and on carriers—including estimates of costs and benefits now and in the future.
2. Impacts of current bilateral agreements; prospects for future bilateral and their effects.
3. Experience to date with implementation of the new Shipping Act; prospects for benefits to shippers and carriers.
4. Experience to date with the UNCTAD Liner Code and prospects for future impacts on the industry.
5. Experience with changing international approaches to cargo policies and impacts of cargo policy initiatives of major trading partners.

Summary of Discussion

Liner operators emphasized the importance of preference cargoes to their sector of the industry. While these cargoes may account for a small percentage of all liner cargoes, they frequently are "base cargoes" that allow operators to carry commercial cargoes on routes that otherwise would not be profitable. This is even more true for exports than imports, because on some routes (LDC trades in particular) AID cargoes may comprise the preponderance of all U.S. exports. At a time when commodities are hard to sell abroad due to the strength of the dollar, Government-impelled shipments are particularly vital to carriers. Liner representatives also pointed out that there is very little disparity in liner rates between U. S.- and foreign-flag conference carriers, since rates generally are set by a conference and adhered to by all conference members. However, a GAO study reported that U, S.-flag liner carriage under the Public Law 83-480 Title 11 program cost $0.73/ton more than foreign-flag carriage in 1980—an annual premium of $600,000.

Implementation Issues

Liner operators are not pressing for expansion of cargo-preference laws. However, they are extremely concerned that current laws are not being adequately enforced and that U.S. carriers are not getting the share of cargoes they are due. Participants suggested that part of the problem is that MarAd does not receive information on cargo carriage until well after the movement; it is difficult to enforce compliance after the fact. Concern was greatest with respect to agricultural cargoes. In 1983, all agricultural programs subject to Public Law 83-480 had U.S.-flag shares below 50 percent. Liner operators claimed that many new programs, such as the "blended credit" program, are not subject to preference requirements at all.

In addition, a number of DOD programs are not covered. The new Federal acquisition regulations should help with this, but they call only for 50-percent preference, while the 1904 Act requires that 100 percent of DOD cargoes are to be carried by U.S.-flag ships. Carrier representatives also were concerned that the Military Sealift Command frequently contacts a carrier asking for berth-term availability, and then later enters into the charter market for the same tonnage. Some ExIm Bank programs, like the short- and medium-term guarantee programs, do not have U.S.-flag requirements. Finally, conversion of AID's commodity-export program to a cash-transfer program effectively diminished U.S.-flag participation. Carriers asked for action to assure implementation and enforcement of preference laws, including a statement from the President ordering agencies to comply fully.

Shipper representatives expressed a different point of view on trade barriers generally, whether cargo-preference, conference action, or bilateral or multilateral cargo reservation. All trade barriers are inefficient and uneconomic. An example was given of shipping a container from the Midwest to Argentina or Brazil: via Europe, the cost is $3,400 while direct shipment costs $5,000. Shippers were optimistic that the new Shipping Act addresses some of these problems. However, they still have some concerns. Conferences can set rates, pool revenues, restrict sailings and volume capacity, and prevent competition. Ultimately the success or failure of the Act will be depend on how carriers respond to the independent action provision incorporated in the law. Shippers are also optimistic that the new Shipping Act will result in a better balance between carriers and shippers than existed under the 1916 Act. Competitive opportunities are available to both shippers and vessel owners, including the ability to provide intermodal services,[35] independent action,[36] and a prohibition against loyalty contracts, [37] except as allowed under antitrust law.

Thus far, the impact of the 1984 Shipping Act has varied by trade area. In general, carriers in the OECD trades have been more aggressive in implementing its provisions than have those in LDC trades. Independent action has become common in the Pacific trades, while carriers on the North Atlantic appear afraid of starting a new rate war. Individual shippers have taken advantage of new provisions such as service contracts to a greater or lesser degree. Shippers' associations are not yet common, and leaders in organizing them have yet to come forward. Many shippers fear antitrust problems and therefore have adopted a "wait and see" posture.

Access to Foreign Trades

The second major topic addressed by the panel was the difficulty faced by U.S. cross-traders in an increasingly protectionist international environment. The liner companies regard their cross-trading activities as very important financially, not only to themselves but to shippers. The ability to pick up cargoes as space is available means that carriers can improve utilization of available capacity, and thereby reduce rates. Again, the Shipping Act was mentioned as an important protection for cross-traders. Under section 13(b)(5), FMC may suspend U.S. tariffs of the flag carriers of any nation in U.S. trades which discriminates against U.S.-flag cross-traders in its trade with a third country.

The final major issue raised by members of the liner panel was the lack of consistency in U.S. policy—that is, an indecisiveness as to whether the merchant fleet is a commercial entity or a Government entity. Most countries regard their merchant marine as an arm of government. The United States, on the other hand, seems to believe that its merchant fleet should compete commercially and yet should be readily available to support U.S. Government interests. At some point, U.S. policymakers must grapple with the problem that some parts of the industry may survive on a commercial basis, but they may not be sufficient to support broader U.S. interests. DOD is embarking upon development of its own merchant support fleet, which may or may not be the most efficient way to serve the national interest. It was suggested that, before the United States is committed to letting the merchant fleet as it currently exists die and be replaced by a defense-oriented merchant fleet, the long-term costs and benefits should be weighed and a conscious policy developed.

[35] A contract for shipping services covering several modes of transportation (truck, rail, ship, etc.).

[36] The right of a carrier in a conference to offer independent service and rates.

[37] Confidential loyalty agreements between shipper and carrier in exchange for favored rates,

PANEL ON INDUSTRY IMPACTS OF BULK CARGO POLICIES

Panelists

George Berg
American Farm Bureau Federation

Gus Caras
Ogden Corp.

Jack Goldstein
Overseas Shipholding Group

Kenneth Kastner
Chemical Manufacturers Association

Topics for Discussion

1. Effects of current U.S. cargo-preference laws and regulations on levels of trade and on U.S. bulk operators and shippers, including estimates and projections of costs and benefits.
2. Impacts of any increased cargo-preference requirements, imposed either by U.S. actions or by our trading partners; trends toward and effects of commercial bulk cargo-preference laws.
3. prospects for and impacts of an UNCTAD bulk-code or other multilateral or bilateral agreements on bulk cargo policies; prospects for UNCTAD efforts to phase out open registry.
4. Impacts of existing and future cargo policies on U.S.-controlled, foreign-flag operators.

Summary of Discussion

Industry Conditions and Prospects

Industry representatives on the bulk shipping panel pointed out that the entire bulk shipping industry worldwide is extremely depressed and is expected to continue to be in the foreseeable future. Rates are not expected to justify new building at least through the end of the decade. U.S. carriers are in even worse condition, with operating costs $2 million per vessel per year higher than those of foreign competitors, but even low-cost operators are going out of business. In the past, conglomerates found it profitable to have shipping subsidiaries; but today many are being spun off, both because current rates cannot justify needed investment and because, with low inflation, there is no benefit in holding physical assets in the expectation of appreciation.

Little optimism was expressed. U.S. bulk operators cannot compete and the U.S. Government is not helping to improve the situation. Operators believe that most Americans do not appreciate the extent to which foreign countries subsidize their fleets. Direct cargo-preference is not typical, but aid is available in many forms. Shipyards frequently are nationalized, and below-market financing may be offered for ships purchased from national yards. Governments may also provide tax incentives for shipping on national flag carriers.

Three possible forms of subsidy for the U.S. maritime industry were cited: construction and/or operating aid; a Government build-and-charter program; and cargo preference. The panelists felt that the United States must define its shipping needs, then take steps to assure the needed fleet. They urged that existing cargo-preference laws should be implemented fully. They also suggested that the Government might exclude from U.S. ports foreign ships built at costs that could reasonably be described as "dumping" levels.

Defense-Related Issues

National defense requirements were discussed in some detail. The primary requirement is for small product tankers.[38] Sufficient tonnage now exists in the "U.S. effective control" (USEC) fleet of U.S.-owned foreign-flag ships, in the panel's opinion. However, some participants expressed concern about the number of usable tankers: most

[38] Tankers which carry refined petroleum products, such as gasoline, diesel, fuel oil, etc.

of the USEC tanker fleet is made up of large crude oil carriers, which may not be as useful militarily as smaller oil-product tankers. Because of consolidation in the world petroleum industry, furthermore, the tanker fleets of U.S. oil companies and of our NATO allies are declining in size and significance. A separate point raised by shipping interests was the cost of defense-related features of their fleet and whether these costs should be borne by U.S. taxpayers, rather than a small number of shippers.

While the panel provided no real answers to the plight of the U.S. bulk fleet, the "Japanese solution" was described as a possibility. In Japan, shipping is just one component of an overall business venture. If a major project to export a commodity is contemplated, everything from the manufacture of the item to the transportation system is planned as a whole. The government is involved from the start and tailors its aid to the specifics required, probably including subsidizing such items as interest rates and crew costs. The consequence is that Japanese-flag ships carry *50* percent of Japanese bulk trade, even though Japan is no longer classified as a low-cost carrier.

Cargo Reservation and Preference

The panel also discussed the possibility of an UNCTAD bulk code, with the general reaction that it is unlikely to happen. Many LDCs are less interested in pushing for a bulk code because they no longer perceive that it would be in their interests. Many of these nations simply do not have the wherewithal to build and operate commercial fleets. In addition, there is clear opposition on the part of most OECD countries. Bulk trade, unlike liner trade, is not over established routes on a regular basis. Rather, bulk trade tends to be "round the world, " with contract carriage of a specific cargo from one place to another (see table 1). This does not lend itself to bilateralism. Further, some bulk vessels, such as parcel tankers, are dedicated to carriage of specific cargo and must be used wherever that trade is at the moment. U.S. bulk cargo-preference was discussed at length by shippers' spokesmen. They oppose cargo-preference and spoke emphatically in opposition to any expansion of preference laws. Statistics were presented on the increased costs of agricultural exports which would result under commercial cargo-preference. If a 20-percent preference had existed in *1982*, agricultural export costs would have risen over $1 billion. If U.S. goods are to be competitive and U.S. farmers to make a profit, transportation must be at the lowest possible cost. The current U.S. trade deficit makes it even more imperative that U.S. exporters not be burdened further with higher transportation costs.

Table 1.—Cargoes and Routes for a Typical Chemical Parcel Tanker Voyage

Westbound mute A:	
Europe westbound via the United States to the Far East:	
Time of westbound voyage,	70 days
Total cargo carried	40,000 MT
Parcels carried	36
Ports of call (berths 29)	15
Origin/destination countries of cargoes	16
(England, West Germany, Belgium, Spain, France, Netherlands, USA, Canada, Panama [Canal Zone], Japan, Korea, Taiwan, Hong Kong, Philippines, Singapore, and Malaysia)	
Westbound route B (vessels regularly operate on both routes):	
Europe westbound to Australia via the United States:	
Time westbound	75 days
Total cargo carried	28,000 MT
Parcels carried	52
Ports of call (berths 24)	14
Origin/destination countries of cargoes	11
(England, West Germany, Belgium, Spain, France, Netherlands, USA, Colombia, Panama [Canal Zone], New Zealand, Australia)	
Eastbound *route A* (typical return voyage for westbound voyage A or B):	
Time eastbound	70 days
Total cargo carried	43,000 MT
Ports of call (berths 24)	12
Parcels carried	29
Origin/destination countries of cargoes	7
(Indonesia, Philippines, Japan, Canada, USA [West Coast and Gulf], France, Rotterdam [parcels trans-shipped to several European countries on through bill of lading])	
Return route B (occasionally vessels on one of the above westbound routes will continue westbound to India, Saudia Arabia, and [via Suez Canal] to Greece, Italy, Spain, and on to Rotterdam. Cargo details of an actual voyage are not available).	
A typical round voyage combining routes westbound A and eastbound A would involve the following:	
Time of voyage	140 days
Total cargo carried	83,000 tons
Parcels carried	65
Ports of call (berths 53)	27
Origin/destination countries	17

SOURCE Chemical Manufacturers Association

In general, this panel—or at least the maritime industry participants—were far less sanguine about the industry's prospects than were their liner counterparts. New and innovative proposals will be needed if the U.S.-flag bulk fleet is not to disappear altogether.

PANEL ON ALTERNATIVE APPROACHES TO CARGO POLICY

Panelists

H. Clayton Cook
Cadwalader, Wickersham and Taft

Ernst Frankel
Massachusetts Institute of Technology

Leslie Kanuk
Baruch College

Harlan Unman
Georgetown University

John Leeper
Simat, Inc.

Topics for Discussion

1. Outlook for maritime industry and U.S. trade under current regulations, and potential benefits of changes in U.S. cargo-preference laws.
2. Developments in other countries' cargo policies and potential impacts on U.S. interests.
3. Possible response to future multilateral cargo policy initiatives and strategies to benefit U.S. interests.
4. Prospects for developing bilateral agreements, either in response to other nations' initiatives or as a U.S. initiative.
5. Outlook for changes in U.S. maritime industry prospects due to shifts U.S. or international cargo policies.

Summary of Discussion

The panel on alternative approaches to cargo policy, which commenced the second day of the OTA Workshop, was made up of participants with no direct interest in the maritime industry—academicians, consultants, etc. Because of this, they were asked to do a bit of "free thinking" and to develop possible alternative cargo policies.

Competition

A recurring theme was the need to develop a fully competitive atmosphere, in which shippers would have the freedom to choose among carriers in order to get the best combination of rates and service. At the same time, carriers would be protected. One way to achieve this would be the establishment of bilateral (or multilateral) shipping agreements, under which the national-flag carriers would compete for the available business and other carriers would be excluded. There would be no conferences, no rate fixing, and no antitrust immunity. There would be complete freedom of entry into a trade. There would be no operating restrictions, such as now exist under operating differential subsidy regulations. There could be tax incentives for shippers to use U. S.-flag vessels, The Maritime Administration would continue to exist as a promotional agency, but all regulatory functions would be vested in an intergovernmental commission, which would adjudicate allegations of price fixing, discrimination, etc.

Regulation

Overall, the panel agreed that a major problem facing the maritime industry today is overregulation by the Government. There was general agreement that the Government's function should be only to set up a "protective cocoon" to deal with discriminatory practices by other countries, and then to assure free competition among carriers in a trade, It was stressed again and again that market forces must be allowed to govern.

Cargo Reservation

Another, but similar approach—multilateral cargo reservation, perhaps like that under the UNCTAD Liner Code—was put forth as essential to the security of the United States and its NATO allies. It was pointed out that not one West European or Scandinavian liner carrier is currently making enough money to allow replacement of its fleet. The outlook for availability of allied merchant vessels in support of a NATO in a future war is very gloomy. The reason for their depressed condition is that the Soviet Union is setting rates for its ships in these trades at *20* to *40* percent below conference rates. It is difficult for European countries to close their ports unilaterally because the Soviet Union is so near and is such an economic presence. Only through agreement between the United States and its free world allies can the fleets of our allies (and of the United States as well, when Soviet ships return to U.S. trades in great numbers) be assured a fair marketplace. If the United States took the lead, it could fashion a "limited flag" environment where competition could be maintained between certain registries, but controlled carriers could be prevented from destroying free world merchant fleets.

On the actual UNCTAD Liner Code question, the panel called for U.S. leadership in solving restrictions on trade. Many countries that are signatories to the Liner Code (and this may shortly include many of our major allies) are not anxious for restrictive cargo carriage, Some are in fact looking for loopholes to escape the full impact of the Liner Code. The United States must take an active and aggressive role in the international arena, both for national security and for commercial reasons.

Defense-Related Issues

The importance of the merchant fleet to national security was emphasized by panel members. At the same time, the Center for Strategic and International Studies has forecast that the U.S. maritime industry will decline by one-third or more by 1989. The panel called for a comprehensive framework for both national security and commercial objectives. One element may be separating Government programs supporting shipyards from those supporting the operating industry. This point was raised a number of times throughout the sessions. Heavy manufacturing industry, like shipbuilding, is very different from transportation; solutions to their respective will be different as well.

Policy Needs

The need for flexibility in maritime policy was cited many times, The fact that the Merchant Marine Act of 1936 remained in place long after its usefulness had ended was responsible in part for the decline of the Merchant Marine, Through World War II, the Act accomplished its mission of building a U.S. merchant fleet. At that time, the United States had *61* percent of the world's tonnage. But continuing to subsidize a large healthy merchant marine during a time of limited competition resulted in a dependent and noncompetitive industry. The proliferation of Government restrictions and the disincentives to efficiency created by the subsidy system helped to undermine the fleet. Future policies must be structured more flexibility, so they can respond rapidly to the changing maritime environment.

Overall, the sense of this panel, as with several others, was that cargo policy should be an integral element of maritime policy, but in practice it should be used to increase marketplace freedom and competition, Unilateral commercial cargo reservation is detrimental to economic efficiency. Bilateral and multilateral agreements may be beneficial if they are structured so as to protect carriers against unfair trading practices and allow maximum market freedom within their framework.

Future Developments

This market freedom will allow innovative companies to flourish, while others may fail. The potential for growth in intermodalism was mentioned as an example. Some ports, like that of Seattle, are purchasing railroad cars and will offer their own intermodal service. The fact that some old-line maritime firms may be unable to compete with the innovators was seen as inevitable. The industry as a whole will be stronger and more competitive if innovation is more widespread.

PLENARY SESSION

Summary of Discussion

Defense-Related Issues

During the second-day wrap-up session, most of the major maritime issues were discussed. National defense questions absorbed much of the time. Again, it was suggested that the shipbuilding segment of the industry should be funded by DOD, and that operators should not be saddled with the cost of defense features requirements. DOD should pay for the vessels it deems necessary for national security, but budgetary restrictions might make it necessary to fulfill requirements only for direct military support vessels (like Ro/Ros), and to forego construction of ships to support the civilian economy in wartime. Support for the commercial U.S. shipbuilding industry probably cannot be justified on economic grounds alone, since the market for new construction is so depressed and Far East shipyards are able to offer prices that are so much lower.

One suggestion that would aid U.S. shipbuilding without cost would be to set up foreign trade zones for ship construction, in the same manner as they now exist for automobile and other manufacturing. Components and raw materials are imported without duty, and the absence of duty results in lower delivered cost. A few foreign trade zones for ships have already been established, For the practice to become widespread, however, MarAd regulations on domestic content for ships built under Government tax deferral or loan guarantee programs would have to be changed.

The availability of crews for reserve fleet ships was again questioned. With a merchant fleet of perhaps only 100 ships and newer vessels requiring fewer crew members, the pool of shipboard labor may soon be inadequate.

A question raised as a possible topic of further study was whether DOD has adequately considered whether commercial ships are as useful as DOD-designed ships, or more so, for defense support purposes.

Maritime Objectives

A broader national security raised at the workshop issue concerned what part of the merchant fleet should be considered as supporting national security. While only some ships are useful in direct military support, it might be considered that we are in economic warfare with the Soviet bloc. The Soviets have already introduced ships that offer substantially below-market rates in both U.S. and European trades. Their ability to dominate free world trade is clearly enhanced by the diminution of the U.S. fleet. Some would argue that this is sufficient reason for Government support of the entire merchant marine.

There was agreement that the merchant marine should not be viewed as an economic end in itself, but as a support for trade and U.S. exports. Some workshop participants held that U.S.-flag ships are more reliable than foreign ships and, therefore, their use is beneficial to shippers. Other participants, notably the shippers, pointed out that for U.S. goods to be competitive in the marketplace, their price must be reasonable. Any increase in transportation costs, such as results when shippers are required by preference laws to use U.S. vessels that may be higher cost, reduces the competitiveness of U.S. products.

On this issue, there really was no resolution. Carriers continue to believe that cargo preference is important to them and that it benefits shippers as well by making carriage on some routes possible. Shippers generally believe that the lowest transportation cost provides the greatest benefit to them and their customers. Liner operators point out that their rates are fixed by conferences and are identical with the rates of foreign-flag conference members. However, it was also pointed out that conference rates are generally fixed to be compensatory to the highest cost operator, frequently the U.S. operator.

Government Regulation

There was agreement that excessive Government regulation has been detrimental to all sides. Foreign building is considered essential to profitable liner operations. Currently, unsubsidized operators who build abroad are discriminated against in cargo-preference regulations. Those vessels must wait 3 years before having equal eligibility to carry Government cargoes. At the same time, subsidized carriers were allowed (for 1 year only) to build abroad, and those vessels can carry preference cargoes and receive operating subsidies immediately. Some weaker companies seek to sell the Government their older vessels in order to raise capital to build modern ships abroad. Some participants supported legislation permitting foreign building as a high priority.

It was also noted that subsidized operators are forced to adhere to operational differential subsidy (ODS) regulations relating to essential trade routes, min-max sailings, etc.[39] While there has been effort on the part of MarAd to reduce the burden of such regulations, some participants felt they should be removed. Others felt that if they were removed, a reduction in subsidy amount would be appropriate. Some participants believed that U.S. liner operators can compete in operating costs in the international sphere with modern containerships, and that the Government should cease making this more difficult than necessary. Nonsubsidized carriers have advocated removal of ODS for foreign-built ships as a feasible way to phase out the ODS restrictions and Government direct subsidy in general. They believe this would bring all U.S.-flag carriers into an equitable promotional situation.

[39] These regulations require that the operator who receives subsidy payments maintain certain sailings on routes that are defined as essential to U.S. trade.

Bulk Cargo Issues

On the bulk side, the story is different. Commercial shippers appear to be reasonably satisfied with this foreign-flag market. A truly free market exists, and shippers can negotiate terms and choose whatever carriers they wish. There was agreement that any efforts to reduce the freedom of the bulk markets, such as imposition of an UNCTAD bulk code, should be firmly resisted. Shippers are also firmly opposed to any Government-imposed commercial cargo reservation, such as that in several recent legislative proposals.

Other Issues

The bright spot in U.S.-owned bulk carriage is the USEC fleet, and there was sentiment that the U.S. Government should support this foreign-flag fleet through reduced regulation and strong advocacy in international forums. The current attack on open registries in UNCTAD is a situation where the U.S. Government could support American-owned foreign-flag fleets.

Finally, one participant stated that there appears to be one area where U.S. industry could make inroads—neobulk shipping.[40] Neobulk trades (such as automobiles) have been increasing rapidly, while liner and regular bulk trades have been steady. The U.S.-flag fleet has not penetrated this trade at all. Yet the vessels are of a type where the United States has a comparative advantage—sophisticated, highly technological vessels. Most operations are now by European or Japanese fleets. No specific suggestions were given as to how the U.S. Government might support expansion into these trades. Further study may be warranted.

[40] Trades where contract services are provided similar to bulk shipping practice but the commodities shipped are more of a general cargo type. Such commodities transported now in "ship-lots" are automobiles, logs, scrap steel, etc.