

POINT OF VIEW

Illinois Promotes a National Maritime Policy

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It is hoped that publication of each point of view will stimulate reader comment. Response by readers is encouraged in the form of Letters to the Editor, which will be published in subsequent issues of TRNews.

Contributions by readers to this Point of View series are also welcome. All articles received will be reviewed by the Editorial Board for suitability for publication.

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In the following article, Norman B. Wolf, Chief of the Ports Management Section, Illinois Department of Transportation, discusses past U.S. maritime policies, recent maritime proposals and programs, the need for a national maritime policy, and the efforts of Illinois in the development of such a policy.



Container crane, Port Elizabeth, New Jersey.

During the past 2 years, the state of Illinois has become involved in promoting the development of a national maritime policy. This has been in response to the deteriorating size and condition of the nation's merchant marine fleet and shipbuilding industry, the importance of waterborne exports and imports to the national economy, and the lack of a strong merchant marine fleet in a major industrialized nation for commerce and defense purposes.

Although Illinois does not offer solutions to specific problems or suggest elements that should be included in a national maritime policy, the state is seeking to provide leadership to stimulate the development of such a policy.

The economy of Illinois is highly dependent on access to international markets and on the ability of the United States to remain competitive in foreign markets. In 1980 the gross state product of Illinois was \$138.5 billion. State exports by all modes were valued at \$15.7 billion, representing 11.3 percent of the state gross product. In that year, Illinois led the rest of the states in tonnage and value of agricultural exports, and ranked fourth in manufacturing exports.

Of the \$15.7 billion in exports by Illinois in 1980, \$10.4 billion weighing 37.2 million tons were shipped by water. In addition, the state imported 28.5 million tons, valued at \$9.5 billion, by vessel. Thus it can be seen that the capability of the U.S. merchant marine fleet to move a portion of these products is of great concern to Illinois.

NEED FOR A MARITIME POLICY

The study by the U.S. Office of Technology Assessment, *An Assessment of Maritime Trade and Technology* (October 1983), concludes: Existing maritime policies are a patchwork of measures adopted at various times to address specific needs. They do not add up to a comprehensive and coherent policy with clearly defined purposes.... It is clear that major new or revised Federal



Container terminal in the Port Authority of New York and New Jersey.

policies are needed if the U.S. maritime industries are to remain healthy in the decades to come."

In 1980 the United States exported 403.9 million tons and imported 517.5 million tons of goods. The waterborne exports were valued at \$124 billion and imports at \$173 billion. A total of 4.8 million persons was employed in manufacturing, agricultural, mining, and other jobs related to exports alone. Despite the vitality of the national economy and the growth of exports and imports, there has been a decline in the size and capacity of the U.S. merchant marine fleet.

A major factor in this decline has been the lack of a national maritime policy, which is threatening the nation's capability to maintain a competitive fleet of vessels for waterborne commerce and defense purposes. The lack of consensus on maritime issues among the federal administration, the U.S. Congress, and the maritime industry has prevented the development of a comprehensive and consistent national maritime policy to establish direction for the rebuilding of this country's maritime industry and fleet.

The number of active vessels in the overseas fleet has declined from 1,110 ships in 1950 to fewer than 500 today. During this period, the foreign trade

transported in U.S. flag vessels has declined from 42 percent to less than 4 percent. Whereas the U.S. merchant fleet has fewer than 500 vessels, the USSR has more than 2,500 vessels in its merchant fleet.

EXISTING MARITIME POLICY

The cornerstone of existing U.S. maritime policy is the Merchant Marine Act of 1936, which states that "it is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine" that meets the following objectives:

- (a) sufficient to carry its domestic waterborne commerce and a substantial portion of the waterborne export and import foreign commerce,
- (b) capable of serving as a naval and military auxiliary in time of war or national emergency,
- (c) owned and operated under the U.S. flag by citizens of the United States insofar as may be practicable,
- (d) composed of vessels constructed in the United States and manned with trained and efficient citizen personnel,
- (e) supplemented by efficient facilities for shipbuilding and ship repair.

To implement this policy, direct cash payments from the federal government were made to defray the higher costs of U.S. shipbuilding and operation of U.S. flag vessels through the Construction Differential Subsidy (CDS) and the Operating Differential Subsidy (ODS) programs.

In 1970 passage of amendments reaffirmed the fundamental policies of the 1936 Merchant Marine Act, and the 1970 Act made a commitment of federal government support for the construction of 300 ships over the next 10-year period.

Between 1936 and 1980, the federal government expended \$3.1 billion to subsidize the construction of U.S. flag vessels, \$202 million for reconstruction, and \$5.8 billion in operating subsidies to offset the higher costs of the vessels—a total government expenditure of about \$9.2 billion. Only \$600 million,

or 6.5 percent of this total, was spent between 1936 and 1955. As indicated by the decline in the number of U.S. flag ships, it is evident that these programs have not been successful in achieving the policy goal of developing a U.S. merchant marine fleet.

RECENT MARITIME PROPOSALS AND PROGRAMS

During the past 4 years, the federal administration initiated, proposed, or supported several programs to promote U.S. exports and to develop the U.S. merchant marine, including:

- Transfer of the Maritime Administration from the Department of Commerce to the Department of Transportation.
- Elimination of the Construction Differential Subsidy funding program beginning in fiscal year 1982.
- Passage of the Export Trading Company Act of 1982 to encourage U.S. companies to export through the formation of export trading companies. These companies would be certified for exemption from U.S. antitrust laws that prohibit companies from joining together to market their products and to set prices.
- Creation of an industry-based Maritime Advisory Committee.
- Proposal to reorganize U.S. trade policy by the creation of a Department of International Trade and Industry.
- Program to expand the U.S. naval fleet from 500 ships to a total of 600 ships by the end of the decade, which would produce about \$48 billion in construction contracts for the private U.S. shipbuilding industry.

Container terminal in the Port Authority of New York and New Jersey.



- Proposal of a maritime promotion program to permit (a) overseas construction of vessels by subsidized U.S. vessel operators without loss of operating subsidies, (b) U.S. vessel operators to use certain tax-deferred funds to purchase foreign built ships, (c) vessels newly transferred from foreign to U.S. registry to be immediately eligible to carry government preference cargoes instead of having to wait 3 years, and (d) an increase in the percentage of foreign investment in U.S. flag vessels.

- Enactment of the Shipping Act of 1984 to revise U.S. maritime regulations. The regulatory changes authorized by this Act are discussed later.

Along with the above programs, the federal administration supports free international trade with open markets and minimal trade restrictions on access to markets in each country. Showing its commitment to free trade, the federal government opposes legislation such as the Competitive Shipping and Shipbuilding Act, introduced in the 98th Congress, that would require the shipment of an increasing percentage of export and import bulk commercial, nonsubsidized cargoes on U.S. flag vessels.

In addition, the United States has not signed the United Nations Code of Conduct for Liner Conferences, which provides for closed conferences for the flag vessels of trading partners and allows for the vessels of other countries to enter the trade only by consent of the trading partners. The Code suggests an allocation of 40 percent of the liner cargoes to the flag vessels of each country with 20 percent made available to third-party carriers (a 40/40/20 percent cargo reservation system).

Perhaps the most controversial policy actions by the federal administration have been both the cutoff of CDS funds and proposals to encourage the overseas building of U.S. vessels. This approach could reduce or eliminate outlays of federal construction subsidies and thereby reduce the federal deficit; however, it would not provide a comprehensive

sive solution to the problems facing the U.S. merchant marine. With the termination of CDS and the foreign construction of new U.S. flag vessels, U.S. shipyards will be increasingly dependent on naval orders. However, the increase in naval vessel construction as proposed will be sufficient to support only a small number of shipyards—far fewer than needed to support a shipyard mobilization base in a national emergency.

The proposals by the federal government, as well as legislation introduced at the request of shipbuilders and other sectors of the maritime industry, are working at cross purposes to achieve limited objectives that would further separate components of the maritime industry. Although the government's maritime promotion program has generated some support from subsidized U.S. vessel operators that could reduce costs by constructing new vessels overseas, in general there has been strong opposition by the shipbuilding industry to the build-foreign proposals. In addition, although the shipbuilding industry and U.S. maritime labor unions endorse the cargo reservation proposals of the Competitive Shipping and Shipbuilding Act, the exporters and importers of bulk commodities in the United States are against the mandated use of higher-cost U.S. flag bulk vessels.

SHIPPING ACT OF 1984

The Shipping Act of 1984 was signed into law by President Reagan on March 20, 1984. It was enacted to establish a nondiscriminatory regulatory process for ocean transportation that minimizes federal intervention and regulatory cost, to provide an efficient and economic ocean transportation system in harmony with and responsive to international shipping practices, and to encourage the development of an economically sound and efficient U.S. flag liner fleet capable of meeting national security needs.

The 1984 Shipping Act represents the first major overhaul of U.S. mari-

time regulations since the Shipping Act of 1916. The purpose of the original Act was to regulate international liner shipping in the U.S. trades; however, at that time, the significant technological advances that have occurred in shipping, in particular, the advent of containerization, were not envisioned.

During the past decade, the freight transportation industry has been transformed by the increased use of containers for the shipment of relatively small-lot, high-value commodities that would otherwise be shipped in small bundles or boxes or lashed to pallets. The use of containers for the overseas shipment of cargoes to and from the United States increased from 800,300 20-ft equivalent units (TEU) in 1970 to 3,946,300 TEU in 1982, an increase of 393 percent during this period. This has brought about the replacement of labor-intensive break-bulk cargo ports and general cargo vessels by specialized container-carrying vessels and capital-intensive container port facilities.

The major purposes of the 1984 Shipping Act are to limit government involvement in the commercial practices of ocean carriers, to provide carriers in U.S. trade with the capacity to better respond to customer needs, and to encourage liner operators in U.S. trade to enter into business agreements with relative certainty of freedom from antitrust regulations.

The 1984 Shipping Act clarifies the role of the Federal Maritime Commission (FMC) in regulating ocean shipping. Although the 1916 Shipping Act required that tariffs and liner shipping agreements be filed with the FMC, no time limit was set on the review period for shipping agreements. The 1984 Shipping Act continues the filing requirement; however, shipping agreements among ocean common carriers, marine terminal operators, and between carriers and terminal operators are to become effective within 45 days after filing. The Act establishes a "general standard" for reviewing agreements that allows the FMC to seek injunctive relief through a federal court if it determines that an



Crane off-loading of container, Port Elizabeth, New Jersey.

agreement is likely to significantly reduce competition, reduce the availability of transportation service, or unreasonably increase transportation cost.

Ocean carriers and steamship conferences are authorized under the 1984 Shipping Act to improve profitability by apportioning cargoes and revenues, determine which ports to serve and the frequency of service, limit the volume and types of cargoes to be carried, enter into confidential service contracts with individual shippers, and offer intermodal through-rates from inland points of origin and destination in the United States. These rates are generally preferred by shippers over port-to-port rates, which place the burden on the shipper to solicit different modes and carriers for the lowest inland rates. In addition, any member of a steamship conference may take "independent ac-

tion" on any rate or service item in the conference's tariff, on 10 days notice, which generally will provide a reduced rate for an individual shipper. Any other member of the conference can then adopt the independent rate or service item. This right of independent action should help offset the ability of the conference to set higher rates.

While the Shipping Act of 1984 should assist the U.S. flag liner fleet to become more competitive in the international shipping market, the Act does not in itself constitute a comprehensive national maritime policy. Furthermore, there are concerns that the new authorities provided to vessel operators and steamship conferences may have negative economic impacts on certain ports and small and medium-sized shippers. Individual carriers or conferences may use the authority to rationalize port ser-

vice by designating one or two "load center" ports on each range of ports or on each coast where intermodal cargo shipments will be centralized. This may enable carriers to consolidate sufficient quantities of cargo to load entire ships at one port, thereby eliminating the need for time-consuming multiple port calls to fully load each vessel. This possibility has generated concern by many ports in which both public and private funds have been invested in recent years to develop container-handling terminals, and which now face the prospect of not being designated as load center ports along with the loss of shipping lines and cargoes. Also, there is the concern that small and medium-sized shippers may be at a disadvantage, relative to large shippers, due to their inability to negotiate service contracts with carriers or conferences or to leverage independent action

on rates or service. While the Act authorizes the formation of shippers' councils to negotiate for volume discount rates for members, the councils are not provided with antitrust immunity for collective actions by member shippers.

ILLINOIS EFFORTS

Illinois maintains that there is a lack of a consensus within the federal administration, the U.S. Congress, and the mari-

time industry itself on an approach to revitalize the U.S. merchant marine fleet. Because of this, the Council of Great Lakes Governors, comprised of representatives from the six states of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin, wrote to President Reagan to express the states' concerns about the decline of the U.S. merchant fleet and the urgent need for a national maritime policy. The Council noted that the federal administration has addressed other critical national issues by creating special task forces to define the problems and recommend solutions. The Council recommended that a special

task force be created to study the problems facing the maritime industry, recommend solutions to be implemented by both the federal government and the maritime industry, and prepare a final report that recommends a national maritime policy. It was recommended that the membership of this task force include members of Congress, state governors, representatives of the federal administration including the Department of Defense, and representatives of the maritime industry from each of the four U.S. seacoasts including port authorities, labor, terminal and vessel operators, and shippers.

TRB Annual Meeting Session Captured on Videotape

Three sessions of TRB's 1985 Annual Meeting were devoted to presentations and discussions on the Strategic Highway Research Program (SHRP) that has evolved from the Strategic Transportation Research Study (STRS): Highways carried out by TRB. In Session 1, the first of the three sessions entitled "America's Highways: Accelerating the Search for Innovation," distinguished speakers discussed SHRP from the perspectives of their individual organizations. The speakers included Thomas B. Deen, TRB Executive Director, who discussed the background of

STRS; Thomas D. Larson, Secretary of the Pennsylvania DOT and Chairman of the Study Committee, who gave an overview of STRS and its recommendations; and Francis B. Francois, AASHTO Executive Director, who discussed the organization for program implementation. Also making presentations were Ray A. Barnhart, Federal Highway Administrator; William A. Ordway, Secretary of the Arizona DOT; and Fofu I.F. Sunia, U.S. Delegate from American Samoa, who gave the FHWA, state, and congressional perspectives, respectively.

Arrangements were made to cap-

ture these presentations on videotape, copies of which are now available in 1/2-in. VHS-SP and BETA II formats, and can be borrowed for up to 30 days. There is a \$10.00 fee to cover handling and postage charges. For further information, contact Jewelene Gaskins, Transportation Research Board, 2101 Constitution Avenue, N.W., Washington, D.C. 20418; telephone 202-334-2958.

The complete report of the Strategic Transportation Research Study: Highways is entitled *Special Report 202: America's Highways: Accelerating the Search for Innovation* and is available from TRB (price \$18.60).



Speakers at the SHRP session: left to right, Ray A. Barnhart, Thomas B. Deen, Thomas D. Larson, Francis B. Francois, and William A. Ordway.