EXTENDING COASTWISE PRIVILEGES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON
MERCHANT MARINE AND FISHERIES
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

ALASKAN HOVERCRAFT—H.R. 1372

JUNE 9, 1983

REVITALIZATION OF THE DOMESTIC CRUISE INDUSTRY—H.R. 2883

JUNE 15, 23, 1983

PUERTO RICO PASSENGER TRANSPORTATION—H.R. 89

OCTOBER 19, 1983

GRANTING COASTWISE PRIVILEGES TO CERTAIN VESSELS—S. 1015, S. 1186, AND S. 1689

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ALASKAN HOVERCRAFT

THURSDAY, JUNE 9, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 3:25 p.m., in room 1334, Longworth House Office Building, Hon. Mario Biaggi (chairman of the subcommittee) presiding.

Present: Representatives Biaggi, Snyder, and McKernan.

Staff present: Ric Ratti, Greg Lambert, Ann Mueller, Gerry Seifert, Jeff Oshins, Steve Little, Kip Robinson, and Gwen Lockhart.

Mr. BIAGGI. The subcommittee will come to order. The Merchant Marine Subcommittee meets today to consider H.R. 1372—legislation introduced by Hon. Robert Badham, a distinguished Member of Congress from California. H.R. 1372 would permit foreign-built hovercraft—that have operated in Alaska under the terms of the 1978 Surface Transportation Assistance Act—to continue to engage in that trade for an additional 5 years.

Since the early 1800's, the United States has restricted participation in the coastwise trade to vessels built in the United States and documented under the laws of our Nation. This subcommittee views the cabotage laws as important tools for assuring a strong U.S. merchant marine and shipbuilding base. We, therefore, carefully review any attempts to confer coastwise trading privileges on foreign-built vessels.

The subcommittee will grant an exception only when enforcement of our coastwise laws will cause inequity—or when an important public purpose will be advanced through the granting of an exemption.

Proponents of this legislation have informed the committee that enactment of this bill will permit only two foreign-built vessels to remain in the Alaskan trade, and that exclusion of these vessels from that trade would have a severe adverse impact on Alaskan oil and gas production, since substitute vessels built in the United States are not presently available.

I hope that today's hearing will provide us the necessary information on which to base a decision as to the desirability of continuing this exception to our cabotage laws.

I ask unanimous consent to place in the record of this hearing the following: A statement by the bill's sponsor, Hon. Robert E. Badham of California; a statement by Hon. Robert W. Edgar of Pennsylvania; a telegram from Hon. William A. Sheffield, Gover-

nor of the State of Alaska, dated June 8, 1983; and a statement by Crowley Maritime Corp.

[The material follows:]

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C., June 6, 1983.

To: Members, Subcommittee on Merchant Marine.
From: Subcommittee staff.
Subject: H.R. 1372—To provide for continued operation of certain foreign-built hovercraft in the Alaskan coastwise trade.

INTRODUCTION

H.R. 1372, introduced by Mr. Badham of California and cosponsored by Chairman Jones, relates to the continued operation in the Alaskan coastal trade of certain foreign-built hovercraft vessels which have been operating pursuant to a waiver contained in the Surface Transportation Assistance Act of 1978.

BACKGROUND

In August 1978, during Senate consideration of the Surface Transportation Assistance Act, Senator Gravel of Alaska introduced an amendment to authorize the use of foreign-built hovercraft in Alaska for five years. Hovercraft are vehicles which produce a cushion of air and travel on that cushion over land and water. The Gravel amendment was adopted by the Senate and accepted by the House during Conference.

Subcommittee investigation has indicated this exception was utilized only by the *"Act-100,"* owned by Global Marine Development, Inc. of Newport Beach, California (a subsidiary of Global Marine). There is, however, another foreign-built hovercraft (the *Yukon Princess I)* that was utilized in the construction of the Trans-Alaskan pipeline, but that has not been used for commercial purposes under the waiver in the 1978 Surface Transportation Assistance Act. It is unclear whether this vessel obtained a Jones Act waiver during its operation in Alaska. Because of the nature of a hovercraft, it is possible that the owner did not recognize that the *Yukon Princess I* was a vessel subject to the Jones Act and, hence, did not realize the necessity of a waiver.

The vessel, originally owned by the Aleyeska Company of Alaska, was purchased by Frank W. Hake, Inc. of Eddystone, Pennsylvania. Frank W. Hake, Inc. has requested that H.R. 1372 be amended to allow their vessel to also participate in the trade. Frank W. Hake also owns a U.S.-flag vessel *(Yukon Princess II)* built by the Trans-Arctic Company of Houston, Texas.

ISSUES

Should a waiver to the Jones Act be granted these vessels?

Both owners argue that their vessels meet an important public need by assisting in the production of offshore resources in Alaska while not injuring the fragile Arctic environment. It is maintained that these vessels could not be readily replaced and that no U.S. shipyard is equipped to produce hovercraft.

Critics argue that the admittance of foreign-built vessels into the U.S. trade harms U.S. shipyards, which could fill the need for hovercraft if potential operators were not permitted to utilize foreign-built vessels.

STATEMENT OF HON. ROBERT R. BADHAM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, members of the committee, thank you for the opportunity to present my views on H.R. 1372, the legislation I introduced to extend for 5 years the current Jones Act waiver which allows foreign-built air cushion vehicles to operate in Alaska until November, 1983.

The legislation before you today is straightforward; however, the implications are far reaching, involving the economic well-being and national security of our nation.

For the past decade, the need to reduce America's reliance on imported energy resources has been clear, and, of course, a key to accomplishing this is to develop the oil resources which exist off our coast, particularly those off the Alaskan coast.

As stated in a recent Business Week article, "The Arctic quest is nothing less than a search for energy security for the 1990's and beyond."

In this Arctic quest, there are, inherently, tremendous environmental obstacles to overcome. Fortunately, the 1978 waiver to the Jones Act for air cushion vehicles has enabled research, development and testing to proceed on the critical questions of how to service and re-supply offshore rigs, and respond in event of an emergency, despite Arctic weather conditions and often impassable terrain.

The *Act-100,* an air cushion vehicle owned by Global Marine Development Inc., of Newport Beach, California has, since 1980, been engaged in tests to demonstrate the ability of hovercraft to operate over water, land, ice, and tundra as well as to employ different methods of propulsion such as towing by tug, winching and helicopter towing.

GMDI's work with the *Act-100* has contributed significantly to the advancement of the hovercraft technology and its utilization for energy exploration and recovery in the Arctic.

However, further development of hovercraft technology is necessary before it can be successfully commericalized. Given the importance of the air cushion vehicle to domestic oil production and the fact that the Global Marine Development Inc. *Act-100* is the only craft of this type currently operating on the North Slope, it is essential that additional time be granted in which demonstration and testing of the capabilities of this vessel can be completed.

Thus, I urge you to favorably consider H.R. 1372 to extend the waiver for foreign-built hovercraft to operate in Alaska. By so doing, you will be protecting and enhancing the economy and security of our country.

STATEMENT OF HON. ROBERT W. EDGAR A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, thank you for allowing me to appear before your Subcommittee regarding H.R. 1372, a bill to provide for the operation of certain foreign built vessels (hovercraft) in the coastwide trade of Alaska until November 6, 1988.

I do appreciate the concern that the number and extent of waivers for foreign-built vessels be limited. It is my understanding that only two firms seek relief for foreign-built hovercraft in Alaska, each having one craft of foreign manufacture.

One company's craft would be granted relief under the language of H.R. 1372 as it was submitted. My constituents, Hover Systems, Inc., a wholly-owned subsidiary of Hake, Inc., are seeking equal relief through amendment of the language of H.R. 1372. They have prepared for the Subcommittee's consideration three possible amendments to achieve equitable relief for the two firms, and are present at this hearing to answer any questions you may have.

I would like to express my support for the granting of equal relief to the two firms, and I feel that the specific choice of wording is best left to the discretion of your Subcommittee. I further believe that H.R. 1372, suitably amended, will serve to limit the use of waivers to a carefully restricted situation.

Your respect of the needs of the two firms which seek relief is greatly appreciated. Thank you for your consideration of my remarks.

JUNEAU, ALASKA, *June 8, 1983.*

PMS JOHN KATZ,
Office of the Governor of Alaska,
Washington, D.C.

The State of Alaska supports H.R. 1372 which extends the present waiver from Jones Act provisions for foreign built air cushion vehicles (ACV's hovercraft) for another five years. In Alaska users of ACV(s) frequently operate in areas of extremely hazardous conditions. The environment is frequently so severe that depriving use of the opportunity to select the most reliable, flexible and durable equipment available is courting disaster in human lives and financial commitment.

BILL SHEFFIELD,
Governor of Alaska.

PREPARED STATEMENT OF CROWLEY MARITIME CORP.

Crowley Maritime Corp. opposes H.R. 1372, "A Bill to Provide for Operation of Certain Foreign Built Vessels Off Alaska Until 1988". The "foreign built vessels" in

question is a hovercraft presently in Alaska. We would, however, not oppose the operation of that particular vessel for a shorter period, e.g. one year.

Crowley Maritime Corp. is a large maritime transportation company headquartered in San Francisco, with substantial investments in the Jones Act trade; in particular, trade between the lower 48 states and Alaska, and with services on the North Slope of Alaska. Operations in the Jones Act trade are conducted without subsidies and employ vessels built and registered in the United States, and operated by United States crews.

We oppose intrusions to the Jones Act in principle because of the need to insure the continuation of laws under which our investments have been and will continue to be made. Many of the domestic operators have very substantial debts on equipment built for the domestic trade and any relaxation in the adherence to the Jones Act is a threat to our ability to pay our debts and to borrow money to further advance the American Merchant Marine.

The principal reasons for passage of the Jones Act in 1920—national security and economic welfare—are valid today.

The U.S. Merchant Marine has been referred to as the nation's "fourth arm of defense". So crucial is our merchant marine for national security that Congress charged the Maritime Administration with maintaining a merchant fleet capable of service as a naval and military auxiliary in times of war or national emergencies. The Jones Act assures us that we will have a healthy domestic fleet capable to serve in national defense capacities. The economic considerations underlying the Act were to assure employment of American citizens in shipbuilding and vessel manning, and to protect the ratepayer by prohibiting low-cost foreign competition from entering U.S. domestic trade routes, thereby driving out U.S.-flag carriers, and then increasing rates to unreasonable levels.

It has come to our attention that there are advocates of extending the operating authority permanently rather than until 1988. We would consider such permanent extension particularly offensive. The hovercraft in question was granted an exemption from the Jones Act to operate for the five year period ending in November 1983. The intent was to determine whether the operation of such a vessel for the intended purpose was feasible. Another five years should not be necessary to accomplish that purpose, and certainly a permanent exemption should not be required.

In the April 25, 1983 issue of Ocean Construction Report there is an item as follows:

"SOHIO to Order Air Cushion Vehicle for Operations on North Slope—SOHIO is expected to contract by July 1983 for fabrication of a 14,000hp air cushion vehicle to move rigs and supplies over water and ice on the North Slope beginning in 1984. The $25 million vehicle is expected to be ½ acre in area and weigh 1,000 tons."

It is our understanding the SOHIO's plans for construction and operation will fulfill the statutory Jones Act requirements but that the July 1983 contract date has been delayed for about one year.

On the basis of this evidence and in principle we believe it would be inappropriate to extend the authority to operate a foreign built hovercraft off Alaska beyond one year, at which time it appears that a U.S.-built hovercraft could become operational.

[The bill follows:]

I

98TH CONGRESS
1ST SESSION

H. R. 1372

To provide for the operation of certain foreign-built vessels in the coastwise trade of Alaska until November 6, 1988.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 10, 1983

Mr. BADHAM (for himself and Mr. JONES of North Carolina) introduced the following bill; which was referred to the Committee on Merchant Marine and Fisheries

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A BILL

To provide for the operation of certain foreign-built vessels in the coastwise trade of Alaska until November 6, 1988.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That any hovercraft which operated in the State of Alaska
4 under the terms and provisions of section 146 of the Surface
5 Transportation Assistance Act of 1978 (46 U.S.C. 883 note)
6 on or before January 1, 1982, shall be eligible to continue
7 operating within the State of Alaska until November 6,
8 1988. The repair or reconstruction of any hovercraft to
9 which this Act applies shall be performed as if that hovercraft

1 were a vessel of the United States eligible to operate in the
2 coastwise trade.

O

Mr. BIAGGI. Our witnesses today are Nathan Sonenshein, Rear Admiral, U.S. Navy (Retired), assistant to the president of Global Marine Development, Newport Beach, Calif.; and Richard G. Longaker, vice president and general manager, Hover Systems, Media, Pa.

STATEMENT BY NATHAN SONENSHEIN, REAR ADMIRAL, U.S. NAVY (RETIRED), ASSISTANT TO THE PRESIDENT, GLOBAL MARINE DEVELOPMENT, INC., NEWPORT BEACH, CALIF.

Admiral SONENSHEIN. Mr. Chairman and members of the subcommittee, my name is Nathan Sonenshein, I'm a Rear Admiral, U.S. Navy (Retired). I'm here today representing Global Marine Development, Inc., in which organization I'm the assistant to the president.

Mr. Curtis Crooke, our president, and Mr. Raymond Bennett, our vice president, who had expected to be here, and were in fact on their way here, regret they are not able to participate. They were diverted to Houston on an important matter of business which I'll describe later.

We have prepared a statement, which is available for the record, and I will summarize some of the highlights of it, if I may, Mr. Chairman.

GMDI, which is the abbreviation for our company, Global Marine Development, Inc., strongly supports the passage of H.R. 1372, which provides that any hovercraft that operated in the State of Alaska under the terms and provisions of the Surface Assistance Transportation Act of 1978 on or before January 1, 1982, shall be eligible to continue operating within the State of Alaska until November 6, 1988. It further provides that the repair or reconstruction of any hovercraft to which that act applies shall be performed as if that hovercraft were a vessel of the United States eligible to operate in the coastwise trade.

Our interest is centered on the continued operation in Alaska of the *Act-100,* a nonself-propelled prototype vessel designed to float on a cushion of air created by fans in the craft. Global Marine owns this craft, whose photograph within principal characteristics are presented in attachments II and III of the statement. The vessel is 79 feet long, 61 feet wide, can carry a 100-ton payload, and is supported on an air cushion which is developed within a rubber skirt. The vessel is currently based on the North Slope in Alaska where it has been operated successfully in a developmental mode through a joint venture with VECO, Inc., an Alaskan corporation.

This vessel is uniquely suited for the Alaskan environment in which it is capable of moving across rivers, the tundra, open water, and combinations of water and ice during fall freezeup and spring breakup.

I will now summarize the circumstances under which *Act-100* was built in Canada in 1971, brought to Alaska in 1980, and operated since then in Alaska under the Jones Act waiver contained in the Surface Transportation Assistance Act of 1978.

In early 1971 the vessel was constructed by Dominion Bridge Co. in Edmonton, Alberta. The capital cost was split three ways among the Canadian Government's program for advancement of industrial

technology, at 50 percent; Global Marine, 25 percent; and Raymond International, 25 percent. The total cost of construction was about $700,000.

Between 1971 and 1973, tests and operations over land, shallow water, ice, deep water, and rivers were conducted in Canada, under funding by the Canadian Government and various Canadian oil companies.

In 1975 to 1976 the vessel was adapted for use as an icebreaker that could be attached at the bow of ships. She operated successfully in this mode out of Thunder Bay, Ontario on Lake Superior. This was on behalf of the Canadian Coast Guard.

In 1978, on the 6th of November, the Congress, at the request of the State of Alaska, included in the Surface Transportation Assistance Act of 1978 a provision as follows: "Effective during the 5-year period beginning on the date of enactment of this act, nothing in section 27 of the Merchant Marine Act of 1920 or any other provision of law restricting the coastwise trade of the United States shall prohibit the transportation within the State of Alaska of merchandise or passengers by foreign built hovercraft.

"For the purpose of this section the term "hovercraft" means a vehicle which travels over land or water on a cushion of air generated by such vehicle."

According to congressional records, this was agreed to in conference between committees of both Houses, and was intended to facilitate Federal and State transportation projects. This waiver was not sponsored by Global Marine.

In 1980, however, taking advantage of this provision, we formed a joint venture with VECO of Alaska and, at a total cost of about $4 million, disassembled the *Act-100* at Thunder Bay, transported it in sections by trucks to Alaska; and reconstructed the vessel at Prudhoe Bay in a modified configuration.

Since that time the craft has been engaged in a number of tests sponsored by various U.S. oil companies. Their purpose has been: first, to demonstrate the operability of the vessel over various terrains—water, land, ice, and tundra; and second, to show the adaptability of the craft to various methods of propulsion—including towing by helicopter which was a spectacular success. A photograph of that operation is contained in our statement Attachment IV. Our third purpose has been to further develop air cushion technology in Alaska; and, last, we are seeking to develop a commercially viable venture.

In conclusion, it can be said that the air cushion vessels are especially well suited for the Arctic environment. Test after test has shown them to be compatible with the fragile Alaska ecosystem. However, successful commercialization of the concept requires further development of the technology, including logistic support of the vessels, training of crews, and maturing of a regulatory framework. The pace of this effort is, of course, geared to the offshore and onshore search for energy by oil companies operating in Alaska. Three companies, Arco, Shell, and Sohio, have supported our undertaking by sending letters to the Alaskan congressional delegation, and these letters are included in our attachment V.

Additionally, a few recent developments have occurred that strengthen these views. In an Alaskan—the "Alaskan Report"

newspaper, published on the 1st of June 1983, there is the following statement which I would like to read into the record. I can provide a copy of this for the reporter, if he wishes it. It is entitled, "Transportation is Key Factor in Mukluk Venture." "Sohio Alaska Petroleum Co., has filed an exploration plan for the Mukluk structure with the U.S. Geological Survey which indicates air cushion vehicles may be used to help deal with the critical factor of transportation to the remote site in the Beaufort Sea. The artificial drilling island is nearly 30 miles from the Oliktok Point barge dock and more than 50 miles from the main supply point at Prudhoe Bay. A Sohio spokesman said leasing of a self-propelled hovercraft for use on the Mukluk project to assess its potential for year around operation in the area is currently under consideration."

It goes on to give details which I'll not repeat at this time, except to say that Sohio has, in fact, in the last week chartered a hovercraft from the U.S. Navy, the ship is called *Jeff-A*, and is preparing to transport it to the North Slope where Sohio plans to use it probably in conjunction with the *Act-100.*

Additionally, another major U.S. oil company is planning on positioning a new concept mobile, offshore, drilling unit about 30 miles west of the gravel island to be built by Sohio, which I just described. It will also be located on the Mukluk structure. It is contemplated it will be a non-self-propelled, prestressed concrete barge with a steel deckhouse for accommodating a drilling rig. After being towed to the site, the vessel's tanks will be flooded, and she will become a gravity structure sitting on the bottom. On completion of drilling, the tanks will be deballasted and the vessel can then be towed to another site. In effect, it will be a movable island. It will require transportation services such as helicopter and air cushion vehicles when it is put in operation, hopefully in 1984. This mobile offshore drilling unit is a AMDI concept known as "CIDS" for concrete island drilling system, and our president is not here today because he is heavily involved in negotiations for this project.

Unfortunately, the short time remaining for vessels, such as the foreign-built *Act-100,* during which the exemption from the Jones Act is applicable is not sufficient to proceed with confidence in developing our objectives on our part, or on the part of our prospective customers. Global Marine and VECO have, since 1970, expended over $5 million in bringing *Act-100* to her present state of development and operational readiness. Additional resources cannot be prudently committed unless her continued use in Alaska can be extended until 1988, as proposed in H.R. 1372. Your favorable consideration of this legislation is, therefore, strongly recommended.

Thank you, Mr. Chairman.

[Prepared statement of Curtis Cooke follows:]

TESTIMONY OF R. CURTIS CROOKE
PRESIDENT OF GLOBAL MARINE DEVELOPMENT INC
2302 MARTIN STREET
IRVINE, CALIFORNIA 92715

BEFORE THE
MERCHANT MARINE SUBCOMMITTEE
OF THE
MERCHANT MARINE AND FISHERIES COMMITTEE
OF THE
HOUSE OF REPRESENTATIVES
NINETY-EIGHT CONGRESS

JUNE 9, 1983

Mr. Chairman and Members of the Subcommittee:

My name is R. Curtis Crooke, and I am here today representing Global Marine Development Inc (GMDI), of which I am President, in order to present our views on HR 1372, a bill to provide for the operation of certain foreign-built vessels in coastwise trade of Alaska until November 6, 1988. I am accompanied by Mr. Raymond A. Bennett, Vice-President for Commercial Products, and Rear Admiral Nathan Sonenshein, USN (Ret), who has been Assistant to the President since 1974. Our professional biographies are given in Attachment I.

GMDI is a California corporation and, as its name implies, is the advanced development subsidiary of Global Marine Inc., a major international offshore drilling contractor with interests in oil and gas exploration and other energy-related activities. Through another subsidiary, Global Marine now has in service 29 mobile offshore drilling units and is projecting a fleet of 35 in the near future through current new construction. GMDI's work is directed primarily to support of offshore oil and gas exploration in the Arctic through advancements in design of drilling units for that severe environment.

Other ocean engineering interests of GMDI include deep sea mining, emplacement of scientific instruments in the seafloor; deep sea search, recovery and salvage; and disposal of radioactive wastes. A sister subsidiary - Oceanographic Services Inc (OSI) of Santa Barbara, California - also emphasizes support of the Arctic oil and gas industry through the development of instruments for monitoring ice properties and movements, and data systems for surveilling offshore structures during deployment and operation and through the provision of a wide range of meteorological and environmental services. During the past year GMDI and OSI established a joint office in Anchorage, Alaska to better coordinate our Arctic services.

GMDI strongly supports passage of HR 1372, which provides that any hovercraft which operated in the State of Alaska under the terms and provisions of the Surface Assistance Transportation Act of 1978 on or before January 1, 1982, shall be eligible to continue operating within the State of Alaska until November 6, 1988. It further provides that the repair or reconstruction of any hovercraft to which that Act applies shall be performed as if that hovercraft were a vessel of the United States eligible to operate in the coastwise trade. Our interest is centered on the continued operation in Alaska of the ACT-100, a nonself-propelled prototype vessel designed to float on a cushion of air created by fans in the craft. Global Marine owns this craft, whose principal characteristics and photograph are presented in Attachments II and III, and currently has the vessel based on the North Slope where it has been operated successfully in a developmental mode through a joint venture with VECO Inc., an Alaskan corporation. The ACT-100, whose payload is about 100 tons, is uniquely suited for the Alaskan environment in which it is capable of moving across rivers, the tundra, open water and combinations of water and ice during fall freezeup and spring breakup.

I will now summarize the circumstances under which ACT-100 was built in Canada in 1971, brought to Alaska in 1980, and operated since then in Alaska under the Jones Act waiver contained in the Surface Transportation Assistance Act of 1978.

JANUARY - MARCH 1971:

Vessel was constructed by Dominion Bridge Co., in Edmonton, Alberta. The design was accomplished by GMDI through its then wholly owned subsidiary - Arctic Systems Ltd. - which supervised construction and subsequently operated the vessel. A significant amount of U.S. supplied equipment (engines, fans, steel) was used. Capital cost was split three ways among the Canadian Government's Program for Advancement of Industrial Technology (PAIT) - 50 percent, Global Marine - 25 percent, and Raymond International - 25 percent. Total cost of construction was about $700,000.

MARCH 1971 - DECEMBER 1973:

Tests and operations over land, shallow water, ice deep water and rivers were conducted at Edmonton, Alberta; Yellowknife, NWT; on the Mackenzie River and on the Arctic Red River. Costs of operation were funded by the Canadian Government and various oil companies.

1975 - 1976:

Vessel was adapted for use as an icebreaker that could be attached at the bow of ships and operated successfully in this mode out of Thunder Bay, Ontario on Lake Superior. Operations were funded by the Canadian Coast Guard.

NOVEMBER 6, 1978:

At the request of the State of Alaska, the Surface Transportation Assistance Act of 1978 included the following provision:

> "(a). Effective during the five-year period beginning on the date of enactment of this Act, nothing in Section 27 of the Merchant Marine Act, 1920 (46 USCS Section 883) or any other provision of law restricting the coastwise trade of the United States shall prohibit the transportation within the State of Alaska of merchandise or passengers by foreign built hovercraft."
> "(b). For the purpose of this section the term 'hovercraft' means a vehicle which travels over land or water on a cushion of air generated by such vehicle."

It is understood that this language, agreed to in conference between committees of both Houses, was intended to facilitate Federal and State transportation projects. It was not sponsored by Global Marine.

1980:

GMDI formed a joint venture with VECO Inc., which, at a cost of about $4M, disassembled ACT-100 at Thunder Bay, transported the sections by truck to Alaska; and reconstructed the vessel at Prudhoe Bay, Alaska in a modified configuration.

1980 - PRESENT:

Since her relocation, the craft has been engaged in a number of tests sponsored by various U.S. companies. The purpose of the tests has been:

1. To demonstrate the operability of the vessel over various terrains; e.g., water, land, ice and tundra.
2. To show the adaptability of the craft to various methods of propulsion; e.g., winching, pulling by rolligons, towing by tug - and most spectacularly - towing by helicopter. (Attachment IV is a photograph of this latter test.)
3. To further develop air cushion technology in Alaska.
4. TO develop a commercially viable venture.

In conclusion, it can be said that air cushion vessels are especially well suited for the Arctic environment. Test after test has shown them to be compatible with the fragile Alaska ecosystem. However, successful commercialization of the concept requires further development of the technology, including logistic support of the vessels, training of crews and maturing of a regulatory framework. The pace of this effort is, of course, geared to the offshore and onshore search for energy by oil companies operating in Alaska. These companies have endorsed our hovercraft program as is evidenced by the letters of support to the Alaska Congressional Delegation included in Attachment V. Unfortunately, the short time remaining for vessels such as the foreign-built ACT-100, during which the exemption from the Jones Act is applicable, is not sufficient to proceed on such a course with confidence on our part or on the part of our prospective customers. Global Marine and VECO, Inc. have, since 1970, expended over $5M in bringing ACT-100 to her present state of development; additional resources cannot be prudently committed unless her continued use in Alaska can be extended to 1988 as proposed in HR 1372. Your favorable consideration of this legislation is, therefore, strongly recommended.

Thank you.

ATTACHMENT I

PROFESSIONAL BIOGRAPHIES OF GMDI WITNESSES

R.C. CROOKE, PRESIDENT

REAR ADMIRAL N. SONENSHEIN, USN (RET), ASST TO THE PRESIDENT

RAYMOND A. BENNETT, VICE-PRESIDENT FOR COMMERCIAL PRODUCTS

R. CURTIS CROOKE

EDUCATION

University of California at Berkeley
BS, Mechanical Engineering, 1949

RELATED EXPERIENCE

President of Global Marine Development Inc, 1970 to date. Served as President of GMDI, the Prime Contractor, and as Program Manager for the Glomar Explorer Program from concept to operational phase. Developed GMDI into a major influence in ocean related engineering and operational Research and Development - Floating Plants, Deep Sea Mining, Air Cushion technology, Ocean Thermal Energy Plants, Search and Recovery and Offshore Arctic Technology.

Senior Vice-President for Engineering and Construction, Global Marine Inc. (1959-1970). Responsible for all engineering and construction activities of the company which included conversion of various sized vessels into offshore drilling platforms and the design and construction of new drilling vessels. This involved the solution of mooring problems and the selection of appropriate equipment, the evaluation and selection of various hull forms, and the selection and modification of drilling equipment. Developed drilling techniques and hardware; determined meteorologic and oceanographic design criteria; wave and current induced vessel motion studies; studies of allowable vessel motions and stationkeeping by mooring systems and detailed design and evaluation of mooring system.

Oceanographic Consultant (1956-1959). Served various major oil companies on offshore oil drilling developments. Conducted a worldwide study on the usability of floating drilling techniques; developed to a usable state underwater television of the drilling industry.

Chief Oceanographer, Macco Corporation (1953-1956). Responsible for CUSS Group (forerunner of Global Marine) design criteria due to environmental conditions, instrumentation development for mooring line load recorders, current meters, wave recorders and underwater television. Consulted on design of new floating equipment and development of specialized drilling equipment. Provided wind, wave and seismic design data for oil field platform design, conventional piers, breakwaters and outfall lines.

Research Engineer, University of California, Berkeley, Institute for Engineering Research "Wave Project" (1949-1953). Worked on generation of ocean waves, travel and breaking characteristics from theory verified by model work and prototype field studies; theoretical, model and prototype determination of wave and breaker forces on stationary objects; model and prototype measurements of amphibious tractors in surf; development of aerial photography as an oceanographic research tool and use as an intelligence source; coordinator and technical director for joint oceanographic survey conducted for the U.S. Navy Hydrographic Office and U.S. Coast and Geodetic Survey.

MEMBER
National Academy of Engineery
American Bureau of Shipping
Det norske Veritas - Committee on Offshore Technology

RECIPIENT
1980 Distinguished Achievement Technology Award
Offshore Technology Conference

REAR ADMIRAL NATHAN SONENSHEIN, USN (RET)

Rear Admiral Nathan Sonenshein, USN (Ret) graduated from the U.S. Naval Academy in 1938 in the top four percent of his class. Initially assigned to USS Boise (CL-47) in connection with outfitting, he was later ordered to USS Phoenix (CL-46) for similar duties until 1941 when he was selected for postgraduates study at Massachusetts Institute of Technology. Following his graduation and receipt of his MS degree in Naval Architecture and Marine Engineering in 1944, he next was assigned to the Mare Island Naval Shipyard as Ship Superintendent and Assistant Planning & Estimating Superintendent.

In 1945, he went to Japan with a Naval Technical Mission to assist in a critical study of the technical accomplishments of the Imperial Japanese Navy. Upon completion of this assignment and his promotion to the rank of Commander, he returned to Mare Island Naval Shipyard as Assistant Repair Superintendent, Docking Officer, and Industrial Manager, successively. In 1949 he was ordered to the Bureau of Ships where he was Director, Navy Facilities Division until 1951 when he saw Korean Conflict service as Engineer Officer, USS Philippine Sea (CV-47). While so assigned, his ship experienced a rare engineering casualty in 1952 while off the coast of Korea and 1,000 miles from the nearest base. Commander Sonenshein diagnosed the trouble, and while combat air operations continued, directed the repair by Ships Force of two main propulsion units, using parts flown in from Pearl Harbor - a job never before accomplished at sea. For this he was awarded the Navy Commendation Medal with Combat "V" as well as the Navy Unit Commendation awarded to the Philippine Sea, and subsequently was ordered to the New York Naval Shipyard as Planning & Estimating Superintendent.

In early 1956, he returned to the Bureau of Ships' Hull Division Branch and soon thereafter was promoted to the rank of Captain. Following this, he was transferred in 1960 to Pearl Harbor as Fleet Maintenance Officer, U.S. Pacific Fleet, returning to the Bureau of Ships in 1962 to become Director of Ship Design. In the Fall of 1964 he attended the Advanced Management Program at Harvard Graduate School of Business, and on 1 May 1965 was promoted to the rank of Rear Admiral. In june 1965 he became Assistant Chief, Bureau of Ships, for Shipbuilding and Fleet Maintenance, subsequently being selected by the Secretary of the Navy to be the Project Manager, Fast Deployment Logistics Ship. As a result of his performance in this capacity, he was awarded the Legion of Merit by the President of the United States. In August 1967, he assumed the duties of Deputy Chief of Naval Material for Logistics Support so serving until July 1969 when he assumed the duties of Commander, Naval Ship Systems Command. Upon completing this assignment in 1972, he was awarded a Gold Star in lieu of a second Legion of Merit. Following this, he served as Chairman, Naval Material Command Shipbuilding Council; Director, Defense Energy Task Group; and Department of Defense Director for Energy prior to his retirement and simultaneous recall on 1 July 1974. On 15 November 1974, he was released from active duty service and awarded a second Gold Star in lieu of a third Legion of Merit.

Since his retirement Admiral Sonenshein has been Assistant to the President, Global Marine Development Inc. In this capacity he has been active in planning, execution and study of advanced engineering projects for ocean thermal energy conversion; incineration of toxic chemicals; air cushion vehicles; deep sea mining, drilling and salvage; seabed disposal of radioactive wastes; and other related subjects. An Honorary Life Vice-President of SNAME, a member of Sigma Xi, and a Past President of ASNE (1970-71), he is currently among those listed in Who's Who in America and in Who's Who in Engineering. On 6 May 1982 he was awarded the Saunders Award for 1982 by the American Society of Naval Engineers for his significant contribution to Naval Engineering.

RAYMOND A. BENNETT

EDUCATION

California State University
BA, Economics and Finance

University of California
Certified Professional Designation in Contracts Management

Advanced Degree Work, Pricing, Decision Making and Management Courses

RELATED EXPERIENCE

Mr. Bennett's position of Vice-President of Commercial Products involves directing several technical programs and the development of new products to support the oil industry. Heavy emphasis has been placed in the development and marketing of arctic related product introduction.

Mr. Bennett is experienced in Research and Development activities, with over 30 years in the marine engineering, automotive and aerospace fields. He received a Bachelors Degree in Business, completed postgraduate work and carries a Professional Designation in Contract Management.

Global Marine Development Inc, Vice-President Finance & Administration with responsibilities of financial analysis, five-year planning, budgeting, accounting, purchasing, employee relations, personnel services, contracts, data and configuration management, proposal costing, pricing and estimating. Promoted to Vice-President Commercial Products, April 1981 to guide and direct a new organization formed to design and develop products for the oil industry.

Line Directorate, Ford Aerospace Corporation (1961-1980). Business Manager for a program potential of $2.1 billion (Army's DIVAD). Financial, contractual, scheduling, design to cost, configuration and data management and subcontract business management.

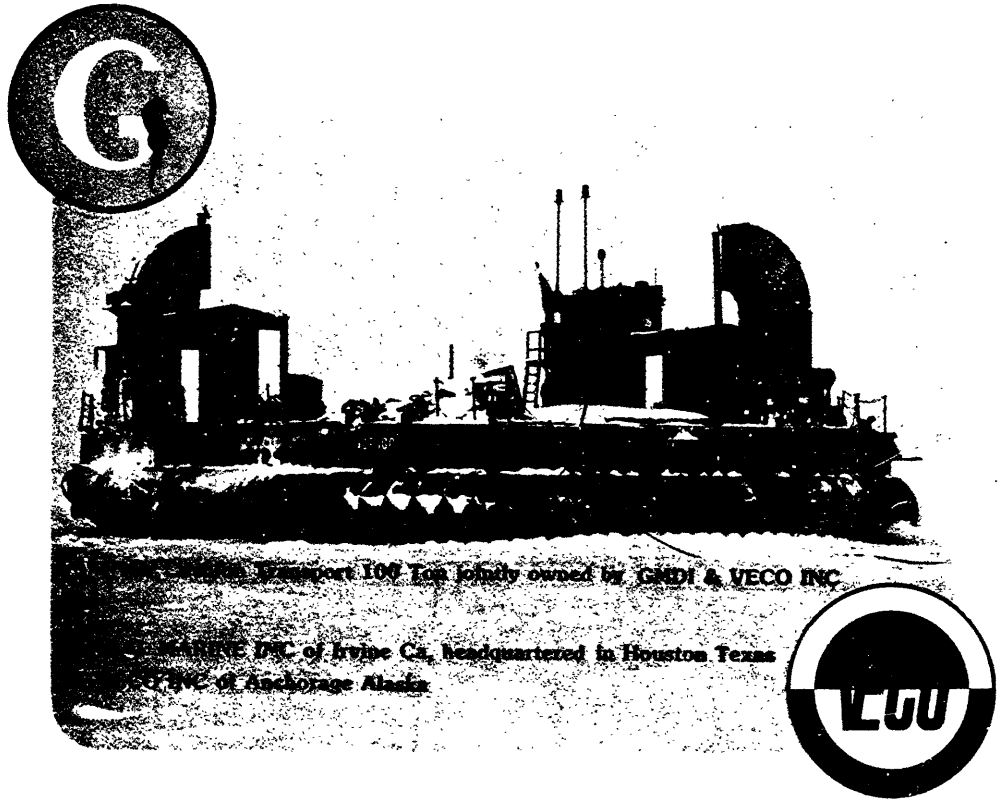
Controller Management Staff. Financial and contractual manager positions for commercial worldwide sales of emission products and later for defense programs.

Controller Supervisory Staff. Promotion from plant to Division Controllers Office. Rotational assignments on Division Staff supervisory positions involving budgeting, pricing, proposal preparation, negotiation, manpower control, profit center labor and fringe cost projections and analyses.

Production Plant Controller. Controller of a high rate missile plant involving 2,200 people, annual sales of $100 million.

ATTACHMENT II

ACT-100 TRANSPORTER



ATTACHMENT III

ACT-100 TRANSPORTER

PRINCIPAL CHARACTERISTICS

LIGHTSHIP WEIGHT	185 TONS
LOAD CAPACITY	100 TONS
OUTSIDE DIMENSIONS	79 FT 7 IN. LENGTH
	61 FT 7 IN. BEAM
	26 FT 0 IN. DEPTH WHEN HOVERING
LOADING DECK	75 FT x 40 FT
OPERATING SPEED	0-8.7 KN (10 MPH)
GROUND PRESSURE	0.6 PSI @ LIGHTSHIP WEIGHT
	0.93 PSI @ LOADED CAPACITY
TOW BAR PULL OF TRANSPORTER DEPENDS ON TYPE AND SLOPE OF TERRAIN	TYPICALLY 5,000 LB TO 20,000 LB @ 8 MPH IN LEVEL CONDITIONS
SKIRT MATERIAL	100 OZ PER SQ YD RUBBERIZED FABRIC
AIR BLOWERS	TWO HORIZONTAL CENTRIFUGAL FANS
BLOWER CAPACITY	85,000 CFM (EACH)
DIESEL ENGINES: FAN-DRIVE	TWO, 320 HP (EACH)
WINCH	TWO, 237 HP (EACH)
ELECTRICAL GENERATOR	ONE, 30 HP
AIR COMPRESSOR	ONE, 60 HP
FUEL STORAGE	1,500 GALLONS (#2 DIESEL)
HOVERING ENDURANCE (APPROXIMATE)	48 HOURS (LIGHTSHIP)
	36 HOURS (LOADED)
PROPULSION METHODS	HELICOPTER
	ROLLIGON
	TUG
	WINCH

ATTACHMENT IV
A.C.T. BEING TOWED
BY
HELICOPTER 1982

ATTACHMENT V

LETTERS FROM ALASKAN REPRESENTATIVES OF U.S. OIL COMPANIES ENDORSING THE NEED FOR DEVELOPMENT OF HOVERCRAFT TECHNOLOGY IN ALASKA:

1. SOHIO Alaska Petroleum Company letter of March 2, 1983 to Senator Ted Stevens

2. SOHIO Alaska Petroleum Company letter of March 2, 1983 to Congressman Donald E. Young

3. Mr. W.L. Woodsen, Shell Oil Company representative, letter of February 10, 1983 to Senator Ted Stevens

4. ARCO Alaska Inc. letter of February 14, 1983 to Senator Ted Stevens

5. ARCO Alaska Inc. letter of February 14, 1983 to Congressman Donald E. Young

6. ARCO Alaska Inc. letter of February 14, 1983 to Senator Frank H. Murkowski

SOHIO ALASKA PETROLEUM COMPANY

3111 C STREET
ANCHORAGE, ALASKA

TELEPHONE (907) 276-5111

MAIL POUCH 6-612
ANCHORAGE, ALASKA 99502

March 2, 1983

Honorable Ted Stevens
United States Senate
127 Russell Office Building
Washington, D. C. 20510

Dear Senator Stevens,

It has come to my attention that Global Marine Development are requesting a waver of the Jones Act in order to continue operation of the 100 ton load capacity air cushion platform (ACT 100) on the North Slope of Alaska. As you are aware, considerable experimental work has been carried out by Global Marine and the oil industry using that vehicle. The end result of those endeavors will hopefully be safer and more efficient offshore operations in the Beaufort Sea and onshore Alaska. Several plans are being finalized for the development of more sophisticated, second generation air cushion vehicles, but in the meantime the ACT 100 remains the only viable air cushion unit on the North Slope. As such it continues to have immediate value as an experimental and emergency vehicle.

It would be beneficial to the oil industry's aims for enhancing our technology and safety if an extension of the waiver to the Jones Act could be arranged beyond October, 1983 when the present waiver on the ACT 100 expires.

I realize that this issue is not a high priority problem in your busy schedule but it is one which is of interest and may result in subtle benefits to Alaskans.

Sincerely,

Roger Herrera

Roger Herrera

RH:t:226r

SOHIO ALASKA PETROLEUM COMPANY

3111 "C" STREET
ANCHORAGE, ALASKA

TELEPHONE (907) 276-5111

MAIL POUCH 6-612
ANCHORAGE, ALASKA 99502

March 2, 1983

Honorable Donald E. Young
United States House of Representatives
2331 Rayburn House Office Building
Washington, D. C. 20515

Dear Congressman Young,

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I realize that this issue is not a high priority problem in your busy schedule but it is one which is of interest and may result in subtle benefits to Alaskans.

Sincerely,

Roger Herrera

Roger Herrera

RH:t:226r

SHELL OIL CO.

February 10, 1983

M. L. Woodson
3430 Korovin Bay Circle
Anchorage, Alaska 99502

The Honorable Ted Stevens
United States Senate
Washington, D. C. 20510

Dear Senator Stevens:

I am writing to enlist your help in retaining a very valuable logistical link in our operations in the Beaufort Sea. When planning and executing offshore drilling plans for the offshore areas of Alaska, safety is a primary consideration.

This means that it must be possible to service offshore rigs at any location, any time, any season, in almost any weather.

Recent tests indicate that the Air Cushion Vehicle can overcome Arctic obstacles such as thin ice, broken ice, and white outs.

I understand that there may be tentative plans to operate several Air Cushion transporters in the Beaufort Sea area in the future. In the meantime there is only one Air Cushion unit, the ACT-100, available in Prudhoe Bay. It is therefore suggested that the ACT-100 be kept in readiness for possible emergency use.

We understand the waiver from the Jones Act will expire for this vehicle in October 1983. The extension of this waiver will provide an added margin of safety until additional units are available.

Very truly yours,

M. L. Woodson

M. L. Woodson

ARCO Alaska, Inc.
ARCO Exploration - Alaska Operations
Post Office Box 360
Anchorage, Alaska 99510
Telephone 907 265 6248

W. W. Daily
Manager
Engineering Services

February 14, 1983

The Honorable Ted Stevens
United States Senate
127 Russell Office Bldg.
Washington, D.C. 20510

Dear Senator Stevens:

When planning and executing offshore drilling plans for the offshore areas of Alaska, safety is a primary consideration.

This means that it must be possible to service the offshore rigs at any location, any time, any season, in almost any weather.

Recent tests indicate that one vehicle which can overcome Arctic obstacles such as thin ice, broken ice, and whiteouts is the Air Cushion Vehicle.

It is understood that there are tentative plans to operate several Air Cushion transporters in the Beaufort Sea area in the future. In the meantime, there is only one Air Cushion unit, the ACT-100, available in Prudhoe Bay. It is therefore suggested that the ACT-100 be kept in readiness for possible emergency use.

We understand the waiver from the Jones Act will expire for this vehicle in October, 1983. The extension of this waiver will provide an added margin of safety until additional units are available.

Respectfully yours,

William W. Daily

William W. Daily

sb

ARCO Alaska, Inc.
ARCO Exploration - Alaska Operations
Post Office Box 360
Anchorage, Alaska 99510
Telephone 907 265 6248

W. W. Daily
Manager
Engineering Services

February 14, 1983

The Honorable Donald E. Young
House of Representatives
2331 Rayburn House Office Bldg.
Washington, D.C. 20515

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Post Office Box 360
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Telephone 907 265 6248

W. W. Daily
Manager
Engineering Services

February 14, 1983

The Honorable Frank H. Murkowski
United States Senate
2104 Dirksen Office Bldg.
Washington, D.C. 20510

Dear Senator Murkowski:

When planning and executing offshore drilling plans for the offshore areas of Alaska, safety is a primary consideration.

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We understand the waiver from the Jones Act will expire for this vehicle in October, 1983. The extension of this waiver will provide an added margin of safety until additional units are available.

Respectfully yours,

William W. Daily

sb

Mr. BIAGGI. Thank you.

Mr. Longaker, we'll now hear from you.

STATEMENT BY RICHARD G. LONGAKER, VICE PRESIDENT AND GENERAL MANAGER, HOVER SYSTEMS, INC., MEDIA, PA.

Mr. LONGAKER. Thank you, Mr. Chairman.

Admiral Sonenshein has very thoroughly covered the background of the bill and the operational considerations.

I have about a 2-minute statement, relative to H.R. 1372, that I would like to read.

Hover Systems, Inc. will be pleased to agree with any of four bill wordings/action selected by the committee or other language/action which would have the same results as the following suggested examples:

Example A, delete lines 4 and 5 of H.R. 1372 as presently written.

Example B, insert after the word hovercraft in line 3 the words "expressly and only the *Act-100* and the *Yukon Princess-Uni-Float-I.*"

Example C, insert after the word hovercraft in line 3, "with an original 100-ton payload capability."

The rationale for A, B, and C, is that the *Yukon Princess Uni-Float-I* now owned by Hover Systems' parent corporation, Frank W. Hake, Inc., is of foreign construction, as is the *Act-100.* It was operated commercially in the State of Alaska before January 1, 1982, as was the *Act-100.*

Both craft, which are also the only hovercraft in existence to meet the above criteria, should be afforded equal opportunity to operate in Alaska. The reason for example C, it simply states the same qualifying criteria without using the craft's names.

Example D allows the existing Jones Act waiver for foreign-built hovercraft in Alaska to expire without action.

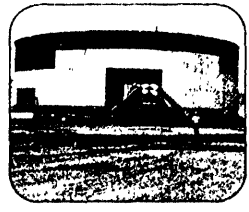
This is the exact opposite of examples A, B, and C, and as such, would apply without favor or prejudice to the only two craft under consideration in this matter.

Hover Systems, Inc. would prefer the conditions resulting from A, B, or C above but will be agreeable to any committee action which results in equal and equitable treatment, such as, that is, both craft, *Act-100* and *Yukon Princess Uni-Float-I,* qualified to operate under H.R. 1372 or both craft disqualified to operate, if the current waiver expires without action.

I have a very short additional background on the parent company, Frank W. Hake, Inc., founded in 1919 and started Hover Systems some 7 years ago.

We have seven hovercraft, three of which we built and four of which we purchased. The *Yukon Princess I* and *II* were purchased from the Aleyaska Corp., when they became surplus, after the Aleyaska Bridge was completed during the pipeline construction.

[Attachment to the statement of Mr. Longaker follows:]

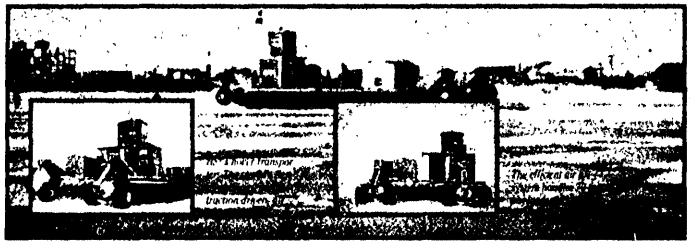


AIR CUSHION SYSTEMS

HEAVY TRANSPORTATION
is a BREEZE–

when you move on a CUSHION of AIR!

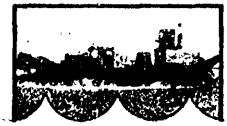
On Land – Ice & Tundra



The 1980 winter operation covered over 200 miles on the frozen Kuskokwim River. Fuel oil and supplies were delivered to villages up to 50 miles from the Bethel, Alaska HOVERTUG. At speeds up to 14 mph, an average round trip required 2½ hours of hover travel.

On Water

Steel cleated molded rubber paddle wheels simply bolt onto the wheel hubs.



Moving from land to water and over sand bars is easy. The paddle wheels are 6' smaller in diameter than the Terra Tires surface contact is on the tire treads.

The transporter pulled several grounded barges and barges to safety during the summer's end low water conditions.

With Full Control

Driving, steering, retraction, extension and axle pressures are selected electronically at the operator's bridge station.

Hydraulic pressures are displayed and monitored from the control cabin. Full function control of the engines, fan, generator, communications, navigation and the "weather station" are all centrally located.

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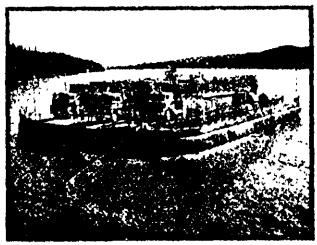
IN-DEPTH TECHNICAL and OPERATIONAL KNOW HOW

Look to Hover Systems Inc. for leadership in Air Cushion Technology! From conceptual design studies to field operations and maintenance, Hover Systems, Inc. personnel have led the industry in heavy lift air cushion vehicle development and innovative implementation. From air cushion ice breaking to remote area transportation. From Hover platforms towed by tracks to self-traction winching, to pushing by tugs, ice breakers and tankers to the first surface traction propelled air cushion vehicle — Hover Systems Inc. personnel have led the way.

FROM SMALL TO VERY LARGE



APPLICATIONS

Ship to shore to ship lightering
Mobile remote crew quarters
Freighter - tanker transportation
Ice breaking arctic to northern maritime commerce
Air cushion drilling rigs, arctic, swamplands, deserts, etc.
Oil spill containment gear - transport and deploy
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Hover Systems Inc. is busily at work on several more advanced Air Cushion Transporters. Specialized designs to 10,000 tons are being studied. General purpose, logistical supply and support craft are in design.

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HOVER SYSTEMS INC.

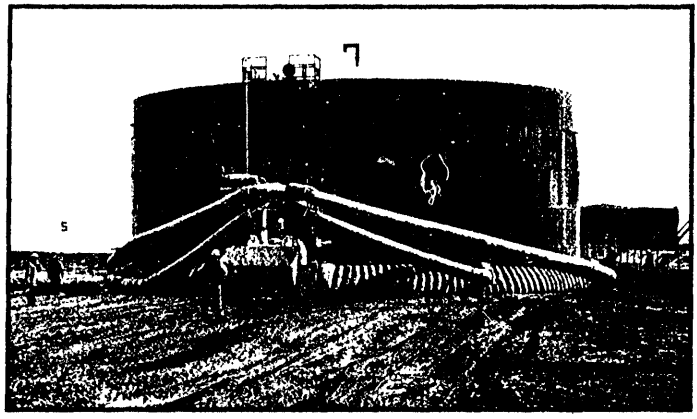
for applications of air cushion technology

Hover Systems, Inc. and its Southampton, U.K. Company, Air Cushion Equipment (1976) Ltd. offer a worldwide service for the movement of petroleum and chemical storage tanks. We are specialists in the lifting and moving of heavy industrial loads and in the design, manufacture and application of air cushion systems.

We have designed and manufactured skirts for hover tanks, ice breaking applications, amphibious hover barges and have conducted studies for moving loads on air cushion weighing thousands of tons.

Some ways in which we may be of service to you for applications of air cushion technology:

1. Feasibility Analysis
2. Planning and Design
3. Custom Systems
4. Heavy Load Moving Services
5. Transport Services



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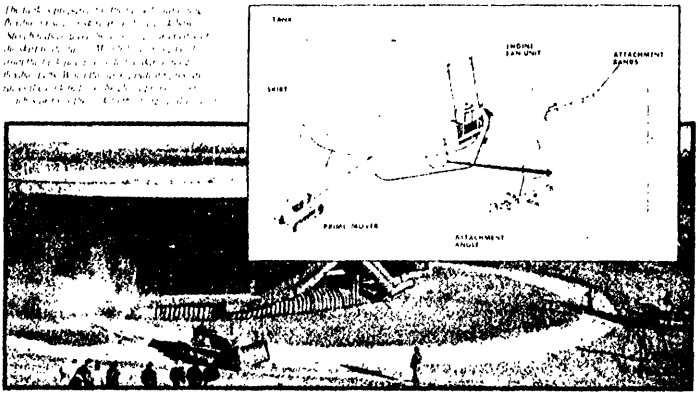
Hover Systems employs a patented air cushion system to efficiently relocate oil, gas and chemical storage tanks. This clean, safe method offers numerous advantages over conventional systems. Hover Systems can move any size tank without interfering with other on site work. This unique air cushion system also requires very low ground pressure (usually less than 0.5 P.S.I.) allowing relocation over many ground conditions. Hover Systems provides the cost effective, environmentally clean solution to tank relocation.



Hover Systems saves time and money. Tanks can be relocated in minutes and at far less cost than other methods. Hover Systems provides the most cost effective, safe, clean and environmentally sound method of tank relocation.

- We can move any size tank.
- We can move tanks distances as practical as the site allows.
- We can move tanks over any terrain.
- We can move tanks over any type of ground.
- We can move tanks over any obstacle including swamp.
- We can move tanks that are full of product.
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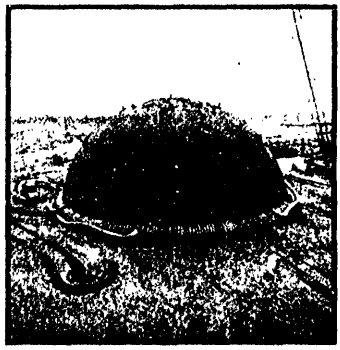
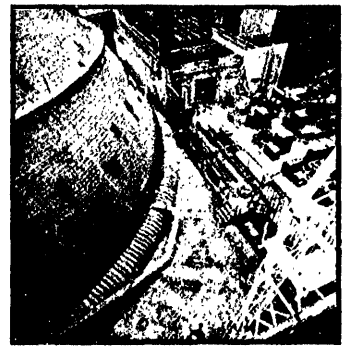
If is the last, simple and cheapest way to relocate tanks. Let Hover Systems do it all for you. Please contact us for a complete description of Hover Systems and permits to help in your next move. Hover Systems Inc. P.O. Box 561 Moon PA 15108 Telephone (412) 262-8741

BEST AVAILABLE COPY

Dome Section Moved from Assembly Area to the Containment Structure on a Cushion of Air



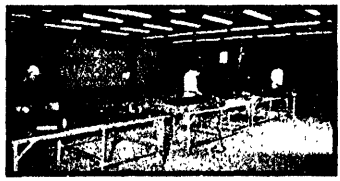
Reactor dome ground assembled, off site, complete with piping, ventilation and painting

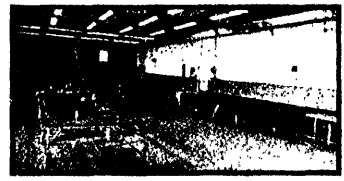


Reactor dome moved from the assembly site to the containment building where it was lifted into place by a derrick crane

Air Cushion Skirt Products Shop

Skirts designed and manufactured for Hover craft, ice breaking applications and amphibious Hover barges





Description:
Single floor clear span area of 8000 square feet
All floors painted and suited to lofting
Arranged for maximum cleanliness.

Equipment:
1. 6 each 8' x 5' cutting benches
2. Air compressor
3. Thermostatically controlled vulcanizing presses built with heat density of about 500 watts per square foot
   1 each bonding area 3½" x 35 ft
   2 each bonding area 3½" x 22 ft
4. 2 each overhead trolly hoists, 1 ton capacity
5. Sundry shop equipment for abrading rubber, mixing adhesives, riveting and making templates.

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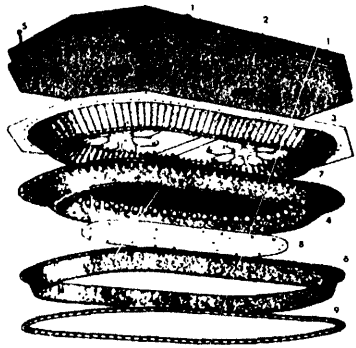
has brought a new dimension to the movement of heavy loads The Water Skate, a simple yet advanced concept, combines the power and availability of water with the low friction and omni-directional benefits of the hovercraft principle

The skate is a lifting and maneuvering pad using water under pressure from a standard commercial water pump The two sizes available have maximum lift ratings of 35 metric tons and 100 metric tons, and can be used in multi-modular systems to suit individual requirements

Consider the benefits of using Water Skates.—

- Omni-directional ability
- Rotation of loads in confined areas
- Inbuilt jacking ability
- Low profile for clearance of overhead obstructions
- Economic operation
- Low mobilization cost
- Adaptability for variety of size and shape of load
- Small tractive effort requirement
- Low ground bearing requirement
- Cushion support against shock and vibration
- Negotiability of surface irregularities and gradients



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Ginza, Chuo-Ku
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(543) 4408-4409-4400
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Mr. BIAGGI. If these vessels weren't permitted to participate in that trade, what would be the effect on Alaska oil and gas production?

Admiral SONENSHEIN. My view, on that point, would be that there would be a hindrance to the offshore oil and gas developments that are now taking place. As the leasing is accelerated into areas such as Harrison Bay, that I just cited where the Sohio and other oil companies are about to develop offshore facilities, there are greater distances to be covered to more remote sites. In the matter of all-year-around transportation, helicopter aircraft are not adequate because weather conditions prevent them from flying at certain times of the year. The air cushion vehicles, however, can move all year around, as long as they have their own propulsion system.

I, in short, think that it would be a negative factor in the development of offshore oil and gas exploration facilities.

Mr. LONGAKER. I add to that, Mr. Chairman, just by way of reiteration, that the continuance or the expansion of the drilling window offshore is dependent on the support of the crew and the materials on virtually a 24-hour basis. The regulatory bodies would look with full disfavor if one could not prove they can support the operation on a 24-hour a day, day in and day out, basis when the ice roads are not in, the freezeup starts, or the breakup starts. The only vehicle that could do that effectively and continually is an air cushion vehicle.

Mr. BIAGGI. Are these the only two hovercraft that have been participating in that area?

Admiral SONENSHEIN. These are the only two foreign-built hovercraft of that payload—having at least 100 tons capacity. There are in Alaska several smaller ones that are U.S. built, but have much lower capacity for cargo carriage.

Mr. BIAGGI. Doesn't the United States have the capacity to build a larger one?

Admiral SONENSHEIN. Excuse me, sir.

Mr. BIAGGI. Doesn't the United States have the ability to build one with a larger payload?

Admiral SONENSHEIN. Yes, the technology for hovercraft construction, in the United States, is well known. But experience for construction is limited to a rather small community who have been involved, only since about the early 1960's, such as in the construction in 1962 and 1963 by Bell Aerospace of a 5-ton vessel called SKMR-I for the U.S. Navy.

In the Bell helicopter construction facility, at Buffalo, N.Y., a balance was sought between ship and aircraft structural features. Additionally, rubber skirt design, which is critical to the concept and construction, has largely been dominated by companies in the United Kingdom. Even now, that phase of the work is generally licensed by U.K. firms, and the skirt material is imported, generally speaking, from the U.K. There is only one facility in the United States that manufactures skirt material. That's Hake, the organization represented by Mr. Longaker.

Finally, operations for builders and acceptance trials, which are normally part of the building of a ship, have required crews whose training reflects considerable aircraft operational influence. As a

result of these factors, the building of hulls and installation of equipment have been accomplished in a few medium-sized shipyards in the United States that are experienced in lightweight steel construction and aluminum construction with the skirt installation done under license, and operational testing generally provided by aircraft oriented companies.

Shipyards, such as Todd in Seattle; Tacoma Boat Co.; Halter Marine, on the Gulf; National Steel and Shipbuilding Co. in San Pedro; and Avondale have been, or could have been, involved in the construction of hovercraft. Currently, the U.S. Navy is having six landing craft, LCAC's [landing craft air cushions] built by Bell Aerospace as the prime contractor, with Bell-Halter as the subcontractor for construction.

The U.S. Navy, I also understand, is also looking toward a longer term program that can involve as many as 12 craft a year. That kind of activity could well expand the small U.S. hovercraft construction base that now exists.

Mr. BIAGGI. If you didn't have *Act-100,* would you replace it with an American-built ship?

Admiral SONENSHEIN. No, sir; we could not. We have no other in our invertory.

Mr. BIAGGI. Is none available?

Admiral SONENSHEIN. Of that payload?

Mr. BIAGGI. Yes.

Admiral SONENSHEIN. None that I know of, sir, in the United States or U.S. built.

Mr. BIAGGI. Would your operation be limited, Mr. Longaker?

Mr. LONGAKER. Mr. Chairman, if I may, I believe the Admiral is speaking in the context of his own corporation. The *Yukon Princess I,* which we have discussed, and is a foreign bottom, having been built with U.K. materials, has a companion, an identical craft, the *Yukon Princess II,* which is also sitting on the north bank of the Yukon. In 1981-82, Hover Systems, under a contract from Urban Mass Transit Authority and the State of Alaska, built an 80-ton payload, self-propelled craft that operated from Bethal on the Kuskokwim River for a year. The *Yukon-Princess I* or *II* or, as the Urban Mass Transit Authority has named the other craft, DPAAC [demonstration program Alaskan air cushion] could do essentially the same job as the *Act-100.* The *Yukon Princess II* is U.S. built and the DPAAC craft is U.S. built, and I would venture to say, without trying to put any words in Admiral Sonenshein's mouth, that with the accomplishments at Global Marine, as demonstrated over the last 20 years, they could build another *Act-100* left-handed with their eyes closed.

Admiral SONENSHEIN. I would agree with what Mr. Longaker has just stated, except that I was responding that we have no other craft with which we could replace the *Act-100.*

Mr. BIAGGI. That wasn't the thrust of my question. I'm glad Mr. Longaker filled it in.

I wanted to know if there were any other craft in existence that could replace these foreign-built craft. Obviously, there are.

In any event, will your operation be limited to the North Slope?

Admiral SONENSHEIN. Well, that is now the area of primary interest to the oil and gas industry. However, as the leasing expands

around to the Chukchi Sea and the Bering Straits, we would expect to be able to move around, too. I think there's plenty of room in Alaska for more capacity of that kind.

Mr. BIAGGI. In the light of Mr. Longaker's statement that we have U.S.-built vessels, how do your justify permitting these foreign vessels to continue to operate in Alaska?

Admiral SONENSHEIN. Well, I think the important point here, Mr. Chairman, is that Act-100 has been operating the past several years, not as actively as we would like, but it's been in operation. The others have not. We have made major commitments of funds, people, and resources in developing the technology.

Mr. BIAGGI. Admiral, you were given a waiver for 5 years, under conditions very clearly spelled out. Existing law would ordinarily prohibit the injection of those foreign vessels into our trade. I assume you made the argument then that there weren't any other vessels available. Now we have some available. Coming back for an extension, you would have to anticipate there would be some doubt. I would say it was poor business judgment to continue to make commitments when you have such a high degree of uncertainty concerning what Congress will do.

Admiral SONENSHEIN. That, of course, is why we seek the extension of the waiver, so that uncertainty can be removed.

Mr. BIAGGI. I know why you're seeking it.

Admiral SONENSHEIN. The point that I think is important, Mr. Chairman, is that we have been active in developing the technology. We have been leading the parade there in this area. Others are coming in which I think is good.

Mr. BIAGGI. I think that's a very good point.

Admiral SONENSHEIN. And we want to continue in that role.

Mr. BIAGGI. I happen to think that's a very salient point. I've seen too many cases where people are willing to venture forth, experiment, explore, invest money, and then when it comes time for payday other people came in and get the reward. I think that's an inequitable prospective. You have a great argument. What confronts us is the fact that we have other vessels available. Let us pursue your argument. You are asking for 5 more years, and it's fair to anticipate that in 5 more years you'll be coming back for another 5 years. What you are really seeking in the end is a permanent waiver from the Jones Act, and I don't know whether that was in the contemplation of the Congress 5 years ago. I do not know what will happen in relation to the committee's consideration of your legislation.

What I'm saying is, you came in for a 5-year exception. You now come back for another. It's fair to assume you'll be coming back for another and another. When does this waiver cease? When does the exception cease? Especially when you are looking at the development of the technology on the American scene.

Admiral SONENSHEIN. Mr. Chairman, the first waiver, the one that is currently in effect—that is in the Surface Transportation Act of 1978—was not sought by Global Marine. It was enacted in 1978 but we did not move the *Act-100* into Alaska until 1980. We were not the sponsors of that. I would like to make that clear, sir.

We are seeking this extension of that waiver, however, for a period of 5 years because we feel that in the next several years—

we have not foreseen enough to know whether it's 5, or 4, or 3—enough commerical interests can be developed that the use of the craft will become well established, the training and logistic support aspects will become matured, and it will prepare the way for others to come in. We're not trying to keep others out. We don't expect that kind of preferential treatment. But we are on this course and the option is running out very quickly.

Mr. BIAGGI. All right. Thank you, Admiral. Thank you, Mr. Longaker.

Mr. LONGAKER. Thank you, Mr. Chairman.

Admiral SONENSHEIN. Thank you, sir.

[The following was submitted for the record:]

GLOBAL MARINE DEVELOPMENT INC.

FRONTIER BUILDING, SUITE 360
3601 - C ST.
ANCHORAGE, AK. 99503

TELEPHONE: (907) 338-7950
MAIN OFFICE:
2302 MARTIN ST.
IRVINE, CA. 92715
(714) 752-5050

June 28, 1983

Admiral N. Sonenshein, USN, (Ret.)
1884 Joseph Drive
Moraga, CA 94556

Subejct: Alaska Air Cushion Transporters

Dear Admiral Sonenshein:

In response to your request for the status and location of Air Cushion Transporters over 50 tons capacity located in Alaska, I have determined the following:

> There are two 100 ton ACT's located on the Yukon River about 140 miles north of Fairbanks; the Yukon Princess I and the Yukon Princess II. The former was built in Canada and the latter in the USA. The vessels have been stored (beached) continuously in the same location since they were deactivated in 1975.

I surveyed the vessels on June 27, 1983, and determined the following:

1. The Yukon Princess II is designated by the Alaskan registration number AK4378D.

2. The structure (hull) consists of a trussed system which is non-watertight. The unit will only float while it has active air pressure.

3. The skirts are missing from about 20% of the perimeter. The remaining skirts show serious deterioration.

4. The hull steel is reported to be mild steel.

5. There are two lift fan-engine sets and one small diesel generator on board. From outward appearances, all fans, engines and generator set require a complete shop overhaul.

6. Electrical systems and Control systems have been destroyed by curious sightseers and by vandals.

I have a more complete survey report available, if you should need it.

In conclusion, it is my opinion that the Yukon Princess II is completely unsuitable for Beaufort Sea use because:

1. It is not self-buoyant.

2. It is not constructed of low temperature steel.

I also have a survey of the Yukon Princess I, but did not consider it a candidate for use in Alaska. It can be rejected for the same reasons as stated above.

Regarding the air cushion unit formerly at Bethel, it was called the "Demonstration Program Alaska Air Cushion", (DPAAC). I understand from people involved that the tests at Bethel were inconclusive. After that, the unit was transferred to Seattle, Washington. I have been unable to determine the present location. According to local U. S. Coast Guard records, the DPAAC was never certified by them. A temporary certificate was issued during the test program.

In addition to my own personal surverys, the following people were contacted for the other information provided:

Hank Saylor, President
Air Cushion Technologies International, Inc.
Anchorage, Alaska

Capt. Raymond Spoltman, USCG
Commanding Officer
USCG Marine Safety Office
Anchorage, Alaska

Mr. Tony Booth, Environmentalist
U. S. Fish and Wildlife Service
Fairbanks, Alaska

Mr. John Peterson
Alaska International Construction, Inc.
Fairbanks, Alaska

If there are any further details required, I will gladly supply them.

Regards,

Harold D. Ramsden
Manager, Alaska Liaison Office

cc: R. C. Crooke, President
Global Marine Development, Inc.

Whereupon, at 3:57 the subcommittee was adjourned, subject to the call of the Chair.]

REVITALIZATION OF THE DOMESTIC CRUISE INDUSTRY

WEDNESDAY, JUNE 15, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:33 a.m., in room 1334, Longworth House Office Building, Hon. Mario Biaggi (chairman of the subcommittee) presiding.

Present: Representatives Biaggi, Foglietta, Boxer, Hertel, Dyson, Donnelly, Young, Bateman, and Fields.

Staff present: Ricardo A. Ratti, Cynthia M. Wilkinson, Ann Mueller, John Long, Barbara Cavas, George Mannina, Steve Little, Kip Robinson, Gwen Lockhart, and Marvadell Zeeb.

Mr. BIAGGI. I want to apologize for starting late, but we had an intervening vote.

The Subcommittee on Merchant Marine meets today to hear the testimony on H.R. 2883. This bill would permit the *Cunard Princess* and the *Cunard Countess* to be documented as vessels of the United States and to transport passengers in the coastwise trade.

The cabotage laws of the United States reserve the transportation of passengers between the U.S. ports to coastwise-qualified vessels.

A coastwise-qualified vessel is one that was built in the United States, is documented as a U.S. vessel, and is crewed by U.S. citizens. This legislation is necessary since the Cunard vessels fail to meet all of these requirements.

The U.S.-flag passenger cruise industry has declined over the past 20 or 30 years to a point where it is almost nonexistent.

In the late sixties, there were 20 active U.S.-flag passenger and passenger/cargo vessels with a carrying capacity of over 100 passengers. Today, there are only two pure passenger cruise ships with that same capacity operating in the domestic or foreign commerce of the United States.

While the American-flag passenger fleet has fallen on hard times, the cruise business has experienced steady growth. For example, according to the Maritime Administration, the number of passengers sailing from U.S. ports grew from 590,000 in 1970 to over 1 million in 1978. There are a number of reasons for the depressed state of our cruise ship industry, including the high cost of building a vessel in the United States and the great disparity between United States and foreign crew wages.

25-905 O - 84 - 4

The remaining two cruise ships in the U.S. fleet, that I mentioned earlier, are operating chiefly because of legislation considered by the Merchant Marine and Fisheries Committee and enacted in two previous Congresses.

Those laws removed statutory impediments and allowed the vessels to begin serving the Hawaiian Islands. During a recent oversight trip to Hawaii, members and staff of this committee visited one of those vessels—the SS *Constitution.* It was good to see her flying the U.S. flag and to know that she was carrying an American crew.

We should have more American-flag cruise ships operating in the coastwise trade. Additional ships would benefit American companies—American seamen—and American shipyards.

The question is: How do we achieve this goal? H.R. 2883 would assist in a modest fashion by adding two vessels to our small American passenger ship fleet.

This hearing will focus on the benefits and drawbacks of allowing two foreign-built vessels to enter our domestic cruise trade. The witnesses scheduled to appear today will discuss the important issues involved, and assist the subcommittee in evaluating this legislation.

At this point, I ask unanimous consent to place in the hearing record a copy of the bill, letters from Hon. Dianne Feinstein, mayor of San Francisco; the Propeller Club of the United States; the Great Lakes Commission; Todd Shipyards; California Small Business Ship Repair Association; TravAlaska Tours; Association of Retail Travel Agents; Massachusetts Port Authority; American Express Company; and statements by the Shipbuilders' Council of America and Contessa Cruise Line, Inc.

[Material referred to follows:]

[H.R. 2883, 98th Cong., 1st Sess.]

A BILL To admit certain passenger vessels to the coastwise trade.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding the provisions of sections 111 and 112 of the Vessel Documentation Act, as amended (46 U.S.C. 65(1), (j)), section 27 of the Merchant Marine Act, 1920, as amended (46 U.S.C. 883) on the date of this Act, and any other provisions of law, the Secretary of the department in which the Coast Guard is operating shall cause the vessels Cunard Princess (ABS numbered 7437321) and Cunard Countess (ABS numbered 7531420), upon the application of Cruise America Line, Incorporated, or its assignee, to be documented as vessels of the United States upon compliance with all other requirements of law except as modified herein, with privilege of engaging in the coastwise trade.

SEC. 2. For hire carriage in the coastwise trade under this Act is limited to passengers, their accompanying baggage, and personal property.

OFFICE OF THE MAYOR, SAN FRANCISCO, JUNE 9, 1983.

Hon. MARIO BIAGGI,
Subcommittee on Merchant Marine,
Washington, D.C.

DEAR CONGRESSMAN BIAGGI: I am writing to urge you and the members of your distinguished committee to pass H.R. 2883, the bill to permit entry of the Cunard Princess and the Cunard Countess into the U.S. coastwise trade.

Passage of this legislation will help revitalize the American cruise ship industry and foster tourism in the United States.

Mr. Chairman, as I'm sure you have heard from other sources, ships built in American shipyards cannot be priced competitively with ships built in foreign ship-

yards. Since current law requires that a vessel must be built in the United States in order to operate in the coastwise trade, there are very few cruise ships operating today under the U.S. flag. Instead, we find that presently there are about ninety foreign flag ships serving the American cruising public. These foreign flag ships are restricted by U.S. law to calling at a limited number of U.S. ports and are prohibited from carrying passengers between U.S. ports.

As a result, the cruises offered today to the U.S. public are to Caribbean, Mexican and Canadian destinations. There are no cruises offered solely between American ports.

In essence, our current law operates first to grant American cruise business to foreign flag ships and second, to restrict these foreign flag cruises from calling at U.S. ports. Consequently, profits from the American cruising industry are going into foreign pockets, and potential earnings are lost to local economies of areas visited on cruises.

The San Francisco Port Commission, along with both our executive and legislative branches of local government, strongly urge that the Cunard Princess and Cunard Countess be permitted entry to the U.S. coastwise trade. We believe that allowing these large, modern ships to operate cruises between American ports will provide numerous jobs and revenues to ports-of-call, through on-shore tour programs, entertainment, and shopping by visiting passengers, and ship repair services at domestic shipyards. The cruises offered by U.S. flagships will open up new areas to cruises and will allow Americans to visit cities and areas in their own country, operating to benefit the American tourist industry as a whole.

In addition to these shoreside benefits, other economic benefits would be derived from operation of the Cunard Princess and Cunard Countess as U.S. flagships. Employment would be provided for U.S. merchant seamen. There would also be numerous purchases associated with the operation of an ocean-going passenger vessel such as fuel oil, stores and vessel repair.

Passage of this legislation would benefit American ports by providing substantial earnings to local economies of the ports visited. Finally, it would signal the return of American ship ownership in the U.S. cruise industry.

I am attaching a resolution in support of H.R. 2883 passed unanimously by the San Francisco Board of Supervisors.

Thank you for your consideration of H.R. 2883, and for your services to San Francisco.

DIANNE FEINSTEIN, *Mayor.*

SUPPORTING H.R. 2883

Whereas, Present federal law prohibits foreign built vessels from operating in coastwide trade, and

Whereas, This prohibition results in the majority of cruise destinations outside of the United States, depriving numerous United States ports of the economic benefits of the cruise industry, and

Whereas, Presently, there are no cruises offered solely between American Ports, and

Whereas, H.R. 2883 would allow the Cunard Princess and the Cunard Countess to operate as U.S. flagships operating in coastwide trade, and

Whereas, One of these large, modern ships would be home ported in San Francisco, providing jobs and increasing tourism in our city, now, therefore, be it

Resolved, That this Board of Supervisors does hereby memorialize the Congress of the United States to pass H.R. 2883, and be it

Further resolved, That copies of this resolution be forwarded to Her Honor, the Mayor, for transmittal to the California congressional delegation.

THE PROPELLER CLUB OF THE UNITED STATES,
Washington, D.C., June 7, 1983.

Re H.R. 2883.

Hon. MARIO BIAGGI,
Chairman, Subcommittee on Merchant Marine,
Washington, D.C.

DEAR MR. CHAIRMAN: The Propeller Club of the United States, having seventeen thousand (17,000) members representing sixty two (62) U.S. ports is vitally con-

cerned with the rebuilding of our now sadly lacking United States merchant fleet, especially in the realm of passenger vessels.

In light of these depressing prospects, I am pleased to learn of the proposed reflagging of two (2) modern passenger vessels (*Cunard Princess* and *Cunard Countess*) into the U.S. flag, and strongly solicit your support of H.R. 2883, which offers hundreds of jobs for American and foreign visitors to visit our historic seaports and other points of interest by ship. Please include this statement for the record.

Sincerely,

THE PROPELLER CLUB OF THE UNITED STATES,
NEAL L. HARRINGTON,
National President.

GREAT LAKES COMMISSION,
Ann Arbor, Mich., June 10, 1983.

Hon. MARIO BIAGGI,
Chairman, Subcommittee on Merchant Marine, Committee on Merchant Marine and Fisheries, House of Representatives, Washington, D.C.

DEAR CHAIRMAN BIAGGI: The Great Lakes Commission would like to convey to you and subcommittee members its strong support for H.R. 2883. The proposed legislation, intended to reflag two passenger vessels, is a positive and necessary step in promoting increased vessel passenger service in the U.S. coastwise trade.

The Great Lakes region abounds in vacation opportunities. Passenger liner service on the Great Lakes and through their connecting riverways has in the past been a lucrative and important enterprise. As the Great Lakes region developed, hundreds of thousands of immigrants arranged passage on lake boats to reach numerous destinations. Of course, this travel mode was gradually replaced by other methods of conveyance, and passenger service on the Lakes became excursion-oriented along with some ferry operations.

Two well-known ships engaged in Great Lakes excursion service were the *North American* and the *South American*. These vessels, launched in 1913 and 1914 respectively, were operated by the Chicago, Duluth and Georgian Bay Transit Company for many years. With the aging of these passenger liners and other operational difficulties, regular excursion service in the Lakes was discontinued in the mid 60's. The vessels, however, regularly operated with 100 percent occupancy. The plans to revive this service with one of the Cunard vessels, *The Princess* or *The Countess*, is an exciting possibility. Incorporation of these vessels into U.S. flag passenger fleet would help provide jobs for U.S. crews and maintain a presence for U.S. operations in this maritime trade.

The Great Lakes region has many potential ports of call for passenger liner service. Vacation trips planned by local residents or international agencies would likely offer good business prospects.

The Great Lakes Commission would appreciate it if you would place this letter in the hearing record for June 15, 1983, along with an indication of our support for H.R. 2883.

Sincerely,

FRANK KUDRNA, *Chairman.*

TODD SHIPYARDS CORP.,
Washington, D.C., June 1, 1983.

Re H.R. 2883.

Hon. MARIO M. BIAGGI,
Chairman, Subcommittee on Merchant Marine, Longworth House Office Building, Washington, D.C.

DEAR CHAIRMAN BIAGGI: This will advise that Todd Shipyard Corporation is in favor of passage of H.R. 2883 which would permit waiver of the domestic construction requirement in respect of the passenger vessels *Cunard Princess* and *Cunard Countess* for operation in the coastwise trade.

We understand the economies of the cruise industry and appreciate that it would be impracticable for a new U.S. built ship to compete on realistic terms with the foreign flag ships carrying passengers from North American ports and therefore favor passage of this legislation as the only realistic manner of insuring a viable passenger fleet owned, manned, registered and classified in this country. U.S. ship

yards would expect to benefit from future ship repair and modification work in respect of these ships.

Please include this statement for the record of the Sub-Committee hearings.

Your help in supporting this measure will be very much appreciated.

Very truly yours,

ROBERT J. FARRINGTON, *Vice President.*

CALIFORNIA SMALL BUSINESS SHIP REPAIR ASSOCIATION,
San Francisco, Calif., June 10, 1983.

Hon. MARIO BIAGGI,
Subcommittee on Merchant Marine,
Washington, D.C.

DEAR CONGRESSMAN BIAGGI: The California Small Business Ship Repair Association is made up of fifty (50) companies whose industry is directly related to the repair of sea going vessels. In San Francisco, a workforce of over 10,000 employed in various aspects of the ship repair industry has dropped under 1,500 during the last 12 years.

I am writing on behalf of the Association to advise you it strongly urges passage of H.R. 2883, a bill to permit entry of the *Cunard Princess* and the *Cunard Countess* into the U.S. Coast wide Trade. We believe the passage of the legislation will help provide needed ship repair work for U.S. firms.

There are presently no cruise ships operating between U.S. ports. The entry of the *Cunard Princess* and the *Cunard Countess* into this market will immediately provide jobs in ship repair. It is anticipated that at least $5 Million annually in ship repair business will be generated by this action.

Unemployment is extremely high in the ship repair industry. The cadre of skilled labor, a vital resource to our national defense is being lost. We can't have jobs if we can't have the ships.

In conclusion, the California Small Business Ship Repair Association strongly supports H.R. 2883. Passage of this legislation would benefit American ports by providing substantial work to local ship repair companies of the ports visited.

Thank you for your support.

Sincerely,

ROGER A. PICCHI, *President.*

TRAVALASKA TOURS,
Seattle, Wash., June 7, 1983.

Re H.R. 2883.

Congressman MARIO BIAGGI,
Merchant Marine and Fisheries, Rayburn Building, Washington, D.C.

DEAR MR. BIAGGI. I am writing to you in support of H.R. 2883, legislation which would permit the *Cunard Countess* and *Cunard Princess* to become American cruise ships.

As President of TravAlaska Tours, a Seattle-based tour company which annually sends 5,000 vacationers to Alaska, and founder of Westours, Alaska's largest tour operator, I am particularly concerned with the lack of American ships cruising America's last frontier. Not since the demise of the Alaskan Steamship Company in 1954 has the Inside Passage cruise industry seen a major United States passenger vessel. From that date forward, there have been no American passenger ships operating in Alaskan waters until the introduction last year of the 98-passenger *Majestic Alaska Explorer* (Exploration Holidays and Cruises). All of the remaining ships are foreign registry, flying the flags of the Bahamas, Netherlands Antilles, Monrovia, England, Italy and other foreign ports of origin.

1957 was the beginning of strictly passenger ship operations geared to the sale of package tours. My former company, Alaska Cruise Lines, Ltd., began package tours in that year with two small steamers under the Canadian flag. This was the turnaround in the passenger business in Southeast Alaska. Our success attracted other companies. In 1969 the SS *Monterey* entered Alaskan waters. This was a short-lived operation due to the demise of that firm. Shortly thereafter, Princess Cruises began operation with the "Princess Italia", followed shortly by the *Princess Carla.* I sold my company and its four ships to Holland America Cruises in 1971. That company has continued to serve Alaska, and is introducing a new 1,200 passenger ship, the Nieu Amsterdam (Netherlands Antilles registry) into Alaskan waters in 1984. Addi-

tionally, Princess Cruises (England registry) has announced that a new 1,200 passenger ship will be introduced in this operation in 1985.

There is a long and growing list of presently foreign flag carriers serving Alaska whose total cruise revenues exceed $300 million (U.S.) a year. The foreign ships, because of the Jones Act, depart from Vancouver in British Columbia, bypassing Seattle. The resulting loss to the economy of the State of Washington is substantial, and passengers are required to travel the additional distance into British Columbia to board their foreign flag cruise ship.

The Inside Passage cruise industry is thus substantially controlled and dominated by foreign companies.

I whole-heartedly endorse H.R. 2883, which would put an end to a foreign monopoly in our own waters, and provide for American owned, American flag, American manned and maintained ships. As an American corporation this enterprise would in addition be subject to American tax laws. This bill would pave the way for a return of American ship ownership in the Alaska cruise trade.

I appreciate your consideration on this very important measure, and am hopeful that you will endorse H.R. 2883. Please submit this statement for the record of the hearings on H.R. 2883.

Sincerely,

CHARLES B. WEST, *President.*

ASSOCIATION OF RETAIL TRAVEL AGENTS, LTD.,
June 9, 1983.

Re H.R. 2883.

Hon. MARIO M. BIAGGI,
Chairman, Subcommittee on Merchant Marine,
Washington, D.C.
(Attention: Ms. Ann Mueller, clerk.)

DEAR CONGRESSMAN BIAGGI: The Association of Retail Travel Agents, Ltd. (ARTA) is a national association comprised of over 1,800 appointed retail travel agencies located throughout the United States. In addition, over 1,500 individual travel agents are members.

Travel agents are in the service business. The typical travel agent provides a wide range of services to the public in connection with domestic and foreign travel. One of the primary areas in which agents provide clients with travel related service is cruising. Because H.R. 2883 would provide the American public with new travel opportunities by allowing the ships *Cunard Princess* and *Cunard Countess* to enter the intra-coastal cruise trade flying the American flag and employing American seamen, ARTA is pleased to express its support for this measure.

With the passage of H.R. 2883 travel agents will be able to write itineraries which would offer a range of large and smaller ports on the U.S. coastline and in the Great Lakes. ARTA believes such opportunities will be of significant interest to the traveling public. Currently, the American traveling public is being forced to visit foreign ports and has been denied the opportunity to cruise in U.S. waters.

It should be noted that the individual travelers would not be the only segment of the public to benefit from the proposed measure. Local businesses in U.S. ports would undoubtedly benefit by the increase in tourism dollars generated by such cruises.

At the present time there is a boom in cruising aboard foreign flag cruise ships from U.S. ports to foreign waters, but domestic cruising is very circumscribed due to the lack of American flag vessels. We would encourage the Committee to pass this legislation which will enable Americans to cruise American waters and the American coastlines in large modern American vessels.

Please include this statement for the record of the Subcommittee hearings. Your assistance in supporting this measure will be very much appreciated.

Very truly yours,

RONALD A. SANTANA, *President.*

MASSPORT,
Washington, D.C., June 13, 1983.

Hon. MARIO BIAGGI,
Chairman, Subcommittee on Merchant Marine,
Washington, D.C.

DEAR MR. CHAIRMAN: This statement is submitted on behalf of the Massachusetts Port Authority ("Massport") in support of H.R. 2883, a bill which would permit the passenger vessels *Cunard Princess* and *Cunard Countess* to operate in the U.S. coastwise passenger trade. Massport strongly supports this legislation because it would serve to revitalize the American pleasure cruise industry and promote tourism in the United States.

Massport believes that H.R. 2883 would benefit American ports in several significant ways. Although the intent of U.S. maritime law is to protect and promote the American maritime industry, such laws operate in fact to limit the availability of large U.S. flag passenger vessels for use in the cruise industry. This occurs because the cost of building a large passenger vessel in U.S. shipyards is prohibitively expensive, leaving only foreign flag ships to operate competitively in the lucrative American cruise market. As a result, the cruise industry serving the American public is dominated today by foreign flag vessels.

H.R. 2883 would waive the "build American" provision of current law to allow the *Cunard Princess* and *Cunard Countess,* which would fully comply with all other U.S. requirements, to operate in the domestic coastwise trade. No comparable major passenger vessels have been registered in the United States in over twenty-five years.

The reflagging of the *Cunard Princess* and *Cunard Countess* would provide significant benefits to U.S. ports. U.S. maritime laws restrict the number of calls which can be made by foreign flag ships at U.S. ports. As a result, the cruises offered to the American public are to Caribbean, Canadian and Mexican destinations. Today there are no cruises offered solely between U.S. ports by large, luxury cruise vessels.

We understand that, subject to Congressional approval, Cruise America Line, Inc. intends to offer a range of cruise schedules on the *Cunard Princess* and *Cunard Countess* between large and small seaports along the U.S. coastline and within the Great Lakes. This service would provide new opportunities for the American cruising public to visit historic ports and other points of interest by ship. The operation of cruises on large, modern vessels with ports-of-call at U.S. ports would provide substantial shoreside economic benefits. For example, domestic shipyards could service the vessels for repairs, overhauls, and routine maintenance. Revenues would flow from visiting passengers patronizing the local hotel, restaurant, entertainment and tourism industries, as well as spending tourist dollars in local shopping areas. Finally, opening up additional U.S. ports to the cruise industry would serve to benefit the American tourist industry generally.

In conclusion, Massport urges the Subcommittee to favorably consider the potential benefits to U.S. ports offered by H.R. 2883 and to favorably report this legislation.

Massport respectfully requests that this statement be accepted and made a part of the record on H.R. 2883.

Thank you.

Sincerely,

PATRICK B. MOSCARITOLO,
Director, Public and Government Affairs.

AMERICAN EXPRESS CO.,
Washington, D.C., June 14, 1983.

Hon. MARIO BIAGGI,
Chairman, Subcommittee on Merchant Marine, Committee on Merchant Marine and Fisheries, House of Representatives, Washington, D.C.

DEAR CHAIRMAN BIAGGI: American Express Company supports H.R. 2883, a bill which would allow a U.S. company, Cruise America, to operate the cruise ships Cunard Princess and Cunard Countess in the intra-coastal cruise trade, employing American seamen and flying the American flag.

As one of the principal purveyors of cruise travel packages, we are aware of the importance of offering our clients the widest possible range of itineraries between ports on the U.S. coastline and in the Great Lakes.

As we understand the effect of this legislation, it will increase the total available intra-coastal cruise services by offering additional itineraries not now available. Such an increase in activity will generate substantial additional employment and

revenue opportunities at more American ports of call in many industries including food, entertainment, hotels, shore excursions, airline sales, rental cars and restaurants.

We urge that the Subcommittee take prompt and favorable action on this legislation.

Sincerely,

LOUIS V. GERSTNER, Jr.,
Chairman and Chief Executive Officer.

STATEMENT BY M. LEE RICE, PRESIDENT-ELECT, SHIPBUILDERS COUNCIL OF AMERICA

The Shipbuilders Council of America—composed of principal shipbuilders, shiprepairers and ship component manufacturers in sections of the country—oppose any legislative effort to reflag the foreign-built *Cunard Princess* and *Cunard Countess* and permit those ships to engage in U.S. coastwise passenger trades. A copy of our current membership list is attached as an appendix to this statement.

Reflagging of these foreign-built vessels would be in contravention of the long-standing principles of the Jones Act which the Congress has reaffirmed time and time again and which the current Administration has reaffirmed on three occasions in the past year.

The national security rationale of the Jones Act which requires that only U.S.-flag, U.S.-built vessels may operate in U.S. coastal, intercoastal and non-contiguous trades has consistently enjoyed bi-partisan endorsement and support.

Just as consistently, there have been efforts to breach the principles of the Jones Act. The attempted justifications are varied. In virtually every instance, they have reflected a flavor of transparent opportunism which, on examination, has no relevancy to U.S. national security interests. What few Jones Act exceptions which have been granted have been either miscellaneous in character or of proven national defense need.

The *Cunard Princess/Cunard Countess* legislation does not meet the national security test as prescribed by the Jones Act. Introduction of a foreign-built passenger vessel in U.S. domestic trades on the premise that it would be available to the U.S. Navy as a hospital ship in time of emergency would adversely affect at least four pending projects contemplating U.S. construction of hospital ships for the Navy and U.S. construction or conversion (S.S. *United States*) of passenger vessels for operation under the U.S. flag.

These projects are well along, and, on realization, would provide urgently needed work for the increasingly depressed U.S. shipbuilding industry. More importantly, the integrity of the Jones Act would be preserved as the Congress has long intended.

Finally, trade publications indicate that the passenger cruise business is universally in the doldrums, and skeptics can understandably question the real motivation of the *Cunard Princess/Cunard Countess* proposal. The national security interests of the United States would not be supported by the admission of these vessels to the Jones Act trades.

REGULAR MEMBERS

ADDSCO Industries, Inc., Post Office Box 1507, Mobile, AL 36601.

The American Ship Building Co., Suite 800, Lincoln Pointe Building, 2502 Rocky Point Road, Tampa, FL 33607; Amship Division; Lorain, OH, Tampa Shipyards, Inc., Tampa, FL.

Avondale Shipyards, Inc,, Post Office Box 50280, New Orleans, LA 70150.

Bath Iron Works Corp., 700 Washington Street, Bath, ME 04530.

Bay Shipbuilding Corp., 605 N. 3rd Avenue, Sturgeon Bay, WI 54235.

Bethlehem Steel Corp., Shipbuilding Division, Bethlehem, PA 18016, Beaumont, TX, Sparrows Point, MD.

Coastal Dry Dock & Repair Corp., Brooklyn Navy Yard, Building 131, Brooklyn, NY 11205.

Dillingham Maritime Group, P.O. Box 4367, Portland, OR 97208.

General Dynamics Corp., Pierre Laclede Center, St. Louis, MO 63105; Electric Boat Division, Groton, CT, and Quonset Point, RI; Quincy Shipbuilding Division Quincy, MA, and Charleston, SC.

General Ship Corp., 400 Border Street, East Boston, MA 02128.

Ingalls Shipbuilding Division, Litton Industies, Post Office Box 149, Pascagoula, MS 39567.

Jacksonville Shipyards, Inc., 750 East Bay Street, Post Office Box 2347, Jacksonville, FL 32203.

Jeffboat, Incorporated, P.O. Box 610, 1030 East Market Street, Jeffersonville, IN 47130.
Lockheed Shipbuilding and Construction Company, 2929 Sixteenth Avenue, SW, Seattle, WA 98134.
Marine Power & Equipment Co., Inc., 1441 North Northlake Way, Seattle, WA 98103.
Marinette Marine Corp., Ely Street, Marinette, WI 54143.
Maryland Shipbuilding & Drydock Co., Post Office Box 537, Baltimore, MD 21203.
National Steel & Shipbuilding Co., Harbor Drive at Twenty-Eighth Street, Post Office Box 80278, San Diego, CA 92138.
Newport News Shipbuilding, 4101 Washington Avenue, Newport News, VA 23607.
Norfolk Shipbuilding & Drydock Corp., Post Office Box 2100, Norfolk, VA 23501, Norfolk, VA (2 plants), Berkeley, VA.
Northwest Marine Iron Works, Post Office Box 3109, Portland, OR 07208.
Pennsylvania Shipbuilding Company, P.O. Box 442, Chester, PA 19016.
Savannah Shipyard Co., Post Office Box 787, Savannah, GA 31402.
Southwest Marine, Inc., Foot of Sampson Street, Post Office Box 13308, San Diego, CA 92113.
Todd Shipyards Corp., Todd Pacific Shipyards Corp., One State Street Plaza, New York, NY 10004, Alameda, CA, Brooklyn, NY, Galveston, TX, Houston, TX, Los Angeles, CA, New Orleans, LA, San Francisco, CA, Seattle, WA.
Tracor Marine, Inc., Post Office Box 13107, Port Everglades, FL 33316.

ALLIED INDUSTRIES, MEMBERS

Bird-Johnson Co., Walpole, MA.
Borg-Warner Corp., York Division, York, PA.
Colt Industries, Inc., Washington, DC.
Combustion Engineering, Inc., Windsor, CT.
Eaton Corp., Cutler-Hammer Products, Rockville, MD.
General Electric Co., Schenectady, NY.
Hopeman Brothers, Inc., Waynesboro, VA.
Hughes Aircraft Co., Los Angeles, CA.
Jamestown Metal Marine Sales, Inc., Boca Raton, FL.
Jered Brown Brothers, Inc., Troy, MI.
Lake Shore, Inc., Iron Mountain, MI.
MacGregor-Comarain, Inc., Cranford, NJ.
Raytheon Service Company, Arlington, VA.
SMATCO, Inc., A TBW Industries Company, Houma, LA.
Sperry Corp., Marine Systems, Great Neck, NY.
Transamerica Delaval, Inc., Trenton, NJ.
Ward Leonard Electric Co., Inc., Mount Vernon, NY.
Hayward Industrial Products, Inc., Elizabeth, NJ.
Poten & Partners, Inc., New York, NY.
McNab, Inc., Mount Vernon, NY.
Western Gear Corp., Lynwood, CA.
Westinghouse Electric Corp., Pittsburgh, PA.
Worthington Pump Corp., Harrison, NJ.

NAVAL ARCHITECT MEMBERS

J. J. Henry Co., Inc., New York, NY.
John J. McMullen Associates, Inc., New York, NY.

ASSOCIATION MEMBERS

The American Waterways Operators, Inc., Arlington, VA.
New England Ship Repair Yard Assn., East Boston, MA.
New York and New Jersey Dry Dock Assn., New York, NY.
Western Shipbuilding Assn., San Francisco, CA.

AFFILIATE MEMBERS

Tomlinson Refrigeration & Supply Co., Elizabeth, NJ.
Standard Marine Services, Inc., Bayonne, NJ.
New York Protective Covering Industries, Inc., Brooklyn, NY.
C-O-Two Sales & Service, Hoboken, NJ.
Ocean Electronics, Inc., Brooklyn, NY.

Terry Corporation, New London, CT.

STATEMENT OF DUDLEY R. BRIGGS, PRESIDENT, CONTESSA CRUISE LINE, INC., HOUSTON, TEX.

Mr. Chairman and members of the subcommittee, it has taken a long time, but U.S. business and labor understand now, to a greater degree than ever before, that U.S. enterprise must compete on a global scale. And adjustments are taking place involving business and labor to make us more competitive.

Extensive study of the economics of passenger ship operation has given us at Contessa the confidence that we can build passenger ships in U.S. shipyards with American steel, electronics, hardware, furniture, interior accommodations, and other components, man them with American crews and still compete in the expanding ocean cruise trade.

An ocean liner currently being designed for Contessa by Giannotti & Associates, Inc., an Annapolis based naval architectural firm and therefore American, is scheduled for construction beginning late this year. This will be the first such vessel to be built in the U.S. in two decades, the first genuine "Jones Act" ship flying the U.S. flag to enter the fast-growing vacation cruise trade that began in the sixties to expand to 100 ships worldwide, sixty percent of which operate in U.S. and Caribbean waters and cater to Americans.

Not one of the world's fleet of ocean liners legitimately flies the U.S. flag. The only two that are U.S. flagged are under exemptions granted by Congress and operate off Hawaii

Aside from Contessa, we have learned of several other firms with plans to build "U.S." and operate as U.S.-flag liners. They have concluded, as we have, that even though it is cheaper to build ships elsewhere, the advantages of flying the U.S. flag tend to mitigate the build-foreign economics, not completely but enough to allow us to do it if we do not have to contend with unfair competition in operation of the vessels. Operating against foreign-built ships that have been granted coast-wise rights would be grossly unfair competition.

Shipbuilding is highly labor intensive. It also supports other domestic industries, the steel business for one, which has been in a seriously impaired state for a long time, but is finally making the adjustment to become more competitive. U.S. maritime officers and crewman have recognized the need to adjust their contracts to reflect international conditions and thereby gain employment.

Those of us who are responding to these happy circumstances that promise to rejuvinate a huge segment of the U.S economy by building and operating ships, without government operating subsidies, are justifiably concerned about attempts to circumvent the provisions of the 50-year-old Jones Act just at the time when the U.S. so critically needs the economic benefits of a revitalized shipbuilding and operating industry.

Contessa's first ship will compete economically with the Italian, Danish, English, German, French, and Finnish-built ships that swarm around our coastline—57 in number, and building it will employ several thousand workers for over a year. It will require about 3,000 tons of American steel, and finally employ a crew of about 200 U.S. taxpayers.

Contruction of our second ship is scheduled to begin on the launching of the first. These ships will be built in U.S. yards, using steel made in U.S.A. We expect to build as many as five such vessels.

Now come some measures that threaten to extinguish this ember that has so much promise. H.R. 2883 would give coastal rights to two foreign-built ships. Other measures, we understand, are in the offing.

Regaining lost markets is a tough, bootstrap ordeal, one requiring cooperation of every segment of our labor and industrial complex. Let us not legislatively throw in the towel just when the actual participants are ready to roll up their sleeves and go to work. I therefore, respectfully urge that these measures be defeated.

CRUISE SHIPS OPERATING FROM UNITED STATES AND CARIBBEAN PORTS

Vessels	Registry	Passenger capacity	Owner or operator
Americanis	Greek	617	Chandris, Inc.
Astor	West German	600	Astor United Cruises.
Atlantic	Panama	1,067	Home Lines.

CRUISE SHIPS OPERATING FROM UNITED STATES AND CARIBBEAN PORTS—Continued

Vessels	Registry	Passenger capacity	Owner or operator
Azure Seas	do	734	Western Steamship Lines.
Boheme	West German	500	Commodore Cruise Line.
Carla C	Italian	748	Costa Line.
Carnivale	Panama	1,100	Carnival Cruise Lines.
Constellation	Greek	392	K-Lines Regency Cruises.
Constitution	United States	800	American Hawaii Cruises.
Cunard Countess	British	800	Cunard Line.
Cunard Princess	do	800	Do.
Daphne	Greek	465	Carras Cruises.
Dolphin	Panama	565	Paquet Ulysses Cruises.
Emerald Seas	do	920	Eastern Steamship Lines.
Europa	West German	600	Hapag Lloyd.
Fairsea	Liberia	830	Sitmar Cruises
Fairwind	do	900	Do.
Festivale	Panama	1,400	Carnival Cruise Line.
Golden Odyssey	Greek	460	Royal Cruise Line.
Island Princess	British	630	Princess Cruises.
Mardi Gras	Panama	1,100	Carnival Cruise Line.
Nieuw Amsterdam	Netherland Antilles	1,200	Holland America Cruises.
Nordic Prince	Norway	1,038	Royal Caribbean Cruises Line.
Norway	do	2,000	Norwegian Caribbean Cruise Lines.
Oceanic	Panama	1,034	Home Lines.
Oceanic Independence	United States	750	American Hawaii Cruises.
Oceanus	Greek	500	Epirotiki Lines.
Pacific Princess	British	630	Princess Cruises.
Queen Elizabeth	do	1,815	Cunard Line.
Rhapsody	Bahama	800	Paquet French Cruises.
Rotterdam	Netherlands Antilles	850	Holland America Cruises.
Royal Viking Sea	Norway	725	Royal Viking Line.
Royal Viking Sky	do	725	Do.
Royal Viking Star	do	725	Do.
Sagafjord	do	505	Norwegian American Cruises.
Scandinavia	Bahama	1,000	Scandinavian World Cruises.
Scandinavian Sea	do	1,000	Do.
Scandinavian Sun	do	1,000	Do.
Skyward	Norway	790	Norwegian Caribbean Cruise Lines.
Song of America	do	1,400	Royal Caribbean Cruise Line.
Song of Norway	do	1,040	Do.
Southward	do	738	Norwegian Cruise Lines.
Starward	do	740	Do.
Stella Oceanis	Greek	300	Sun Line.
Stella Solaris	do	650	Do.
Sun Princess	British	700	Princess Cruises.
Sun Viking	Norway	728	Royal Caribbean Cruise Line.
Sunward II	do	718	Norwegian Caribbean Cruise Lines.
Tropicale	Liberia	1,200	Carnival Cruise Lines.
Veendam	Netherlands Antilles	715	Holland America Cruises.
Volendam	do	715	Do.
Veracruz	Panama	700	Bahama Cruise Line.
Victoria	do	652	Chandris, Inc.
Vistafjord	Norway	635	Norwegian American Cruises.
World Renaissance	Greek	426	Epirotiki Lines.
Total (ships 55), capacity.		45,172	

Mr. BIAGGI. Do any members desire to make any opening statements?

Mrs. BOXER.

Mrs. BOXER. Yes, thank you, Mr. Chairman. And we'll be hearing from people from the San Francisco area and I'm very pleased that you are having a hearing on this bill.

As you point out, Mr. Chairman, this is the chance to double our cruise ship fleet, which is, in itself, a very sad commentary on the state of that fleet, but it is a modest step forward.

I am very interested in the question of job creation that will go along if this bill does pass and that will be the subject of my questions, and I look forward to the hearing.

Thank you.

Mr. BIAGGI. The first witness will be the Honorable E. Clay Shaw, Florida, former member of this committee and a valued member at that.

Mr. Shaw.

STATEMENT OF HON. E. CLAY SHAW, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. SHAW. Thank you, Mr. Chairman.

It's particularly a bright spot in my day to be able to come back to this subcommittee, which I did enjoy serving under your chairmanship and along with many of the members that are still on this committee and it's particularly a delight for me to be able to bring back to this committee such an important piece of legislation.

If H.R. 2883 is enacted, the *Cunard Princess* and the *Cunard Countess* will become U.S.-flag vessels subject to all U.S. laws regulating safety, crewing, and ownership.

The vessels will be owned and operated by Cruise America Line, Inc., a U.S. corporation headquartered in my home district of Fort Lauderdale, Fla.

I would like to introduce to the committee Mr. Bob Lambert; his wife, Sally; and his son, Bob, Jr., seated directly behind me, whom I have known for many years; in fact, since I first moved to the city of Fort Lauderdale almost 20 years ago.

While sounding quite simple, this changeover will benefit a broad range of people and industries by stimulating currently underutilized segments of our economy. For American seafarers, 1,050 jobs will be created.

For American shipyards and their workers, maintenance and repair work will be created where it currently does not exist. For the local economies of the U.S. port cities on both our coasts and the Great Lakes, 900 passengers coming to call will provide a large shot in the arm. For the ports themselves, increased traffic will occur. And, for the various related travel and tourism industries, such as hotels, airlines, rental cars, and restaurants, a beneficial ripple effect will result.

In addition to these economic reasons, I am enthusiastic about this legislation because it will encourage Americans to see America, and I think we all would agree as to the value of that.

As you know, the Jones Act prohibits foreign-flag vessels from cruising strictly from one U.S. port to the next. As a result, foreign-flag vessels originating their cruise in the United States typically cruise to a foreign port, such as the Caribbean Islands, Mexico, or Canada.

Under another typical route, a foreign-flag vessel originates from a foreign port; then visits one or two U.S. ports.

The bottom line in both these scenarios is that U.S. tourists are forced to leave the country in order to take a cruise. H.R. 2883 will enable people to see our cities, our coasts and our lakes, if that is their desire.

For a variety of reasons, principally cost factors, passenger cruise ships are simply not being built in U.S. shipyards and you can count on one hand the number of such U.S.-flag vessels in existence today.

In addition to the peacetime benefits of having these two ships cruising our waters, there exists a national security reason to support reflagging: as U.S.-flag ships, the *Princess* and the *Countess* will be requisitioned and converted into troop carriers or hospital ships if they are needed in time of national emergency.

Because these two vessels are of modern design and of relatively recent construction, they would be particularly well suited to meet the rigors of such a conflict.

What we are saying with H.R. 2883 is that here is a plan by which everyone—labor, industry, and Government—gains while nobody loses. It is a plan that is supported by various seagoing union groups. It is a plan that is supported by mayors of key port cities from around our country.

Ultimately, it's a plan that I think the members of this committee and the entire Congress will support. It is also, ladies and gentlemen of this committee, one that will benefit each and every port of the States represented on this committee and I would say that perhaps with one possible exception of the State of Kentucky. However, I am assured that the bars will be stashed with Kentucky straight bourbon whiskey so I think even Mr. Snyder would benefit from this legislation.

I would welcome your questions.

Mr. FOGLIETTA. Mr. Chairman.

Mr. BIAGGI. Mr. Foglietta.

Mr. FOGLIETTA. This is not really in the form of a question, but I think, rather, to correct the record or straighten out the record.

On the statement made by the chairman, you stated that a "coastwise-qualified vessel" is one that is built in the United States; is documented as a U.S. vessel and is crewed by U.S. citizens. This legislation is necessary since the Cunard vessels fail to meet all of these requirements.

I think the implication might be there that we are exempting all three requirements. The fact is that we're not. We're exempting the one requirement—the fact it was built outside the United States only. And the fact is: the *Cunard Princess* and the *Countess* will meet the other two requirements—namely, that it will be a documented U.S. vessel and will be crewed by U.S. citizens.

Mr. SHAW. The gentleman is quite correct.

Mr. FOGLIETTA. I just wanted to get the record straight for that, sir.

Mr. BIAGGI. Mr. Bateman.

Mr. BATEMAN. Nothing.

Mr. BIAGGI. Mrs. Boxer.

Mrs. BOXER. No.

Mr. BIAGGI. Thank you very much, Mr. Shaw.

Mr. SHAW. I thank you.

Mr. BIAGGI. Robert L. Lambert, president, Cruise America Line.

STATEMENT OF ROBERT LAMBERT, PRESIDENT, CRUISE AMERICA LINE, INC.

Mr. LAMBERT. Thank you, Mr. Chairman, and members of the subcommittee, for providing us with the opportunity to testify on H.R. 2883, a bill which would permit the passenger vessels, the *Cunard Princess* and *Cunard Countess,* to operate in the United States coastwise passenger trade.

This bill, if enacted, would significantly promote the revitalization of the U.S.-flag passenger ship industry and at the same time strengthen this Nation's military preparedness.

Cruise America Line Inc., is a corporation based in Fort Lauderdale, Fla. The company was formed for the purpose of purchasing vessels to operate in the cruise business.

As part of its efforts to serve the U.S. passenger ship industry, Cruise America would purchase two major 900-passenger cruise liners—the *Princess* and the *Countess.* Because these ships were built in Danish shipyards, they cannot sail under U.S.-flag by operation of the Jones Act and other U.S. laws.

H.R. 2883 would waive the prohibition which denies U.S. flagship status to these ships and thus enable the *Countess* and *Princess* to operate in the U.S. coastwise trade. No other provisions of the U.S. maritime law would be affected by H.R. 2883 and these vessels would comply in all other respects to the laws applicable to U.S. flag ships, including U.S. Coast Guard, Interstate Commerce Commission, and Maritime Administration regulations.

The ships will meet all American ownership requirements and would be crewed by Americans. Finally, as required by U.S. laws, all future ship repairs, maintenance, and annual overhauls would be performed in U.S. shipyards.

Before entering into discussions with Cunard to purchase these vessels, Cruise America diligently pursued the possibility of having ships constructed in U.S. shipyards.

We learned, however, that, due to the high costs of construction, it is uneconomically unfeasible to construct large passenger vessels comparable to the *Cunard Countess* and *Princess* in domestic shipyards.

In fact, the prohibitive cost of constructing such ships in domestic shipyards has allowed foreign flag ships to dominate the American cruise market. A fleetwide survey of potentially available cruise tonnage resulted in a decision to select the *Countess* and *Princess,* the only two ships that we know of that are readily convertible to fully meet U.S. requirements at a reasonable conversion cost. This conversion will be facilitated by the fact that these ships were originally contract-designed for a U.S. corporation to conform to U.S. regulations.

Last year, some 90 foreign-flag ships carried over 1.5 million North American passengers on cruises to foreign ports. Industry projections predict that this year the cruise industry will earn 4.9 billion, up from 2.1 billion in 1979.

We think it's time that U.S.-flag cruise ships, with American crews, visiting American ports, have the opportunity to increase their share of this economic pie. Furthermore, because of the prohibitions imposed by the Jones Act, foreign-flag ships are restricted in the number of calls which may be made at U.S. ports.

As a result, many American ports are being denied the availability of luxury cruise services such as those to be offered by the *Princess* and *Countess.*

Instead, the cruises available today to the American public are to foreign destinations. There are no regular cruises offered today along the coastline between the American ports on large, luxury cruise vessels comparable to those which will be offered by the *Countess* and *Princess.*

Operation of the *Princess* and *Countess* under the U.S. flag would provide a major step in revitalizing the American luxury cruise industry.

First, it would add approximately 1,050 full-time jobs to our merchant marine. At a time of 47 percent unemployment in this sector of the economy, Mr. Chairman, you can well appreciate the significance of these new jobs.

In addition, numerous auxiliary shoreside jobs would be created. Cruise America intends to operate one of the ships between ports along the east coast, the Gulf of Mexico, and the Great Lakes and the other ship along the west coast and Alaska.

Cruise passengers visiting ports-of-call would generate revenues to the hotel, restaurant, entertainment and tourist industries of our seaports.

Industry statistics reflect that, while in port, passengers on luxury cruise ships spend an average of $250 per passenger per day.

In addition, any repairs would be made at domestic shipyards, further benefiting the American economy. Numerous other purchases associated with the operation of an ocean-going, passenger vessel, such as fuel, oil, and stores would also boost the American economy.

Allowing the *Princess* and *Countess* to operate under the U.S. flag will promote tourism in the United States. We intend to offer cruise packages emphasizing our American heritage, featuring visits to our restored inner-city historical and recreational areas such as Boston, New York, Philadelphia, Baltimore, Alexandria, Charleston, New Orleans, Savannah, Key West, San Francisco, San Diego, Long Beach, Seattle, Galveston, Portland, and Detroit.

The shallow draft and maneuverability of the *Countess* and the *Princess* will allow them to call on many interesting smaller communities as well, such as Mackinac Island, Michigan; the Fjords of Maine; Jamestown and Yorktown for Williamsburg, Virginia—ports heretofore unserved by the luxury cruising industry.

We also anticipate creating interesting and historical side trips, by working with operators of our excellent smaller American-flag cruise ships. Our itineraries will be on a rotational basis, moving North to South with the seasons.

In all, we feel very excited about the opportunity which our cruises will create for Americans to visit historical seaports and ex-

perience our seafaring heritage, as well as tour our beautiful shorelines by ship.

Mr. Chairman, we also wish to bring to your attention the potential significance this legislation holds for our national defense. There are presently only two U.S.-flag passenger vessels which could be utilized by the Department of Defense as troop carriers or auxiliary hospital ships in the event of a national emergency.

You will recall, Mr. Chairman, that they also required enabling legislation in order to operate in the coastwise trade. The sister ships *Princess* and *Countess* could readily be converted for military use in times of crisis.

Both ships are about 6 years old; will meet American Bureau of Shipping and U.S. Coast Guard standards, and are ideally suited for military use due to their high speed, maneuverability, density, and shallow draft.

As cruise ships, each vessel has a passenger capacity of 900 and accommodations for a crew of 350; for military purposes, they could each accommodate approximately 3,000 troops.

In addition, the ships will be manned by an American crew which could be available on board, providing reserve crews where necessary.

As we witnessed in the recent Falkland Island crisis, when the *Cunard Countess* was transformed in less than 7 days for use in troop and supply transfer, the potential military use of civilian commercial vessels during wartime is significant.

I am sure you are aware, Mr. Chairman, that the U.S.S.R., in contrast, is said to maintain 67 passenger vessels which could be used as military troop transports.

Finally, Mr. Chairman, this legislation has support from all sectors of the maritime industry, including major maritime unions, shipyards, port authorities, seaport municipalities across the Nation and all segments of the tourism industry.

H.R. 2883 will allow operation under the U.S. flag of two large, modern, fuel-efficient passenger ships at no direct subsidy from U.S. taxpayers, no expenditure of Federal funds and no Federal guarantees.

Our plans for the *Princess* and *Countess* will create new jobs, stimulate the economy, and generate additional tax revenues to the U.S. Treasury.

Mr. Chairman, in closing, I want to add that our estimates indicate that this project will contribute $160 million annually to the Nation's economy. We hope you share our enthusiasm in developing a market for cruises emphasizing our American heritage.

Finally, we urge expeditious consideration of this legislation. Extensive delays may jeopardize this great opportunity.

This concludes my prepared remarks, Mr. Chairman. Thank you again for the opportunity to testify today on behalf of Cruise America Line in support of H.R. 2883.

I will be pleased to answer any questions.

Also, please include my statement for the record.

Mr. BIAGGI. Thank you, Mr. Lambert.

From the list of people you say support the bill, it sounds like it's unanimous, except we have some witnesses today who will take a contrary view.

How much will it cost and how long will it take to comply with the Coast Guard's safety standards? And, after that, how long will it take before you go into operation?

Mr. LAMBERT. The estimated cost to have the ship comply with the Coast Guard regulations is approximately $2 million.

We estimate a period of 6 to 9 months from the date that this legislation is passed until such time as we would be in operation. This would include time for the sellers to complete their cruise schedule, for us to premarket the ship and to conform with the ICC requirements, and do the conversion work.

Mr. BIAGGI. According to the Journal of Commerce, Trafalgar House, which owns these vessels, has denied they have any plans to sell them to Cruise America. Is that strictly in-house?

Would you please explain it to us?

Mr. LAMBERT. Mr. Chairman, I believe what we read there has to do with in-fighting between two major corporations in the United Kingdom—one trying to take over the other. And it really doesn't reflect our situation. We do have definite arrangements to purchase these vessels.

Mr. BIAGGI. Mr. Foglietta.

Oh, wait a minute. Are you asking me to yield on this point—this question?

Mr. FOGLIETTA. Did you?

Mr. BIAGGI. Well, I haven't even taken 5 minutes. I know you are impatient.

The U.S. Customs Service has ruled recently that the *Cunard Princess* may depart from Vancouver, stop at four coastwise ports and disembark passengers at Whittier, Alaska.

Although the filing pertains specifically to Alaska, similar itineraries may be developed between the United States and foreign ports as a result of the Customs Service ruling. Then, why is this bill necessary?

Mr. LAMBERT. Mr. Chairman, we plan to call on many, many major ports in the United States. We have a sizable investment here. We've expended a lot of time and energy, and we feel it's a matter for the Congress to decide that we can perform this service on a permanent and not just on a temporary basis.

Mr. BIAGGI. You stated in your testimony you explored the possibility of having a cruise ship built in the United States and further stated the disparity in cost was discouraging and wasn't economically feasible.

What were the costs?

Mr. LAMBERT. Mr. Chairman, we dealt with two yards and provided these two yards extensive data, drawings and statistics—required performance, et cetera, and we received two quotes in the order of magnitude from $250 million up to $400 million with delivery schedules of 5 to 6 years and no cap on the escalations.

At that point, it just wouldn't be economically feasible to pursue that course.

Mr. BIAGGI. Did you check in foreign shipyards to see how much it would cost?

Mr. LAMBERT. No, we did not.

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Mr. BIAGGI. Would it be appropriate to ask you how much you are paying for these ships? If you're dealing with a business secret, then don't.

Mr. LAMBERT. It really isn't customary for shipowners to divulge that type of information before a sale. However, the sellers are a large, public company and, after the completion of the sale, that information would be public knowledge.

Mr. BIAGGI. Where is the cruise trade that you intend to attract going now?

Mr. LAMBERT. The majority of the cruise trade that we tend to attract will be created trade. The balance we hope to derive from penetrating the foreign market and also again creating new markets. We will lean heavily on soliciting foreign tourists to cruise the United States on our ships.

Mr. BIAGGI. If I understand it correctly, you will confine your ships to visiting America—the American ports exclusively?

Mr. LAMBERT. That is correct.

Mr. BIAGGI. You testified that there isn't any other vessel doing that at this point.

Mr. LAMBERT. The only other two major vessels cruising American waters are the two vessels in the Hawaiian Islands that cruise between the Hawaiian Islands and an occasional positioning voyage to the United States.

Mr. BIAGGI. Not beyond the Atlantic coast?

Mr. LAMBERT. Not to our knowledge. I'm quite sure they are not.

Mr. BIAGGI. I am advised there are some smaller vessels engaged in this kind of trade.

Mr. LAMBERT. That is quite true. There are a number of very fine operators that operate smaller vessels. They do, however, operate in a marketplace and on a run that's different—it's a different environment than what we are proposing to provide.

Those ships use the inland waterway system, whereas, we will be operating deep-sea from port to port, with the inland sections only being up the tributaries and so forth into the major cities.

Mr. BIAGGI. You don't see yourself as competition to these other vessels or hurting them in any way?

Mr. LAMBERT. No. We think just the contrary. In fact, we've talked to some of these operators—had very positive conversations, and we feel confident that we will help each other, both through the advertising, the great amount of effort and money that we will spend in promoting American cruising and also we intend to work with the smaller operators as to side trips and feeder operations, such as you see in the airline industry.

Mr. BIAGGI. In the past Congress has granted legislative waivers to vessels that were not operated as intended by their owners.

Why will your plans for the *Princess* and the *Countess* be any different?

Mr. LAMBERT. Well, it's our intention to operate these ships. The ships exist. They are in commission. They are ready to go. We don't require any extensive rebuilding—refurbishing. They are here. They are a fact and, for that reason, I think that we have every intention of proceeding and operating the ships.

Mr. BIAGGI. I understand that the service you propose to offer would result in the elimination of your present service out of

Puerto Rico at San Juan. Do you plan to provide any future service?

Mr. LAMBERT. We don't, no, I'm sure some other operator will.

Mr. BIAGGI. Why not?

Mr. LAMBERT. You mean future service in Puerto Rico?

Mr. BIAGGI. Either for passenger transportation—that's right—to Puerto Rico.

Mr. LAMBERT. Yes.

Mr. BIAGGI. You are doing it now, aren't you?

Mr. LAMBERT. Well, the present owners of the ship are doing it now but we would not contemplate doing that.

Mr. BIAGGI. You make mention that these vessels are a shallow draft. How much water do they draw?

Mr. LAMBERT. Between 17 and 18 feet.

Mr. BIAGGI. Really.

Mr. Dyson?

[No response.]

Mr. BIAGGI. Mr. Foglietta.

Mr. FOGLIETTA. Thank you, Mr. Chairman.

Mr. Lambert, I am interested in the potential use of the *Princess* and the *Countess* by the Navy as hospital ships and as auxiliary troop ships.

In fiscal year 1983, $300 million was appropriated to the Navy for the new hospital ship construction and conversion. And the Navy has requested additional funds for this purpose for fiscal year 1984.

I am a member of the Armed Services Committee so, therefore, I'm quite familiar with this problem. There is certainly a need for the Navy for additional hospital ships or ships which could potentially be used as hospital ships.

Did I hear you correctly? Did you state that there are only two ships available now for possible conversion to either troop carriers or hospital ships in our merchant fleet?

Mr. LAMBERT. To my knowledge, there are only two major U.S.-flag ships in operation—the *Independence* and the *Constitution* in the Hawaiian Islands. And we have no other ships in commission that would be available besides the two subject ships here.

Mr. FOGLIETTA. Isn't the *United States* also available?

Mr. LAMBERT. The *United States* is not in commission as yet.

Mr. FOGLIETTA. No?

Mr. LAMBERT. No.

Mr. FOGLIETTA. There are only two available at this time?

Mr. LAMBERT. That's correct.

Mr. FOGLIETTA. How difficult would it be and how much money would we be talking about to convert these two ships to either hospital ships or troop ships, if the need be there?

Mr. LAMBERT. I think it's interesting to note—as I said previously—that one of the sister ships, the *Countess*, was used in the Falkland crisis. She went out of service, was converted—extensive conversion, I might add—the placement of the helicopter deck, many changes, engineroom changes, fuel capacity, and so forth and so on and all this was done in less than a 7-day period. I believe it was done in San Juan. And she was back on her way to the Falkland Islands.

And, also, I should point out, on board both of these ships are complete hospital facilities existing at the present time, with operating suites and wards. Plus the general configuration of the ship with the rooms and so forth should make it relatively easy to convert for hospital use and also for troop transport.

Mr. FOGLIETTA. How long did that take in the Falkland crisis to convert that ship?

Mr. LAMBERT. Less than a week.

Mr. FOGLIETTA. Less than a week?

Mr. LAMBERT. Less than 1 week.

Mr. FOGLIETTA. Final question. When is the last time that a cruise ship was built by an American shipyard and put into service as a cruise ship?

Mr. LAMBERT. Something over 25 years ago.

Mr. FOGLIETTA. Do you know what the name of that ship was?

Mr. LAMBERT. I believe the last ship built in this country was the *Santa Rosa* which is now laying in Baltimore.

Mr. FOGLIETTA. *Santa Rosa?*

Mr. LAMBERT. Yes.

Mr. FOGLIETTA. Thank you, Mr. Lambert.

Mr. LAMBERT. Thank you.

Mr. BIAGGI. Mr. Bateman.

[Negative response.]

Mr. BIAGGI. Mr. Hertel.

Mr. HERTEL. Thank you, Mr. Chairman, for your testimony and for having this new idea to create jobs. I would like to remind the committee that, of course, we have jurisdiction over the Great Lakes in Michigan. And we, in Michigan, have the largest seacoast of any State in the Nation and we have no passenger service of any consequence on the entire Great Lakes.

In Michigan, tourism has now become our No. 1 industry. It's one of the few that's expanding. It's a service industry. Therefore, all people have an opportunity to be involved in jobs related to tourism. They create more jobs by the different services—by the different activities. And this really would be a shot in the arm for Michigan's economy and all the surrounding Great Lakes States. In fact, the major reason that's given for us not receiving the Democratic convention for 1984, aside from the good work of my colleague from the San Francisco area and others in California did—is it was argued that we didn't have enough hotel rooms.

And, Mr. Lambert, how many people would be able to stay on these two ships?

Mr. LAMBERT. 900 per ship.

Mr. HERTEL. They said we were 2,000 people short for the Democratic convention. [Laughter.]

And I might remind my Republican colleagues that, in the 1980 convention, it was an excellent place to have that kind of political decisionmaking made. I'm also on the Armed Services Committee and I'm glad that my colleague, Mr. Foglietta, brought up the question of hospital assistance. I can't think of a more necessary thing or a more needed thing now, in looking at our total defense budget, than making sure that, if we ever had a war-time situation, we would be able to take care of our injured service people as quickly and well as possible.

And, even with the new ship coming on line, we have this interim problem. Even after that ship is online, we are going to have a problem potentially of having military operations in different parts of the world where hospital ships might be needed.

Last, I'd like to commend you again for bringing jobs to our State if this bill is enacted and jobs to other parts of the country.

I think that, first of all, you pointed out how much will be spent on repairs by American personnel—the millions that will be spent on reconditioning now and in the future and I think that it could lead to American-made ships running these courses, too, once they're proved profitable because, in the Great Lakes and in other areas that you mentioned that you are going to use the cruise ships, there were formerly passenger ships under the American flag. The fact is that now it is somewhat of a gamble.

I think that, if you can prove it's profitable; successful, there will be more ships of this sort and American-made ships in the future, and so I commend you for taking this step and I think it's an exciting step for the Great Lakes and for the other areas that you are going to plan the cruises for.

Mr. BIAGGI. Mrs. Boxer.

Mrs. BOXER. What kind of employment opportunities will be created, Mr. Lambert?

Mr. LAMBERT. On board the 2 ships, there will be a crew of approximately 1,050. That would be 350 crewmen onboard each ship at one time. In addition to that, of course, you have all the shoreside operations plus the ancillary jobs in the transportation industry, the hotel industry, shops, restaurants and so on—not to mention repairs.

Mrs. BOXER. Would you just divide the jobs in half? The ships are the same size?

Mr. LAMBERT. The ships are identical. You would divide them in half. Perhaps what's slightly confusing is that, normally, in a 2-ship operation, you really have 3 crews that rotate so, usually, there would be 350 on board each ship all the time.

Mrs. BOXER. In this situation, if you have one operating on the west coast and one on the east, would you then hire the west coast people from the west coast?

Mr. LAMBERT. I'm quite sure we would. It wouldn't make much sense to do it otherwise.

Mrs. BOXER. So it is your intention, then, that the jobs for at least one of the ships would be forthcoming from the west coast? This is a very important issue for me in my support of this.

Mr. LAMBERT. Yes. I would say right down the middle.

Mrs. BOXER. Right down the middle. And I can give those comments of yours to my friends on the west coast.

Mr. LAMBERT. Yes, most definitely.

Mrs. BOXER. How often does a ship the size of these ships get repaired in the home port?

Mr. LAMBERT. At least once a year.

Mrs. BOXER. That would depend on how things go. At least once a year?

Mr. LAMBERT. At least once a year, they have their annual overhaul, which at the present time on these two particular ships has exceeded, in foreign yards, something over $5 million a ship.

Mrs. BOXER. $5 million each time the ship has a major overhaul?

Mr. LAMBERT. Yes. In addition to that, of course, from time to time, you do renovations and improvements and hopefully, down the road, if things go the way we think they are, the ships would probably be midsectioned and additional cabins placed in the middle of the ships, as has been done in many other cruise ships that go out of this country.

Mrs. BOXER. And you would make those kind of renovations in the home port more than likely.

Mr. LAMBERT. More than likely. It is required by law that repair and modification be done in U.S. yards, yes.

Mrs. BOXER. And my last question: about how many days do the passengers stay in port when they are cruising around?

Mr. LAMBERT. It depends on the type of the service and the port but, in major ports, at least 1 day and 1 night.

Mrs. BOXER. And your figures show something like $250 per passenger on the average is spent in these ports?

Mr. LAMBERT. These are industry statistics and, of course, that reflects foreign ports as well and that also reflects all the services involved, not just what the individual passengers spend in restaurants and shops and so forth but the services that the ship requires—line handlers and tugs and the onshore expenses of the passengers. That's correct.

Mrs. BOXER. OK.

Mr. LAMBERT. Some ports even use a higher figure than that.

Mrs. BOXER. Thank you very much. Those are all the questions I have.

Mr. BIAGGI. I'm glad you clarified that $250 because it didn't sound right. The testimony conveyed the impression that each passenger at each port spent $250. That would drive away—I know the admiral says that's why he never goes on cruises. Something didn't make sense and I think that's an important question.

Mr. Donnelly.

Mr. DONNELLY. I have no questions.

Mr. BIAGGI. Mr. Lambert, thank you very much.

Mr. LAMBERT. Thank you, Mr. Chairman.

Mr. BIAGGI. Mr. Frank Drozak, president of Seafarers International Union.

STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA, AFL-CIO

Mr. DROZAK. Thank you, Mr. Chairman and members of the subcommittee.

My name is Frank Drozak, and I am president of the Seafarers International Union of North America, AFL-CIO. We appreciate the opportunity to express our strong support for H.R. 2883, a bill which would continue the revitalization of the U.S.-flag passenger fleet.

H.R. 2883 and its companion bill, S.1197, would allow the passenger vessels, *Cunard Princess* and the *Cunard Countess,* to be documented under the laws of the United States and operate in a domestic trade.

These vessels would join the *Oceanic Independence* and the SS *Constitution* in the oceangoing U.S.-flag passenger fleet. The successful revival of the U.S.-flag passenger fleet is important to our national security. Allowing the *Cunard Princess* and the *Cunard Countess* to join the U.S.-flag fleet would provide hundreds of jobs in the U.S. seafaring and related maritime industries. It would increase the revenues to the U.S. Treasury through taxes on personal and domestic corporate income. It would also help the U.S. balance of payments by lessening the flow of U.S. dollars to foreign-flag cruise lines.

But perhaps most important of all is the contribution the growth of the U.S.-flag passenger fleet would make to the American national security.

The U.S. Navy and the U.S. Army have become increasingly concerned about the lack of American vessels to serve as troop ships and hospital ships in time of national emergency.

The recent Falkland Islands conflict underscored the importance of passenger vessels in an emergency situation. Three British vessels, the *Queen Elizabeth II,* the *Canberra,* and the *Uganda,* were used as troop and hospital ships during the crisis.

Certainly, the United States with far greater international security requirements than the British met in the Falkland conflict would require more than the troop-carrying capability offered by the two U.S.-flag passenger vessels presently sailing in the Hawaiian trade.

By law, the *Princess* and the *Countess* would be available for naval auxiliary service in time of need if H.R. 2883 was enacted into law. Each of these vessels is 436 feet long and carries 938 passengers. In time of national security, they would be of tremendous value, with shallow drafts of 17 to 18 feet.

H.R. 2883 would also help our Nation's troubled shipbuilding mobilization base. In order to meet the Coast Guard safety requirements, both ships would have to undergo 2 million dollars' worth of repairs and modifications in U.S. shipyards.

Additionally, an average of $5 million annually would be spent in U.S. shipyards on maintenance for the vessels.

It is our understanding that one of these vessels will operate in the Great Lakes during the summer and along the east coast during the winter months; the other vessel would operate in Alaska during the summer and along the southern California coast during the winter.

If the *Princess* and the *Countess* prove to be successful in these trades, this will provide even greater incentive for investors to place more U.S.-flag passenger vessels in service.

Before closing, I would like to add that it is truly unfortunate that almost all of the nearly one hundred passenger vessels that operate in the United States are of foreign registry. This situation needs to be changed and H.R. 2883 is part of the answer to create the American-flag passenger ship for the future of the American merchant marine.

Mr. Chairman, I am prepared to answer any questions. Thank you.

Mr. BIAGGI. Thank you, Mr. Drozak.

Mr. Drozak, Contessa Cruise Line, Houston, Tex., has advised the subcommittee that an ocean liner is being currently designed and is scheduled for construction beginning late this year.

A witness who will follow will testify that additional cruise ships are being built at Blount Marine in Rhode Island, Jeff Boat in Indiana, and Nichols Brothers in Washington. Are you aware of these developments?

Mr. DROZAK. Yes, I am.

But they are not the cruise ships that we are talking about. They are small, inner-island ships that carry 35—have 35 staterooms or 40 staterooms on them. You have several of those in this country today.

Mr. BIAGGI. How about the ocean liner that's being designed?

Mr. DROZAK. I'm not aware of the ocean liner being designed. I do know of a situation relative to the World's Fair, out on the west coast, that our people have been contacted about—a passenger ship to use as hotel facilities out there, but I don't know of an American flag ship they would be talking about.

Mr. BIAGGI. What vessel is being contemplated for hotel facilities? Is that a foreign vessel?

Mr. DROZAK. I don't know other than they have contacted us about a ship they would like to use in the World's Fair—during the World's Fair out in Los Angeles next year. Whether it's an American-flag ship or a foreign-flag ship, I do not know.

Mr. BIAGGI. In the light of your response, would it be reasonable for us to conclude that the enactment of this legislation would hardly impact negatively on the kind of trade that these smaller vessels are engaged in?

Mr. DROZAK. No, I think it would increase it, Mr. Chairman, and I'll tell you why. I have the opportunity to travel around the United States and, particularly, I was in San Diego Maritime Day and the concern of the people on the west coast—particularly, San Diego and Los Angeles—is the need for passenger ship service up and down that coast and into Alaska there.

That is one of the reasons I believe one of our good congressmen from San Diego had offered a bill to allow foreign-flag passenger ships to go from San Diego to Los Angeles—Seattle and then into Alaska, via Mexico. And I certainly don't—if the traffic is there for that, then certainly there would be traffic for American-flag ships. That's why we support this bill.

Mr. BIAGGI. Would enactment of this bill impair the ability of other companies to build in the United States and then compete effectively with these cheaper, foreign-built Cunard vessels?

Mr. DROZAK. Mr. Chairman, on passenger ships: to build passenger ships in the United States, I don't see in the future unless the act of God comes about—any passenger ship will be built in the United States.

Mr. BIAGGI. You anticipated my next question. I'm going to pose it to you and probably elicit the same response, purely for the record.

Mr. FIELDS. Would the chairman yield?

Mr. BIAGGI. Mr. Fields. Glad to.

Mr. FIELDS. Sir, we became aware of the situation at a late date. In fact, I have here a letter dated June 10, 1983, from Mr. Dudley

Briggs who is president of Contessa, and so we are just beginning to get involved in this issue, and his letter contradicts to a large extent some of the testimony that's been given.

I would like to ask unanimous consent that this letter be included at this point in the record, because I think the letter makes some compelling points, particularly along the line of questioning that you just asked.

Mr. BIAGGI. I don't know if we have a copy of that letter.

Mr. FIELDS. Mr. Chairman, I don't believe you do.

Mr. BIAGGI. We have a copy and it is included in the record.

But why don't you read the letter?

Mr. Fields.

Mr. FIELDS. You'd like for me to read the letter to him?

Mr. BIAGGI. Yes. I think you should do that at this point.

Mr. FIELDS. Mr. Chairman, the letter is dated June 10, 1983. It's addressed to me. I think there is a statement that is in the folder concerning or based on this letter but the letter itself is not in the record.

Mr. BIAGGI. The letter will be in the record of this hearing. We, by virtue of unanimous consent, requested it at the outset of the hearing. Why don't you read the letter and get close to that microphone, Mr. Fields?

Mr. FIELDS. Mr. Chairman, the letter is dated June 10, 1983. The letter is from Contessa Cruise Line Inc., in Houston, Tex., and it's addressed to me:

DEAR CONGRESSMAN FIELDS: It has taken a long time, but U.S. business and labor understand now, to a greater degree than ever before, that U.S. enterprise must compete on a global scale. And adjustments are taking place involving business and labor to make us more competitive.

Extensive study of the economics of passenger ship operation has given us at Contessa the confidence that we can build passenger ships in U.S. shipyards with American steel, electronics, hardware, furniture, interior accommodations and other components, man them with American crews and still compete in the expanding ocean cruise trade.

An ocean liner currently being designed for Contessa by Giannotti and Associates, Incorporated, an Annapolis-based naval architectural firm, is scheduled for construction beginning late this year. This will be the first such vessel * * * "—the first such vessel—" * * * to be built in the United States in two decades. This will be the first genuine "Jones Act" ship flying the U.S. flag to enter the fast-growing vacation cruise trade that began in sixties to expand to 100 ships worldwide, sixty percent of which operate in U.S. waters and cater to Americans.

Not one ocean liner legitimately flies the U.S. flag. The only two that are U.S. flagged are under exemptions granted by Congress and operate off Hawaii.

Aside from Contessa, we have learned of several other firms with plans to build "U.S." and operate as U.S.-flag liners. They have concluded, as we have, that, even though it is cheaper to build ships elsewhere, the advantages of flying the U.S.-flag tend to mitigate the build-foreign economics, not completely, but enough to allow us to do it if we do not have to contend with unfair competition in operation of the vessels.

Shipbuilding is highly labor intensive. It also supports other domestic industries, the steel business for one, which has been in a seriously impaired state for a long time, but is finally making the adjustment to become more competitive. U.S. maritime officers and crewmen have recognized the need to adjust their contracts to reflect international conditions and thereby gain employment.

Those of us who are responding to these happy circumstances that promise to rejuvenate a large segment of the U.S. economy by building and operating ships without government operating subsidies are justifiably concerned about attempts to circumvent the provisions of the 50-year-old Jones Act just at the time when the U.S. so critically needs the economic benefits of a revitalized shipbuilding and operating industry.

Contessa's first ship is small by comparison to the Italian, Danish, Swedish, German, French, and Finnish-built ships that swarm around our coastline—57 in number, but building it will employ several thousand workers for over a year. It will require about 2,000 tons of American steel, and finally employ a crew of about 150 U.S. taxpayers.

Our second ship, construction of which is scheduled to begin on the launching of the first, will be almost twice as large. These ships will likely be built in Texas yards, using steel made in Texas. We expect to build as many as five such vessels.

Now come some measures that threaten to extinguish this ember that has so much promise. H.R. 2883 would give coastal rights to two foreign-built ships. Other measures, which we only learned of today and therefore have not reviewed in detail, are H.R. 1139 and H.R. 1197.

I respectfully urge you to use your considerable influence to kill these measures in committee. I understand H.R. 2883 is being considered the 15th of June.

I would appreciate the opportunity to appraise you of the Contessa Line's program for the operation or cruise ships from the Texas coast. There are some exciting elements to it which have considerable economic potential for Texas, as well as the Nation.

Sincerely,

DUDLEY R. BRIGGS,
President.

Mr. BIAGGI. Thank you, Mr. Fields.

Mr. FIELDS. Thank you, Mr. Chairman.

Mr. HERTEL. Mr. Chairman.

Mr. BIAGGI. Mr. Hertel.

Mr. HERTEL. Well, since we've taken the letter at this point in the record, let me ask: What size is he talking about for these two ships?

Mr. FIELDS. These are ocean liners.

As I said, we just got the letter earlier this week and have begun the investigation process to get more information.

Mr. Chairman, I would like, again, to make a unanimous consent request. I would like to get more information about these ships and include that information in the record and, further, like to make that information available to members of this subcommittee and the full committee.

Mr. HERTEL. I have no objection. I think that would be interesting, but I think we should show at this point in the record that you are talking about something totally different from the two ships we've been discussing this morning.

Mr. FIELDS. I cannot really respond to that accurately because, at this point, I don't have the information if we are talking about the same type and the same size of ships.

Evidently, the people in this company who want to build U.S. ships feel that there could be a very negative impact on their architectural design work, their construction work, and have a negative impact on our steel industry and the labor markets in this country.

Mr. HERTEL. I don't think this. I understand that, but I think we should show at this point in the record that we are talking about ships of a very shallow draft of 18 feet. That's important because they can reach every port in the country, which I don't think—I'm sure that ocean liners that you are talking about of that size could not; second, that we already know that they exist and what they can do; they are a concrete fact that will create jobs. And, finally, we look at the hospital situation. Even with the new hospital ship that we are building in our Department of Defense, one of the more important options with these ships is that, with the shallow

draft, they would be able to assist our Armed Services in many parts of the world that the larger hospital ship or these other ocean cruisers would not be able to go into.

Mr. FIELDS. Well, I appreciate the gentleman's comments and I was trying to point out to the chairman that there was an effort in America to use American shipyards to build ships that would fly U.S. flags and I think the letter was very compelling in saying that this has not happened in two decades which I think is an important point and I wanted to bring it to the attention of the committee at this point, and I appreciate the chairman for yielding.

Mr. BIAGGI. From this letter, I don't see where there is a conflict, although I think it's important we have as much information in connection with this Contessa Cruise Line as possible. It heartens me to know that there is some American know-how going to work and attempting to get a cruise ship built in America.

The Contessa vessels would be engaging in foreign cruises. The two are not in conflict here.

They may be simply like the two ships in the Hawaiian Islands. The owners of those ships don't especially want the *Princess* and the *Countess* to be given these waivers. They would not be in direct competition, although there may be some ancillary competition.

Mr. FIELDS. Mr. Chairman, if you'd yield.

Mr. BIAGGI. Yes.

Mr. FIELDS. Again, I'd just like to respond so that I could be accurate to this committee and to you, because I know you have such an interest in this area. I would like to get the answers to those specific questions.

Mr. BIAGGI. Sure.

Mr. FIELDS. And supply the information again, not only to you but to the full committee.

Mr. BIAGGI. Absolutely.

Mr. FIELDS. And the subcommittee.

Mr. BIAGGI. Absolutely, Mr. Fields.

Mr. FIELDS. And I appreciate your interest.

Mr. BIAGGI. At the bottom of that first page of the letter: "Aside from Contessa, we have learned of several other firms with plans to build U.S.- and operate as U.S.-flag liners." That's a very general statement.

Mr. Lambert testified that the Cunard vessels would not conflict in any way with the smaller passenger vessels. Mr. Drozak testified that the advent of these two vessels might enhance the business of the smaller vessels. So be a little wary of general statements. As far as the ocean liner that they mention, I'd appreciate more information.

I'd like to point out clearly: There isn't a conflict.

Mr. FIELDS. OK.

Mr. BIAGGI. The kind of cruise trade that these two vessels would be embarking on is strictly coastwise. It's very different. And we've heard testimony that there isn't any other vessel plowing the waters in this form of activity, as contrasted to the traditional foreign cruises.

Mr. FIELDS. Thank you, Mr. Chairman.

Mr. BIAGGI. OK.

But whatever information you can get. We would be glad to have it, frankly.

I was about to ask you a question, Mr. Drozak. I'll ask you the question now, I'm interested in seeing how you respond to it in light of the point that Mr. Fields brought up?

Do you see an American-built passenger fleet?

Mr. DROZAK. Mr. Chairman, we've had people come to us for the last 10 or 15 years, since the passenger service went out of business, talking about building ships. I believe I remember now a discussion relative to some people out of Texas. The Congressman brought up this question now. He's talking about a 2,400-passenger ship, trading in the worldwide service area.

I had met with some people from Texas some 3 years ago in the same discussion. They had drafts and blueprints and all. Nothing has ever come of it, and every time that something—someone attempts to try to give service in the United States, these types of situations pop up.

The record is very clear in my opinion that nothing has been done, and nothing will be done, relative to building passenger ships in the United States under the present system that we are living under.

They cannot build them and compete with the foreign-flag competition when the foreign shipyards can build these ships proper, fast, and turn them out. I believe the estimates they've given us—that it would take 5 years to build one of these types of ships.

Furthermore, the investment. I would like to know more about this company—the Congressman raised. I'd certainly be interested in it, because I know of such a vehicle at the present.

I do say, Mr. Congressman, in all due fairness to you and this committee, you can get all types of letters from people when they are in opposition to something that might be good for this country or good for some segments of this country, when their best interest is not there, and certainly I would like to see some of it.

Mr. BIAGGI. Given the picture as you understand it, are there any other alternatives to this piecemeal legislation?

Mr. DROZAK. Mr. Chairman, I know of no other alternatives at the present time. I think we are in dire need right now and, as I stated in my statement there, also, the military has stated that we would be in serious trouble if we had to move some troops to the Middle East and other parts of this country today—only on the basis of what has happened to us.

And, looking at the history as to what has happened to the Falkland Islands, we need those ships now. We need them yesterday.

And I believe that the military—and I believe that they have so testified to the seriousness that this country is in and would be in in the event of a conflict; having to move troops as we did in Korea and Vietnam situations.

Those troop ships that we had then are no longer in existence. These ships would fit the pattern and would certainly be useful.

Alternative? I don't believe there's an alternative.

Mr. BIAGGI. In the light of the total picture as you know it, aren't you by implication saying that the only alternative available is building foreign?

Mr. DROZAK. The question of passenger ships? Yes. Because, Mr. Chairman, we haven't had passenger ships built in this country in 25 years. The question of building ships foreign—I believe, Mr. Chairman, you know my position very strongly. I oppose foreign building for the purpose of destroying—demolishing the shipbuilding mobilization in this country, I think it would not be healthy for us; second, it would destroy jobs, craftsmen that I don't believe we would ever bring back into this country. It takes many hours to train craftsmen for the shipyard.

For those reasons and others, I oppose foreign building. I also oppose foreign reflagging with the exception of, in these cases, but you know, Mr. Chairman; the record is very clear that we have testified only on those cases where we felt that it was necessary and a must for the security of this country and also that it would create certain amount of jobs and give us a certain flexibility.

Mr. BIAGGI. Mr. Hertel.

Mr. HERTEL. Mr. Drozak, what's the unemployment rate of your union members?

Mr. DROZAK. We have, in the whole maritime industry seagoing jobs 16,000 jobs. Employment in our union is about—we have 6,000 seagoing jobs.

Mr. HERTEL. What would you think you might realize out of—your unemployment rate, then, is over 50 percent——

Mr. DROZAK. Yes.

Mr. HERTEL. How many jobs do you think you'd realize out of these two ships?

Mr. DROZAK. These two ships would create 900 jobs.

Mr. BIAGGI. Mr. Bateman.

Mr. BATEMAN. Thank you.

Mr. Chairman, I've been reading some of the statements that have been submitted and I find references to the liner *United States*. I used to be able to look across Hampton Road and see that magnificent ship sitting in Newport News year after year, unused.

Apparently, there are plans to acquire it from the Maritime Administration and put it in service, and there are some concerns expressed here in some of the statements that the bill before us would negatively impact on those plans.

Are you familiar with the plans for the *United States* and how they might be impacted by this legislation?

Mr. DROZAK. Well, sir, I believe I am familiar with it. Certainly, I don't believe we would have any impact at all. I believe the surveys in the domestic trade as far as passenger service is concerned—there's enough for several of these ships out there and I don't believe that these two ships will have that impact on the "Big U" coming out and sailing on the refurbishings that they intend to do; the service that they intend to give.

It's going to attract, in my opinion, a different class of people than what the cruise—the smaller cruise lines—will be creating.

Now, also, maybe the gentleman who will be testifying later—but I believe that this ship is going to run worldwide and also in domestic trade, too.

Mr. BATEMAN. You are speaking of the liner, *United States*.

Mr. BIAGGI. Yes, sir. I hope the owners of this company can certainly get this ship out. We would look forward to seeing it with

the American flag on it again and cruising the waters—the American waters and the foreign waters. But I don't believe that this bill, and I've looked at it very carefully, would have any impact on the "Big U" coming out and competing. The business is there for these ships. I think there is enough traffic there in a domestic trade—particularly in the Great Lakes and the coastwise trade, the Alaskan trade—for several of these types of ships, and we certainly need them. We certainly need the "Big U," too.

Mr. BATEMAN. Mr. Chairman, if I might ask a further question: the statements that I have read by the proponents of the bill are very impressive. However, suppose this bill is passed and these two foreign-built vessels are reflagged.

What kind of precedent does that establish for this committee if someone in the next session wants two more and then two more? Where does that lead us?

Mr. DROZAK. Well, Mr. Chairman, if you did that—if you gave a blanket, then you would destroy the domestic trade. There's only so much of the domestic trade there, as we view it in the passenger services.

And I believe it's suitable enough to handle the two ships that we presently got out—these two ships and a couple more. But I think if you open it up—domestic trade—further than that, then you would destroy what we are trying to do and that is to rebuild a passenger service for two reasons. First, to be able to have American people riding American-flag ships and be able to compete with the competitors there; and second, to preserve the security of the national security relative to these types of ships and the value they will be to national security.

Mr. BATEMAN. Thank you, Mr. Drozak.

Mr. DROZAK. Thank you, Mr. Chairman.

Mr. BIAGGI. Thank you, Mr. Drozak.

Mr. Jerome E. Joseph, vice president, District 2 Marine Engineers Beneficial Association.

Mr. Joseph.

STATEMENT OF JEROME E. JOSEPH, VICE PRESIDENT, DISTRICT 2 MARINE ENGINEERS BENEFICIAL ASSOCIATION—ASSOCIATED MARITIME OFFICERS

Mr. JOSEPH. Thank you, Mr. Chairman.

I am before you this day representing District 2 Marine Engineers Beneficial Association in support of H.R. 2883 which will permit the reflagging of the *Cunard Countess* and the *Cunard Princess* for service in the U.S. coastal trade.

As you very well know, this bill, if enacted, will instantaneously double the U.S.-flag passenger ship fleet—opening another ocean to such a fleet—and will also be fulfilling the two significant purposes of a U.S.-flag merchant marine.

The two purposes this industry provides our Nation are on the economical front and an arm of national defense. Further, the outflow of U.S. dollars in the cruise industry is nothing short of astonishing and petrifying. Even more so is the fact that this passenger cruise industry begins and ends in U.S. ports, carrying American citizens to the tune of better than 90 percent of all passengers.

We must provide the hundreds of jobs which this bill will create, both ashore and afloat to taxpaying Americans and allow vacationing Americans to spend those same dollars in an American, rather than foreign, entity.

The cruise ships *Constitution* and *Independence*—the Pacific coast fleet—Pacific Ocean fleet, rather, we call it—prove beyond a doubt that America can return to this highly sophisticated and competitive industry on a profitable basis.

Additionally, these vessels can and will, when necessary, be used in times of national emergency. In fact, one of the subject vessels served its current national owners well during that nation's recent emergency over the Falkland Islands.

Mr. Chairman, those who oppose the enactment of H.R. 2883 will not, and cannot, disagree with what I have said. The depressed world market causing many American seafarers and others to be out of a job is well known to all. Without a job, a person ceases to be a taxpayer to the detriment of our economic recovery plan and aspirations.

Mr. Chairman, I shall not get into the specifics concerning the market studies, number of jobs ashore and afloat to be created, although that will be a significant number with the taxes paid as a result thereof. I leave that to those who know better than I.

Those in opposition cannot justifiably do so on the grounds of "flag" competition because, sadly, there is none, nor can they on the grounds that it can't work because it is working vis-a-vis the *Independence* and the *Constitution,* despite the current economic situation. They will, Mr. Chairman, wrap their objections in the Jones Act.

It is, indeed, not easy to serve two masters. We find ourselves doing just that. District 2 MEBA—as a citizen of the maritime community, is not and never will be in favor of granting Jones Act waivers on a willy-nilly basis. In fact, we feel strongly that the Jones Act is the sole cause of having any U.S.-flag coastwise fleet and in some areas should be strengthened.

But priorities must be noted. The American flag must have a higher priority than our industry's revered Jones Act. That flag of ours needs a merchant marine viable in peace and formidable in war. These ships under the American flag strengthen both of the significant purposes of the U.S. maritime industry in its service to our country.

It is for these important reasons we pray the Congress enact into law H.R. 2883. Thank you very much.

Mr. BIAGGI. Thank you, Mr. Joseph, for a very clear statement. I think you've capsuled the entire picture. That's why this committee periodically considers the individual applications for various ships.

I just have two questions. They've been answered by Mr. Drozak and we'd like to get your organization on record in response to them.

Do you foresee an American-built passenger fleet or will we have to continue to resort to legislation like 2883?

Mr. JOSEPH. Well, you referred to two different items here earlier. One was the building of American passenger ships. I don't foresee that.

In 1958, the *Brazil,* the *Argentina,* and the *Santa Rosa* were built and those were the last ones built in the United States—to my knowledge.

This one being built in Texas is very interesting to us. I had no knowledge of it prior to this hearing, Mr. Chairman. I don't foresee building in the United States in the near future.

Mr. BIAGGI. Do you, in light of the total picture, see building foreign passenger vessels as the only alternative?

Mr. JOSEPH. No. Reflagging foreign is an immediate fulfillment of our needs. These two ships will be an instant fix as opposed to the "Big U" which we are in favor of doing, by the way. And we think, as Mr. Drozak testified, that there's no conflict of market area. However, that's 2 years down the pike. Now, this is instant.

You stated yourself, Mr. Chairman, that the Maritime Administration put out statistics saying there were 1 million American passengers last year. I believe it was last year. I believe I'm accurately quoting you. That million passengers is a significant number and one that would make everybody happy in the field. If we can't attract them to the American flag, we should not go into the business in the first place.

But also assuming that they spend totally for rooms and ancillary enjoyment or whatever $1,000 each, that alone is 1 billion of U.S. dollars outflowing without any restriction whatsoever.

So I think the immediate instantaneous reaction should be the reflagging of foreign-flag ships. I'm talking about passenger ships only. Maybe there should be a grace period of a year for ships to make applications to reflag without hearing—without having piecemeal legislation, I leave that to you to decide.

In any event, it cannot hurt this country in the two significant purposes of this industry.

Mr. BIAGGI. Will this bill impair the ability of other companies to build in the United States and then compete effectively with the cheaper foreign-built Cunard vessels?

Mr. JOSEPH. I have some difficulty in answering that in the sense that I don't even agree that we should just concern ourselves with the competition of the other American-flag ships.

We should concern ourselves with the competition of the multiple of foreign-flag ships that are out there today.

If there was some way to build a ship, put an American flag on it—build it American, put an American flag on it, crew it American like we want to do and be competitive with the foreign industry, there would be no concern about how our relative standing is with another American-flag ship.

And I think that has more significance than whether or not one American-flag ship knocks out another American-flag ship.

Mr. BIAGGI. Well, I could accept that in the free market with no special act of Congress. But here, a special act of Congress would infuse into the business two additional vessels that would have the potential of injuring an existing company. I think that would have to be your concern as well as mine.

Mr. JOSEPH. Well, that is a concern but the existing companies are unknown to me personally and that doesn't mean my concern is any less, but there are the two facets that we have to consider,

Mr. Chairman. That is the economics and the national defense features.

The vessels that we talked about earlier are not conducive to national defense.

Mr. BIAGGI. Those facets are being considered. The national defense aspect is an important consideration as well as the economic features. We've received testimony, and we haven't received any to the contrary, that this is a unique type of business—a unique type of cruise and there's no existing company providing this kind of service. So we're not really concerned about the negative impact on others that might—that could be in the business, because apparently there aren't any others.

No further questions, Mr. Joseph.

Thank you for a very clear and forthright statement.

We'll have a 10-minute recess.

[Recess taken.]

Mr. BIAGGI. Our next witness is Mr. Anthony Tozzoli, director of the Port Authority of New York and New Jersey.

Welcome, Mr. Tozzoli.

Also, we will hear from Eugene Gartland, president of the San Francisco Port Commission, representing the city and county of San Francisco.

STATEMENT OF ANTHONY J. TOZZOLI, DIRECTOR, PORT DEPARTMENT, PORT AUTHORITY OF NEW YORK AND NEW JERSEY, NEW YORK, N.Y.

Mr. TOZZOLI. Mr. Chairman, I am Anthony Tozzoli. I am the director of the Port Department for the Port Authority of New York and New Jersey. I appreciate the opportunity to testify in favor of H.R. 2883.

According to a Port Authority of New York and New Jersey study which——

Mr. BIAGGI. Mr. Tozzoli——

Mr. TOZZOLI. Yes?

Mr. BIAGGI. We have your whole statement. We know your capacity. Summarize.

Mr. TOZZOLI. Yes. I am getting into the meat of it.

The study that we conducted in 1977 indicated two-thirds of the potential cruise ship travelers were interested in taking a coastwise cruise between New York and south Florida. Foreign-flag cruise line officials, whose cruise ships operate from U.S. ports, indicated that passenger occupancy rates of close to 90 percent are required for the cruise lines to produce a profit. When these high operating costs are added to the high construction cost of U.S.-built cruise ships, U.S. coastwise cruising does not operate competitively priced products capable of meeting the desires of travelers similar to those who were surveyed by the Port Authority.

Currently, there are nearly a million and a half passengers that cruise from the U.S. ports, approximately 95 percent of which are sailing on foreign-flag vessels.

As you know, Mr. Chairman, the Port Authority has long been a focal point for travelers by ship to and from Europe as well as em-

barkation point for cruise passengers to destinations as close as Bermuda and as remote as the South Pacific.

In the post-World War II period and as late as the early 1960's, over 900,000 passengers annually sailed to and from the Port of New York on ships of United States and foreign-flag steamship lines. Today the oceangoing passenger fleet under the U.S. flag is practically nonexistent except for the two ships that have been previously mentioned. The number of passengers sailing through New York, all on foreign-flag ships, was down to 336,000 in 1982.

The Port Authority and the city of New York have been attempting to bring about a rebirth of cruising from our port, with an investment of over $40 million in passenger ship terminal facilities. However, these facilities are currently underutilized.

The proposed operation of the *Cunard Countess* and *Cunard Princess*, under U.S.-flag operation, would provide New York, as well as other ports, with a a totally new program of coastal cruises unavailable now or in the foreseeable future under the current limitations of the Jones Act.

Coastwise cruises aboard the *Princess* and *Countess* would offer a competitive product under U.S.-flag operation, for those 95 percent of cruise travelers who are now sailing from U.S. ports to destinations outside the United States on ships of foreign registry. For those who have never cruised, there would be an opportunity to sail between some of America's great ports and coastal areas.

In addition to the new cruise programs, this new service would provide increased jobs for U.S. maritime, longshoremen, shipyard unions, as well as additional jobs and economic benefits to shoreside support personnel and broad segments of the U.S. travel industry.

From our survey, I would say that there is no question that the market is there, and it is a huge market. It is now virtually untapped. Granting this waiver to these two vessels would give us an opportunity to, in effect, produce a new product out of New York which would be very helpful to our port.

Thank you. I will gladly answer any questions you might have.

[Statement of Anthony J. Tozzoli follows:]

STATEMENT OF ANTHONY J. TOZZOLI

Mr. Chairman, my name is Anthony J. Tozzoli, I am the Director of the Port Department, The Port Authority of New York and New Jersey, and I am here to testify in favor of H.R. 2883.

According to a Port Authority of New York and New Jersey study which we conducted in 1977, almost two thirds of the potential cruise ship travelers, who were interviewed, indicated they were interested in taking a coastwide cruise between New York and South Florida.

Foreign flag cruise line officials, whose cruise ships operate from United States ports indicate that passenger occupancy rates over 90 percent of capacity are required for the cruise lines to produce a profit. When these high operating costs are added to the high construction costs of United States built cruise ships, United States coastwise cruising does not offer a competitively priced product capable of meeting the desires of travelers similar to those who were surveyed by the Port Authority.

Lacking this competitive pricing position, investors have avoided the U.S. cruise industry with the exception of American Hawaii Cruises, whose vessels, the *Constitution* and *Independence* were brought back to United States flag under legislative waiver, Delta Queen Steamboat Company, operating specialty riverboat cruises on the Mississippi, and Delta Steamship Line which operates three passenger/cargo

vessels with one sailing every three weeks from the West Coast of the United States to South America on ships whose primary purpose is to carry cargo. A number of small non-deep water U.S. flag vessels ply the intercoastal waterways and account for about 2 percent of the total cruise passengers sailing from United States ports.

Currently, nearly 1.55 million passengers cruise from United States ports, approximately 95 percent of which are sailing on foreigh flag vessels.

As you know, Mr. Chairman, the Port of New York/New Jersey has long been a focal point for travelers by ship to and from Europe as well as an embarkation point for cruise passengers to destinations as close as Bermuda and as remote as the South Pacific.

In the post World War II period and as late as the early 1960's, over 900,000 passengers annually sailed to and from the Port of New York on the ships of United States and foreign flag steamship lines.

Today, the "ocean going" passenger ship fleet under United States flag is practically non-existant, except for the few ships I have mentioned previously; and the number of passengers, sailing through New York, all on foreign flag ships, was down to 336,000, in 1982.

The Port of New York and New Jersey and the City of New York have attempted to bring about a rebirth of cruising from the port, with an investment of over 40 million dollars in passenger ship terminal facilities; however, these facilities are currently underutilized.

The proposed operation of the *Cunard Countess* and *Cunard Princess,* under United States flag operation, would provide New York, as well as other ports, with a new program of coastal cruises unavailable now or in the foreseeable future under the current limitations of the Jones Act.

In addition to new cruise programs, this service would provide increased jobs for U.S. maritime, longshoremen and shipyard unions as well as additional jobs and economic benefits to shoreside support personnel and broad segments of the U.S. travel industry.

Coastwise cruises aboard the *Cunard Princess* and *Cunard Countess* would offer a competitive project under U.S. flag operation, for those 95 percent of cruise travelers, who are now sailing from U.S. ports to destinations outside the United States on ships of foreign registry. For those who have never cruised, there now would be the opportunity to sail between some of America's great ports and coastal areas.

Mr. BIAGGI. Mr. Gartland.

STATEMENT OF EUGENE L. GARTLAND, PRESIDENT, SAN FRANCISCO PORT COMMISSION, SAN FRANCISCO, CALIF., REPRESENTING THE CITY AND COUNTY OF SAN FRANCISCO

Mr. GARTLAND. Thank you, Mr. Chairman.

I am Eugene L. Gartland, president of the San Francisco Port Commission. I am here on behalf of the city and county of San Francisco and that port commission. The Honorable Dianne Feinstein, mayor of San Francisco, strongly supports this legislation of your committee. The board of supervisors of the city and county of San Francisco strongly supports it. In addition to that, various members of the maritime community and shipbuilding, such as the Bay Area Ship Repair Association, which represents all of the ship repair facilities in the bay area and has a membership of over 200, has written a letter to the committee which I believe is now on file.

The California Small Business Ship Repair Association also is in support of this particular legislation, Mr. Chairman, as is the Pacific Cruise Conference.

Mr. Chairman, rather than read my statement, which is fully in the file, I would like to summarize it, if I may.

In the last 15 years, since the advent of the 707, passenger ship business as it was traditionally known has changed. It has changed as much as the airline business has changed. Those ships that were passenger ships prior to that date have now become the cruise

ships of this era—modern, smaller, faster, generally twin screw, generally with bow thrusters, and so forth.

The two ships that are being considered for exemptions to the Jones Act provision of Build America by this committee are such ships.

In San Francisco we have seen very extraordinary extension and expansion of the cruise ship business in the last 13 years. Even in the year 1982, which was not a good year for anyone in the United States, that business expanded 11 percent in San Francisco.

The use of a ship such as the *Princess* in a cruise trade out of San Francisco means a great deal to our economy. That ship alone will contribute to the economy of San Francisco on a yearly basis about $12 million. That is direct by way of wages, ship chandlery, and support facilities.

In addition to that, Mr. Chairman, the annual overhaul, maintenance and repair of a vessel such as the *Princess*, as was testified to by Mr. Lambert, amount to about $5 million. As you know, Mr. Chairman, the ship repair business and the shipbuilding business in the United States has not been in very good health in the past 10 years. We are trying to revitalize that in San Francisco. We think that by revitalizing the cruise business, we substantially help the ship repair business.

These vessels under law will not be exempt from the provision that they must be repaired and overhauled American. Mr. Lambert and Cruise America have indicated that these repairs, at least on the west coast ship, will take place on the west coast. He has indicated that he would hope to have them done in their home port. He has indicated that San Francisco would be the home port for the *Pacific Princess*.

With over 100 vessels flying foreign flags in the cruise business and only two actually now operating, the *Constitution* and the *Independence*, of the larger types flying the American flag, we think there is a need for more vessels flying the American flag, in order that the American dollars and the money spent on the cruise business stay American.

Mr. Chairman, while San Francisco appreciates the business of the foreign flags—the Bahamians and the Netherlands Antilles, the British, the Norwegian, and the others, we would be less than frank if we did not say that we would be very happy to see the Stars and Stripes coming into San Francisco on a permanent basis.

Mr. Chairman, in conclusion, the city of San Francisco, its mayor, its legislative body, the board of supervisors, the Port Commission, the Bay Area Ship Repair Association, the California Small Business Ship Repair Association, all strongly urge expeditious passage of H.R. 2883. Your swift action on this legislation will provide immediate, direct benefits not only to San Francisco, but to many U.S. ports and to many ship repair and supply firms providing services to these vessels.

Mr. Chairman, this concludes my testimony. I will be happy to answer any questions.

[Statement of Eugene L. Gartland follows:]

STATEMENT EUGENE L. GARTLAND, PRESIDENT, SAN FRANCISCO PORT COMMISSION

Mr. Chairman, and members of the Subcommittee on Merchant Marine, I am Eugene L. Gartland, President of the San Francisco Port Commission. I am here on behalf of the City and County and San Francisco and the San Francisco Port Commission.

The Mayor of San Francisco, the Honorable Dianne Feinstein and the San Francisco Port Commission strongly support the passage of H.R. 2883 to permit the entry of the *Cunard Princess* and the *Cunard Countess* into the U.S. coastwise trade, after documentation as U.S. flag vessels. Passage of this legislation will benefit the City of San Francisco, our local economy, and will help revitalize the American cruise ship industry.

Mr. Chairman, in the last fifteen years the passenger ship industry has evolved from large vessels engaged in carrying people between different ports as a primary mode of transportation, to today's smaller and faster vessels designed for cruising purposes in which the vessel itself serves as an integral part of the passengers vacation. The Port of San Francisco is a principal port of call for vessels engaged in cruising, whether on the U.S. West Coast or around the world, and we are vitally concerned about this industry and its continued growth. The economic impact of a vessel such as the *Princess* making regular calls at our Port is substantial. The maintenance and repair expenditures alone are about 5 million annually.

In San Francisco we have been experiencing a steady expansion of the cruise industry. The number of passengers handled at our Pier 35 passenger terminal in 1982 increased 11 percent over 1981 and since 1976, has increased by over 30 percent. Recently Holland America Line selected San Francisco as the home port for its new 32,000 ton cruise vessel, the *Nieuw Amsterdam*, this vessel will carry more than 1,000 passengers.

Also, I would point out that last year the Port of San Franciso completed a $1.5 million dollar phase 1 refurbishment of our passenger terminal. We are projecting a continued growth in the cruise market and anticipate going forward with additional improvements in order to keep pace with the industry expansion and the demands of those companies using our facilities.

As you will recall Mr. Chairman, San Francisco was the home port for many U.S. flag vessels including *Mariposa* and the *Monterey; President Cleveland* and *President Wilson;* and the *Lurline* and *Matsonia.* We have a long history of having passenger vessels operating out of our port and we strongly support H.R. 2883 which will enable the homeporting of at least one U.S. flag passenger vessel in San Francisco. Officials from Cruise America Line, Inc., have advised us that they intend to homeport the *Cunard Princess* in San Francisco. These ships will be on the 3rd and 4th passenger vessels now carrying the flag of the United States.

Mr. Chairman, while the City and County of San Francisco is most grateful to be able to serve the British, Italian, Bahamian, and Netherlands Antilles flagged passenger ships, we would be less than frank if we did not say that the entry into San Francisco Bay by fine ships such as the *Princess* or *Countess* flying the Stars and Stripes would not bring a sense of pride in what may be the first signs of a resurgence of our merchant marine.

While over a hundred cruise ships flying flags of other nations are carrying passengers from American ports to foreign ports, only one ship carrying our flag is today engaged in the passenger trade, and as a result, American seamen are being deprived of an opportunity to work. These two ships will provide work for well over a thousand seamen.

Mayor Dianne Feinstein strongly endorses H.R. 2883 and has requested that I convey to you that the City of San Francisco, and its elected governing body, the Board of Supervisors, supports H.R. 2883 and requests its passage. This will provide direct benefits to the Port of San Francisco, as well as other U.S. ports. As you are aware, passenger vessels generate significant revenues at the ports of call for such items as bunkers, repairs, victualling, passengers' ground transportation and hotel accommodations, and tug boats, pilots, etc.

Mr. Chairman, it is no secret that the ship repair industry is greatly depressed at present. With the redocumentation of these vessels and the homeporting of the *Cunard Princess* in San Francisco, we would expect that American ship repair firms would benefit greatly from the swift passage of H.R. 2883. The San Francisco Bay Area Ship Repair Association, which represents virtually every primary ship repair firm, most support firms, as well as all shipyard unions in the San Francisco Bay Area, strongly support H.R. 2883 and have asked me to add their support to the record. This bill, when enacted, compels Cruise America Line, Inc. to perform all of the shipyard work required for redocumentation for the *Cunard Princess* in an

American shipyard. Needless to say, we in San Francisco hope they will have this work done in our area. The California Small Business Ship Repair Association also supports the bill.

Mr. Chairman, all of us would like to see passenger ships being built in American shipyards but I'm sure all of us are pragmatic enough to realize that without large subsidies this is not going to happen in the foreseeable future. Passage of H.R. 2883 is the best possible present compromise.

In conclusion, the City of San Francisco, its Port Commission, the Bay Area Ship Repair Association, the California Small Business Ship Repair Association, all strongly urge expeditious passage of H.R. 2883. Your swift action on this legislation will provide immediate direct benefits to many U.S. ports, cities, and to the many ship repair and supply firms providing services to these vessels.

Mr. Chairman, this concludes my testimony, and I would be happy to answer any questions that you may have.

Mr. BIAGGI. Thank you both for the testimony. Both statements will be included in the record.

Mr. Tozzoli, how many vessels do you think the market could support on cruises from New York to Miami?

Mr. TOZZOLI. It would be a judgment on my part, but I do not think there is any question that certainly at least two vessels could be put in the market between New York and southern Florida with no trouble whatsoever, of approximately this size. That is just between those two ports, Mr. Chairman. I think there are many other cruising opportunities. If you can go into ports like Charleston, go down into New Orleans, and so on, the possibilities are very, very broad.

Mr. BIAGGI. In addition to the $40 million investment that the port authority has made in New Jersey and New York, what other efforts are you making to attract passenger business?

Mr. TOZZOLI. Since we did have 900,000 passengers going back to post-World War II days and we are now to slightly over 300,000, we have become very aggressive. That was the reason why we did the survey of the passengers that were cruising out of New York. That is how we found that there was a substantial market for coastal cruising.

The kinds of things that we have been doing are trying to promote among steamship owners the idea of new products out of New York. As a result of that, we do have, as an example, one vessel that is cruising up into the Great Lakes, up into the Canadian area. We do have another vessel which is a car carrier that is running from New York down to the Bahamas. It has connecting service over to the mainland, also.

The other things that we have been pushing are trying to get shorter cruises out of the Port of New York. We do have one ship now that is running both 3- and 4-day cruises, but we do everything that we can to convince shipowners that it is profitable to put their ships in New York with these new types of programs.

Mr. BIAGGI. You mentioned speaking to foreign flag cruise line officials about the cost of operating a cruise ship.

Mr. TOZZOLI. That is right.

Mr. BIAGGI. Is it your opinion that it would be nearly impossible to operate an American-built ship in the trade properly?

Mr. TOZZOLI. Yes. As a matter of fact, I had one experience last year that I think demonstrates it pretty well. We did have—this was a group of people who were interested in building a new ship.

They were looking at this very concept. They liked the idea of being able to tap the market that they also felt was there.

In looking at this, they had priced a ship to be built in the United States as well as in foreign markets. Frankly, the ship to be built in the United States would have cost twice as much as it would have overseas. As a result of that, the economics just did not figure. The ship was eventually built, but it was built in a foreign port—in France, as a matter of fact.

Mr. BIAGGI. Mr. Gartland——

Mr. GARTLAND. Yes, Mr. Chairman?

Mr. BIAGGI. Aside from the *Princess* being home ported in San Francisco, what will the other ports of call be—I should have asked this of Mr. Lambert.

Mr. GARTLAND. I understand that one of the vessels, the *Princess,* would be home ported in San Francisco, and that it is Cruise America's intention to operate on a coastwise basis out of San Francisco and northern ports. Therefore, it would be calling at Los Angeles, San Francisco, Portland, Seattle, and perhaps other ports in Alaska. I am not quite sure which ports.

There is no trade at this present moment, with the exception of a couple of Delta ships which carry very few passengers, on this particular route at the present time.

Mr. BIAGGI. Thank you very much, gentlemen, for your testimony.

Our next panel of witnesses will consist of Richard Hadley, president, United States Cruises; Vincent deLyra, president of VINTERO Corp.; and James Kurtz, Esq.

STATEMENT OF RICHARD H. HADLEY, PRESIDENT, UNITED STATES CRUISES, INC., SEATTLE, WASH.

Mr. HADLEY. Mr. Chairman, I am Richard H. Hadley, president of United States Cruises, Inc., owner of the passenger cruise vessel, SS *United States.* I appear before you today in opposition to H.R. 2883, a bill to admit two foreign-built vessels to the coastwise trades of the United States.

There is no one more anxious to see a resurgent passenger merchant marine under the American flag than I am. I fully subscribe to the proposition that no American military force can survive for long without an adequate seagoing support system, a proposition that was emphatically confirmed in the recent Falkland Islands war. Thus, the question today is not whether the United States should undertake sealift enhancement efforts, but how such undertakings can be accomplished fairly.

Regrettably, the bill before the subcommittee will disadvantage, if not deter, potential investors in other U.S.-flag revitalization ventures. It will create a financial disincentive for Jones Act operators and the financial community whose involvement and support are the real lifeline of the American merchant marine. It will emphasize to them the risks rather than the rewards of further participation.

The history of the SS *United States* is illustrative. Originally constructed in 1952 for $79 million by Newport News Shipbuilding & Drydock Co., the *United States* is considered the flagship of Ameri-

can passenger shipping. In fact, the vessel's original performance capabilities were so impressive that for years they were classified as secret by the U.S. Navy. Built for U.S. Lines with construction differential subsidy, the Maritime Administration purchased the vessel in 1973, following the demise of the U.S.-flag passenger fleet. She was maintained as part of the National Defense Reserve Fleet.

In September 1978, USCI entered into an agreement with MARAD whereby USCI would purchase the *United States* and return her to full operation after making substantial improvements.

Since the 1978 disbursement of $500,000 as a downpayment, USCI has spent more than $10 million for vessel acquisition, drydocking, plan development, economic feasibility studies, and other conversation preparations to prepare the ship for cruise service. The overall project cost is expected to approach $140 million. This is a serious venture with a serious purpose, and we have planned and spent accordingly. As a matter of fact, we probably would have been operational already were it not for unexpected diversions, precipitated by the Department of Defense.

Responding to well-known concerns about the lack of American strategic mobility, DOD asked Marad to postpone our transaction pending a determination as to whether the Department would requisition the vessel for conversion to a hospital ship. On January 15, 1981, departing Carter administration Defense officials went so far as to enter into a memorandum of understanding with the Department of Commerce regarding use of the *United States* with the Rapid Deployment Force. While DOD ultimately decided to solicit bids for other ships, the delay in decisionmaking cost USCI greatly.

In that connection, I might add that it was only in August, this past August, that one of my associates finally got a letter from Caspar Weinberger saying that the DOD no longer had any interest in the *United States* for hospital ship conversion. All this time, up until last August, we really have been effectively stopped from proceeding because no one would seriously talk to us about financing obviously so long as this cloud was hanging over our heads.

Incidentally, I should note parenthetically that even though the *United States* is not immediately involved in conversion to Rapid Deployment Force use under DOD ownership, it still will be available to the Government under the wartime requisition procedures of the Merchant Marine Act of 1936. Thus, while USCI has been somewhat constrained by the Government's decisions, the Government enjoys the defense benefit of our ship which will be refurbished privately.

I chronicle these events since 1978, Mr. Chairman, in order to provide an accurate perspective on the scope and intensity of our undertaking and to indicate the extent USCI has relied upon the present maritime policies of the United States.

We oppose H.R. 2883 because it is unfair. It constitutes policymaking by exception, rather than by rule. It creates a Jones Act loophole which will make market predictions all but impossible, thereby jeopardizing our financing as well as others.

The Jones Act trade has constituted a predictable, certain trade reserved for U.S.-built ships for more than a century. It could now become the province of whatever foregn shipowner can fashion a

patriotic, pro-seapower rationale for a new exception. Had USCI known this would become law in 1978, I doubt it would have or could have committed the more than $10 million it has to refurbish the SS *United States*, and it will assuredly jeopardize financing efforts today.

Taking this problem from the abstract, national strategy level to the real world of ship finance, let me tell this subcommittee what this will mean. As soon as the American ship finance sector decides that lower cost foreign tonnage can be introduced into the Jones Act trade with impunity, and without reasonable prediction, a profound chilling effect will set in which will freeze financing for U.S. ventures. In this sense, there will, indeed, be a domino effect, and, in fact, it would be difficult, if not impossible, to respond accurately to the question of, "Who's to say that there won't be additional reflaggings?" At the least, the cost of ship-related financing for American-built ships will rise to prohibitive levels or become totally unavailable.

In addition, there appears to be some confusion about the ships at issue in this bill. According to a June 6, 1983, story in the Journal of Commerce, a copy of which I have attached to my testimony, the vessels' ultimate owner, Trafalgar House, a British concern, has denied any intent to sell the ships at issue to Cruise America. This reported denial arises in the context of an effort by another British company, P&O, to thwart a takeover by Trafalgar House. It would appear, then, that to some degree there is an effort by the bill's advocates to "have it both ways." At the very least, it is fair to note that this subcommittee is being asked to facilitate a transfer that Trafalgar may be unwilling to consummate.

Finally, we urge you to reject this bill because it does violence to the fundamental policy of the Jones Act, which has been one of the rare successes in American maritime history. While there have been other reflaggings recently, they have been repatriations of American-built vessels which have carefully adhered to the notion that foreign-flag tonnage does not belong in the coastwise trade. Indeed, Congress reemphasized the special nature of the Jones Act trade when it enacted the Guarini-Matsunaga amendment to the tax title of the Surface Transportation Act of 1982 last December. That amendment permits the deduction of costs associated with business conventions aboard U.S.-flag passenger ships. By doing so, Congress limited such tax treatment to those vessels operating in the Jones Act trades, in a clear attempt to encourage only U.S.-flag activity in those areas.

Parenthetically, I might add that that legislation has been an enormous help to us in our negotiations with potential inventors and lenders with respect to the S.S. *United States*.

Also, the recent tax law which permits more rapid depreciation of ships is an enormous help. In other words, Congress, as I see it, has given major incentives within the last year or two to U.S.-flag ships and has made it possible, I think, economically to build and rebuild ships in the United States and conform fully with Jones Act present requirements.

Both the chairman of this subcommittee and the chairman of the full committee were instrumental in the passage of last year's legislation and are to be complimented for thereby creating vast new

opportunities for U.S.-flag coastwise shipping. In fact, this new tax environment is certain to attract many, suggesting that the bill before you today may well be but the first of several such measures.

In closing, Mr. Chairman, I would remind the subcommittee that American law is predicated upon notions of essential fairness. In contract law, for example, the principle of "promissory estoppel," which posits that one who relies to his or her detriment on the representations of another can recover damages when the other party has put him or her at a disadvantage through such reliance, has long been recognized. This rule of fundamental fairness is applicable to deliberations on this measure.

I urge you to take cognizance of those who have relied upon the relative certainty of standing Jones Act policy. If this bill is to proceed in due course, notwithstanding our objections, every effort should be made to insure that all operators are similarly situated in terms of obligations under the law.

This is ill-advised legislation. It will be bad law. In fact, it may well signal the beginning of the end for the Jones Act, and the commitment it makes. If that is to be the question, it should be so stated and that larger policy question closely examined. There should not be legislation by loophole.

I appreciate this opportunity to testify, and I welcome any questions.

[Attachment to statement follows:]

[From the Journal of Commerce, June 6, 1983]

P&O: U.S. SHIP LAWS MAY BLOCK TAKEOVER

(By Bruce Barnard)

LONDON.—P&O, Britain's largest shipping company, has raised the specter of conflicts with U.S. shipping laws as part of its defense against an unwelcome£25 million ($465 million) takeover by the construction, property and shipping group Trafalgar House.

P&O has pointed to the possible sale of two of Trafalgar House cruise ships, the Cunard Princess and the Cunard Countess, to an American company as a reason for referring the bid to the U.K. Monopolies and Mergers Commission, which could block the takeover in the national interst.

P&O is arguing that the possible sale of the two ships would damage British defense policy as the vessels would no longer be available to support the Royal Navy in times of war if they were transferred to U.S. ownership.

P&O was referring to a bill put before the U.S. House of Representatives last month that would allow the two ships to be registered under the U.S. flag and be placed under the ownership of the U.S. company Cruise America Line, or its assignee.

Despite Trafalgar House's denial that there is any plan to sell the ships to Cruise America, P&O director Oliver Brooks said: "If you have the U.S. flag, you have U.S. seamen."

P&O has placed advertisements in national newspapers showing a skull and cross bones flag calling on shareholders to "repel boarders."

In its offer document last week, Trafalgar said that P&O is in a financial straitjacket and suffers from poor management making illtimed strategic decisions.

It castigated P&O for trying hard for a monopolies commission reference rather than allowing its own shareholders to decide the issue.

STATEMENT OF JAMES L. KURTZ, ATTORNEY AT LAW, WASHINGTON, D.C.

Mr. KURTZ. I have negotiated with and have solidified an arrangement with American Maritime Holding, Inc., to acquire the stock in American Maritime Holding, Inc., together with some colleagues. That company owns the SS *Monterey*. We are planning to refurbish the SS *Monterey* and spend approximately $16 million in that effort. We have been planning to do that in the San Francisco yard, and we have been planning on the basis that the Jones Act was a viable act and that there was the limited competition contemplated by that act.

We based in great part our decision to go forward with this venture on the recent study commissioned by the Maritime Administration and prepared by Centaur Associates. That particular study emphasized the fact that the west coast to Hawaii could take approximately three ships in that trade. At the present time there are two ships in that trade that take up approximately two-thirds to three-quarters of the contemplated shipping that would service that particular trade.

This particular act, although everyone it is just along the coast of the United States, I suspect that these people have in mind to go directly from the west coast of the United States to Hawaii, which would adversely impact on our efforts to go forward with our planned venture to the west coast of the United States to Hawaii.

We have spent over $7.5 million in this effort, and we have based our efforts primarily on the fact that the Jones Act was a viable act and it gave us a protection in the trade.

We are now seeing that this protection is being dissipated on a piecemeal basis. This dissipation comes not only from the fact that the two ships that are making it in Hawaii now were refurbished overseas, but we are now talking about two ships that have been built overseas completely.

If the ball game rules were different a few years ago, I think everybody on this panel would have their ships flying in the United States. If the ball games meant that you could have these ships built overseas or refurbished overseas, the financing could have been obtained. This organization has precluded that by saying you have to go the Jones Act route, and now we mave a situation where you do not have to go the Jones Act route.

That is the end of my statement.

[Prepared statement follows:]

STATEMENT OF JAMES L. KURTZ

Mr. Chairman and Members of the Committee, my name is James L. Kurtz. I have agreed with the stockholders of American Maritime Holding, Inc., owner of the SS *Monterey*, an American built vessel qualifying for coastwise trade, to purchase American Maritime Holding, Inc. and the SS *Monterey* and to operate her in a coastwise cruise service between the West Coast and Hawaii and among the Hawaiian Islands. I strongly oppose H.R. 2883.

This committee is well aware of the status of the domestic cruise trade today. On the one hand, within reason, the demand has been recognized as strong. That project demand prompted two U.S. built vessels, the SS *Independence* and the SS *Constitution*, with over 1,800 berths, into the trade. Other U.S. built vessels, such as the SS *United States* with 1,600 berths and the SS *Santa Rosa* with 300 berths are pursuing realistic plans to enter the coastwise cruise trade. We intend to put the *Monterey* in the Todd Shipyard in San Francisco within weeks for the work needed

to expand her capacity from 400 berths to 600 berths and to bring her into class. In other words, for the U.S. coastwise cruise trade, you are looking at some 4,300 berths on U.S. built vessels competing for bookings. Other U.S. built vessels are standing in the wings.

A recent study performed under the direction of the U.S. Maritime Administration, prepared by Centaur Associates, Inc., analyzed the principal market for a domestic coastwise cruise trade, namely, the West Coast/Hawaii market. It is clear from the report, which tracked the potential for three vessels and 2,650 berths in the trade, that although the market is growing, there are definite limits on its ability to absorb cruise ships, which are not only competing among themselves but also with other recreational facilities and forms of travel. It concluded that the three vessels, if run efficiently, marketed cleverly, and priced competitively, could operate profitably in that trade. You should know that when the *Monterey* enters the trade with the two vessels already in the trade, there will be 2,400 berths available without the participation of any other vessel.

I cannot speak for any other owners and operators, but I do know that over $6 million has already been spent by American Maritime on the *Monterey*. My colleagues and I have expended over $1.5 million, and we intend to spend up to another $16 million to save her for Jones Act trade and to put her into that trade.

The *Monterey* will create some 650 jobs directly, including jobs or job equivalents in direct support of its operation, and seamen and other employees of the operating company. Its refurbishing and continuing maintenance and repair will keep U.S. shipyard workers employed and help keep U.S. yards open and viable. Its resumption in trade will make another U.S. passenger vessel available to this nation in time of war.

From an economic and monetary feasibility point of view, I know that I would have serious questions concerning the viability of operating the *Monterey* in the face of unlimited competition from vessels constructed in foreign yards. The two Cunard ships alone would represent an intrusion of some 1,500 new berths into the relevant market. Future prospects of profitability for the *Monterey* become very cloudy.

If this bill which is before you is passed, I and my investors will have been led down the garden path, and the Congress will have removed any of the predictability upon which businessmen must rely in their efforts to revitalize our nation's once proud passenger fleet. Frankly, I would be shocked.

Can there be any question that passage of this bill will open up the floodgates? If the Congress allows two foreign built, foreign flag vessels into this hitherto sacrosanct area of trade, on what basis could any foreign vessel be refused? Not on an economic basis, certainly, since existing and prospective capacity provided by U.S. built vessels already is more than adequate to meet the demands of the trade as analyzed by the Marad Study. And, not on the principles for which the Jones Act stands, since those principles will already have been contravened by the enactment of this bill, despite the lack of any countervailing need or economic justification.

Of course, the long range impact on the already staggering shipbuilding industry will be considerable, and adverse. The coastwise market has strengthened. In the short term, it is being and will be served by older vessels, but if its viability is proven, there will be inevitable pressure for construction in U.S. yards of new qualifying vessels—if there is any qualification necessary. Capital construction funds fed by current and future operations will provide at least a partial resource for this next stage of revitalization.

The vagaries of open competition from foreign built vessels could well lead to an excess capacity which in turn would greatly reduce or eliminate this pressure to build new passenger ships. More important, even if new construction is deemed warranted in such a crowded trade, who would build here when they can assume that they will be let in even if they build foreign? Clearly, if we determine to continue with the *Monterey* after the passage of this bill, and if we are able, and if we survive in the marketplace as redefined by Congress, we simply could not build domestic when and if the time comes for us to put a new vessel into operation. It would be uneconomic and show poor business judgment to do so.

In short, we have been playing the game according to the rules, because we had to and because we believe that "Buy American" in the U.S. passenger vessel shipping industry is still the key to the long range health of the industry. I feel strongly that our perserverance in a cause often espoused and praised by this Committee should not be rewarded by the indiscriminate granting of concessions to foreign built ships which could not only break our back, but destroy the equilibrium created by the Jones Act in coastwise trade as well.

That equilibrium protects the jobs of U.S. seamen and U.S. shipyard workers, and supports the viability of our Nation's shipbuilding capabilities, provided the protect-

ed coastwise trade itself is viable. Considerable study and recent experience demonstrates that it is. The petition before you today to let foreign built vessels share the benefits of the coastwise trade is loud and clear testimony that the trade is viable.

The system so carefully created and staunchly protected by Congress in the past is domonstrating today that it can work in the domestic cruise trade, as it did in earlier years. Please let it continue to work, and let us get on with the job.

Mr. BIAGGI. They have to go the Jones Act route for repairs and conversions, don't they?

Mr. KURTZ. That is right. If the *Monterey* had been flying a year or two ago, we could have had the repairs made overseas, because the financing is available not only overseas but the financing is available here in the United States if you have it done over there.

However, here we have a situation where the people did not have to do anything in the United States. They just had their ships built overseas. They proved them as a going ship and bring them into this kind of trade.

Mr. BIAGGI. The Cunard vessels are going to be required to convert and repair in U.S. yards.

Mr. KURTZ. As I understand the testimony prior, there is a minimum of $2 million going to be required to refurbish these things to get Coast Guard approval, and perhaps up to $5 million a year in refurbishment. We are talking about a $16 million refurbishing bill right off the bat, and we have that same yearly refurbishment requirement, also.

Mr. BIAGGI. Your *Monterey* required more service than these two vessels apparently. Is that the difference, the $2 million, $16 million?

Mr. KURTZ. The difference is that we have now eliminated the requirement of fulfilling all of the Jones Act requirements to come into the Jones Act coastwise trade. If that were the case, all these gentlemen here could have been in the coastwise trade and servicing the U.S. trade.

Everybody has been complaining that the U.S. trade has not been serviced. It could have been serviced.

Mr. BIAGGI. The *Monterey* has been languishing for some period of time.

Mr. KURTZ. Part of that languishing has been due to the fact that the requirement to have the refurbishment done here in the United States and the financing just do not jibe. That is the fact of the case.

Mr. BIAGGI. I knew you had problems putting a financial package together in order to get the *Monterey* underway. This committee was very sensitive to that, as a matter of fact, when we were considering the legislation dealing with the *Constitution.*

However, the *Monterey* has been languishing, and you are still not operational.

Mr. KURTZ. No, but we do have the financing arranged. The final documentation is now being completed over in Switzerland. I might point out that that financing still had to go into Switzerland. The reason we were able to make that situation work is that there would be no encumbrance on the ship by any foreign owners. I finally arranged a loan through Switzerland to a U.S. company, and the U.S. company is making the loan to us. That is the sort of circuitous route we have always had to take because of the Jones Act.

Now you are just abolishing the Jones Act. You are abolishing all the efforts that these people have gone through at this stage——

Mr. BIAGGI. Why do you say we are abolishing the Jones Act? What we are doing is granting a waiver. It is not the first time waivers have been granted by this committee.

Mr. KURTZ. No. That is true.

Mr. BIAGGI. They must comply completely with the Jones Act.

Mr. KURTZ. Pardon me?

Mr. BIAGGI. We are not abolishing the Jones Act. They must comply completely except to the extent we give them a waiver.

Mr. KURTZ. In this particular instance, they made everybody here at this table suffer through the Jones Act requirements for years, and now——

Mr. BIAGGI. Mr. Hadley, you had an unfortunate experience with the Government, and I sympathize with you a great deal. It was an infuriating situation that you were subjected to. I do not know how we can make you whole really, but Mr. Hadley you have had 4 years, since 1979.

Mr. Kurtz, you are telling me that you had the financial package straightened out with the *Monterey*. Do you know how many times we have heard that in this committee, privately and in committee? A dozen times at least. Each time we were told that, we kept delaying the pending legislation in order to be fair to the individuals that were interested in the *Monterey*, but there comes a time when you cry wolf too often.

I hope you are correct. I hope what you are saying is factual and that it works out for you, but this committee just cannot simply sit back and wait ad infinitum, despite our intention to be sensitive to your concerns.

In any event, we will have a number of questions.

Mr. deLyra, please?

STATEMENT OF VINCENT A. deLYRA, PRESIDENT, VINTERO CORP., NEW YORK, N.Y.

Mr. DELYRA. Thank you, Mr. Chairman.

I would like to preface my remarks by obtaining your permission, and that of the other honorable committee members, to incorporate in my prepared statement some of the benefits of this hearing under your chairmanship, which I think have been very revealing and in great depth in certain areas.

Mr. BIAGGI. Thank you. Without objection, your whole statement will be included, and whatever comments you make will also be included.

Mr. DELYRA. Thank you, sir.

I will read and add where I believe it is appropriate the benefits of these hearings as I interpret them.

Honorable sirs, on November 15, 1979, President Carter signed Public Law 96-111. This legislation, initiated by the House Committee on Merchant Marine and Fisheries, provided for five ships, benefited by construction subsidies, built in U.S. shipyards and U.S. owned, to engage in the coastwise trade. These ships were the

SS *United States*, the SS *Independence*, the SS *Santa Rosa*, the SS *Monterey*, and the SS *Mariposa*.

Subsequently, legislation permitted the U.S.-built SS *Constitution* to engage in domestic commerce of the United States. The mentioned legislation was a noble effort with no opposition from other U.S. shipowners, fully supported by the U.S. shipyards and all four major merchant marine unions. Of these six ships, two are in service and the other four are in various stages of reactivation.

H.R. 2883 would swap four U.S.-built ships for two foreign-built, a potential loss to labor of 100 percent more jobs than presently proposed.

I would like to add here, Mr. Chairman, that as you initiated and as Congresswoman, I believe her name is Boxer, added, a major concern of not only this committee but of every American is unemployment, a serious concern. The number is roughly 12 million but with a multiplier of 4 it is 48 million, a major part of our population.

The U.S. ships mentioned incorporate special U.S. Navy, DOD features that are certainly not incorporated in the two Cunard ships built, as per Mr. Lambert's testimony, in Danish yards.

I would like to add here that there has been what I believe, although I have no authority to confirm it, a physical impossibility to drydock a vessel twice a year, as required by our law, and then with two ships cover the east coast, the gulf coast, the west coast, the Great Lakes, Alaska, and Hawaii, plus engage in the foreign commerce of the United States. I think it is a physical impossibility.

By the way, as the SS *United States*, the *Santa Rosa* was the last American-built ship to be carefully examined by Naval Sea Systems Command to fill the vital need that everybody realizes that this Nation has for hospital ships. To the best of my knowledge, neither the *Countess* or the *Princess* were ever surveyed for that purpose by the U.S. Navy or any other Navy.

I believe that direct questions by two of the committee members, which were direct on hospital ships, was avoided and moved over to troop ships.

I had the benefit, due to the 10-minute break that the honorable chairman declared, both to take a cigarette and speak with the highly renowned historian, Mr. Frank Braynard, who informed me that while one of the two Cunard ships might have been used in the Falklands, in another period of British urgency called Dunkirk there was one passenger vessel—I believe the name was the *Lancaster*, a large one—and it was sunk immediately. Most of that evacuation, if you can call it troop ships, included everything possibly down to an outboard motor.

The value as a hospital thing is a totally different and very precise situation, which neither the *United States* nor the *Santa Rosa*, and many other ships that were examined, met the stringent requirements of the U.S. Navy.

H.R. 2883 would make a mockery of the highly prized Jones Act privileges, specifically section 27 of the Merchant Marine Act, 1920, and sections 111 and 112 of the Vessel Documentation Act. This could be conceivably the forerunner to total loss of integrity of the Jones Act and other national shipping laws, and maybe another

step in an evolutionary chain: To give away American air rights to foreign airlines to service American cities. I do not think that that is too extraordinary an analogy.

As the owner of the *Santa Rosa,* only a legal suit brought by the Venezuelan Government in U.S. Federal courts has deferred the reactivation of our ship in an American shipyard. We have spent millions of dollars in initial repairs—that is an addition—and for wharfage, guard service, insurance, to say nothing of legal fees incurred, which could only be justified by Public Law 96-111, together with the conviction that the integrity of the Jones Act would be maintained.

The Maritime Administration, in a study entitled, "Analysis of the North American Cruise Industry," October 1980, spelled out the great limitations of the American flag to U.S. intercoastal cities and the State of Hawaii, against some 82—and I understand that number is up to 90—foreign flag competitors, again adding the attractiveness of the good old green dollar, the majority of which are U.S. based either permanently or temporarily.

Travel agents and the Ports of New York, San Francisco, Miami, et cetera, presently benefit from some portion of these 82 to 90 ships, and any support that such entities, such as the ports and travel agents, give is at no capital risk and merely represents additional business.

To add foreign ships to this competition would be a death blow to the four existing U.S.-built ships, and permanently eliminate the possibility of any future new buildings of cruise ships in U.S. shipyards.

The success, as Mr. Joseph pointed out, of the *Independence* and the *Constitution,* approved by this full committee, is merely because foreign-flag ships cannot compete in inter-island service. That is the only thing that would save intercoastal service.

We hope that this committee will require of Cruise Line America the following:

One, has Cruise America purchased the ships already? Or do they merely hold an option subject to passage of this legislation?

Two, the date when Cunard acquired American Bureau of Ships registration for the two proposed ships, as we believe they were Lloyds register and presumably it must be one or the other, not dual registry.

Three, why can't Cruise America use the funds arranged for the purchase of these two ships—reportedly in excess of $100 million—to build one or two ships in a U.S. shipyard?

I would like to add here, honorable committee members and Mr. Chairman, that the law instituted in this highest legislative body of the United States has already provided that profits may be tax exempt up to a total of 50 percent of earnings. This will enable any cruise ship operator to accumulate funds over a successful period of time where ships will be built in America. In the motto of the Marines, "The difficult we do right away; the impossible takes a little longer."

We saved Chrysler by a combination of marriage: Give back a little from the union and board representation for the union. This has put Chrysler back on its feet—the combination of Frazier of the UAW and a genius by the name of Lee Iacocca.

It can be done. The drab talk that we cannot recover either in our automotive industry or our steel industry, television, whatever else we have given away, I do not accept. We are the home of industrialization, of mass production. If we did not have the robots yesterday, we will have the tomorrow.

We will build more ships in America. But there is a difference, sir. We are not looking for a safe bet before we spend a buck.

Mr. Hadley is proposing to spend $140 million. Mr. Kurtz talked about $16 million. Let me add the figure of the *Santa Rosa*. We estimate that to convert the configuration of the *Santa Rosa* from 300 passengers and 10,000 tons of cargo to 720 to 750 passengers had a cost in the neighborhood of $45 to $50 million.

Now if that figure of Cruise America of $2 million for ships that are in operation—first, we do not know where the conversion is going to be, whether it is going to be domestic or foreign. Second, if it is $2 million apiece, it is a total of $4 million. Big deal. I do not think that will swell the coffers of the city of San Francisco, the county of San Francisco, or even the little State of Rhode Island, just on a size basis. It would sort of get lost in a wind storm. We are talking $240 million.

There is not a chamber of commerce in any city coastwise—gulf, Great Lakes, east coast, west coast—that would not be delighted to ante up, in my humble opinion, a few bucks to get the business that is not going to be created by the addition of two foreign-built ships.

The cities that these ships—90-odd or whatever the exact number is—they have already benefited our airlines, have already benefited the local hotels. These are things that are not going to be swelled by 2 ships as against 90. Again, it is like a flea and an elephant.

I beg the court—the court? I am hung up with that 7-year legal battle with the Venezuelan Government. I do not expect to fight mine.

I count with the sincere desire of every American that we solve our unemployment and our economic problems. We have personally been reduced to chapter 11 of the Bankruptcy Court. I personally have invested my small holdings and I have borrowed up to the hilt. There is over $10 million in the *Santa Rosa* right now, the gypsy of the Port of Baltimore.

Mr. BIAGGI. We have not placed a limitation on anyone's testimony, but——

Mr. DELYRA. I will terminate mine in a minute. I will finish reading this and thank you for your cooperation in listening.

Would Cruise America, as my fourth proposal, accept the U.S. flag on these ships limited to the foreign commerce of the U.S. for a period of 3 years? As this committee is undoubtedly aware, foreign ships can be registered under the U.S. flag, but can only carry preference cargo, such as Public Law 480, after a 3-year period. This would prove good faith on the part of Cruise America and give labor, the SIU and the MEBA-2, their jobs.

If Cruise America would accept U.S. flag limited to the foreign commerce of the United States, or build a new ship in a U.S. shipyard, they could count, I believe, with the unanimous support of all sectors of the U.S. economy.

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In the case of a negative answer from Cruise America, this committee must bear the responsibility of eliminating 100 percent more jobs, two ships versus four, plus dealing a mortal wound to the present U.S.-built shipowners and U.S. shipyards, another deep wound to the American economy added to those already suffered by the automotive, steel, television, and many other industries.

Thank you, sir.

Mr. BIAGGI. I think I made the observation, with relation to the *Monterey,* that there have been attempts to get her underway for a considerable period of time. In relation to the *Independence,* in your statement, Mr. deLyra, you said you will be sacrificing four vessels for two. That statement is hardly based on fact. The *Independence* will be operational in 2 weeks. The *Santa Rosa*, the *Mariposa,* and the *Monterey* are smaller vessels.

Give me a short response, please Mr. deLyra.

Mr. DELYRA. Yes, sir

Mr. BIAGGI. You said you were prepared to convert the *Santa Rosa* from 300 passengers to 750?

Mr. DELYRA. 720 to 750, sir

Mr. BIAGGI. What are you going to do with it, put in a midsection?

Mr. DELYRA. No, sir.

Mr. BIAGGI. Are you going to make smaller cabins?

Mr. DELYRA. No, sir.

Mr. BIAGGI. What are you going to do?

Mr. DELYRA. I mention that the present configuration includes 10,000 tons of cargo space. That is where this will be done, plus move the front of the houses forward and the rear of the houses aft.

Mr. BIAGGI. OK. Thank you.

Mr. Hadley, on page 8 of your testimony you said there should not be legislation by loopholes. There is not any loophole here. There is just a provision for a waiver in this specific instance.

You also said it could be the beginning and the end of the Jones Act. I would like to remind you, Mr. Hadley, and the others that last year the committee extended the Jones Act to include incineration at sea vessels. Yesterday, the House passed a bill that would eliminate an exemption to the Jones Act, the third proviso. The statement you are making is hardly based on fact. It may be based on emotion.

On page 6, you say Trafalgar House has denied that the sale will take place. Then you go on to say, "It would appear, then, that to some degree there is an effort by the bill's advocates to have it both ways." What do you mean "have it both ways"?

Mr. HADLEY. I suppose satisfy the British that the ships will not be sold and at the same time get admission to the United States after their squabbles are settled between Trafalgar House and Cunard.

It does seem so strange to me to have the seller of the ships denying that the ships are going to be sold.

Mr. BIAGGI. You are a businessman. Nothing should surprise you in business.

Mr. HADLEY. I have to admit that does.

Mr. BIAGGI. I posed that question to Mr. Lambert. If you were here, you would have——

Mr. HADLEY. I heard his answer. I still did not understand it any better.

Mr. BIAGGI. Well, he pointed out clearly that there were conflicting forces at work. I do not know whether it justified the statement in the paper, but we are all old enough to know that we do not always believe what we read in the paper. Through bitter experience, we have learned that.

I am glad you acknowledge that last year the Congress helped the U.S.-flag passenger ships by passage of legislation allowing the deduction of costs for business conventions. We were happy to be part of that undertaking.

On page 5 you state that, "As soon as the American ship finance sector decides that lower cost foreign tonnage can be introduced into the Jones Act trade with impunity"—impunity? I do not know how many waivers this committee has granted, but I do not think there are enough to justify the statement that that process is taken with impunity. Each case is taken on its own merits, and each one seems to be a little unique.

As far as this application is concerned, we so far have not heard too much to the contrary. It is a unique kind of business, Cruise America. There are not any other vessels in operation at this time doing that kind of business. You might tell me that there is some potential, but potential is far from reality.

We received a letter from a company in Texas saying they have an ocean liner on the designing boards. We will check into that further.

We know the practices of people who engage in opposition, and they are not always——

Mr. HADLEY. Mr. Chairman, may I ask a question?

Mr. BIAGGI. Surely.

Mr. HADLEY. Over the past many months we have had numerous discussions and exchange of correspondence with the Coast Guard about the work that is required to be done in the United States to maintain Jones Act eligibility. Do you feel that it is fair that the United States cruises be asked to repair the SS *United States* and do its conversion in the United States with the higher costs that are incident to that work being done here, while its direct competition is permitted to bring in ships that have the advantage of much lower cost form of construction?

Mr. BIAGGI. Are you talking about the *Princess* and the *Countess*?

Mr. HADLEY. Yes.

Mr. BIAGGI. Didn't Mr. Lambert testify that they are being converted in American shipyards?

Mr. HADLEY. I suppose that probably the——

Mr. BIAGGI. Does the law require that?

Mr. HADLEY. They carry a total of 900 passengers, and you are looking at value on the order of $100 million and conversion costs of $2 million. It is peanuts.

The basic work was done abroad, and our competitor has the advantage of dramatically lower foreign-built costs. I am troubled with the essential element of fairness. You are saying, "Dick Hadley, you do the work in the United States. You pay the higher

prices in the United States, but your competitor can bring in ships that have the advantage of much lower foreign construction."

Mr. BIAGGI. I know what you are saying. Literally, what you are saying is—what you stated may be the reason why Mr. Lambert and Cruise America is interested in those ships. That clearly is a business consideration.

Now you are talking about fairness and equity. I would concede that the *United States,* you and the *United States,* have not been treated fairly, but I do not think that equity problem spills over into the two vessels that are under consideration. It may well have been the reason for Mr. Lambert's interest in the purchase of these vessels. He has not purchased them yet. Whatever work was done on them was done by—what company is that? By the British company. Trafalgar House, it was done by them, maybe in contemplation of sale. I don't know. I do not know if Mr. Lambert was involved at that point. It may not have been in contemplation of sale. It became a good buy. There is no doubt in my mind that that is the chief attraction. Couple that with a notion of this whole unique type of cruise.

Mr. HADLEY. Do you feel that we should be similarly accorded a good buy by permitting conversion of the *United States* to be done foreign?

Mr. BIAGGI. No. It is not quite the same situation. Mr. Hadley, it is not quite the same situation.

I would say that you could have had the opportunity to deal with Trafalgar House and get these two vessels. It would be the same for any other purchaser. That work was done already. The analogy is not on all fours, clearly.

I know your problem. You have my heart-felt sympathy, but I do not know how we can deal with it and how we can help you. If there is any way this committee can help you, we would be delighted to sit down and entertain the notion. Our Government has not dealt fairly with you.

Mr. HADLEY. That is one subject with which we totally agree.

Mr. BIAGGI. Pardon me?

Mr. HADLEY. I say that is one subject on which we totally agree.

Mr. BIAGGI. Agreeing is one thing. Really, when I see an injustice like that, I would like to see how we can remedy it.

Mr. HADLEY. I appreciate that.

Mr. BIAGGI. If there is a way, come see us. It is as simple as that. I know the genius of people in your business and the lobbyists. I have just thrown something out. Somebody will be knocking on your door and is going to show you a way to do it.

One question: Are you really concerned about the competition for these Cunard vessels or are you more concerned about the effect that this bill would have on your financing of the *United States,* Mr. Hadley?

Mr. HADLEY. I met with Mr. Lambert. He was very nice, nice enough to come to Seattle to meet with me recently, and he described the operation of his two ships.

In fairness, he points out that the routes that his ships will operate are not the routes which in all probability we will be operating with the *United States.* The area of competition, as I see it, is primarily with respect to the convention business, and that was a

very key—I do not know if this committee realized what an important element that is in considering financing for a U.S. ship that will qualify in Jones Act trade. It is darned important.

So we see ourselves in competition in that one area. The thing that concerns me basically is what happens. We have operated on one set of rules for years and have proceeded on that basis, and now we have two ships which were totally built abroad and require really minor work to be done in the United States. They have the advantage of lower cost foreign construction. We see them as becoming, to some degree, competitors of ours. I would not worry too much about just the two. It is the precedent for the future. Does this mean that somebody else goes off and builds a ship foreign and brings it into the United States? I would think that is a logical conclusion anybody would have looking at this legislation. That is my concern.

If you could give me a guarantee that there was no more than just these two ships, I would shake your hand and say, "That is all we need."

Mr. BIAGGI. You know you——

Mr. HADLEY. Obviously we can't. The unfortunate thing is we sort of establish a record, and that is the thing that becomes the concern for the future.

Mr. BIAGGI. No one can give you a guarantee. That is the nature of legislation. That is the nature of life. Changing conditions warrant different actions.

I am also aware of the importance of the convention business. I think what we did last year is going to have a very salutary effect.

Let's go back a little bit. You were in that business before we gave you the deduction.

Mr. HADLEY. That is correct. I must say that the task of converting the *United States* satisfactorily to cruise ship mode, I substantially underestimated when I got into the thing. This legislation that came along has helped enormously.

There is no one more eager than I to see a revitalization of the American merchant marine. I strongly believe in it as an American.

I see the possibility with the *United States* of creating—and I firmly believe we will have created—the finest cruise ship in the world.

What I see are some very important changes which have taken place in the whole climate for investment in U.S. flag, Jones Act ships.

One, we have had the major change in tax legislation, not only the convention business but the more rapid writeoff.

The second thing is very, very important. There is no longer, I can see, the extreme adversary relationship between unions and management. People are willing to work together. They recognize if we do not cooperate, we will continue to have our clocks cleaned by all the foreigners.

All I am saying is I think that before we decide that the cure is not enough or the medicine is not enough, let's give it a chance to work. I think it will work.

Not only do I hear from Mr. Fields about the ships proposed for construction by the Texas firm, but I know there are others out there that will be built in American yards.

Mr. BIAGGI. I am delighted with your optimism. I have been sitting in this chair for a considerable period of time. I do not see any basis for your optimism.

Mr. HADLEY. We are getting bids this month. I expect that before the end of this year the *United States* will be in a yard and be underway in conversion, and 15 or 16 months thereafter we propose to enter New York harbor, like they did in 1952, with the ticker tape and the whistles blowing.

Mr. BIAGGI. Make sure I have an invitation to it. Nothing would please me more than to see the *United States* coming into the harbor and doing well.

Mr. HADLEY. The conversion we contemplate—the reason we are talking about spending the kind of money we are is because we do not want the image of a mildly titivated elderly vessel. When we get through with the *United States*, we are not going to be second place to anybody.

Mr. BIAGGI. Mr. Donnelly.

Mr. DONNELLY. Thank you, Mr. Chairman.

Let me just make sure I have this straight. You three individuals own the *United States*, the *Monterey*, and the *Santa Rosa*; is that correct?

Mr. HADLEY. No, sir. I have no involvement with the other two ships.

Mr. DONNELLY. In 1979—and I was on the committee in 1979—you individuals came to this committee for a waiver granting coastwise Jones Act privileges because your ships were built with construction differential subsidies; is that correct?

Mr. DELYRA. Correct, sir

Mr. DONNELLY. Why at that time, in 1979, didn't you build brand-new vessels in U.S. yards with construction differential?

Mr. HADLEY. As far as I am concerned, if I can address myself to the issue, I saw in the SS *United States* an opportunity to create a cruise ship that was second to none. I think I was correct in that evaluation. Eighty million dollars was spent on the *United States* when it was built. To replicate that ship today would cost probably $500 million. You just cannot do it. There just will not be another SS *United States*.

Mr. DONNELLY. That, Mr. Hadley, is the kind of dilemma that this committee is on. In 1979 we had a construction differential subsidy program. In 1983 that program has been eliminated, along with almost all ship building promotional programs with the present administration.

The catch-22 of these granting waivers under the Jones Act is that they have to come forward for a waiver, because it has become so prohibitively expensive, as it was in 1979 even with the construction differential subsidy program. They come forward and ask this committee, and that is the kind of dilemma this committee is on.

To get back to my original point, the reason I would suspect—and I want you all to answer—that you came for the waiver was because, even in 1979, even at prices in 1979, it probably would

have been economically prohibitive to build that type of vessel in an American shipyard.

It was prohibited in 1979. In all probability, if you look at the ship construction costs and inflation over the course of the last 4 or 5 years, it is more prohibitive now. Therefore, individuals such as this individual came forward for the exemption and puts this committee on the horns of a very great dilemma, especially with the present administration in the White House, which is basically what I consider to be a build foreign in the American ship building program.

Mr. DELYRA. I know we are a smaller ship than the *United States*, but I think we owned the *Rosa* before the *United States*, and I think we owned the *Monterey* before the present owners owned it. We have a little longevity. I think there is a little confusion here.

Public Law 96-111 was to overcome the construction differential subsidies which are only available to American flagships in the foreign commerce of the United States. Recognizing that you could not compete with the foreign-flag vessels, we then sought the relief that was required to enable these ships—because they had been recipients of construction differential loans—to enable them to get domestic trading privileges, because that is the only way they could compete in the protected area.

As Mr. Joseph of MEBA2 testified—and it was a little bit confusing there—the *Independence* and the *Constitution* only enjoyed success for one fundamental reason: Foreign-flag vessels cannot engage in interisland commerce port to port in the Hawaiian islands. They are absolutely barred from that. That is the only reason for their success, and the same reason why Mr. Lambert, and I have a high personal regard for him and his wife—I have been in their home; I have been in their clubs—he is a definite maritime pro, but he is also a very keen developer, a moneymaker. Here he is looking for a sweetheart deal without a buck spent, where we three people have got the bread spent. He is looking for a guarantee, which is H.R. 2883. Then he puts the wheels in motion, and you are delivering him a monopoly. That will add $4 million maximum and 900 jobs.

Mr. DONNELLY. Let me just say this: I remember back in 1979 there were some individuals that called that piece of legislation a sweetheart deal. There were other individuals that said we were delivering a monopoly to five vessels.

However, it does not get to the fundamental point. The fundamental point is this: If we are to increase the number of vessels in the Jones Act trade, if we are to increase the number of vessels under American flag in our domestic merchant marine, there is a tremendous amount of unanimity of agreement and thought that we have to rebuild our merchant marine.

The bottom line is that there is no vehicle to do that today. A shipyard mobilization base is eroding on almost a daily basis.

As this committee has articulated, as every member of this committee has verbalized, that takes direction from the present administration and the White House. There is no direction there. In fact, the only direction is to eliminate—recommend elimination—of

almost the few remaining shipyard promotional programs that we have.

You mentioned earlier—I think it was you, Mr. deLyra—that the CCF funds were now available. As I am sure that you are aware, the administration has recommended using CCF funds to reconstruct and build ships overseas. Through the wisdom of the present Congress, that idea has been rejected and it will be an ongoing battle.

I want to point out to you three individuals the kinds of dilemma that we are on here. We have no leadership from the present administration with regard to a shipbuilding policy. We have great concern about the number of vessels in the seas flying American flags. You three individuals, maybe not personally but there were five individuals who came before this committee in 1979 that under 1979 prices could not construct new vessels in American yards for this type of commerce, and the situation is even more dire today than it was 4 years ago.

I do not think comments like I have heard, that we are violating the Jones Act, that we are opening up Pandora's box, are really valid. If the exception was valid in 1979 for five individuals, then the debate of that exception under different economic circumstances is valid today.

Mr. HADLEY. Mr. Donnelly, if I could just address a couple of comments to this:

The reason the exception was sought was because of the court decision in *National Boat Carriers* v. *Kreps,* in which it seemed some of the testimony or some of the opinions by the judges seemed to say that a ship built with CDS money could never be admitted to Jones Act trade, which was at variance with policy longstanding by the Maritime Administration.

When we sought the legislation, we did not have the benefit of the subsequent decision by the Supreme Court which upheld the position of the Maritime Administration. Had we had it, we would not have had to ask for an exception. It looked like the judges were making exceptions to a longstanding policy, and that is the only reason we asked for it.

Now as far as the situation in 1979 is concerned compared to today, I would like to point out that we have 1983 prices today but we also have 1983 fares. Prices in foreign yards have gone up probably as fast or faster than prices in an American yard.

Now the final element is this that I have referred to before: I do not know whether the committee really appreciates from a business standpoint how important it is. The change in the tax legislation to permit more rapid writeoff, the change in the tax legislation to permit conventions on U.S. flag, Jones Act ships but not on foreign flagships, the change in attitude between employers and labor unions—these are new elements that were not existing in 1979.

I would like to conclude by asking a question. If you were——

Mr. DONNELLY. We ask the questions here, sir, not you.

Mr. HADLEY. If you were assured that there were going to be American-built ships of substantial size that would go ahead in American yards in the near future and would probably be trans-

ferred to foreign yards if this legislation passes, or would be put on the back burner, would your position still be the same?

Mr. DONNELLY. Clearly, it is not your prerogative to ask me questions; it is vice versa, sir.

Let me say this: In the testimony, by the way, that the individuals from 1979 gave regarding the SS *United States,* one of the prime factors was replacing that vessel or building a new vessel, and the cost of that in an American yard. That is my basic point.

Let me say secondarily that, unless we do two things, we will be in a constant dilemma in this committee regarding Jones Act trade. One is to pass a shipbuilding promotional program, and two is to understand and to educate the entire Congress regarding the need for a viable, strong merchant marine.

The one point you left out about the advantage of foreign shipbuilding, Mr. Hadley, was the very attractive financing arrangements that they make. Until this Congress is willing to commit the resources, whether it be through a subsidy program or a financing program, then we will have no more ships in the coastwise trade or in international commerce.

I just find it ironic that 5 years ago, as we granted an exemption, some of the same individuals that are here testifying against this exemption were given that exemption 5 years ago. I understand where you are coming from, but I think you have to understand where this committee has to go in terms of putting more vessels with American flags not only in the intercoastal trade, but also in the international trade.

We are, in fact, my friends, on the horns of a dilemma. We are not under any circumstances taking a very slight look at the Jones Act. I want to assure you of that, at least as long as I am a member of the subcommittee and the 5 years that I have been a member of this committee. It is an act that I think on a historical basis was one of the best things that Congress has done for shipbuilding in the maritime industry.

There comes a point in time where you have to look at the broad picture. I am sorry that we are at this situation. We ought not to be at this situation. I certainly do not have any friends in the White House, but I would hope that individuals, either at the table or in this room who have some friends in the White House could articulate the real concern we have here for an industry that is clearly going down the tubes.

Do you want to say something else? I will give you 1 minute.

Mr. DELYRA. Thank you. I will do it in less.

Mr. DONNELLY. You have been one of the best witnesses that I have ever seen.

Mr. DELYRA. I did not ask for any construction differential subsidy, and I do not believe these gentlemen did, either. We were not the creators of these ships. We were the inheritors. When we inherited them, they were crippled because they had received construction differential subsidies—U.S. Lines, which had to give up; Grace Lines, which had to give up.

The history of the demise of the passenger ship American cruise industry is very clearly available. I did not ask for construction differential subsidies. I am not asking for one now. I am not asking

Congress for a dime, or any other Government entity for a guarantee. All I want to do——

Mr. BIAGGI. I thought that was a brief response. Mr. deLyra, you are exceptional in your description of brief responses.

Mr. Dyson.

Mr. DYSON. Thank you, Mr. Chairman.

I guess in a group of witnesses such as yourself the question ought to be, what is the short-range and long-range impact of the bill, H.R. 2883. I can see people like the witness we had earlier this morning, Frank Drozak of the Seafarers, can very much see an immediate advantage in accepting the two Cunard liners into the Jones Act trade. That immediate advantage, of course, is 900 jobs.

As the chairman had indicated to me earlier in the day, this Congress, the 98th Congress, is very much concerned about jobs. If we could find a bill that would bring 900 to 1,000 jobs, he accurately stated it would probably cost us $1 billion, if we could create that many or this Government could create that many.

Yet, a bill like this is going to put many people to work, with very little cost, seemingly, to the Federal Government—my question to you, though, is that you have indicated, certainly everyone who has been here today has indicated, that the American cruise industry is expanding significantly, although very few of the ships are U.S. flagged and consequently not U.S. crewed.

The cost of building one in the United States has always been very prohibitive. You all indicated that. Mr. Hadley said it was something like three times as much to build one in the United States. Yet, you say that is changing, that the foreign builders—it is costing more now and that, with the increasing interest in the cruising here, we will start seeing an increase in the building in this country.

The next witness, Mr. Robertson who represents Chesapeake Shipbuilding and American Cruise Lines, has indicated that they have already begun negotiations—this is his testimony—on five American shipyards to develop two large passenger cruise ships. Now that is a potential that would meet that same immediate need that people such as the Seafarers are interested in.

How is that working? How is that coming about? The chairman was somewhat skeptical as to some of your statements about meeting the new need with building here in American shipyards. I, too, am.

I sit on the Armed Services Committee, and there was all the talk today about the hospital ship. Quite frankly, we are authorizing building of hospital ships because we do not feel that we can get them anywhere else.

What I am asking is, how does all of this jibe?

Mr. HADLEY. I can mention a firsthand experience. After we put the ship, the *United States,* in drydock in the spring of 1979 and established that the hull was in great shape, Dr. John Moxley, Under Secretary of Defense for Health Affairs, got the idea of taking the *United States* back for conversion to a hospital mode. I proposed to him—I met with his at the Pentagon in the latter part of 1979 and proposed a cooperative effort where the *United States* would be refurbished as a cruise ship but would have facilities which would permit it to be rapidly converted to hospital mode in

case of national emergency. He told me that ship—that they were not interested in that. They could do the conversion to hospital mode for $40 million. They went ahead and spent a million dollars with Gibson-Cox and Newport News to work up a more precise estimate, and the estimate came back $390 million. After that, it was abandoned because it just was not feasible.

All this cost us a tremendous amount in time, delay. Otherwise, I am sure we would have been underway by now.

Mr. BIAGGI. We will have a 10-minute recess in order to respond to a vote on the floor.

In order not to keep the three witnesses through the recess, counsel will ask one question and each of you will respond. Then we will have a 10-minute recess.

Mr. DYSON. We will be gone. If they could respond to that through the mail—all three of them——

Mr. BIAGGI. He is going to ask that question.

Mr. DYSON. Oh, OK.

Admiral RATTI. Mr. Hadley, Mr. Kurtz, and Mr. deLyra, I think the basic question is this: Would either of these Cunard vessels be in direct competition with the vessels you plan? To what extent would they be in direct competition with yours?

Mr. DELYRA. Direct competition, sir, because our vessel is smaller than the *United States*. It certainly would be a reduction in the availability of the financing that we have only been able, because of legal entanglements, to start less than a month ago, and hope to conclude in 3 months. It would definitely be a competition and a hindrance.

Admiral RATTI. Do you mean it would be in competition because it would be on the same routes, doing the same type of service, and generally the same——

Mr. DELYRA. Exactly, sir.

Admiral RATTI [continuing]. Category of vessel?

Mr. DELYRA. Exactly, sir.

Admiral RATTI. Mr. Kurtz.

Mr. KURTZ. I have the same position. It would be in competition.

Admiral RATTI. That is the type of service you plan for your vessels, the same type that Mr. Lambert is planning?

Mr. KURTZ. West coast to Hawaii.

Admiral RATTI. West coast to Hawaii. He is planning a coastwise service up and down the west coast. Would you be planning that type of service?

Mr. KURTZ. Part of the service that we would provide is the west coast—San Francisco, Los Angeles, Seattle.

Admiral RATTI. Would you be planning service to Alaska?

Mr. KURTZ. Probably once or twice a year, not as a regular plan.

Admiral RATTI. Mr. Hadley?

Mr. HADLEY. I believe I already responded to that question. I do not see our routes, the routes for the SS *United States* and these other two, being directly competitive. I do see them being competitive in that we are all seeking to attract convention business. To that extent, we are direct competitors.

Admiral RATTI. I guess we could ask Mr. Lambert sometime whether he could supply the committee with information as to

whether he is going for convention business or not, get that clarified.

Do you have anything to add on the subject of direct competition?

My personal question is: Are you more worried about direct competition or are you more worried about the passage of this bill affecting your ability to complete the financing for your particular vessel?

Mr. DELYRA. That latter, sir

Admiral RATTI. I beg your pardon?

Mr. DELYRA. To complete financing, sir. It is one thing if somebody has a total monopoly handed to them when they are ready to go into action immediately. Your attractiveness to any investor is—he will say, "Well, you've got a couple of ships there now."

Admiral RATTI. Mr. Kurtz.

Mr. KURTZ. Yes; the same position. The competition of the ship will affect the ability to finance.

Admiral RATTI. May I ask, when do you think you will have financing completed, or is the very fact of holding these hearings a difficulty?

Mr. KURTZ. Last time you held hearings it did affect the financing and it fell through, when you were authorizing the *Constitution.*

We now have the financing, I believe, in place, and it should be completed within the next 2 weeks. The documentation is now being prepared.

The last time, when the *Constitution* did come in, the financing fell through.

Admiral RATTI. Thank you, gentlemen, very much. The chairman asked me to dismiss you at the completion of the testimony.

[Recess.]

Mr. BIAGGI. Our next witness will be Charles Robertson, president of Chesapeake Shipbuilding and president of American Cruise Lines, representing the American Waterways Shipyard Conference. He is accompanied by Herman Molzahn, vice president, Ship Operations, American Waterways Shipyard Conference.

Gentlemen.

STATEMENT OF CHARLES A. ROBERTSON, PRESIDENT, CHESAPEAKE SHIPBUILDING, INC., AND PRESIDENT, AMERICAN CRUISE LINES, INC., HADDAM, CONN., REPRESENTING THE AMERICAN WATERWAYS SHIPYARD CONFERENCE, ACCOMPANIED BY HERMAN J. MOLZAHN, VICE PRESIDENT, SHIP OPERATIONS, AMERICAN WATERWAYS SHIPYARD CONFERENCE

Mr. ROBERTSON. My name is Charles Robertson. I am president and owner of Chesapeake Shipbuilding in Maryland; Williams and Manchester Shipyard in Rhode Island; American Cruise Lines in Haddam, Conn.; and several other companies engaged in marine transportation and technical fields. Today I am also representing the American Waterways Shipyard Conference in addition to my own companies.

I would like, as a result of witnessing the testimony that has occurred so far today, I would like to interject from time to time, if I could. Is that permissible?

I believe that we are the largest American-flag operator of cruise ships now. We also design and build these ships, and have so for the past 12 years.

We have heard many references today about the last American ship being built 20 years ago. We launched last week in Salisbury a new passenger cruise ship, 210 feet, which represents approximately a $10 million personal investment of my own. We have built three other vessels in the past 6 years and are about to start a fourth one, which will be twice the size of the one that we launched last week. The *Savannah,* the one that was launched last week, is the largest passenger vessel that has been built in the United States since World War II for coastwise service.

There was an indication also this morning that American Cruise Lines vessels operate on inland waters of the United States. I think that is not accurate. They are all licensed for coastwise service, and in fact do engage in coastwise service and operate on ocean coastwise routes year round.

The American Waterways Shipyard Conference, which is part of the American Waterways Operators, Inc., is the national trade association for the second tier shipyards in the United States. This segment of the shipbuilding and ship repair industry is composed of just over 300 shipyards located throughout the Nation. These shipyards serve the barge and towing industry, the offshore oil and fishing industries, and they also produce the ferry vessels and cruise ships for our Nation's coastal and inland regions.

If the proposed legislation is enacted, allowing foreign-built hulls to operate in domestic service, it would create a certain national tragedy in an industry which is just now beginning to blossom as a strong producer of new American ships and as an employer of tens of thousands of American workers.

My company, American Cruise Lines, is a U.S. corporation which presently operates three American-flag passenger cruise ships built in the United States in coastwise service, and has done so successfully for many years. We carry approximately 15,000 passengers a year, mostly on 1-week cruises.

Two weeks ago we launched a fourth vessel, the *Savannah,* at our Salisbury shipyard. This is the largest coastal cruise ship built in the United States since World War II. In addition, we are planning to build two 600-passenger cruise ships for ocean and coastwise service in the United States. We believe strongly that these ships should be built in the United States, fly the American flag, and be manned by American seamen.

We have conducted negotiations with both American yards and foreign yards for construction of these two large ships, principally in Finland, also some Spanish, West German, and French shipyards. My strong preference is to build them in the United States.

I am informed of the growth plans of other U.S. cruise operators for their American-built, American-flag fleets. Recently cruise ships of this size have been under construction not only at our yard in Maryland, but also at Blount Marine in Rhode Island; Jeff Boat

in Indiana; Nichols Brothers in Washington; and offshore shipbuilding in Florida.

The public demand for all types of cruises from day excursions to those lasting several weeks, and for larger cruise ships, has been growing at a phenomenal rate. The cruise ships that we are building today for our own fleet are four times the size of those that we built 6 years ago. The industry not only plans to expand the number of vessels, but also to dramatically increase the size of these vessels, again speaking about American-built vessels.

If this industry is not stifled in its infancy by admitting foreign-built vessels to the coastwise trade, tens of thousands of American jobs would be created for Americans, not only in U.S. shipyards and their allied industries, but also aboard American-built ships.

We recently selected five American shipyards to explore and begin negotiations on construction of two large passenger cruise ships similar in size to the Cunard vessels for domestic service. These five American shipyards—American Shipbuilding, Bethlehem Steel, Bath Iron Works, Ingalls Shipbuilding, and Tacoma Shipbuilding—all expressed great enthusiasm and willingness to build these ships. We received no indication from any shipyard that they might be either unwilling or not capable of constructing these vessels.

To the contrary, they are anxious and aggressive in their pursuit of this type of shipbuilding contract, further demonstrating the U.S. capacity for building this type of ship, which would present a great opportunity to employ nationwide thousands of American workers, and I might add over the very short term. In the current economic climate and the resulting unemployment, we cannot afford to throw away an opportunity to put tens of thousands of Americans back to work.

In addition to market demand and a shipbuilding capacity, the other factor which makes this industry possible is the cabotage laws, which prohibit foreign-built vessels from transporting passengers between ports or places in the United States. The Vessel Documentation Act requires that a vessel must be built in the United States to be issued a coastwise license or a Great Lakes license. The basic principle underlying cabotage laws is to preserve domestic trade and the shipbuilding industry for the economic good of the country and for use as an adjunct to national security forces.

These laws are absolutely vital to the American shipbuilding industry. We can point with great pride at our shipbuilding industry, which is highly competitive and can build cost-effective ships with the latest in technology and safety features. The Jones Act and related laws have insulated us from the predatory pricing of foreign government subsidized shipyards, and they are preserving the shipbuilding base and skills which we have found so essential in times of national emergency.

This segment of the American shipbuilding industry is just beginning to become more competitive with foreign yards. The impact of this legislation would be devastating if these exemptions are granted. In all fairness, other operators would have to be granted similar exemptions, and I, for one, would be forced to immediately request a similar exemption in order to remain competitive with these foreign hulls. Ultimately, if I wish to remain competitive,

without similar legislation I would be forced to build my ships in foreign yards, against my wishes and against my very strong national pride, particularly when it involves the U.S. merchant fleet.

This legislative body has before it a great opportunity to underscore American resolve to improve and utilize its shipbuilding capabilities and to once again become a world leader in this field. Most cruise passengers are Americans and most leave from American ports, and in all, it is fair that American workers should build and man these ships. After all, it is jobs that we are talking about. Let there be no mistake and let there be no confusion; this is an antijobs bill.

I would like to present a little further information in conclusion of the prepared testimony.

The American Waterways Shipyard Conference and the American Waterways Operators strongly support the Jones Act and related laws prohibiting foreign-built vessels from the U.S. coastwise trades, and therefore vigorously oppose H.R. 2883, which would permit these foreign-built vessels, the *Cunard Princess* and the *Cunard Countess,* to operate in our coastwise passenger trade.

On behalf of the American Waterways Shipyard Conference, I appreciate the opportunity to address the subcommittee.

One thing that I would like to add that I think is important is this: There has been a lot of conversation about what might happen and what could have happened. As a shipowner who has personally invested many, many millions of dollars in my fleet, I would not have done it if it were not for the Jones Act. The ball game and the rules of that ball game have been well established, and I have relied on them for the past 14 years to a tremendous degree, an overwhelming degree. For me to build this American fleet and make that investment would not even have been considered if there was even a reasonably remote possibility that American passenger ships would be derived or be brought in from foreign fleets.

The vessel that we are planning to start in September, if this legislation appears as though it will be passed, that will stop instantly. It would be suicidal to go forward with it.

Mr. BIAGGI. Why would it stop?

Mr. ROBERTSON. Because, as Mr. Lambert explained to me last fall, he basically is duplicating our route structure on the east coast, going to identically the same ports, appealing to identically the same market, and will be doing it with foreign-built hulls where his——

Mr. BIAGGI. Excuse me, Mr. Robertson, but you are the first one that has made that statement. I have asked that question a number of times, and there seemed to be a unanimity of opinion that this was a unique cruise; there was no competition; no one else was in the area. That is an important factor in our considerations.

Mr. ROBERTSON. Yes, sir, it is. This is the first opportunity I have had to present this information. I think that I have some revealing testimony that may throw a slightly different light on this whole issue.

Mr. BIAGGI. That is why it is important you are here.

Mr. ROBERTSON. In any event——

Mr. BIAGGI. Excuse me. Let me pursue this for a minute because it is an important question. I would certainly like you, Mr. Robertson—and Mr. Lambert is still here—to either consult with one another and make a cooperative presentation for the staff members or do it individually and sustain your positions.

You made a statement, Mr. Robertson. If it is true, I would suggest that you submit a statement and sustain it with facts, schedules, ports of call, and the nature of your cruises.

This record will be kept open. It will be an important consideration.

[The following was submitted:]

ADDITIONAL FACTS ABOUT AMERICAN CRUISE LINES

ROUTE STRUCTURE AND PORTS OF CALL ARE VIRTUALLY THE SAME AS AMERICAN CRUISE LINES

American Cruise Lines operates three U.S. Flag Vessels in coastwise service and has done so since 1975. On June 15, 1983, American Cruise Lines received Interstate Commerce Commission operating authority for the West Coast of the United States and Alaska.

Cruise America Lines, Inc., has inferred that their service would be unique in that there is no other operator currently operating in coastwise service providing cruises to specifically mentioned U.S. destinations. This is, in fact, incorrect.

As can been seen from the enclosed brochure, American Cruise Lines presently operates an extensive series of coastal and inland waterways cruises. Mr. Robert Lambert, President of Cruise America Lines, Inc. testified on June 15, 1983, that Cruise America Lines, Inc. proposes to operate "unique" cruises to U.S. ports:

Cruise America Lines Proposed Ports of Call

Boston*	New York*
Philadelphia*	Baltimore*
Alexandria*	Charleston*
New Orleans*	Savannah*
Key West*	San Francisco*
San Diego*	Long Beach*
Seattle*	Galveston*
Detroit	Mackinac Island
Fjords of Maine*	Jamestown
Yorktown*	Williamsburg*

The following is a list of the ports-of-call presently being served by American Cruise Line's vessels:

American Cruise Lines Ports of Call

Newport	Nantucket	Baltimore
Block Island	Haddam	Yorktown
St. Michaels	Oxford	Savannah
Crisfield	Cambridge	Charleston
Hilton Head	Beaufort, NC	Wrightsville Beach
Bucksport	Belhaven	St. Simons Island
Morehead City	Great Bridge	St. Lucie
Beaufort, SC	Fort Myers	Fernandina Beach
Port Canaveral	Palm Coast	Castine
New York City	Boston	Rockland
Belfast	Bath	New Orleans*
Wiscasset	Boothbay Harbor	Gulfport*
Pensacola*	Mobile*	
Dolphin Island*	Martha's Vineyard	

As can be clearly seen by the ports of call comparison listed above, the Cruise America Line's operation is a thinly disguised attempt to exactly duplicate American Cruise Line's itinerary. The testimony of Mr. Lambert with regard to the uniqueness of Cruise America Lines operation is factually incorrect.

*These ports of call are currently included in American Cruise Line's itineraries.

PASSENGER PROFILES OF AMERICAN CRUISE LINES AND CRUISE AMERICA LINES PASSENGERS WILL BE IDENTICAL

American Cruise Lines has conducted extensive research into the passenger profile of not only its passengers but also the cruise passenger in general. The American Cruise Lines passenger is in fact the same passenger that Holland America, Cunard, Norwegian American Cruises, (the proposed Cruise America Lines), etc., directs their marketing efforts toward.

This passenger is middle to upper middle age, has a relatively high income level, large amounts of discretionary income, is more than likely an "empty nester", and has cruised before (over 85% of American Cruise Line's passengers have taken cruises prior to traveling with American Cruise Lines).

American Cruise Lines competes with all existing cruise operators for the same potential passenger. The testimony of Mr. Lambert to the contrary is incorrect.

CRUISE AMERICA LINE'S SHIPS WILL BE SLIGHTLY SMALLER THAN AMERICAN CRUISE LINE'S PROPOSED NEW VESSELS AND WILL BE LARGER THAN THE EXISTING AMERICAN CRUISE LINES VESSELS

Although Cruise America Line's existing vessels are smaller than the Cunard Countess and Conard Princess, they provide essentially the same service. Industry experience has demonstrated with many carriers that the on board facilities of ships such as beauty parlors, barber shops, etc., are not the determining factor on why a passenger takes one particular cruise over another. The overpowering single most important factor in why passengers selecting one particular cruise over another are the itinerant stops of that cruise, thus, making Cruise America Line's statement that their service is different and will appeal to a different passenger because their vessel has different on board services, is false. However, even if there was some validity to their comment, the on board services and size of the Cruise America Line's ships will be virtually identical to those that American Cruise Lines proposes to build and operate in the United States, with the exception that the size of the staterooms and the number of square feet available to passengers will be much greater aboard American Cruise Lines two proposed vessels.

SERVICE PROVIDED AND REPUTATION

American Cruise Lines provides luxurious cruises and has done so for many years. American Cruise Line's present ships are comparable to the larger cruise ships. When the M/V *Savannah* (which was launched at a US shipyard on June 1, 1983) is placed into US Flag service in April, 1984, it will be the most luxurious coastal cruise ship ever built.

Through its many years of operating truly unique and innovative itineraries, American Cruise Lines has built one of the finest reputations in the cruise industry. Passenger satisfaction is continually proven through the Company's extraordinarily high percentage of repeat passengers.

NEARLY IDENTICAL SERVICE WILL BE PROVIDED BY BOTH CARRIERS IN DIRECT COMPETITION WITH EACH OTHER

Cruise America Lines has indicated that their proposed service would be unique. The facts are to the contrary. As earlier stated, American Cruise Lines has been operating cruise ships along the East and Gulf Coasts of the U.S. since 1975. In fact there is nothing unique or innovative in the services proposed to be offered by Cruise America Lines which are, in all essential respects, carbon copies of the cruises and services that have been offered by American Cruise Lines for a number of years to a market that has already been developed by American Cruise Lines. This market has been developed through satisfactory past service and extensive advertising campaigns.

PASSAGE OF THIS LEGISLATION WILL HAVE ADVERSE IMPACT ON EXISTING U.S. FLAG CARRIERS

The cruise service offered by American Cruise Lines are already in direct competition for the recreational dollar of the public. Since these cruises are essentially vacation trips, American Cruise Lines and other American Flag operators must offer prices and service that the public will select, either in the cruise industry, motor coach tours or even the private automobile.

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As a consequence, American Cruise Lines has been obliged to increase its advertising budget, offer discounts and increase commissions, particularly to Travel Agents.

It must be immediately apparent from the description of the proposed Cruise America Lines itineraries that it does not propose generalized competition such as that of the Caribbean cruises but rather focuses directly upon the market now served by American Cruise Lines and other US Flag operators by offering duplicating cruises. American Flag cruise lines cannot survive the impact of the proposed service.

PASSAGE OF THIS BILL WILL CAUSE AMERICAN CRUISE LINES TO IMMEDIATELY CANCEL PLANS TO CONSTRUCT TWO 550' AMERICAN PASSENGER SHIPS WHICH ARE SIMILAR IN SIZE TO THE "CUNARD COUNTESS" OR THE "CUNARD PRINCESS"

American Cruise Lines has begun negotiations with five US shipyards to build American vessels in US shipyard similar in size to the Cunard Princess and Cunard Countess. Passage of this legislation will force American Cruise Lines to abandon its plans to build these two 550', 640 passenger vessels in a US shipyard and to immediately seek similar legislation to allow them to be built in foreign yards and be U.S. Flag so that the unfair competitive advantage of Cruise America Lines would be overcome and American Cruise Lines would be able to compete with these vessels.

CRUISE AMERICA LINES DOES NOT HAVE AUTHORITY TO OPERATE THE PROPOSED CRUISE NOR HAVE THEY DEMONSTRATED A NEED FOR THE PROPOSED SERVICE

Cruise America Lines does not hold Interstate Commerce Commission authority to operate the proposed routes. Application by Cruise America Lines for such authority would be vigorously opposed by existing American Flag carriers operating American ships.

In addition, Cruise America Lines has provided no evidence of cruise line management or cruise lines marketing experience or that the company's proposed operation would benefit the public need. In fact, no benefit to the public has been demonstrated by Cruise America Lines.

At the present time, there is an overcapacity of cruise berths available. By giving still another operator, Cruise America Lines, a competitive advantage over existing U.S. Flag cruise lines who have additional berths available, would seriously jeopardize the present U.S. Flag operators. The potential harm to the public good far outweighs any potential benefits.

CRUISE AMERICA LINES APPARENTLY HAS NO AGREEMENT INSURING THE PURCHASE OF THESE VESSELS, THEREFORE, SUCH LEGISLATION MAY ALL BE A WASTE OF TIME

The Trafalgar House of England has publicly stated, as recorded in the Journal of Commerce, that they have no intention of selling these vessels to Mr. Lambert's company. Mr. Lambert has not reported that he has any firm agreement to purchase these vessels. Therefore, it appears as though Congress and all of the other people interested in the legislation may be wasting their time in a complex exercise of which the probability of Cruise America Lines bringing to settlement is severely clouded, especially in view of the fact that the potential seller has publicly stated that they do not intend to sell the vessels to Mr. Lambert.

Mr. BIAGGI Mr. Lambert, you are still here. You know the point of contention. I would suggest you submit a statement to support your position and see who prevails, see if there is conflict, see if there is a difference of opinion or there is not. That is why we have hearings. We are not thoroughly knowledgeable in every detail, and we ask for contributions. We hope that people will respond in a fashion that couples integrity.

Mr. ROBERTSON. In this shipowner's position, after a very careful analysis and much time, thought, and money, I have already made a decision that this shipowner will not continue to build American ships if foreign-built vessels are allowed to enter domestic trade, unless I can have a similar exemption.

Mr. BIAGGI. When you say "foreign-built vessels," we are talking about two specific vessels. If you are suggesting that these two ex-

emptions will be the forerunner of an opendoor policy, permitting every foreign-built vessel to come in, then we hasten to assure you that you could not be further from the truth. To be sure, the understanding is an inaccurate one.

We take a very serious position when it comes to the Jones Act. You have heard that stated. This committee has reinforced the Jones Act, rather than eroded it. On occasion, we do grant waivers.

One of the principal considerations here—there are many, but one of them—is that this was a unique cruise, a unique type of service, and that there was not any competition. In the light of that, it seemed like a very desirable route to pursue and take action accordingly.

Now if there is some difference of opinion, we want to hear about that difference of opinion.

What you said in that last statement is not exactly what you said in the previous statement. You people made a business decision. We understand that. However, in the previous statement you said that because you are engaged in the same kind of cruise, the same kind of route schedule, that Mr. Lambert will be, that Cruise America will be, you would have to stop construction on the 600-passenger vessel. That is another item. That is a separate and isolated question. Clearly, that has to be responded to.

The second part——

Mr. ROBERTSON. I was speaking of a different vessel. We have three proposed vessels right now which have not been started. The one that I was talking about was the one that we would start in September right here in Maryland.

Mr. BIAGGI. You understand what I am seeking, Mr. Robertson? Do you understand the information I am seeking?

Mr. ROBERTSON. I think so.

Mr. BIAGGI. If you can sustain your position that this service will be duplicative, then please submit that testimony to us in writing. That will give us an opportunity to check it.

Mr. ROBERTSON. I would be delighted to do that, or I could respond to general questions now.

Mr. BIAGGI. No; that one I would like to have in writing. I have some other questions.

Mr. ROBERTSON. The American shipbuilding industry now as compared with the foreign shipbuilding industry has really changed remarkably in the past few years. Several things have happened, and I view it with both hats—one as a shipbuilder and one as a shipowner.

Prices to build ships overseas have greatly increased in the past few years, tremendously so. The attractive financing programs that were available in overseas yards are still available, but they are not as attractive as they were a few years ago. They are less attractive and they are more expensive.

Other things have happened in the American shipbuilding industry which make it more favorable. One, the American shipbuilding industry has gone through a tough time. I think it is appropriate and accurate to say that the shipbuilding industry in the United States cut a lot of fat out. It is a lot leaner and a lot more efficient, and it is ready.

In the yards that we are discussing building these passenger ships, it is my personal opinion, and our selection process of these yards is, that they have gone a long way toward reducing higher cost items which made them less competitive only a few years ago.

I think that the Jones Act is the only viable program which will permit the American shipyards to continue to become more cost-effective by comparison with foreign yards.

To build a merchant marine fleet for the United States and not have the shipbuilding base to support it really to me does not make a lot of sense. I think they go hand in hand.

If we take this one segment of the shipbuilding industry, which is right now experiencing explosive growth—it is right in the infancy of it; practically, it is a matter of months or no more than a year or two—right when that begins to happen, if we export it to foreign yards, and this is the first step in my judgment in exportation because it will prevent me or it will cause me to decide not to build ships in American yards, and I have had discussions, including with Mr. Briggs, and I think I can answer some of the questions about his ships, also. He asked me to do so, if it came up.

It won't happen. The American shipbuilding industry will continue to deteriorate. There are five American ships that I know of right now that are seriously being proposed for construction in the United States. It represents an investment of the shipowners somewhere in the area of $500 million. It represents probably about 80,000 American shipyard jobs. It represents probably about 15,000 American seamen, all of which would be employed within the next 36 months, in my judgment, possibly 48 months at the outside.

In the very small, local situation that I have in my own yard in Maryland, passage of this bill would cancel the construction and lose about 240 jobs in the State of Maryland at my yard. I do not think that that can be ignored.

This bill, I think, will probably have more impact on American shipbuilding and American merchant fleets than anything that I know of in the 20 years that I have been associated with the industry.

Mr. BIAGGI. Just these two vessels?

Mr. ROBERTSON. Yes. Yes. This one bill.

Mr. BIAGGI. Why?

Mr. ROBERTSON. Because.

Mr. BIAGGI. Let's assume, Mr. Robertson, that it is Cruise America's proposition that there is not any competition; there is not any duplication; and, there are not any other vessels in that area of operation. Then why should that have an inhibiting effect on the shipyards that are contemplating building vessels or in the process of building vessels?

Are you telling me that that is what they plan to do with these vessels?

Mr. ROBERTSON. That is what who plans to do with these vessels?

Mr. BIAGGI. The shipyards that are in contemplation of——

Mr. ROBERTSON. I believe American shipowners and American shipyards will perceive the enactment of this legislation as the beginning of a trend to allow more such Jones Act exemptions. Whether they are right or not in that analysis, and I for one think they are right and as a shipowner feel identical to that position

that I have just stated, it would be nondiscretionary. I simply would not do it. I will not do it, and I know a lot of people in the industry and they will not do it.

If this legislation passes, I will be here the next day wanting the same exemption because I have been in this business for 15 years and I have invested many millions of dollars when times were tough. If a new entrant gets favorable treatment with foreign hulls, I will want it, too. There are going to be a lot of other people that will want it. I know of other people who are going to want it. This committee is going to hear one request after another.

Mr. BIAGGI. You gave me the answer that I wanted. The inhibiting factor will be not so much—it will be more the fact that you think that this will open the floodgates. I assure you that as far as this gentleman is concerned—and I think I speak for the committee—you could not be further from the truth.

What distinguishes this one from the others is the uniqueness of the proposal. If you are telling me that you may come here—if we enact this into law—to seek exemptions, well, I would have to ask for what purpose? Just to get favorable treatment so that you can compete with other Jones Act vessels? You will never get it. You will never get it.

Mr. ROBERTSON. The hypothesis is incorrect. These vessels do compete, would compete, directly with what we are doing.

Why don't we deal realistically with the fact that they are intercoastwise trade. I do not think there is anybody—I know there is nobody in the United States who has anywhere near the number of tickets that I have to passengers who have been in the marketplace, who have surveyed the results of passengers. I may not be the greatest expert on the field, but I certainly have the most experience, and I have certainly made the largest investment.

Mr. BIAGGI. I understand. I understand.

Mr. ROBERTSON. These vessels will compete. The ports that Mr. Lambert has listed—Charleston, Yorktown, Baltimore, Savannah—are all ports that we go to regularly, every one of them.

Mr. BIAGGI. Let me ask you a few other questions.

What about the size and the passenger capacity, ports that are visited—you named a few—and the duration of the cruises?

Mr. ROBERTSON. The size of the vessels, in the vessel that we just launched, it will be more luxurious in accommodations than the *Cunard Princess* and the *Cunard Countess*. The staterooms are considerably larger with more passenger amenities. From what I understand, there will be more square footage available to passengers. The overall length of that particular ship is substantially smaller. The ones we planned to enter into identical service with what Mr. Lambert proposes will be nearly identical in size.

Mr. BIAGGI. How many passengers will they accommodate?

Mr. ROBERTSON. The ones we are currently planning are 600. I think that is 600 in a low-density configuration. The same vessel, by changing the density configuration, would go to 740. I do not plan—I think that there is a huge, untapped market, and that is not where my long-range planning ends.

Mr. BIAGGI. You told me it is a huge, untapped market. Would there be enough of the market for both lines to function?

Mr. ROBERTSON. Yes; there is sufficient market, but one would not be able to compete effectively with the other. The capital cost of Mr. Lambert's vessels, unless he is paying an unrealistically high price for them, will make it an unfair, competitive act. This bill is patently unfair in my judgment.

Mr. BIAGGI. Do you have any vessels operating now?

Mr. ROBERTSON. Yes.

Mr. BIAGGI. How many?

Mr. ROBERTSON. Three. All of them are underway today, as a matter of fact.

Mr. BIAGGI. How many passengers do they carry? What does each vessel carry when it goes underway?

Mr. ROBERTSON. The *American Eagle* carries 56.

Mr. BIAGGI. Fifty-six?

Mr. ROBERTSON. Fifty-six. The *Independence* carries 83. I am sorry, 87. The *America*, which we launched last year, carries 91. The new one, which we launched last week, carries 145. The one we propose to start in September will carry 270.

Mr. BIAGGI. Those vessels will be using the same waterways as Mr. Lambert's?

Mr. ROBERTSON. Identically so, yes.

Mr. BIAGGI. What is the duration of the cruises?

Mr. ROBERTSON. Our shortest cruises are 7 days, and our longest are 21. Most of them are 7 or 10 days, although each year we are scheduling more 14-day cruises, which travel the entire length of the east coast or the major portion of the east coast in one cruise.

We just recently filed an application which was unprotested and I believe now is marked for modified procedure for west coast authority. We also have authority for the Great Lakes and the gulf coast. We are planning to begin a Great Lakes operation in 1984 and a gulf coast operation in December of this year.

Mr. BIAGGI. Do you go to Puerto Rico?

Mr. ROBERTSON. No, we do not. We have been asked.

I have just a little bit more, if I may finish my statement.

Mr. BIAGGI. Sure.

Mr. ROBERTSON. It is my personal judgment that these two vessels, the subject vessels of this legislation, have not been highly successful vessels in the cruise industry. I think that is very possibly either the reason or part of the reason why they are for sale. Cunard Lines just recently, I believe, either contracted or consummated the purchase of two other vessels. I do not know whether these are to replace these vessels or not.

My experience in the industry is that the two *Princess* vessels—the *Cunard Princes* and the *Cunard Countess,* excuse me—have not been the most successful; in fact, something substantially less than the most successful cruise vessels.

Mr. BIAGGI. Why is that?

Mr. ROBERTSON. I think they have not been received as well as they could have been by passengers. I think, by comparison to other vessels in the market, they do not have the—they have not received the favorable passenger response that other vessels have.

Mr. BIAGGI. Why?

Mr. ROBERTSON. That is a very difficult question to answer. I think that the arrangement of the accommodations section is not

as suitable for the type of cruising that they do as some of the newer vessels are. I think the density is higher than might be most desirable, taking into consideration their construction arrangement.

You have to ask, why is Cunard Lines selling them? Why are they buying more vessels at the same time they are selling these? You just cannot help but ask that question.

Mr. BIAGGI. That may seem rather obvious—to ask the question, but how are you going to probe the corporate mentality? Who is to say what that justification is? I do not know. I haven't the slightest idea.

The person who should ask that question as to whether they are getting a lemon or not is——

Mr. ROBERTSON. Well, is this the way we want to start American merchant marine passenger fleet, with those questions unanswered? It does not seem like—not when there are willing operators ready right now to invest in new American-built ships who will not do it if this legislation is enacted.

Mr. BIAGGI. Except that we are talking about different classes of vessels.

Mr. ROBERTSON. No, I am not. I am talking——

Mr. BIAGGI. 600 puts you more into the range.

Mr. ROBERTSON. The vessels would be similar in size. They would be more commodious for passengers.

Mr. BIAGGI. I do not think that the argument that you offer concerning the smaller vessels is as effective as the argument you offer about the inhibiting effect this bill would have on the building of the 600-passenger cruise ships.

Mr. ROBERTSON. Our biggest competitor right now is Holland American Lines, unquestionably. They are our largest competitor. Even though our itineraries are slightly different and our vessels are much different, they are our competitors. They are our biggest competitor.

Mr. BIAGGI. So you are doing well notwithstanding——

Mr. ROBERTSON. Yes; I think so, but this legislation is viewed by me as a green-eyed monster, sure as can be. I think my feelings are representative of other shipowners, other American shipowners, and other people whom I am aware of who have the wherewithal and are ready to go into this with substantial amounts of money. The environment today is much different than it was just 24 months ago. The accelerated cost recovery system allows for the writeoff which Mr. Hadley spoke of. That is a tremendous incentive, an unbelievable incentive.

If I am forced to build these two vessels in Wartsila and operate them in world service from the United States rather than the coastwise service that I would prefer to operate them in, I will do it through a foreign subsidiary under a foreign flag with a foreign crew. That is the last thing that I want to do. I want to build them in the United States, and I want to put American seamen on them.

Mr. BIAGGI. Mr. Dyson.

Mr. DYSON. Thank you, Mr. Chairman.

I wish you would enhance a point that you made.

First of all, I want to welcome you here, Mr. Robertson.

Mr. Robertson's shipyard is in Salisbury, Md., in my congressional district.

In fact, maybe for the record I ought to ask this question first. The mayor of Salisbury indicates to me that you put 200 people to work in the last month or so.

Mr. ROBERTSON. We are in the middle now of a $4 million expansion program at the shipyard, which when completed in January or February will then put approximately 250 more people on the payroll in Salisbury.

That facility, I might mention, is devoted primarily to the construction of passenger ships. That is mostly what we build. We are increasing the capability. Right now our capability is limited to 250 feet. We are increasing it to 400 feet.

Mr. DYSON. The two 600-passenger cruise ships that you talked about building in your testimony, would that be built in Salisbury?

Mr. ROBERTSON. No; we would look to build those in a yard with larger capabilities than what we will have even in the expanded program at Salisbury.

Mr. DYSON. On a separate question, you said once—even more than once—that you would not be able to compete with Mr. Lambert if he were able to get his exemption for the two vessels from the Cunard Lines. One of the reasons you indicated was that you would both be going to the same ports on the east coast.

It is my impression, again from what you have said, that once your ships are eventually built, they will be more luxurious. I assume they will have much better standards?

Mr. ROBERTSON. The existing ones are also——

Mr. DYSON. Pardon?

Mr. ROBERTSON. I say the existing ones are also, I will maintain.

Mr. DYSON. That was the *American Eagle,* the *Americana,* and the other one?

Mr. ROBERTSON. Particularly *Savannah,* the one we just launched.

Mr. DYSON. Other than your fear, which I believe is genuine, that this would be opening the floodgates, or has that potential, even though the chairman indicated it would not happen while he was chairman, of opening the whole Jones Act trade in such as fashion, why couldn't you compete with them? I would like you to explain that a little bit further. Again, you have a better ship. Is it because of passenger numbers, that the Cunard vessels can accommodate 900, and you 600.

Mr. ROBERTSON. Yes. There are two major factors when you evaluate the fiscal performance of a passenger ship. One is the capital cost of the vessel per passenger, and the other is broken down into the daily per passenger cost of operation for what you call a passenger day. The capital cost is a tremendous factor that goes into that equation.

I do not know what Mr. Lambert is paying for the vessel, but I know I could go out in the world market right now—in fact, in closed session, or whatever, I will reveal the names of the ships. There were two passenger ships offered to me last week, which I will be glad to reveal to this committee, for $10 million apiece, which are currently foreign-flag ships that are about the size of the *Cunard Countess* and the *Cunard Princess.*

Mr. DYSON. So are you going to tell us you cannot build them for that?

Mr. ROBERTSON. Nobody—Japan cannot build it for $10 million. Nobody can.

Mr. DYSON. What happens in the reconstruction or the refitting, of the Cunard ships?

Mr. ROBERTSON. American shipyards right now do a lot of repair work on the foreign vessels that are in operation out of U.S. ports. Jacksonville Shipyard, that does repair work on our vessels down South, has launched a major program last year, expanded their facility in Florida, and also a very significant promotional campaign to attract the foreign cruise ships to their shipyards, and they are doing it.

Cunard Lines itself has had vessels drydocked in American yards. The *Queen Elizabeth* was drydocked in Norfolk a few years ago.

That repair work is already there. No shipowner is going to take a ship from the United States, sail it to a foreign yard, lose all the revenue for the dead-heading time there and back, and then put it back in service in the United States. It has been demonstrated dozens of times. They do the repair work right now in the United States. That is not going to change, whether they are American-flag or not. If they are sailing from U.S. ports, they are going to have repair work in the United States.

Nothing is more expensive for a successful cruise operation than dead-heading a ship empty. The loss in revenue comes right out of the bottom line. Many of the fixed costs remain the same.

Mr. DYSON. Could you possibly, for this committee and for the record, tell us exactly how many, in numbers, new jobs are going to be created? We have heard a lot of numbers bandied about today about the possibility new ships in the ocean cruise have, which I understand from your testimony to be two potential vessels. There was also a reference earlier by the gentleman from Texas about some of the shipyards there.

Mr. ROBERTSON. Yes; I am familiar with those, by the way, and they also are proposed to enter identical coastwise service, again, of the same draft. One is 15 feet and one is 17 feet.

Mr. Briggs has said to me that he will probably abandon his program if this legislation is passed, or else will be forced to seek similar legislation.

Mr. DYSON. If this legislation should pass, you are talking about a lot of ships—I count now just four—that are not going to be built?

Mr. ROBERTSON. There is another one that I know of specifically, which makes five, which represents about $500 million in American——

Mr. DYSON. If the market is expanding so significantly——

Mr. ROBERTSON. Which it is.

Mr. DYSON [continuing]. For cruise ships, doesn't that sort of fly in the face of discouraging ship construction Mr. Hadley indicated that in foreign shipyards the cost is increasing there to build ships. It seems that the business has to come to Chesapeake or the firm in Texas, just to compete with it, if we can believe the chairman,

and I do believe him, that we are not going to permit others to come into the trade----

Mr. ROBERTSON. It is unfair.

Mr. DYSON [continuing]. Such as envisioned by this bill.

Mr. ROBERTSON. It is patently unfair. If you let Mr. Lambert bring foreign-built hulls in, why won't you let me bring them in? I should be included in the same legislation. I will buy those two ships next week if you can tell me now that I can reflag them as American flags. I do not want them, but I will, because then I could compete with Mr. Lambert's foreign-built hulls.

Mr. BIAGGI. Will the gentleman yield?

Mr. DYSON. Yes.

Mr. BIAGGI. What I stated, Mr. Robertson, is that we appreciate the sanctity of the Jones Act. We have strengthened it, not weakened it. If you can make a case, demonstrate a need, and show a satisfaction of a national interest, then I would suggest that you proceed as a businessman and go through the same routine that Mr. Lambert is going through.

However, just to say that you have an opportunity to buy two vessels at $10 million and expect, ipso facto, that you are going to get a waiver, that is nonsense. You are deluding yourself.

Mr. ROBERTSON. I am only trying to inform the committee of those factual circumstances which I have intimate knowledge of and which may affect your decisionmaking process.

I think that those facts and the accurate representation of the marketplace are of crucial importance for you to make your decision. In this hearing I am just making my record, I guess. I am naive. This is the first time I have ever done one of these things.

Mr. BIAGGI. This is the first time you have ever testified?

Mr. ROBERTSON. Yes, it is. I don't like it very much, either. [Laughter.]

Mr. BIAGGI. I will tell you, you are very helpful to the committee. You are pointing out some very salient areas. You are testifying in a professional fashion. You have the intimacy with the issue and the industry.

Mr. DYSON. If the chairman will yield, I can attest to this gentleman's newness.

Mr. BIAGGI. A short timer.

Thank you for yielding to me.

Mr. DYSON. I talked to him yesterday on the telephone and he indicated to me he was No. 7 on our list. He expected to only be here a short time because he was informed by the subcommittee staff that each witness would only take 10 minutes.

I told him, "Clearly, you have never been before this subcommittee before." [Laughter.]

I think he has done a good job.

I would at some point like to have—for the record—an answer as to why you would not be able to compete. If you could put that down on paper, I think that would go in tune with what the chairman had indicated earlier about getting together with the staff.

You have been the first one to bring up that point in a substantive way today. We would appreciate that.

Thank you for the time.

Mr. BIAGGI. Thank you.

Mr. ROBERTSON. I didn't finish my statement. I guess that is all right, though, isn't it?

Mr. BIAGGI. You can finish it. I am going to relinquish the chair to Mr. Dyson for a few minutes.

One of the reasons why we sometimes go beyond 10 minutes with a witness is because the issue is a sensitive one, and we know you take a lot of time and effort to prepare the statements and make the trip. Also, the more you talk, the more we learn.

There seems to be a preponderance of witnesses for the legislation. When we get someone who opposes it, we give them every opportunity to give us all the information they have and all the reasons they have for their opposition.

Mr. ROBERTSON. I do not know what did it, but my name must have gotten on some list sometime yesterday or the day before, because yesterday and the afternoon of the day before I got a virtual avalanche of calls about this. Somewhere my name appeared on something. I do not know what it was, but I think in the next few days you will see a large groundswell of activity.

I think many shipowners and ship financers are somewhat similar to myself, in that they are reasonably independent, they are entrepreneurial by nature, and they do not talk about a lot of things they plan on doing unless there is a reason to do so. Many of these things which I have revealed here, I have not talked about before. I think that now there is a reason to do so. Several others have come forward in the past several days, and I think there will be more. There is a lot of activity and a lot of interest in building American ships in American yards. The shipyards are very anxious to do it, and do it on a competitive basis.

Mr. BIAGGI. You may continue your statement. Mr. Dyson will take over the chair.

Mr. ROBERTSON. Dudley Briggs, who wrote the letter that Congressman Fields read to the committee this morning, I talked with him last night and received a hand-delivered letter from him yesterday, or from his representative, asking that I reveal his opposition to this bill, also.

The two vessels that he proposes to build—one is 365 feet with 15 feet of draft, and the other one is 580 feet. He proposes to build both of these in the United States as American-flag vessels and employ American seamen on them. He also proposes to operate them in coastwise trade and, from what I understand, in nearly identical service to what the Cunard vessels propose to do, which duplicates essentially what we are doing.

That really is the end of my yesterday's prepared and this morning's prepared remarks.

[Prepared statement follows:]

STATEMENT OF CHARLES A. ROBERTSON, MEMBER OF THE AMERICAN WATERWAYS SHIPYARD CONFERENCE

Mr. Chairman, my name is Charles Robertson. I am president and owner of Chesapeake Shipbuilding, Inc., in Maryland; Williams & Manchester Shipyard in Rhode Island; American Cruise Lines, Inc., in Connecticut; and several other companies in the marine transportation and technical field. Today, I am also representing the American Waterways Shipyard Conference in addition to my companies.

The American Waterways Shipyard Conference, which is part of the American Waterways Operators, Inc., is the national trade association for the smaller or

second tier commercial shipyards. This segment of the shipbuilding and ship repair industry is composed of just over 300 shipyards located throughout the Nation. These shipyards serve the barge and towing industry, the offshore service and fishing industries, and they also produce the ferry vessels and cruise ships for our Nation's coastal and inland regions. If the proposed legislation H.R. 2883 is enacted, allowing foreign built hulls to operate in domestic service, it would create a national tragedy in an industry which is just beginning to blossom as a strong producer of new American ships and as an employer of thousands of Americans.

My company, American Cruise Lines, is a U.S. corporation which presently operates three U.S.-flag passenger cruise ships in domestic coastwise service and has done so for many years.

Two weeks ago, we launched a fourth vessel at our Salisbury shipyard. This vessel is the largest coastal cruise ship built in the U.S. since before World War II. In addition, we are planning to build two 600-passenger cruise ships to operate from the United States. We believe strongly these ships should be American built and fly the American flag.

I am informed of the growth plans of other U.S. cruise operations for their American built, American flag fleets. Recently cruise ships of this size have been under construction not only at our yard in Maryland, but also at Blount Marine in Rhode Island; Jeffboat, Incorporated, in Indiana; Nichols Brothers in Washington; and Offshore Shipbuilding in Florida. The public demand for all types of cruises from day excursions to those lasting several weeks, and for larger cruise ships, has been growing at a phenomenal rate. The industry not only plans to expand the number of vessels, but also to dramatically increase the size of these vessels.

If this industry is not stifled by admitting foreign built vessels to the coastwise trade, many more jobs would be created in the United States, not only in the shipyards and their allied industries, but also aboard the vessels.

We recently selected five American shipyards to explore and begin negotiations on construction of two large passenger cruise ships for domestic service similar in size to the Cunard vessels. These five American shipyards—American Shipbuilding, Bethlehem Steel, Bath Iron Works, Ingalls Shipbuilding, and Tacoma Shipbuilding—all expressed great enthusiasm and willingness to build these ships. We received no indication from any shipyard that they might be either unwilling or not capable of constructing these vessels. On the contrary, they are anxious and aggressive in their pursuit of this type of shipbuilding contract, further demonstrating the U.S. capacity for building this type of vessel which would present a great opportunity to employ nationwide thousands of American workers. In the current economic climate and the resulting unemployment, can we afford to throw away an opportunity to put thousands of Americans back to work?

In addition to market demand and a shipbuilding capacity, the other factor which makes this industry possible are the Cabotage laws, which prohibit foreign built vessels from transporting passengers between ports or places in the United States (46 U.S.C. 289); The Vessel Documentation Act, section 111 and 112 which require that a vessel must be built in the United States to be issued a coastwise license or a Great Lakes license, and section 27 of the Merchant Marine Act of 1920. The basic principle underlying Cabotage laws is to preserve domestic trade and the shipbuilding indusry for the economic good of the country and for use as an adjunct to national security forces.

These laws are absolutely vital to the American shipbuilding industry. We can point with pride at this segment of the shipbuilding industry, which is highly competitive and with cost effective ships with the latest in technology snd safety features. The Jones Act and related laws have insulated us from the predatory pricing of foreign government subsidized shipyards, and they are preserving the shipbuilding base and skills which we have found so essential in times of national emergency.

This segment of the American shipbuilding industry is just beginning to become more competitive with foreign yards. The impact of this legislation would be devastating if these exemptions are granted. In all fairness, other operators would have to be granted similar exemptions, and I, for one, would be forced to immediately request a similar exemption in order to remain competitive with these foreign hulls. Ultimately, I would be forced to build my ships in foreign yards instead of American against my wishes and my national pride.

This legislative body has before it an opportunity to underscore American resolve to improve and utilize its shipbuilding capabilities and to once again become a leader in this field. Most cruise passengers in the world are Americans and most leave from American ports and in all, it is fair that American workers should build and crew these ships. After all, it is American jobs we are talking about. Let there be no mistake and no confusion, this is an anti-job bill.

The American waterways shipyard conference and the American waterways operators strongly support the Jones Act and related laws prohibiting foreign-built vessels from the U.S. coastwise trades, and therefore oppose H.R. 2883 which would permit two foreign built vessels, the *Cunard Princess* and *Cunard Countess*, to operate in our coastwise passenger vessel trade.

On behalf of the American Waterways Shipyard Conference, I appreciate the opportunity to address the Subcommittee on Merchant Marine. Thank you for your concern. I will be pleased to answer any questions.

Mr. DYSON [acting chairman]. I notice from listening to your prepared remarks, you read most of them. However, as you know, I think I indicated to you on the telephone yesterday that you can submit the entire testimony for the record.

Mr. ROBERTSON. I am having trouble reading the end of it myself. I will have it retyped.

Mr. DYSON. We do permit that. It is amazing, from this point until we finally publish the record, sometimes what an amazing difference there is, but you are welcome to do that.

Mr. ROBERTSON. Thank you.

Mr. DYSON. Does counsel wish to say something?

Mr. MULZON. No, I have nothing.

Mr. DYSON. Thank you.

I want to thank you very much for coming today.

I would like to just repeat again what the chairman said. I thought you did a very good job for your first time.

Mr. ROBERTSON. Thank you.

Mr. DYSON. An excellent job. I am proud to have you here. You are a full-time or part-time—I do not know which—constituent of mine.

Mr. ROBERTSON. OK. Thank you.

Mr. DYSON. Our next witness is Mr. Peter J. Luciano, executive director of the Transportation Institute.

Peter, I have just been advised by counsel that you are going to be exactly 1 minute. I find that incredible but certainly welcomed.

STATEMENT OF PETER J. LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE, WASHINGTON, D.C.

Mr. LUCIANO. Thank you very much, Mr. Chairman.

What I intended to do, with your permission, is to summarize my prepared statement in one sentence. From there I would like to proceed to address a few of the comments that have been made in testimony earlier today.

Mr. DYSON. Was that the one sentence?

Mr. LUCIANO. No, I hope not.

Mr. DYSON. Yes, you can do that. You can make a request that we put your prepared testimony in the record.

Mr. LUCIANO. Thank you very much, sir.

By way of summary of my prepared statement, the Transportation Institute very strongly supports this legislation inasmuch as we believe it is good for the national defense, for the American economy, for the balance of payments, and for a stronger American flag merchant marine.

Given that, I would like to address some of the earlier comments this morning, which deserve a little amplification.

First, I would like to say that Mr. Lambert's only fault, as I see it, is that he has a good idea and he was the first one to get to it.

When you get a proposition that makes sense, from a number of different points of view, both from the point of view of private sector business and from the point of view of the national interest, all sorts of people come out of the woodwork saying, "That was just what I intended to do 6 months down the road." However well intentioned some of that may be, I think the fact remains that Mr. Lambert had a good idea and he was the first one to it.

The most clear-cut and I think unambigous opposition to this legislation has come from representatives or owners of inactive vessels that were granted a waiver by this committee's action in 1979 in order to enter the coastwise trade of the United States.

I would like to remind this committee that the Transportation Institute actively testified in support of the waiver for all five of the vessels that were allowed into the coastwise trade at that time. All five of those vessels have already received waivers, and opposition has come from people that received waivers themselves while opposing this legislation today.

Since 1979, the owners of all of these vessels have had the benefit of the protected trades. Although there are some extenuating circumstances, as in the case of the SS *United States,* the economic viability for the three that are not employed has yet to be demonstrated, even after several years of exclusive domain over this privilege. These ships are in the neighborhood of 30 years old. Two of the ships have found a successful trade in the Hawaiian Islands and Hawaii to west coast. In fact, the owners of the two ships that have been successful, the owners of the two ships that have the most to lose theoretically from the passage of this legislation, are not opposing this bill.

I sincerely hope that all of the vessels that were granted a waiver in 1979 will find a successful trade in the near future. They are all useful defense assets, and, according to testimony that we have heard today, there may be room for a great many such ships.

As Mr. Biaggi suggested this morning, however, there is a limit to how long we can wait to rebuild the U.S.-flag passenger fleet. Can we be sure that in another 4 years the financing that has not been forthcoming for these vessels that remain inactive under the 1979 legislation will in fact materialize?

There is a major, new opportunity here available in the Cunard ships, and we should take advantage of it. This committee is contemplating a very narrow, a very limited waiver for a very special class of vessel, subject to close congressional scrutiny, a waiver that would address a major national security problem, and this bill deserves to be passed.

Thank you very much.

[Prepared statement follows:]

STATEMENT OF PETER J. LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE

Mr. Chairman and members of the subcommittee, my name is Peter J. Luciano. I am Executive Director of the Transportation Institute, a nonprofit research and educational organization dedicated to the preservation and promotion of a strong U.S. flag maritime capability. Our 174 member companies operate U.S.-flag vessels in the Nation's foreign and domestic shipping trades including the inland waterways and Great Lakes.

The Transportation Institute would like to thank the subcommittee for this opportunity to express our views on H.R. 2883, legislation to permit the passenger vessels,

Cunard Princess and *Cunard Countess,* to be documented under the laws of the United States and to operate in the coastwise passenger trade of the United States. As this Subcommittee knows, the American-flag passenger fleet has virtually disappeared from the sea. With your help the first steps have already been taken to restore this important sector of the fleet. The reflagging of these additional vessels, two of the newest and most modern ships in the world, would mark important further progress in the revitalization of the U.S. merchant passenger vessel fleet.

It is a well-known fact that America is the center of the world's lucrative passenger ship cruise industry. At the height of the cruise season, nearly a hundred passenger vessels carry U.S. citizens from the United States to ports in the Caribbean and other tropical areas. Ironically, over 95 percent of these vessels are foreign-flagged and employ foreign nationals.

In recent years, a concerted effort has been launched to revitalize a nearly extinct yet at one time dominant U.S.-flag passenger ship fleet. With the assistance of this Subcommittee, the *Independence* and the *Constitution* are presently sailing under the American-flag and plying the waters around the Hawaiian Islands. Last year Congress passed legislation to permit a tax deduction for convention expenses held on U.S.-flag cruise ships affording the U.S.-flag ship operator an opportunity to compete for the considerable American convention business. Without question, these past initiatives have had a marked impact on the U.S.-flag passenger ship industry. Nonetheless, it is critically important that we continue these efforts to rebuild the fleet.

By law, foreign-flag vessels are prohibited from engaging in the coastwise trade of the United States. Presently, there are no major U.S.-flag cruise vessels calling at ports in the continental United States. Enactment of H.R. 2883 would fill this void. The Transportation Institute believes that if offered a choice, Americans would prefer to book a cruise on a U.S.-flag vessel crewed by fellow U.S. citizens.

It is not often that an opportunity arises to rejuvenate a critical national resource, such as the American-flag passenger ship industry, all at no cost to the federal government. During these troubled economic times, the U.S. cannot afford to stand idly by and watch millions of American tourist dollars flow directly into the hands of foreign cruise operators and workers who pay no United States income taxes on their profits and wages. A return of the U.S.-flag passenger ship fleet would not only strengthen the U.S. merchant marine, but would benefit the American economy and improve the U.S. balance of payments of keeping tourist dollars in the United States.

Passage of H.R. 2883 would provide hundreds of jobs in the U.S. seafaring and related maritime industries. This increased employment would carry over to the U.S. shipbuilding industry as well. In up-front costs alone, each vessel will have to undergo several million dollars worth of repair work in order to meet U.S. Coast Guard standards. In addition, by law, all future maintenance and repair work would be completed in American shipyards. H.R. 2883 also would benefit the United States government by generating increased revenue to the federal treasury through taxes on personal and domestic corporate income.

In addition to the obvious benefits to the U.S. merchant marine, H.R. 2883 would greatly enhance the Nation's defense posture. The United States commercial merchant fleet has long been recognized as a vital national asset. It is well known that the U.S. merchant marine serves as an auxiliary to the U.S. Naval forces in time of war or national emergency. In recent years, the U.S. military has been putting increased emphasis on the role of sealift in strategic mobility while at the same time the number of ships capable of performing this role is declining. The *Cunard Princess* and *Cunard Countess* would help fulfill these military needs. In time of war or national emergency these vessels could easily be adapted for use as either military transport carriers or hospital ships.

One need only look to the Falkland Islands crisis to appreciate the military value of a strong privately owned U.S.-flag passenger fleet. Three of Britain's most valuable assets were the British-flag passenger ships *Canberra, Queen Elizabeth II* and the *Uganda.* These vessels provided Great Britain with the vital troop carrying and medical capabilities necessary to successfully accomplish their military objectives.

In conclusion the Transportation Institute would like to express our appreciation again for the Subcommittee's recent efforts to reinvigorate the American-flag passenger fleet. It has always been our position that a successful U.S.-flag cruise industry could be redeveloped in this country, and today we have a unique opportunity to insure the realization of that goal. The Transportation Institute respectfully urges your support and favorable disposition of H.R. 2883.

Thank you.

Mr. DYSON. I do have a question for you.

The five ships you made reference to, when the legislative change was recommended in 1979, I believe you said that the Transportation Institute did endorse that.

Mr. LUCIANO. Yes.

Mr. DYSON. With the change in the law, the accelerated depreciation and the other changes that, for instance, Mr. Robertson and some of the others have mentioned, does that make the three remaining ships and that one you made reference to—does that make them more viable?

Mr. LUCIANO. I would expect so. As I understood the testimony I heard this morning, I believe from Mr. Hadley, that and other legislation such as the convention deduction that was passed, the depreciation, and so forth, have, if anything, enhanced the economic viability of that market. As I say, I am hopeful that all of those ships will find profitable employment, and that in fact seems to be a common and consistent thread running through the testimony today that that market is large and growing.

I would hope that there is room not only for those five that were permitted initially, two of which are operating today, as you know, but also for these Cunard ships and a great many others in the future.

The way I see the Cunard vessels is in a way as an experimental proposition. It is a situation where the Congress is considering allowing two ships in—a very narrow and limited waiver, not a blanket waiver or open season on the domestic trade, but on a limited basis which will go a great way to test the economic viability of this market.

As Mr. Lambert has pointed out, it is not one that competes with other existing vessels. In fact, as he contemplates and described it to this committee, some of the smaller vessels—the ones Mr. Robertson alluded to as being already in service—are planned as feeder vessels and complementary to the new service. In fact, the level of advertising and the economies of scale that are possible with two vessels of the Cunard capacity, all serve to develop a market for many other smaller vessels which do not have that kind of advertising potential and capability and resources. They can enjoy the secondary benefits that the Cunard ships bring to the trade. Therefore, it is a market which grows for the entire fleet spectrum, not just the one narrowly focused on those two admitted vessels.

Mr. DYSON. Thank you very much.

Since there is a belief around here that witnesses only take 10 minutes, we will let you go. Then at least Mr. Robertson can go back to Salisbury and say that there are some witnesses who only take 10 minutes.

Thank you very much.

Mr. LUCIANO. Thank you very much.

Mr. DYSON. Mr. Raymond J. O'Donnell, the executive vice president and assistant to the chairman, the American Society of Travel Agents.

STATEMENT OF RAYMOND J. O'DONNELL, EXECUTIVE VICE PRESIDENT AND ASSISTANT TO THE CHAIRMAN, AMERICAN SOCIETY OF TRAVEL AGENTS

Mr. O'DONNELL. Thank you, Mr. Chairman.

I am Raymond J. O'Donnell, executive vice president and assistant to the chairman of the American Society of Travel Agents, also known by the acronym ASTA. ASTA represents more than 10,000 American travel agents, and its primary goal as a trade association is to protect the traveling public against fraud, misrepresentation, and unethical practices in the travel industry.

Mr. Chairman, rather than test the Chair's patience by repeating what has been said so many times here today, I understand that my prepared testimony has been filed with the staff. I request that it be entered into the record.

Mr. DYSON. That will be granted.

Mr. O'DONNELL. I will summarize that testimony——

Mr. DYSON. That would be encouraged.

Mr. O'DONNELL. I will summarize my filed testimony by stating that the travel agents which ASTA represents are dedicated to the building of an American flag passenger fleet, and we think that H.R. 2883 is one way of achieving this goal. We strongly urge the subcommittee to support it.

Thank you very much.

[Prepared statement follows:]

STATEMENT OF RAYMOND J. O'DONNELL, EXECUTIVE VICE PRESIDENT AND ASSISTANT TO THE CHAIRMAN, AMERICAN SOCIETY OF TRAVEL AGENTS

Mr. Chairman, and Distinguished Members of the Subcommittee on Merchant Marine, I am pleased and honored to appear before you today, My name is Raymond J. O'Donnell, and I am Executive Vice President and Assistant to the Chairman of the American Society of Travel Agents (ASTA). ASTA represents more than 10,000 American travel agents and its primary goal as a trade association is to protect the travelling public against fraud, misrepresentation and unethical practices in the travel industry.

Travel agents have been in a unique position in watching the ebb and flow of the passenger steamship industry. We were there in the beginning, when American lines brought new technology, luxury, and a sense of competition to the trans-Atlantic passenger trade, We watched it grow into a massive transportation industry, The acronym ASTA once stood for "The American Steamship and Tourist Association." We looked on with sadness when the great American lines were scrapped, or burned or mothballed because America could no longer compete with the low wage scales and constructiion costs of foreign companies.

We were ecstatic, however, at the phenomenal growth of the cruise industry beginning in the mid-1970's. This marked not only a new source of revenue for travel agents, but a welcome boost for our dying ports and a suitable redeployment for all those great liners which might have ended up as razor blades.

Today 91 vessels of more than 100 passenger capacity are based in North America for the purpose of cruising. Not counting the Delta Line ships which are cargo/passenger vessels, only four are U.S. flag, and two of them are river boats. Where does this leave the United States during a national emergency? What would we do if we needed vessels for troop transport to areas where airlift would be impossible? The United Kingdom during the Falklands Crisis had swift recourse. We have only two operational civilian vessels now in Hawaii which were reflagged to U.S. registry thanks to the wisdom of Congress.

H.R. 2883, introduced by Representative E. Clay Shaw, Jr., of Florida recognizes that this situation is intolerable. It also recognizes the fact that economic reality has outmoded some of our protectionist maritime laws. For example, many desirable American ports have been overlooked by foreign flag lines because they cannot debark passengers at a different port than the one at which they embarked. This law, and its interpretation by Customs, practically created the Port of Vancouver,

British Columbia, as a departure point for Alaska cruises when they may have preferred to use Seattle

Cruise America, the Company which is anxious to purchase the MV *Cunard Princess* and the MV *Cunard Countess,* plans to deploy these vessels in the coastwise passenger trade. This will give Americans the opportunity to enjoy all the amenities of a cruise ship—an American cruise ship—while visiting ports like Savannah, Baltimore, Newport News, Bar Harbor, Seattle, and San Diego among many others which have not benefitted from regular calls of passenger ships for some time. This should be welcome news to longshoremen, purveyors, taxi drivers, merchants, and tourism authorities. It is certainly welcome news to travel agents, who would be proud to present competitive American products to their clients.

Cruise America is not asking for any special treatment except for the permission to reregister the vessel in the United States. We are certain that they have examined the possibility of building in America and have determined that it would prove too costly. It should be noted that many nations' passenger fleets are constructed abroad. Norway's fleet is built primarily in Finland. Holland America is now building in France, as did a Danish Company with Bahamas registry. Even the British company, Princess Cruises, will build a vessel in Finland—it will be registered in the United Kingdom.

The travel agents which ASTA represents are dedicated to the rebuilding of an American flag passenger fleet. We think that H.R. 2883 is one way of achieving this goal, and we urge you to support it.

Mr. Chairman, I thank you for this opportunity to testify before you today.

Mr. DYSON. I am very impressed.

I do have a question, though.

In your estimation, how many vessels would be necessary to meet the current and growing demand for coastwise cruise service? What is the market potential? I do not think I need to explain that any more. You certainly heard that mentioned quite a bit from all the witnesses.

Mr. O'DONNELL. I would not dare make an estimate, but, based on a survey by one of the industry experts, Lou Harris, 3 percent of the American population as of 3 years ago had taken a cruise of some type. Of a telephone pulse survey with a base of about 15,000 or 20,000 people, 61 percent of those surveyed indicated that they did want to take a cruise.

The cruise market is one of the fastest growing travel markets today and a source of increasing income to the small businessman travel agent.

Travel agents, just for your information, write about 92 percent of the cruise business. By "write," I mean issue tickets for it, sell it, derive income from that source. Therefore, it is a growing source of revenue.

Mr. DYSON. Thank you very much. I appreciate your coming and waiting so long today.

The next witness is Mr. Frank Braynard, who is chairman of the OP Ship Ltd.

I understand you are quite an accomplished author, and you have in fact written a number of books on the merchant marine.

STATEMENT OF FRANK O. BRAYNARD, CHAIRMAN, OP SHIP LTD., SEA CLIFF, N.Y.

Mr. BRAYNARD. I have written 20 and have 5 more on the way.

Mr. DYSON. You are incredible.

Mr. BRAYNARD. I have spent my entire life in shipping, and I am overjoyed and absolutely astounded to hear the testimony today. It is almost an embarrassment of riches, and I hardly know which way to go.

I do, however, endorse H.R. 2883 from the standpoint of history and from the standpoint of the future. I realize it has serious implications. I had no idea that American Cruise Lines was planning two such large vessels, and I am overjoyed at what Mr. Robertson has said. I had no idea about the Contessa Line, either.

I do know as a fact that the cruise business is one of the very few businesses in America that is booming tremendously. I think we had better be honest here and optimistic. Whereas nearly 2 million people are leaving American ports on ships each year today, it is doubling every 3 or 4 years, it is perfectly possible by 1990 to have 12 million people leaving American ports on ships. Ships are coming back. Cruise liners are coming back. More people sail on ships today than ever did before in the peak of the Atlantic period, and the public has no awareness of that. Therefore, I think there is very good reason to be optimistic.

I pray that there will be room for the American initiative that has been shown here to continue.

I think of one other special reason, and I will summarize it quickly. I believe that tourism is our greatest export. We have no other export that is equaling the potential of tourism in America today.

To fulfill this potential, tremendous export, to balance our trade once again, we must have dozens more little liners like the *Independence* and the *Savannah*, dozens—hundreds, in fact; many more *Delta Queens*, many more *Mississippi Queens*. It is a crime to see the Hudson completely devoid of ships today, and the same with many other wonderful rivers.

We have a tremendous and wonderful country, and we can easily support 10 times as many ships as we have in service now.

I am delighted to see what Mr. Lambert, father and son, have done. I think their initiative deserves encouragement. I am sure that this will be a very special act, not a precedent.

Thank you very much.

[Prepared statement of Frank O. Braynard follows:]

PREPARED STATEMENT OF FRANK BRAYNARD, CHAIRMAN, OP SHIP LIMITED

It is a pleasue to endorse H.R. 2883. I do so with a sense both of history and of the future.

Historically I remember a similar occasion when legislation was needed and passed to permit two fine British passenger ships to come under the American flag. They were the *City of Paris* and the *City of New York*, built by Inman Line for the world's premier passenger ship route. They were outstanding ships and their acquisition by American interests was of no little importance not only to our Merchant Marine but to the nation. They became the *Philadelphia* and the *New York* of the American Line, predecessor of today's United States Lines. They saw heroic service in both the Spanish American War and the first World War, not to mention their yeoman work as American flag passenger liners on the North Atlantic.

Historically there is precedence for H.R. 2883.

As to the future, I believe there is great need for more liners under our flag! Until this committee passed legislation two years ago to permit the *United States* and the *Independence* to operate coastwise under the American flag, there was a period when we had no ocean liners flying the Stars and Stripes, none at all! Now there are two—the *Independence* and the *Constitution*. I am not counting the lovely passenger-cargo ships of the Delta Line, as they are chiefly cargo vessels despite their wonderful accommodation for a fortunate 90 or so passengers. The return of the *United States* to active service will soon be announced by U.S. Cruises, I understand, and will add a third major vessel to our once depleted liner fleet. Every indication is that she will be rebuilt as the world's finest cruise liner.

The transfer to American colors of the *Cunard Countess* and her sister the *Cunard Princess* is a splendid step in the right direction. It is being done properly and in my opinion this legislation in no way weakens the Jones Act. If anything it strengthens it.

More liners are needed under the American flag for defense purposes, but I am even more interested in the importance of new American flag cruise ships to our national economy. Unless our economy gets back into shape, we will not be able to defend ourselves against any aggressor. Our economy needs a balance of trade. We must have more exports. Tourism can be our greatest export. We have got to have passenger liners to have more tourism. Our coastlines are empty of passengers liners. Our rivers, except for the Mississippi, are largely unused. We could support a whole fleet of large and small river and coastal passenger vessels. We alone of all great nations do not use our waterways. The Soviets have 80 superb passenger liners on the Volga. They dominate the Danube as well. The Germans fill the Rhine with three-deck luxury liners. The Japanese have "sun-burst" painted liners swarming over their Inland Sea. The Baltic is home to 50 little and big passenger liners some as large as 24,000 gross tons. The Mediterranean plays host to dozens of lines of Greek, French and other flags.

Why have we abandoned our birthright? Why no passenger ships in our Mediterranean—the Gulf of Mexico? Why no liners in the lovely Hudson?

We have priced ourselves out of many overseas markets like steel, radios, TV sets, autos . . . we cannot look to these areas for more exports. But every foreign tourist who comes to America is in effect helping us get a favorable balance of trade. Tourism from abroad can be the industry that puts us back on a positive trade balance. The availability of ships under the American flag on our coastal services, on the Great Lakes and on our rivers can be the decisive factor that turns our economy around.

Mr. DYSON. I want to thank you for being here today.

I called it OP Ship Ltd. I understand this was—would you explain that?

Mr. BRAYNARD. I ran OP Sail during the bicentennial.

Mr. DYSON. That is what I have been informed.

Mr. BRAYNARD. It was such a successful thing that we copied it in my company and we called the company OP Ship, meaning anything about ships for anybody interested in ships. We are trying to run an event in New Orleans for next year.

Mr. DYSON. That would be for the World's Fair?

Mr. BRAYNARD. Right, and we hope to have a very large parade, even bigger than OP Sail.

Mr. DYSON. It should be very impressive Let's hope that the water will stay at a reasonable level there.

Mr. BRAYNARD. Thank you.

Mr. DYSON. Thank you for testifying today.

I have just been informed for those in the audience that a second hearing on this bill is going to be held on June 22, and the purpose of that will be to accommodate a witness, which I am informed means one, who could not appear today. If anyone is interested, I assume the record will be held open until then.

I want to thank all of you for coming and lasting through these eight 10-minute witnesses. Thank you.

[Whereupon, at 2:55 p.m., the subcommittee recessed, to reconvene June 22, 1983.]

REVITALIZATION OF THE DOMESTIC CRUISE INDUSTRY

THURSDAY, JUNE 23, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:25 a.m., in room 2118, Rayburn House Office Building, Hon. Mario Biaggi (chairman of the subcommittee) presiding.

Present: Representatives Biaggi, Foglietta, Hertel, Tallon, Hubbard, Dyson, Davis, and Fields.

Staff present: Ricardo A. Ratti, Cynthia M. Wilkinson, Ann Mueller, Gerry Seifert, Peggy Stewart, Steve Little, Kip Robinson, and Gwen Lockhart.

Mr. BIAGGI. The meeting is called to order.

This is the second day of hearings on H.R. 2883, a bill that would allow the *Cunard Princess* and the *Cunard Countess* to be documented as vessels of the United States and to enter the coastwise trade.

This hearing was called especially to allow two prominent representatives of the maritime community who were unable to attend the first hearing to testify. In addition, at the June 15 hearing the subcommittee learned that a company in Houston, Tex., has plans to begin building an ocean liner within the year. In order to more fully explore this information, we have asked the president of the company to appear today to provide the subcommittee with additional facts about those plans.

Several important points were made at the first hearing about the passenger cruise industry in the United States: First, no luxury cruise ship of the size of the Cunard vessels has been built in the United States since the 1950's. Second, Americans must resort chiefly to foreign-flag vessels if they wish to take an ocean cruise. Third, the cruise trade has experienced steady growth over the past two decades, at a time when the U.S.-passenger fleet has almost dwindled to nothing.

These factors are very important in considering the need for H.R. 2883. This hearing should shed additional light on the state of the U.S. passenger cruise industry and the desirability of this legislation.

At this point I ask unanimous consent that the following be placed in the hearing record: a memorandum from Cruise America

Line dated June 21, 1983; a letter from the Port of Portland; and a statement from Bethlehem Steel Corp.

[Material follows:]

CRUISE AMERICA LINE, INC.,
Fort Lauderdale, Fla., June 21, 1983.

Memorandum to: Hon. Mario Biaggi.
From: Cruise America Line, Inc.
Subject: Supplemental Information for the Record on H.R. 2883.

This memorandum responds to certain requests for supplemental information made at the hearing on H.R. 2883 on June 15, 1983.

A. NEW SHIP CONSTRUCTION

In response to the Committee's request for additional information regarding new ship construction, we see no basis for the optimism shared by certain witnesses that there is a boom in the sector of the ship construction industry capable of constructing vessels such as the Countess and Princess. The statement submitted by Todd Shipyards Corporation in support of H.R. 2883 is evidence of the state of domestic shipyard capability for large passenger cruise ships in the foreseeable future. In addition, Cruise America fully explored the viability of constructing new deep-sea passenger tonnage and received estimates of $250 million and $400 million from two major U.S. shipyards. Even with accelerated recovery of costs, the requisite annual debt service on such construction would range from $38,275,000 to $68,408,000. These prohibitively high costs for the construction of new deep-sea passenger vessels illustrate the diseconomies of building new vessels in American shipyards.

B. COMPETITION

A recurring issue at the hearing was the question of competition in the American cruise market. We would like to clarify confusion arising from several statements made at the hearing by Mr. Charles Robertson of American Cruise Lines, Inc. Mr. Robertson stated that the Countess and Princess would be serving the same itineraries that his American Cruise Lines, Inc. is presently serving. Although the Countess and Princess intend to visit some of the same ports-of-call, they will be traveling along deep sea routes. In contrast, American Cruise Lines, as illustrated in the accompanying brochure, offers cruises along the inland waterway and Atlantic coastline. In fact, the three American Cruise Line vessels are restricted by the U.S. Coast Guard from operating in excess of twenty miles to sea or twenty miles from a harbor of safe refuge.

Mr. Robertson also stated at the hearing that his greatest competitor at this time is Holland America Cruises. As illustrated in the accompanying brochure, the cruise schedules offered by Holland America are on completely different routes than those taken by American Cruise Lines. Holland America offers cruises to the Caribbean, Bermuda, Trans Canal, Alaska and Mexico. In other words, Holland America does not directly compete with American Cruise Lines, which opposes any cruise competitor, foreign or domestic, large or small.

Moreover, we believe that it is important to recall that Mr. Robertson also stated during his appearance before the Subcommittee that public demand has been growing at a phenomenal rate and that the market is large enough to support additional competition. As indicated during the course of our appearance before the Subcommittee, Cruise America holds these same beliefs. Unfortunately, Mr. Robertson's belief in free and open competition in an untapped market has not been reflected in his actions and statements in other arenas.

In this regard, Cruise America believes it is significant that Mr. Robertson has opposed the two most recent applications filed at the Interstate Commerce Commission for authorization to provide cruise services along the Atlantic Coast and Gulf of Mexico Coast.[1] Mr. Robertson's companies opposed operations by those other cruise companies even though he acknowledged before this Subcommittee that there was no substantial competition for his companies on such routes. Indeed, in pleadings filed with the I.C.C., the companies owned by Mr. Robertson alleged that rival cruise companies should not be allowed to compete with his companies because there was insufficient demand for such cruise services, a position which directly contradicts his testimony before the Subcommittee. Cruise America believes that the inconsistent statements made by Mr. Robertson merely underscore that his real con-

[1] Interstate Commerce Commission, Docket Nos. W-1360 and W-1346.

cern is not with the revitalization of the American cruise industry; rather, his concern is to limit competition for the benefit of his own companies.

Fortunately, in the two I.C.C. proceedings where Mr. Robertson voiced his opposition to increased competition, the agency rejected his arguments in favor of allowing more competition in the cruise market. Had Mr. Robertson been successful in his opposition, the cruise companies filing with the I.C.C. would not have been permitted to operate in interstate commerce and the economic benefits resulting from such new entrants into the market would have been lost. Thus, while Mr. Robertson speaks in favor of more jobs for Americans, his actions make clear that in practice his companies follow a different course. In his testimony, Mr. Robertson described H.R. 2883 as "anti-job" legislation. This legislation in fact creates jobs since there will be three permanent crews of 350 for the two ships, for a total of 1050 jobs for the merchant marine, in addition to numerous shoreside jobs in the cruise service and related industries.

Cruise America believes that the opposition of Mr. Robertson to H.R. 2883 reflects a continuation of his desire to frustrate competition in the cruise industry at the expense of the American economy. Although this may have been his first appearance before a Congressional subcommittee, he has offered sworn statements in other forums for the purpose of maintaining his monopoly in the Atlantic Coast cruise market.

Furthermore, the vessels operated by American Cruise Lines, Inc. are in an entirely different class from the Countess and Princess and offer very different accommodations and service amenities. In order to properly assess the potential competition between the two lines, a comparison between vessels should be made. In this regard, a table illustrating the differences between the Princess and Countess and the three vessels operated by American Cruise Lines, Inc. along the Atlantic coastline is attached hereto as Appendix A.

C. ADDITIONAL INFORMATION

At the hearing, Subcommittee counsel requested Cruise America Lines, Inc. to state for the record whether it intended to attract convention business on its vessels. At this time, Cruise America is interested in the growing cruise convention market and anticipates that it will offer cruise to groups holding conventions.

As a final matter, it was suggested at the hearing by witness James L. Kurtz that Cruise America would pursue the West Coast to Hawaii cruise route. Cruise America would like to make clear for the record that it has no present intention to offer cruises on the Princess and Countess in the West Coast to Hawaii market.

APPENDIX A.—VESSEL COMPARISONS

	Cruise America Line		American Cruise Line		
	Countess	Princess	American Eagle	Independence	America
Gross registered tonnage (G.R.T.).	17,586	17,586	80.76	98	98.
Maximum passenger capacity	998	998	56 [1]	87 [1]	91.[1]
Crew capacity	350 [2]	350 [2]	14 [3]	17 [3]	17.[3]
Year built	1976	1977	1975	1976	1982.
Length	536 ft. 7 in.	536 ft. 7 in.	141 ft	169 ft.	169 ft.
Beam	74 ft. 10 in.	74 ft. 10 in.	29 ft.	37 ft.	37 ft.
Draft	18 ft.	18 ft.	7 ft. 6 in.	7 ft.	7 ft.
Staterooms	420	420	28	43	50.
Lower berths	830	830	54	81	89.
Upper berths	168	168	0	3	0.
Speed (knots)	21	21	10	10	10.
U.S.C.G. class	Subchapter H	Subchapter H	Subchapter T	Subchapter T	Subchapter T.
SOLAS	Yes	Yes	No	No	No.
Load line certificate	Yes	Yes	No	No	No.
Lloyd's register of shipping class.	100 A1/LMC	100 A1/LMS	No	No	No.
Trading restrictions	Unlimited	Unlimited	20 miles	20 miles	20 miles.
Life boats	12	12	None	None	None.
Swimming pool	Yes	Yes	None	None	None.
Movie theater	Yes	Yes	None	None	None.
Night club	Yes	Yes	None	None	None.

APPENDIX A.—VESSEL COMPARISONS—Continued

	Cruise America Line		American Cruise Line		
	Countess	Princess	American Eagle	Independence	America
Hospital	Yes	Yes	None	None	None.
Bars	4	4	None	None	None.
Hair salon	Yes	Yes	None	None	None.
Elevators	Yes	Yes	None	None	None.
Shops	Yes	Yes	None	None	None.
Gymnasium	Yes	Yes	None	None	None.
Sauna	Yes	Yes	None	None	None.
Whirlpool/Jacuzzi	Yes	None	None	None	None.
In-cabin telephone	Yes	Yes	None	None	None.
Paddle tennis court	Yes	Yes	None	None	None.
Putting green	Yes	Yes	None	None	None.
Photo studio	Yes	Yes	None	None	None.
Radio station	Yes	Yes	None	None	None.
Valet/laundry	Yes	Yes	None	None	None.
Closed circuit TV	Yes	Yes	None	None	None.
Outdoor cafe	Yes	Yes	None	None	None.
Sat Nav	Yes	Yes	None	None	None.
Sat Com	Yes	Yes	None	None	None.
Dining room capacity	492	492	54	82	88.
Bulbous bow	Yes	Yes	None	None	None.
2 compartment ship	Yes	Yes	No	No	No.
Total shaft horsepower	21,000	21,000	870	(?)	(?).

[1] Figures given at hearing by Mr. Robertson.
[2] In addition, there will be a third crew of 350 rotating between vessels.
[3] Source is Protest of American Cruise Lines, Inc., Interstate Commerce Commission, docket No. W-1360.

PORT OF PORTLAND,
Portland, Oreg., June 21, 1983.

Hon. MARIO BIAGGI,
Chairman, House Subcommittee on Merchant Marine, Rayburn House Office Building, Washington, D.C.

DEAR CHAIRMAN BIAGGI: This is to express the Port of Portland's support of passage of H.R. 2883, to permit the Cunard Princess and the Cunard Countess to engage in the coastwise passenger trade.

We feel this legislation offers the clear potential to attract a portion of tourism dollars, U.S. and foreign, to be spent on U.S. flag passenger vessels, as well as offering the potential for expanded service to Northwest ports.

Also, given the decline of ship repair opportunities for West Coast ship repair facilities, passage of this legislation also offers the prospect for additional ship repair work and jobs at Northwest ports.

We do, therefore, urge support and passage of this legislation.

LLOYD ANDERSON, *Executive Director.*

STATEMENT BY D. H. KLINGES, VICE PRESIDENT, MARINE CONSTRUCTION GROUP, BETHLEHEM STEEL CORP.

The Bethlehem Steel Corporation is unalterably opposed to any legislative effort to reflag the foreign-built *Cunard Princess* and *Cunard Countess* and to subsequently permit those ships to engage in U.S. coastwise passenger trades.

To reflag these foreign-built vessels would be to prostitute the principles of the Jones Act which have been reaffirmed many times over, and which presently constitute the backbone of the weakened U.S. Merchant Marine.

It is pointed out that even this Administration, which appears bent on the destruction or a major diminution of our current Merchant Fleet has supported the Jones Act on at least three occasions this past year. In addition, the national security rationale upon which the Jones Act is founded has constantly and consistently received bipartisan support from Congress.

Not only does the *Cunard Princess* and *Cunard Countess* proposal not meet the national security test of the Jones Act, but enactment would frustrate projects cur-

rently underway to construct and reconstruct U.S. flag cruise ships in U.S. shipyards. Bethlehem is actively involved in several such projects and it would be totally counterproductive to kill such job creating initiatives with their attendant benefits to the U.S. economy. Venture capital is demonstrably available, and these projects designed to reinstitute a vigorous U.S. cruise ship industry should be nourished not poisoned.

Mr. BIAGGI. Do any other members have any opening statements?

[No response.]

Mr. BIAGGI. There being none, the first panel consists of Talmage Simpkins, executive director of the National Maritime Union, AFL-CIO; and Capt. Lloyd M. Martin, secretary-treasurer of International Organization of Masters, Mates & Pilots.

STATEMENT OF TALMAGE E. SIMPKINS, EXECUTIVE DIRECTOR, AFL-CIO MARITIME COMMITTEE, REPRESENTING THE NATIONAL MARITIME UNION OF AMERICA

Mr. SIMPKINS. Thank you, Mr. Chairman.

I am Talmage Simpkins and I am, as you said, the director of the AFL-CIO Maritime Committee. I am appearing today on behalf of the National Maritime Union in opposition to H.R. 2883, a bill that would give coastwise privileges to the *Cunard Princess* and the *Cunard Countess.*

We very much thank you for giving us this time to present our views on this bill. This is important legislation with far-reaching consequences. Unfortunately, it seems once again that time is being devoted to an essentially negative proposal, time which could be better spent considering other and longer range problems and their solutions.

We do urgently seek the development of a U.S.-flag merchant marine comprised of all types of ships that would be adequate to fulfill the declared policy of the 1936 Merchant Marine Act. If this declared policy were a reality, we would not now have the current situation of three seamen standing in line for every job.

To admit these two foreign-built, foreign-flag ships to U.S. registry with domestic trading privileges, and understand that once in, they will be able to enter any of our coastal trades, finds us again dealing piecemeal with a profoundly serious problem.

Historically, the NMU was the union that manned the U.S.-flag passenger fleet. Nothing would delight us more now than to see a U.S.-flag passenger fleet, but we are fearful that these actions, if they are successful, would lead to the eventual elimination of the protections of the Jones Act as well as any hope of a future fleet.

The long-term consequences of this legislation appear to us far out of proportion to the short-term gain. For less than 700 jobs, we will be risking the loss of one-half of all the jobs on U.S.-flag ships. At the same time, we would be developing defenses against a much larger potential—40,000 jobs that are currently held by non-U.S. citizens on the 50-plus foreign-flag passenger ships permanently based in the United States.

Admission of these two ships would make an important exception in the Jones Act and, in a very real sense, would break faith with those in the domestic waterborne commerce who have operated and planned over the years on the assumption that U.S.-built,

U.S.-flag vessels only may be used. That means a greater investment, true, but it has been a vital and longstanding element of the entire industry, and many have made the commitment.

We urgently request that a line be drawn against further nibbling away of our maritime base, and this bill would be a good starting point. We believe that the administration's position on maintaining the integrity of the Jones Act is clear, and was set when President Reagan stated in 1980, and I quote:

> The principle that a nation's own ships should carry its coastal trade presently embodied in the Jones Act, has been part of this country's maritime policy since the early days of the Nation. I can assure you that a Reagan Administration will not support legislation that would jeopardize this longstanding policy or the jobs dependent upon it.

It is our belief that the elimination of the American-flag passenger fleet began with an insignificant ruling in 1912 by an Attorney General regarding Canadian-flag shipping on the Great Lakes. The Passenger Ship Act of 1886 prohibits foreign vessels from transporting passengers between ports or places in the United States, either directly or by way of a foreign port.

The Attorney General ruled that transportation of passengers by foreign vessels from a port in the United States through domestic and foreign waters, sometimes touching at a foreign port, and returning them to the port of departure was not in violation of this law. This ruling by the Attorney General permitted the foreign-flag intrusion into our domestic passenger trade.

We would request that you ask the Department of Defense and the State Department for their opinion on how the addition of these two ships to U.S. registry would enhance our national security. We believe that if you did, they would respond by explaining that the United States and the United Kingdom are both members of NATO and, as such, have agreed to commit their merchant ships to a NATO sealift force. Additionally, Mr. Chairman, I believe there is a letter from the Department of the Navy suggesting that these ships would not add anything in that connection.

While it would not change our opinion of this bill, we have not heard any guaranteed assurances that these vessels will be registered United States if this bill is passed, only that Cruise America Lines, Inc. would purchase. Are we to assume that Cruise America has already bought the ships, or should we assume that they will only purchase them if they can break the Jones Act.

Whatever the situation, we would hope that the Jones Act is not the stakes in what could be characterized as a roll of the dice. If the press accounts concerning Cunard, P&O, and the Trafalgar House situation have any validity, it is not at all clear whether or not these two ships are for sale.

Mr. Chairman, if I may I would like to read part of a letter that I have received from Jim Slater, who is president of the National Union of Seamen in the United Kingdom:

> We would be grateful if, in your presentation to the congressional hearing you could draw out more clearly the point that Cunard may have bought the Vistafjord and the Sagafjord and be trying to sell the Cunard Countess and Cunard Princess as a means of getting rid of the trade unions in their vessels, as they have indicated that they want to register the two new vessels under the Bahamian flag.
>
> We are also very suspicious about any links between Lambert, Cruise America Line, Inc., and Cunard, as a sale and leaseback arrangement may be made. We are,

though, a little puzzled by them seeking U.S. registration unless they genuinely believe that there is a potential market in U.S. coastal trading and it would be easier to get involved by starting out with U.S. citizens setting up a cruise company, rather than Cunard doing so directly.

One other thing I would like to read, Mr. Chairman, and it is this:

Cunard has told us in the past that in order to compete with other vessels operating in the Caribbean and the Alaskan cruises, U.K. ratings would have to be replaced, as they are too expensive. However, transfer to the U.S. and employment of U.S. seafarers would increase pay costs substantially, as the pay of U.S. seafarers is twice as high as that of U.K. seafarers.

With the seemingly increasing attacks on the Jones Act, it may be that the best approach is to stop entirely taking up these individual, special interest, essentially private-benefit measures. It might be better instead to take a deep and detailed look at why there are so many foreign-flag passenger ships engaged full time in our trades versus only two U.S.-flag ships, with input from all segments of the industry and the administration, and then perhaps chart a new course. Making an exception here and another there, as has been done, is solving nothing. Worse, it is such steady pecking away that is eroding the very strength that the Jones Act was intended to build up.

Finally, Mr. Chairman, the desired predictability and certainty that all segments insist upon as being so important to the future of this industry or any other industry certainly becomes more and more remote with every change and exception that comes along. H.R. 2883 is just the latest and maybe the best worst example of this process. If this bill is enacted, we can predict that there will be many similar requests to follow.

Thank you, Mr. Chairman.

Mr. BIAGGI. Captain Martin.

STATEMENT OF CAPT. LLOYD M. MARTIN, SECRETARY-TREASURER, INTERNATIONAL ORGANIZATION OF MASTERS, MATES & PILOTS, ILA, AFL-CIO

Captain MARTIN. Good morning. My name is Lloyd Martin. I am the secretary-treasurer of the International Organization of Masters, Mates & Pilots. I would like to thank the committee for allowing me to appear on behalf of my organization to voice our views in opposition to H.R. 2883.

Captain Lowen would have been here. He had asked to appear as a witness, but he told me to convey his apologies to the members of the committee. He had to honor a longstanding commitment to be on a panel in strategy planning at the War Naval College which is in session now in Newport, R.I., and he could not make it. He sends his apologies.

I have prepared a written statement. I think there is nothing more boring than having me read it again to everybody who can read, so I would like to elaborate on it a little bit.

We object to H.R. 2883 because it breaches the Jones Act in an area that has practially never been breached before. One of the primary ingredients in starting a cruise ship operation is a friendly banker. You need money to build and operate cruise ships. The Jones Act, the protected cabotage laws of the United States and

every other nation, gives lending institutions within those countries the security blanket that they know that that is a controlled trade, only to American ships, and it is another guarantee on their loan, that their money will return.

The reflagging of these ships into the Jones Act trade will have a very chilling effect on the lending institutions in this country. They will no longer have that margin of security and a guarantee that their loans will be repaid. You will see a complete drying up of any confidence in the American lending institutions based on the Jones Act. It will no longer be there.

I question the rationale that there is nobody building ships now, so nobody is interested. There are many, many millions of hard-earned U.S. dollars already spent in the developing of a U.S.-flag ship Jones Act passenger trade. Mr. Hadley has come up with some $5 billion in purchasing the *United States.*

The design for the modification, the applications for title XI money, are all expensive procedures. These are all money out of pocket. In applying for title XI money for the other operations, they have to put money out prior to starting any constructions. My union itself has expended over $6 million of our membership's money to hold the last remaining U.S.-flag passenger ship in the U.S. flag, in hopes that a private operator can come forward, borrow the necessary capital to place it in operation.

Therefore, I say there are big dollars out now. There is a lot at stake, all American money, all relying on the protection of the Jones Act, which will disappear if this is allowed to happen. We as a union have put our money where our mouth is. We think that there is room in this country for U.S.-flag passenger ships. We rely on the protection of the Jones Act to guarantee a certain amount of passengers, and if this is allowed to happen our money will be for naught.

If there are any questions, I will be more than glad to answer them.

[The prepared statement follows:]

STATEMENT OF CAPT. LLOYD M. MARTIN, SECRETARY-TREASURER, INTERNATIONAL ORGANIZATION OF MASTERS, MATES & PILOTS, ILA, AFL-CIO

Mr. Chairman and members of the subcommittee, my name is Captain Lloyd Martin. I am International Secretary-Treasurer of the International Organization of Masters, Mates & Pilots, ILA, AFL-CIO. I appreciate the opportunity to appear before this Subcommittee and to express our opposition to H.R. 2883.

We strongly believe in the cabotage laws of the United States which restrict the transportation of passengers in the coastwise trade to vessels built in this country. This cornerstone of American maritime policy—that only coastwise qualified vessels shall engage in domestic commerce—should not be waived except in those circumstances warranted by overriding national defense considerations. In no instance do we believe that our cabotage laws should be waived merely to enhance the commercial interests of an operator.

In fact, in February, 1983, the Deputy Assistant of the Navy (Sealift and Maritime Affairs) stated that "it is not apparent that permitting the *Cunard Princess* to operate in the U.S. coastwise trades would provide a clear and direct benefit to the Department." Consequently, the request made by the proponents of H.R. 2883 for an administrative waiver of the cabotage law was rejected.

Since that time nothing has been presented to this Subcommittee which evidences the national defense factors that should be present when considering a waiver. While it is important to have the hospital ships our military establishment may some day require, reflagging these ships is not the only way to achieve this. Two existing operators have received approval from the Maritime Subsidy Board to con-

vert existing vessels into hospital ships. In addition, American Flagships, Inc. has filed a Title XI application with the Maritime Administration for guarantees to finance a portion of the costs of construction in the United States of two passenger/hospital vessels.

During the hearings held on June 15 on H.R. 2883, one witness stated that it would take an "Act of God" for work to be done in an American shipyard on an American passenger vessel. Another witness stated that Cruise America's only problem is that they were the first to come up with a "good idea" and that consequently we and others are "coming out of the woodwork" to fight this noble proposal.

Both witnesses are dead wrong.

I can tell this Subcommittee that Cruise America is not the first to come up with the "new idea" that the best, easiest and quickest way to enter the domestic trade and make money is by reflagging foreign built vessels. The difference between Cruise America and the other owners and operators who have submitted statements to this Subcommittee is that only Cruise America has chosen to seek a special exemption from the law rather than to work to comply with the law.

As this Subcommittee has been told, there are various plans to build new vessels and refurbish existing vessels in American yards. Notwithstanding the fact that it is a long, frustrating task, the owners have chosen to try to secure the financing for U.S. shipyard work. They have relied on the longstanding policy against allowing foreign-built vessels into the coastwise trade and have invested their time, energy and money accordingly.

In short, we urge that this Subcommittee reject H.R. 2883. To do otherwise would send a clear signal to all American interests who have been attempting to revitalize the American passenger cruise trade in compliance with the spirit and the letter of the law to abandon such plans. No American operator and no American lending institution will make the investment necessary to build or refurbish a cruise vessel in an American yard if that vessel is to find itself going head-to-head against a foreign built or rebuilt ship.

This Subcommittee and you in particular, Mr. Chairman, have always looked for ways to increase American shipbuilding and American vessel operations; you have been a strong voice fighting for more jobs for American maritime workers; and you have fought to maintain the integrity of the Jones Act and to protect it against the unwarranted intrusion of foreign-built ships.

I believe the evidence presented to this Subcommittee shows that these objectives can be achieved without waiving the law. The vessels in question can be reflagged American without legislation for operation as United States-flag vessels in the foreign cruise trade. This would still provide whatever benefits would accrue if the legislation were enacted, while doing nothing to endanger the progress of the projects that entail American shipyard work in compliance with our laws. Our overall maritime interests and policies should not yield to the purely commercial interests of an operator who demands special legislation in order to place vessels under the American flag.

Once again, I thank the Subcommittee for the opportunity to convey our opposition to H.R. 2883.

Mr. BIAGGI. Thank you, Captain.

I have a couple of questions for you, Captain. I would like some observations, at least.

Let me make a statement. I have heard this question about opening the floodgates of the Jones Act if we permit these two vessels to come on line. I don't know how anyone could possibly come to that conclusion. It is not the first time vessels have been permitted to enter into business through this process, but the Jones Act has always been very, very stringently applied in our contemplation.

You have labor unions that have conflicting positions. I understand, I think, some of the motivation, but the Jones Act is there for all labor unions, for the entire industry.

Now you are telling me it will have a chilling effect on banks, Captain. I really wish you would explain that. I don't see the rationale. If you honestly believe that these two vessels really represent the beginning of the opening of the Jones Act in every area,

well, then perhaps you are accurate. However, how you can arrive at that conclusion is beyond me.

These two vessels—rather, not the vessels themselves but the purpose in which they are to be used—is a new form of business. Now we had someone testify at the last hearing that said it was duplicative. Well, when that happened, I and the whole staff sat erect, but when we probed further, the testimony could hardly sustain the fact that the *Cunard Princess* and *Countess* would be duplicating business already in place.

Three vessels, they said, are engaged in this business. We asked them the size and the amount of passengers, and I think they carry from 56 to 91 passengers in the inland waters. That is a unique type of business. The Cunard vessels are ocean-plying, so clearly there is no duplication. It is unique and that uniqueness is what, in our judgment, permits us to go forward.

One of the major considerations is jobs and business. Sure, we have the foreign-flag vessels doing all this work, and nothing would please me more than to see American-flag vessels doing it, but they haven't been doing it. We granted a waiver to the *Independence* and the *Constitution*; they are in business and they are working.

Now as far as the *Monterey*—and I know you are talking about the *Monterey*—that was under consideration at the time we were dealing with the *Constitution*, and we kept delaying and delaying and delaying. We understood the plight of your union and were sympathetic. We know that you are concerned about the industry, but we delayed ad infinitum. Each time that someone testified or spoke to us privately, we were assured that the financial package was coming together.

Well, there comes a time when you just cannot delay any longer. I don't think the financing was about to happen. The fact of the matter is, it hasn't happened yet. Nevertheless, you had someone testify at our last hearing that the financial package is just about getting together and the enactment of this legislation would jeopardize that package.

I really don't think that is true, because what is happening in that Hawaii trade is, the *Constitution* is doing well, the *Independence* is coming on line, and more and more people are becoming interested. More and more people are becoming interested in that type of cruise. The market out there is limitless. All you need is aggressive salesmanship, and if the *Monterey* gets underway there is no doubt in my mind that it, too, will make a very significant contribution with additional jobs.

You spoke about U.S. dollars. You didn't mention the name. I think you are referring to Mr. Hadley and the United States Line and the *United States*. The fact is, Mr. Hadley was poorly treated by the Defense Department; that is where his complaint lies. I told him that at the meeting, and I sympathize with him, too. He was poorly treated, and yet he was prepared to go ahead. He found it profitable; the tax incentive and the accelerated depreciation were sufficient incentives for him to go ahead.

Last year he got a bonus. He got a bonus. The Congress passed legislation which would make a ship like the *United States* ideally suited for convention business. Therefore, there is no doubt in my mind that he is going to proceed and he will do well. I don't have

to tell you about the convention business, what the prospects there are. Mind you, these people were underway without that convention notion in mind.

Therefore, I appreciate your testimony. Very frankly, if the union didn't testify and you didn't testify with relation to the sanctity of the Jones Act, I would be a little surprised. However, you cannot maintain a doctrinaire position when you are dealing with a changing world or a unique circumstance.

No one is more conscious of the Jones Act and the need to preserve its intent, but I see so far there is only one other area that gives me some concern: That it might inhibit construction of American vessels. That is an area that we will explore. We have a witness here today, I think, from a Texas firm, who is here in response to our invitation—or Mr. Fields' invitation. Contessa Line is planning to build two passenger ships and Mr. Fields had some concern that this bill would inhibit their construction. We would like to find out more about that.

However, the points you raise I think I have met and have been met in the testimony. I quarrel not with your position, and I understand the plight of your union. I am really looking forward to the day when the *Monterey* is on stream and doing business. I recognize that special problem.

Now as far as my good friend, Mr. Simpkins, is concerned——

Captain MARTIN. If I may respond, Chairman——

Mr. BIAGGI. Surely.

Captain MARTIN [continuing]. I speak not solely for the *Monterey*. I speak for other operators who have hopes of placing ships in the U.S. coastwise trade. Some of them will speak for themselves, and we are all in the same position as far as the chilling effect on money, and it is there.

We, as a labor union, are not in the finance business but apparently bankers look to the unions as some sort of guarantee in the loan process. Not only with the financing of the *Monterey* and the repairs of the *Monterey* but other steamship ventures where entrepreneurs approach banks with a loan proposal, inevitably we as a labor union are drawn in by the lending institution for advice in labor stability, in guarantees. The Jones Act, believe me, is looked on very favorably with bankers as protection.

Mr. BIAGGI. Well, I don't question that. I don't disagree with that at all, and there is no reason why they shouldn't continue to have that confidence. If they are looking at this legislation and characterizing it as a signal that we are abandoning the Jones Act, let me assure you their perception is completely distorted.

I spelled out why this legislation is even considered. If there were another line underway, doing the same business, I assure you this legislation would never get a hearing. However, what it represents is an opportunity for additional commerce, an opportunity for additional jobs.

Mr. Simpkins stated that it was 600 jobs. My understanding is, you are talking about three crews for two ships and you have about 300 people on a ship. You are talking about 900 jobs. Well, that is not an insignificant amount, especially when the Government will spend $1 billion to make jobs that won't last beyond a year and won't have significance. Here you have jobs that will be permanent

jobs, won't cost the Government 10 cents, and won't displace anybody.

If you can refute that I would be happy to hear it because that is my understanding of it.

Mr. SIMPKINS. Mr. Chairman, the point we are making here is that every request is different, every request is unique, or they wouldn't be coming in and asking you to do this. Somewhere along the line the exception is going to be larger than the rule, and that is what frightens us, as it relates to the Jones Act. Where do you draw the line?

Mr. BIAGGI. Well, I understand that. I understand what you are saying. Would you prefer that we hadn't taken action with the *Independence* and the *Constitution,* that we have no ship out there? We didn't have any. Would you prefer we not take action on this legislation, and just leave that area barren? We don't have any ship, doing that business.

Right now we are talking about unemployment. God knows, you people know better than I or anybody on this committee about the critical unemployment condition in your industry. Now I understand that some unions will be getting the jobs, some unions will have their members employed, and others will not. We regret that, but we can't take the dog-in-a-manger attitude.

Mr. SIMPKINS. Sir, I don't know what unions are going to be on this ship. I would——

Mr. BIAGGI. Mr. Simpkins——

Mr. SIMPKINS [continuing]. I would tell you that if this company can tell you what unlicensed seamen they have employed, they have violated the law. They can't do that.

Mr. BIAGGI. Well, I am aware of that.

Mr. SIMPKINS. It is a prehire. It is against the law.

Mr. BIAGGI. I am aware of that.

Mr. SIMPKINS. Therefore, I assume the jobs are open for anybody.

Mr. BIAGGI. How can you stand there with your bare face hanging out and talk to me that way? [Laughter.]

No, but that is not an unusual problem. We have seen it before and we will probably see it again. However, at least some people are going to work, irrespective of which union is represented. You have 1,000 people going to work. I am impressed.

There is a commerce that is developing in this area. Who knows? It might well be the beginning of increased business. Other ships may come on line; American-flag vessels may come on line.

Mr. SIMPKINS. Mr. Chairman, I know you don't want to debate this issue, but there are other ways of doing this without giving harm or doing harm to the guys that have put the money in, in the *Monterey* and the "Big U" and the *Santa Rosa.* I understand there are possibly two others out there, American-flag vessels. There are other ways of doing this, and we think it would be—as I have suggested here—looking at the big picture, looking at the 50 to 55 foreign-flag ships that are permanently based in the United States.

Mr. BIAGGI. I know what you are talking about. You and I have discussed this——

Mr. SIMPKINS. Yes, sir.

Mr. BIAGGI [continuing]. And you made reference to it in your testimony about 40,000 employees. This bill doesn't prevent us from

considering that problem; we will wrestle with it later. You know that you enjoy my support in that area if we can work it out, but certainly these two vessels don't concern that situation at all.

However, you stated that we shouldn't think of the short-term picture, we should think in terms of longer range problems and their solutions. Well, you know that we are trying. We have bill on cargo preference which is underway, we have a promotional bill for new vessels that will be offered, we have a port development bill pending. We have a whole number of initiatives that are underway. The problem is getting everyone together on it.

Mr. SIMPKINS. Mr. Chairman, what I was referring to is this: First of all I would like to say, as it relates to the number of jobs, there is no law that I know that says 100 percent of these jobs will be U.S. citizens; 75 percent of the unlicensed, which is the big number on these ships, will be U.S. citizens—that is, if they were in a foreign trade. I cannot find a law that covers them in domestic, but I would assume it is no more than 75 percent, and I would assume that if there is a crack somewhere in the law, these guys will find it.

Mr. BIAGGI. If there were cracks in the law you would have found them and corrected them.

You make reference on page 3 to a statement made by President Reagan. It is a very, very laudable statement. He made it in 1980. He has been President for a couple of years. Do you think he has kept faith with that statement?

Mr. SIMPKINS. I think he has, yes.

Mr. BIAGGI. He has?

Mr. SIMPKINS. In relation to the Jones Act, yes.

Mr. BIAGGI. I am talking about the total maritime industry.

Mr. SIMPKINS. No, I am talking about the Jones Act. [Laughter.]

Mr. BIAGGI. Sure. Mr. Simpkins, let's look at the whole, broad picture. That is what you keep asking us to do, right?

Mr. SIMPKINS. Yes, sir.

Mr. BIAGGI. You talk further about the Department of Defense. We are aware of the response that the Department of Defense has given to the Cruise America Line when they asked for a waiver, but you cannot deny the facts. The *Countess* was used in the Falklands by the United Kingdom for transportation of troops.

Then you make a point—now you are going a little further—you have departed from the Jones Act and you have talked about the economic feasibility of this undertaking. You say, how could they possibly function properly if, while they were functioning under the United Kingdom with the British seafarers who were getting less money than American seafarers——

Mr. SIMPKINS. Yes.

Mr. BIAGGI [continuing]. They weren't making out, they weren't doing well? Well, all I can say is, then we should look upon Mr. Lambert as a great philanthropist who is ready to give his money away. He is hardly that, and I don't think that really should be our concern. What we learned in the previous hearing is that apparently this was a good business deal. This was a good business deal, and whether it is good or bad, Mr. Lambert will have to live with it.

Mr. SIMPKINS. I assume it is around a $5 billion a year business and it is increasing all the time, but they can't compete with the

situation that exists with these foreign-flag ships based here. They are paying their guys a dollar a day. You can't compete with that.

Mr. BIAGGI. Well, that is Mr. Lambert's problem; that is Cruise America's problem. However, you and I, working together, hopefully will be able to correct that.

Mr. SIMPKINS. Yes, sir.

Mr. BIAGGI. If we do, we will have struck a motherlode of employment for Americans.

Captain MARTIN. Mr. Chairman, if I could add something to that, the protection of the Jones Act demands a higher price on coastal cruise tickets. That will probably make up the difference in the loss or profit in the Jones Act trade. They will generate more revenue out of that same ship under the cloak of the Jones Act and cabotage laws than they will out in foreign trade, and that is why they seek it.

Mr. BIAGGI. Well, if they are raising the rates, it is the people who are paying for it. If they choose to pay for it, well, that is their business. It is the people's decision to make. They can take the foreign-flag vessels.

Captain MARTIN. Vessel appraisers attach 30 to 40 percent more to the value of a ship that has the Jones Act protection. If I had a couple of dogs out there that weren't making money and I could sell them for $100 million, and when I put that U.S. flag on the stern suddenly it is worth $140 million, that is a big incentive to flag in.

Mr. BIAGGI. What you are saying is, if we permit these vessels to come in, this legislation will be making $40 million for Mr. Lambert?

Captain MARTIN. The ship appraisers—and we could get testimony to prove it—add conservatively 30 to 40 percent to the value of the ship if it has Jones Act coastwise privileges, yes. It would be a tremendous windfall there in the escalation of the value of the vessel alone.

Mr. BIAGGI. I know it would appreciate in value, but another thought comes to mind: Representations have been made to this committee that these vessels would be used for a very specific purpose. You are suggesting——

Captain MARTIN. It is the same specific purpose that three American companies are trying to develop a credit line to build or convert ships to get into now, looking to the protection of the Jones Act which will be lost if these ships are allowed to be reflagged. I speak not for the *Monterey* and not for Masters, Mates & Pilots. I speak for the U.S. shipping industry.

Mr. BIAGGI. I am aware of that, Captain. I appreciate that.

All I can say is, from my perspective there has been a void. There has been a void, and this is the first evidence of life.

Captain MARTIN. If we continue to dampen the hopes of U.S. citizens, there will always be a void, and in that void we will create a vacuum that allows more foreign-flag ships to be flagged in.

Mr. BIAGGI. Mr. Hertel.

Mr. HERTEL. Mr. Chairman, first of all I want to commend you for having this hearing so expeditiously after Representative Fields brought up a question of whether ships are being built, and commend you especially for the statement that you made, that this

subcommittee and our full committee would be the first not only to stand for the Jones Act, which we have created and protected, but also to stand for American shipbuilding and support American shipbuilding in any possible way.

I think Mr. Simpkins, though, in page 3 of his statement has really shown us the problem from the Attorney General's ruling, where he stated that the Attorney General ruled that transportation of passengers by foreign vessels from a port in the United States through domestic and foreign waters, sometimes touching at a foreign port, and returning them to the port of departure was not in violation of this law. This ruling by the Attorney General permitted the foreign-flag intrusion into our domestic passenger trade.

At this point, Mr. Chairman, I would like to put into the record the different foreign ships that are operating under this ruling of the Attorney General.

Mr. BIAGGI. Without objection, so ordered.

[Material to be supplied follows:]

CRUISE SHIPS OPERATING FROM UNITED STATES AND CARIBBEAN PORTS

Vessels	Registry	Passenger capacity	Owner or operator
Americanis	Greek	617	Chandris, Inc.
Astor	West German	600	Astor United Cruises.
Atlantic	Panama	1,067	Home Lines.
Azure Seas	do	734	Western Steamship Lines.
Boheme	West German	500	Commodore Cruise Line.
Carla C	Italian	748	Costa Line.
Carnivale	Panama	1,100	Carnival Cruise Lines.
Constellation	Greek	392	K-Lines Regency Cruises.
Constitution	United States	800	American Hawaii Cruises.
Cunard Countess	British	800	Cunard Line.
Cunard Princess	do	800	Do.
Daphne	Greek	465	Carras Cruises.
Dolphin	Panama	565	Paquet Ulysses Cruises.
Emerald Seas	do	920	Eastern Steamship Lines.
Europa	West German	600	Hapag Lloyd.
Fairsea	Liberia	830	Sitmar Cruises.
Fairwind	do	900	Do.
Festivale	Panama	1,400	Carnival Cruise Line.
Golden Odyssey	Greek	460	Royal Cruise Line.
Island Princess	British	630	Princess Cruises.
Mardi Gras	Panama	1,100	Carnival Cruise Line.
Nieuw Amsterdam	Netherland Antilles	1,200	Holland America Cruises.
Nordic Prince	Norway	1,038	Royal Caribbean Cruise Line.
Norway	do	2,000	Norwegian Caribbean Cruise Lines.
Oceanic	Panama	1,034	Home Lines.
Oceanic Indpendence	United States	750	American Hawaii Cruises.
Oceanus	Greek	500	Epirotiki Lines.
Pacific Princess	British	630	Princess Cruises.
Queen Elizabeth 2	do	1,815	Cunard Line.
Rhapsody	Bahama	800	Paquet French Cruises.
Rotterdam	Netherlands Antilles	850	Holland America Cruises.
Royal Viking Sea	Norway	725	Royal Viking Line.
Royal Viking Sky	do	725	Do.
Royal Viking Star	Do.	725	Do.
Sagafjord	do	505	Norwegian American Cruises.
Scandinavia	Bahama	1,000	Scandinavian World Cruises.
Scandinavian Sea	do	1,000	Do.
Scandinavian Sun	do	1,000	Do.
Skyward	Norway	790	Norwegian Caribbean Cruise Lines.

CRUISE SHIPS OPERATING FROM UNITED STATES AND CARIBBEAN PORTS—Continued

Vessels	Registry	Passenger capacity	Owner or operator
Song of America	do	1,400	Royal Caribbean Cruise Line.
Song of Norway	do	1,040	Do.
Southward	do	738	Norwegian Caribbean Cruise Lines.
Starward	do	740	Do.
Stella Oceanis	Greek	300	Sun Line.
Stella Solaris	do	650	Do.
Sun Princess	British	700	Princess Cruises.
Sun Viking	Norway	728	Royal Caribbean Cruise Line.
Sunward II	do	718	Norwegian Caribbean Cruise Lines.
Tropicale	Liberia	1,200	Carnival Cruise Lines.
Veendam	Netherlands Antilles	715	Holland America Cruises.
Volendam	do	715	Do.
Veracruz	Panama	700	Bahama Cruise Line.
Victoria	do	652	Chandris, Inc.
Vistafjord	Norway	635	Norwegian American Cruises.
World Renaissance	Greek	426	Epirotiki Lines.
Total (ships 55), capacity.		45,172	

Mr. HERTEL. We have seen, and we have heard testimony before, that we have not had American passenger ships built in this country for over 25 years. So far, nothing today and nothing in the previous hearing has led us to believe that there are any shipbuilding plans to do what these two ships would accomplish.

I submit for the record an article from the Detroit News talking about this very issue, and the fact that thousands of jobs would be created, not only on the ships but the spinoff in the tourism industry in the Great Lakes States and in other parts of the country.

Mr. BIAGGI. Without objection.

[Material follows:]

[From the Detroit News, June 20, 1983]

LAKES' "LOVE BOAT" IDEA PICKS UP STEAM

CAPITAL CONNECTIONS

(By Richard A. Ryan)

WASHINGTON.—A Detroit congressman wants to bring a "Love Boat" to Michigan shores, even if it takes an act of Congress.

Rep. Dennis Hertel hopes a 900-passenger luxury liner soon will operate in the Great Lakes, bringing extra tourist dollars to Michigan.

No American cruise ship has sailed the Lakes since the mid-1960s, when the old North American and South American vessels went out of business. Although they generally operated at full capacity, those pre-World War I ships became too undependable to keep afloat.

Now a Florida-based company wants to move in by purchasing two Cunard Line ships, the Countess and the Princess. They are 536 feet long, 74 feet wide, weigh nearly 18,000 tons and can cruise at 20½ knots.

Both were built by a Danish firm, and that causes a problem. A law prohibits any ship not built in America from sailing between U.S. ports.

The only two American-flag ships now in operation travel around the Hawaiian Islands.

More ships aren't made here because building a ship in the United States costs three times as much as it costs elsewhere, and American crews are paid higher wages and benefits than foreign sailors.

So a group of congressmen, including Hertel, wants to waive the law to allow the purchase of the two luxury liners by Cruise America Line Inc.

Robert Lambert, the Florida firm's president, caught Hertel's attention when he said one would operate along the East Coast, the Gulf of Mexico—and the Great Lakes. (The other would sail along the West Coast and Alaska.)

"We intend to offer cruise packages emphasizing our American heritage and featuring visits to our restored inner-city historical and recreational areas," Lambert told a congressional panel, naming Detroit's Renaissance Center as one prospective stop.

Lambert also said the ship's size would let it visit other small ports, such as Michigan's Mackinac Island, that traditionally have been off-limits to cruise ships.

"Tourism is the most expansive industry we have in the state right now," said Hertel, a Democrat. "There is no limit to the number of people we might be able to attract."

Reconditioning and maintaining the ships and hiring their estimated 1,000 crew members would also mean jobs for Americans, the lawmakers say.

And in the event of a national emergency, both ships could easily be converted into troop carriers and hospital ships. The Countess, in fact, was used by the British to bring soldiers to the Falkland Islands last year.

Primarily, though, Hertel wants the ships so they can cruise the Great Lakes. If the law isn't waived, he says, "American tourists are going to have to take their Love Boat cruise somewhere else."

Mr. HERTEL. We are talking about jobs here. We are talking about an unemployment rate in your industry of over 50 percent, and I submit that the different ships that are being talked about in any possible terms would not be able to come into the Great Lakes through the St. Lawrence or use the locks.

If there was such a ship being built, I pledge to you, I guarantee to you, I would buy stock in it if we had an American ship being built to use the Great Lakes, because we haven't had passenger ships in the Great Lakes of any consequence since 1961. The two ships that did operate up until that time were built before the First World War. They just couldn't meet the standards any longer, but those ships were filled almost to 100 percent capacity until they were taken off the Great Lakes.

If we can show that it is profitable, by this very tightly worded bill, to again have these coastal passenger ships, then I think we have the potential of American investors realizing they can make a profit, there is a market out there for tourism, for conventions and so forth. I think that American shipbuilders then might, by this demonstration, invest and build. I think this committee would be very supportive of that in any way that we could.

Let's look at the bill specifically, because it is directly on point to some of the discussion we have heard here today. It talks about the privilege of engaging in the coastwise trade. Section 2: "For-hire carriage in the coastwise trade under this act is limited to passengers, their accompanying baggage and personal property." It is very strictly limited to two ships for this single purpose.

The committee and the staff have looked throughout the Nation. We know of no ships that are being planned in this class, with this shallow draft, that in particular could be used in the Great Lakes. I wonder if you gentlemen have anything to add to that. Are there ships like that being built in America?

Mr. SIMPKINS. I understand that you will hear from someone later that has some plans for building ships.

Mr. HERTEL. That ship doesn't meet the standards that I am talking about right now.

Mr. SIMPKINS. Sir, did you say one of these vessels or both of them could get into the lakes?

Mr. HERTEL. Both could?

Mr. SIMPKINS. They could? We had heard that there was a possibility they might get in but they cannot get out.

Mr. HERTEL. Yes, they can get in and out.

Mr. SIMPKINS. Maybe that would be a good way to keep them there.

Mr. HERTEL. No, the plans are that one would sail in the summer in the Great Lakes, and so it would have to get back out to come back this way to be used——

Mr. SIMPKINS. Sir, may I——

Mr. BIAGGI. We are not through with you, Mr. Simpkins. We are going to have a recess to vote, and when we come back you can resume the questioning.

Mr. HERTEL. Mr. Chairman, we will have Mr. Simpkins' reply, then, at that time, first.

Mr. BIAGGI. OK.

[Recess taken.]

Mr. BIAGGI. The meeting is called to order.

When Mr. Hertel returns, we will resume his questioning. In the interim, Mr. Fields.

Mr. FIELDS. Thank you, Mr. Chairman.

Mr. Chairman, I have a statement for the record and I want to ask unanimous consent that it be placed in the record at this point.

Mr. BIAGGI. Without objection, so ordered.

[Material follows:]

STATEMENT OF REPRESENTATIVE JACK FIELDS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, I appreciate your decision to schedule this second day of hearings on H.R. 2883, because on the first day of hearings last week several questions were raised which went unanswered. They are essential to a proper consideration of the bill before us.

Mr. Chairman, there are major questions relating to the two basic propositions in H.R. 2883:

First, it is contended that the passenger ship building industry in the United States is dead and cannot be revived and cannot be harmed. Therefore, the argument runs, the best way to create passenger ship jobs in the Jones Act trade is to authorize American flagging of foreign built vessels.

Second, we are told that the *Cunard Princess* and the *Cunard Countess* will be sold to an American buyer, Cruise America Lines, Inc., and will be operational within one year of passage of this bill.

Clouds of doubt and uncertainty linger over each of these propositions after last week's hearings.

With regard to U.S. passenger ship construction, I believe that industry already has been revived. Evidence to that effect was offered on June 15 and more will be presented today. The fact is that there are several yards interested in viable construction projects—in my state and in others. There is revival because new tax policies—deductions for conventions aboard U.S. Jones Act vessels and accelerated depreciation for ships—have stimulated capital investment in ship building.

These provisions are new. We should let them work. More significantly, if the passenger ship building industry is recovering, we would be making a serious mistake to promulgate legislation that would harm it. Thus, I believe it is imperative that we explore the question whether H.R. 2883 will retard U.S. passenger shipbuilding. For example, I believe it might ultimately mean higher borrowing costs and greater borrowing needs for American built vessels which would have to compete with foreign built vessels whose borrowing and overhead will be less.

With regard to the second proposition I mentioned, there are two important facts.

First, the hostile takeover attempt by Britain's Trafalgar House of P&O, Britain's largest shipping company, has been referred to the U.K. Monopolies and Mergers Commission. One item of the Commission's investigation is the proposed sale of the *Cunard Countess* and *Princess* to an American buyer. I am advised the Monopolies Commission could prevent that sale.

Moreover, I am advised that Trafalgar House denies it has entered into an agreement to sell the vessels. This may be at variance with testimony presented on the 15th and is certainly an important fact to be determined. Accordingly, Mr. Chairman, I believe it would be appropriate and essential for the Subcommittee to make a formal inquiry to the Monopolies Commission regarding its fact finding on this issue. I think we should also seek written clarification from Trafalgar House. And, within the limits of propriety, I think the Subcommittee should require further evidence on this question from H.R. 2883's primary advocate, Cruise America Line, Inc. I am curious, and concerned, whether the seller of these ships—Trafalgar—is saying one thing in London, while the buyer on the American side is saying something else in Washington. I think we have to reach beyond the self-serving statements of those interested in this bill to determine all of the facts related to this legislation.

Thank you.

Mr. FIELDS. Captain Martin and Mr. Simpkins, I have a question really for both of you. It is my understanding that besides your unions, there are several other unions that are opposed to this piece of legislation. I would like for you to tell me if there are other unions than I am about to enumerate, or if perhaps my knowledge is incorrect.

It is my understanding that the National Maritime Union is opposed to this bill——

Mr. SIMPKINS. Correct.

Mr. FIELDS [continuing]. That the Masters, Mates & Pilots are opposed to this bill; that the International Longshoremen's Association is opposed to this bill——

Mr. SIMPKINS. Correct.

Mr. FIELDS [continuing]. That the National Marine Engineers Beneficial Association, the group headed by Jesse Calhoun, is opposed to this bill.

Mr. SIMPKINS. Correct.

Mr. FIELDS. Is my understanding correct, as far as you know?

Captain MARTIN. That is correct.

Mr. SIMPKINS. Yes, sir.

Mr. FIELDS. Are there other unions that you are aware of that are opposed to this piece of legislation?

Mr. SIMPKINS. I would assume the Shipyard Workers, the Boilermakers, the Machinists would be opposed; the ARA, the American Radio Association that represents the radio operators, are opposed.

Mr. FIELDS. Mr. Chairman, let me ask for a clarification at this point. Mr. Hertel has come in. Would you want me to continue, or would you want me to stop at this point and go back to Mr. Hertel?

Mr. BIAGGI. Yes, I appreciate that. I would like to have Mr. Hertel resume his questioning.

Mr. FIELDS. Thank you, Mr. Chairman.

Mr. HERTEL. Thank you, Mr. Chairman.

We were at a point where Mr. Simpkins was going to respond, when we went for the vote.

Mr. SIMPKINS. Yes, sir, Mr. Hertel.

I spoke to our people in Detroit this morning, specifically on the issue of passenger ships on the Great Lakes. They tell me that we have a number of passenger ships on the lakes that are laid up because they can't get any business. Now some may say they are car

ferries but they do carry 500 passengers and they have 70 berths. With a little bit of work you could get them into some other business but nevertheless they are being laid up.

Furthermore——

Mr. HERTEL. They have had that opportunity now for 22 years and they haven't done that. They have been car ferries. They only go across the lakes. They are not cruise ships. They are not fixed up to be cruise ships and they don't have the capacity of these two ships, so you are talking about more than apples and oranges here and the people back there know it, if they understand what these two ships are.

Mr. SIMPKINS. Well, the C. & O. and the Grand Trunk Line, they were abandoning them because, as they tell me, because they cannot get business for them.

Another thing along this same line that I would suggest in terms of these two vessels and business. Maybe they can do a better job and maybe they are better ships for the trade than these ships that are currently there. Maybe you should amend this to have them there 3 or 4 months a year. I am sure you would get a lot of support for that.

Mr. HERTEL. Pardon? Amend what?

Mr. SIMPKINS. Amend this current bill to require that they operate in the lakes 3 or 4 months a year.

Mr. HERTEL. Well, there are a lot of different ways we could discuss amending, as to how many Americans, what percentage of Americans have to be hired, but your international union and others might object to that. There are a number of things we could amend that way, but we are not going to take over this company. This committee isn't in the business of operating companies. I don't see how we could possibly do that, and I think you realize why. We could divide up how many days they would be in each port, especially when these ships are going to be moving around the country.

Let me tell you from Detroit's viewpoint that we are very excited about them being there so that we can compete for convention business. We have the best convention facilities in the world and the only reason, as I indicated in the last hearing, that we did not receive the Democratic Convention—aside from some political influence in California—was the fact that we didn't have enough room for 2,000 more people. Each of these ships, of course, would hold 900 people. Therefore, that is another reason for the metropolitan area's economy that we are very, very interested in having these ships operate.

As I said before, if there are American ships—whether in the Great Lakes today—being built in this country, ships that are being planned to be converted—not talked about, but where there are definite plans to convert ships to this kind of trade, with this kind of capacity, with this kind of depth—I am sure the committee as well as myself would be very interested in supporting those ventures. However, all we heard in the last hearing and all we are hearing this morning is a lot of pipe-smoke talk about "this would be done" or "this could be done" and "this is being done," without one single example of any progress or any finite plans.

I say that as someone, as you know, that is very interested in American jobs, and an increase especially in jobs in your area.

Mr. SIMPKINS. Sir, I would think that Mr. Hadley might question what you have said, because I believe he has put a number of dollars in his venture on the SS *United States*. I know the gentleman that owns the *Santa Rosa*, who was here last week, would perhaps question it also. Maybe Mr. Martin would because, as he said, they have invested 6 million dollars' worth of the union money in an effort to get a ship into operation. I understand that there is someone to testify a little later that has plans to build a couple of ships.

Mr. HERTEL. In all these instances, though, specifically we are not talking about the Great Lakes, and in most cases not even talking about direct competition for the other coastal waters these ships that are in this bill, these two limited ships, would operate in or have plans to operate in, with the size that they are and the low berth that they have.

Mr. SIMPKINS. Of course, I don't know. I don't know every ship that is operating and where it is operating, but the ones I was referring to on the lakes where you said no one has built in the past 20 years, it would appear to me those vessels, the ones that most people call car ferries —I understand they are very, very nice—they have no capital cost. I would assume at this point that is about as cheap an operation as you could possibly have. If they cannot get passengers at the low rates that they must be operating at, I question if anyone could up there.

Mr. HERTEL. Well, as a member of the State legislature for 6 years, I was involved with the car ferry problem. Actually we had to subsidize those car ferries to a great extent, and I was involved in that. Therefore, you are talking about, again, something totally different. They are totally different ships, for a different purpose, in a different business.

I really can understand both you gentlemen working so hard to protect the Jones Act. I think all of us feel the same about the Jones Act. That is why the chairman is being careful in holding two hearings when there was just the hint of competition in this particular, limited field.

I know the members feel strongly about that. That is why this bill is so tightly written, with the exemption to be not for ships in coastal waters, not for several ships, not for different companies, but naming two particular ships only. Therefore, I think to that extent we are in great agreement with what you are trying to do. I guess we just look at this particular situation differently.

It is my belief, as I said before, that if we can prove that ships can operate profitably in these coastal water areas—again, American-flag ships operating profitably—that as we continue to work to close this exemption that the Attorney General has ruled, that we are going to see American shipbuilders and investors invest in a profitable venture that has been demonstrated by these two ships.

This committee will have full control. We don't have to allow any more exemptions. If we see the shipbuilding industry start up in the coastal water areas, we can just say there will be no more exemptions and do as much as we can to encourage those new ships. Therefore, I think we are looking at the same result but trying to get there in two different ways.

It is my belief that if we don't take some action, if we don't demonstrate that it is profitable, that we will have another 25 years of

not having American ships built for this very purpose. That will only harm our economy and, especially, harm the livelihood of many of your members and other people in the maritime trades.

Mr. BIAGGI. Will the gentleman yield?

On the point you raised, clearly the problem with building ships in America is cost. We understand that. For that reason there has been a paucity of ships built in this country. The administration has supported the elimination of subsidies which have encouraged the construction of some vessels. We are seeking alternatives to construction subsidies.

My staff is working on one alternative that deals with creative financing. If we are able to put that package together—and so far the response from some parts of the industry has been encouraging—and have it enacted into law, it would impact very favorably on the construction of vessels. It would certainly cost considerably less.

Therefore, I think it is almost necessary for us to seek alternatives that could put our American vessels in a more competitive position. Currently, American-flag vessels simply are not in a position to compete. That is unfortunate. Both of you know that. We are trying to develop an alternative, as I said, that hopefully will enjoy your support.

Mr. SIMPKINS. Yes. Mr. Chairman, one of the points I had attempted to make is that, rather than do this piecemeal, let's look at the entire picture. Let's look at the entire passenger ship fleet. Let's look at the Jones Act. Let's see why we are in the condition we are in, rather than, you know, one or two exceptions at a time.

Mr. BIAGGI. Well, if you're an old gambler, you know, not too many of us like to make "if" money bets. We have been around a long time.

Yes, I agree that that would be the preferable way to go. I don't think that these two vessels or the waiver granted by this legislation would inflict that kind of devastation on the total picture. I think it would enhance it.

However, if we are able to come up with a program that deals with the total industry on a comprehensive basis, sure, it would be the preferred way to go and hopefully the more productive way. You and I will be lording over the fact that it happened in our time, and these two vessels won't be given a second thought. They will be a part of yesterday, and won't make a scintilla of difference on the future of the industry.

Captain MARTIN. Mr. Chairman, if I could direct a question to Congressman Hertel, please, you say we will limit it to these two ships. What happens to the next U.S. citizen 2 years from now that says, "Now I want to do the same thing. I want the ability to buy ships foreign and reflag exactly in the same fashion that Mr. Lambert has." How do you deny him that right?

Mr. BIAGGI. Captain——

Mr. HERTEL. Well, I think that is a good question. I think that is really the crux of your testimony in talking about nibbling away at the Jones Act, and I think that is a major point to discuss.

Mr. BIAGGI. Captain, ordinarily we don't permit witnesses to ask questions.

Mr. HERTEL. I don't mind, Mr. Chairman.

Mr. BIAGGI. I know, but let me respond to it. I think I responded to it before.

You come up with a unique idea that creates new business and new jobs, and the committee will look at it. It is as simple as that.

Captain MARTIN. Well, that is what I was afraid you were going to say. It will be——

Mr. BIAGGI. Yes; but unique ideas don't develop overnight. We have Hawaii. That is one thing. This Cruise America is unique. No other American firm is doing that kind of business.

Captain MARTIN. Well, now we have it from the Hawaiian Islands, expanded to the coastal waters of the United States, to the inner harbor in Detroit. Let's try for Lake Tahoe next.

Mr. BIAGGI. Well, let me tell you something: I will look for one of those vessels myself for Lake Tahoe.

Mr. HERTEL. Mr. Chairman, I have no problem with the captain asking questions. I said I think it is a good question, and I agree with the chairman: Whatever members are here at that time when another proposal comes forward would have to consider it, and we all know that.

However, this committee has rejected similar ideas before. Some have not even gotten a hearing, so there is no assurance certainly that if somebody wanted to do the very same thing, or a modification of it or a completely new idea, that they would get approval or wouldn't get approval. That is not the weakness of the Jones Act; that is the strength of the Jones Act, and the fact that an exemption like this must be passed by both Houses of the Congress after going through subcommittee and full committee hearings and markups.

Therefore, I think that the law is tight. I think it is our responsibility to make sure that these exemptions have a valid reason and do not impinge upon American shipbuilding. I guess that is why we are having this second hearing here today. However, I tell you, Captain, I think we are mindful of that responsiblity, and I know you will be vigilant in looking at these types of exemptions in the future.

Captain MARTIN. Thank you.

Mr. HERTEL. Thank you, Mr. Chairman.

Mr. BIAGGI. Mr. Fields.

Mr. FIELDS. When I stopped asking questions, I had just asked the question concerning some of our maritime unions. I was saying to you, Mr. Simpkins, and to you, Captain Martin, that it was my understanding that the National Maritime Union, the Masters, Mates & Pilots, the International Longshoremen's Association, the National Marine Engineers Beneficial Associatiln—the group headed by Mr. Calhoun—were opposed to this particular piece of legislation. Mr. Simpkins, I think you had said that there were several other unions also who were opposed.

Mr. SIMPKINS. Yes; I do believe the Boilermakers—this is an assumption I would make and they could speak for themselves—I would assume that the Shipbuilders, the Boilermakers, I know that the American Radio Association is opposed, I would assume the Machinists would be opposed—people that are involved in building ships. I assume they would all be opposed.

Mr. FIELDS. The reason I asked you that question, on June 15, Mr. Lambert, on page 6 of his testimony, said that: "This legislation has support from all sectors of the maritime industry, including major maritime unions." While he may have the support of some unions, it seems that the preponderance of the major maritime unions are opposed to this legislation. Is that correct?

Mr. SIMPKINS. That is correct.

Captain MARTIN. That is a valid assumption, yes.

Mr. FIELDS. It is my understanding, also, that the Shipbuilders' Council of America, Bethlehem Steel Corp., and the American Waterways Operators, are also opposed to this piece of legislation.

Mr. SIMPKINS. I understand that, yes. It is my understanding. Yes, sir.

Mr. FIELDS. In my opening statement that I entered in the record, I made a point in the statement about the hostile takeover attempt by Britain's Trafalgar House of P&O, which is Britain's largest shipping company, and that that takeover has been referred to the United Kingdom's Monopolies and Mergers Commission. It is my understanding that one item of the commission's investigation is the proposed sale of the *Cunard Countess* and *Princess* to an American buyer. I am further advised that the Monopolies Commission could prevent that sale. Do you have any knowledge along that line?

Mr. SIMPKINS. That is my understanding, and I have read that from newspaper accounts as well as talking to some people in London. They have indicated to me that it is questionable that these two vessels will be sold.

Mr. FIELDS. Therefore, really on this particular piece of legislation right now we are, perhaps, dealing in speculation, in something that may never materialize.

Mr. SIMPKINS. Yes, sir.

Mr. FIELDS. I am further advised that Trafalgar House denies that it has entered into an agreement to sell the vessels, and that this may be at variance with testimony that was presented on the 15th. I think this is an important fact to be determined. Is that your understanding?

Captain MARTIN. It certainly is.

Mr. SIMPKINS. Yes, sir.

Mr. FIELDS. Mr. Chairman, if I could ask of you, I feel it is essential for this subcommittee to make a formal inquiry to the Monopolies Commission in England regarding its factfinding on this issue. I would certainly take the Chair's suggestion and guidance on how I might make that request to you, whether it would be a unanimous-consent request or if I should proceed in some other——

Mr. BIAGGI. We are in the process of finding facts. I don't know what——

Mr. FIELDS. Are you, Mr. Chairman?

Mr. BIAGGI. That is the purpose of the hearing. That is why we are having this second hearing, and——

Mr. FIELDS. If the chairman would yield——

Mr. BIAGGI. Yes.

Mr. FIELDS [continuing]. Has there been a formal inquiry made to the Monopolies Commission in England?

Mr. BIAGGI. No. No, we have not.

Mr. FIELDS. Would it be appropriate for me to ask for unanimous consent, or just to ask the Chair directly if this subcommittee could make a formal inquiry to the Monopolies Commission in England, and further to seek a written clarification from Trafalgar House and then, certainly within the limits of propriety, whether we should ask further evidence and clarification from Cruise America?

Mr. BIAGGI. To what end?

Mr. FIELDS. Well, to the end of seeing if, No. 1, the sale is going to go through; and then, second, to clarify and ask the question of the Monopolies Commission as to what is being investigated at this particular time in regard to this particular sale.

Mr. Chairman, the reason I asked that question is, one of the——

Mr. BIAGGI. Clearly the gentleman has something in mind. Could he just spell it out so we can all hear it and be in better position to understand it?

Mr. FIELDS. OK. I guess the best thing would be to put it in unanimous-consent form, Mr. Chairman, that this subcommittee make a written inquiry to the United Kingdom's Monopolies and Mergers Commission asking them if one item of their investigation is the proposed sale of the *Cunard Countess* and the *Princess,* and if there has been some type of decision made in that particular regard, or where are they at this particular point in regard to their investigation.

Further, I think that it would be appropriate for us to make a written inquiry to Trafalgar House to see if there has been an agreement to sell the vessels to the company in question. I would ask unanimous consent that this subcommittee take those steps.

Mr. BIAGGI. I have no quarrel with the request. I have no quarrel at all. It is not necessary for unanimous consent. We will do it.

Mr. FIELDS. OK. Thank you, Mr. Chairman.

Mr. DAVIS. Mr. Chairman——

Mr. BIAGGI. Mr. Davis.

Mr. DAVIS [continuing]. Reserving the right to object, what effect would that have—and I haven't made up my mind which way to go on this particular legislation—is that going to have the effect of holding up this? If Congress decides to pass this legislation, and if we comply with the Congressman's from Texas request, is that going to hold up this sale to the point where it is never going to be consummated? Could it hold it up for months, or for years, or something? I think that that is important, to know that.

Mr. FIELDS. Mr. Chairman, could I respond to that?

Mr. BIAGGI. Well, has the gentleman yielded?

Mr. FIELDS. Would the gentleman yield?

Mr. DAVIS. Sure.

Mr. FIELDS. I think all we are doing is asking for information which is important for this subcommittee to make a determination. I think one point is a question as to whether this sale ever will take place, No. 1, because of some action the Monopolies Commission in England might take. As I understand, I am advised that they could prevent the sale.

Second, there is a disagreement among some people as to whether Trafalgar House has ever entered into an agreement to sell the vessels. Therefore, I will reiterate what I said just a moment ago. Perhaps we are doing nothing more than dealing in speculation

today in this particular committee hearing. I am just asking for information which I think is essential for this subcommittee, the full committee, and the House to make an appropriate decision.

Mr. DAVIS. Well, I am not that familiar with it but it is my understanding that the company involved—what is it, American Cruise? Has an option on the two ships pending approval, that with their approval, whether it is by congressional action or whatever, that they would be operated in these waters. Otherwise the option would not be completed. Is that correct?

Mr. FIELDS. If the gentleman would yield, I would just state that if that information comes from Mr. Lambert, I for one might want to question it because Mr. Lambert said on page 6 that he had the support of the maritime unions, and yet we are being told today that the preponderance of the maritime unions in this country don't support this particular piece of legislation.

Mr. DAVIS. Well, I don't think that that would be a reason to question, and I don't even know the gentleman or the company. However, I don't think saying that the one particular union or whatever supports legislation would necessarily mean that the gentleman doesn't know what he is talking about in the other instance.

I just don't want us to get ourselves in a position where we are going to hold this legislation up, and as I said, before, I am not sure whether I am in favor of it or against it. Are we going to get ourselves in a position where we are going to be asking for some kind of formal request that is going to take a long time to answer, and we are never going to be able to act on this legislation?

Mr. BIAGGI. Will the gentleman yield?

Mr. DAVIS. Yes.

Mr. BIAGGI. First, let's deal with the union proposition. The witness has testified that most of the unions oppose the legislation. As a matter of fact and record, they have all been invited to testify, and we have only heard from the Seafarers, Mr. Drozak, Mr. Simpkins, and Captain Martin. We have a division between MEBA 1 and MEBA 2. We haven't heard in any fashion from the others. Therefore, when this testimony is given that all the labor unions oppose it, we don't know that for a fact.

No. 2, we have no quarrel with the gentleman's request for further information, but that will be done in expeditious manner. We will get a response in an expeditious manner, or we will just ignore the whole matter. I can see a form of dilatory development here that the Chair takes umbrage at, not with the gentleman from Texas but there have been opportunities for people to testify.

When you say that Mr. Lambert testified that he had support, he did have support, and I don't want to be in a position of defending Mr. Lambert. I like to talk about realities. When he made his statement, which was last week, he did have major support at that time, and all of the unions to this moment have not in fact registered their opposition. Therefore, that is more accurate.

However, the questions about the purchase and Trafalgar House were bona fide when they were raised. We addressed it. There seem to be some internal machinations within Trafalgar House.

However, we will make inquiry quickly. If necessary, we will send staff over—I said staff, not members—we will send staff over

and have them come back in a few days. Hopefully, we will get cooperation from both these entities. If we don't, we will proceed, because in the end it does not affect the policy of this committee. It may make the legislation moot if the sale isn't possible or won't happen, but the policy is determined by this committee.

Mr. DAVIS. Thank you.

Mr. FIELDS. Mr. Chairman, do I still have the time.

Mr. BIAGGI. This is a factfinding hearing; there are no limitations, almost no limitations.

Mr. FIELDS. Mr. Chairman, let me just say very quickly, I appreciate the comments of the chairman. My purpose is not to be dilatory, not to delay, but I do think there is some information that we do need and I appreciate the chairman honoring that request.

Captain Martin and Mr. Simpkins, it is my understanding through a letter that we received from American Flagships, dated June 22, 1983, that they have filed a title XI application with the Maritime Administration of two new domestic-built passenger vessels. They are to be built as twin-screw passenger vessels with a displacement at full load draft in excess of 40,000 long tons.

It is my understanding these vessels are to be operated by American Flagships as passenger ships with cruise itineraries on the east and west coasts of North America, with northern ports of call in the summer months and southern ports of call in the winter. Both of those ships will require approximately 6 million direct labor man-hours to construct and will provide year-round employment for 1,350 crewmembers.

What effect does this have on your testimony today? Does it enhance it? Does it change it?

Captain MARTIN. I mentioned American Flagships, in my testimony on page 2, that they had applied for title XI. When I hear statements out of the committee that no one has come forward to enter the cruise market, I question their research, because I found out about American Flagships by reading the newspaper.

I read an article where they are going to have two dedicated decks of hospital facilities which will be locked during the cruise trade. The U.S. Navy is going to take these ships for a limited period each year for training exercises, utilizing these dedicated, locked decks where the hospital facilities are constructed. There has been a lot of thought, a lot of money, a lot of research, and the program is moving ahead.

Therefore, I really ask if this committee has investigated that there are very serious Americans who want to enter this trade and put their money into it, because this is evidence it is there: the title XI application, the design, the whole thing. It is a very active project.

Contessa Cruise Line is another one. They are in the design stage. They have not applied for title XI but they are going ahead with the design, they are talking to shipyards, and they also will apply for title XI. They will build a number of ships.

One of the key ingredients to all these buildings is the financing, and to keep from repeating myself, this will have a very chilling effect on arranging their financing to move these projects forward. We know for a fact, because the financing at one time for the *Monterey* fell apart, and this was brought out in questioning in the

Senate Commerce Subcommittee on Merchant Marine. Senator Inouye asked Mr. Othmar Gruniger if allowing the *Constitution* to enter the Jones Act trade would scrap his financing package, and he said yes, and it did. He had to go back to the drawing board. He has been working on financing now for another 18 months since that one was abandoned. It does have the death knell on financing, if the rumor comes into the field that another ship is going to enter the passenger trade. It just kills the financing.

Mr. FIELDS. You mentioned the Contessa. One last question for you as a panel: Contessa is going to make an allegation later today—I assume they will—that if their ships are built that there would be 6,000 tons per ship of U.S. steel in that ship; that it would require 2,000 American workers per ship. Do you think those figures are accurate?

Captain MARTIN. They sound very close to being true. The 6,000 tons of steel depends on how great a ship you build, but it is just the displacement of the ship is the steel in it; you build a bigger ship, you use more steel. It is that simple.

Mr. BIAGGI. Would the gentleman yield?

Mr. FIELDS. Mr. Chairman, thank you very much.

Mr. BIAGGI. I would like to get back to American Flagships and their title XI application. Our initial reading on it is that it is not economically feasible, and the likelihood of that application being approved, unless there are some dramatic revisions, is remote.

Mr. FIELDS. Thank you, Mr. Chairman.

Mr. BIAGGI. Mr. Davis.

Mr. DAVIS. Mr. Chairman, are you going to bring the other panel on right away——

Mr. BIAGGI. Yes.

Mr. DAVIS [continuing]. Or are we going through other questions? I will pass because I would kind of like to hear them.

Mr. BIAGGI. Mr. Hubbard.

Mr. HUBBARD. Thank you, Mr. Chairman. I won't take long. Much has already been covered. I did have an opening statement, and I will just read a part of it and ask unanimous consent that the entirety of it be submitted for the record in its entirety.

Mr. BIAGGI. Without objection, so ordered.

[Material follows:]

STATEMENT OF HON. CARROLL HUBBARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. Chairman, I want to endorse the thrust of Mr. Fields' statement. I have an open mind on this bill, but I think it is very important to explore fully the issues he has raised.

I am particularly concerned about the effect this bill might have on the passenger shipbuilding industry. Reviving that industry has been an important objective of this subcommittee under your leadership, Mr. Chairman. Revitalizing the entire fleet—and not just one company—should be our main interest.

I also think that the committee should use its investigative powers to discover, as best it can, the facts underlying the proposed sale of these two foreign vessels. I would be reluctant to risk setting an unwelcome precedent for the benefit of these two ships, if there is a likelihood that their sale will not occur.

Finally, I would ask, Mr. Chairman, whether we will be addressing this question of foreign ships coming into Jones Act passenger service on a case by case basis, as we are doing here, or whether we will be holding broader hearings to consider letting all potential operators have a chance at such a lucrative opportunity? Thank you.

Mr. HUBBARD. I am particularly concerned about the effect this bill might have on the U.S. passenger shipbuilding industry. Reviving that industry has been an important objective of this subcommittee under your good leadership, Mr. Chairman. Revitalizing the entire fleet, and not just one company, of course should be our main interest.

I think the subcommittee should determine as best we can the facts underlying the proposed sale of these two foreign vessels. I would be reluctant to risk setting precedent for the benefit of these two ships if there is a likelihood that their sale will not even occur.

These questions, some of which I think I know the answers to, but I ask them for emphasis. It seems to me that a fundamental issue here is the prospect of creating jobs. Of course, that is a major issue before Congress. The President and the Members of Congress all talk about creating more jobs. We have passed a huge, billion dollar jobs bill in this Congress.

Is it your belief, and I ask you both, that the Congress can create more jobs by continuing to encourage American passenger ship building rather than admitting foreign vessels into coastwise trade?

Captain MARTIN. Yes, that is a very true statement.

Mr. SIMPKINS. Yes.

Mr. HUBBARD. Can you cite any additional evidence for that particular proposition?

Mr. SIMPKINS. The ones that were mentioned. The fellow that owns the *Rosa* was here. I believe he said that he would like to get into operation; has been, I guess, laying at the hook several years. That will take some work. The SS *United States* is another one, the *Monterey,* and these applications that we were talking about.

Captain MARTIN. American Flagships and the Contessa.

Mr. HUBBARD. You are both advocating, of course, further initiatives for the American passenger ship industry. Can you specifically and briefly tell us as Members of Congress further initiatives that we might take to continue to revive the American passenger ship industry?

Mr. SIMPKINS. Yes, sir. I do believe we can, and I have talked to the chairman several times. As a matter of fact, I had just recently attempted to get an amendment to the immigration bill, but I am told it is not possible to do so; that the best we could do there would be to confine the aliens to the ships, and we are not interested in doing that.

What we would like to do is to get a good bit of those 40,000-plus jobs for American citizens, by amending this Passenger Ship Act of 1886 in some way to where we would have a voyage beginning in the United States and ending in the United States or in a nearby foreign port, and if a percent of its business was United States then they would either have to employ United States or they would have to have the American flag. Now I think that is the major issue, rather than an exception here and an exception there.

Captain MARTIN. Congressman Hubbard, if I may, if one looks back at the death of the American-flag passenger ship and the attempt at rebirth, and you look at history, we built passenger ships by and large in the forties and fifties as a method of transportation. Then the jet airliner came into being. No one is going to sit in

a cabin on a ship at 19 knots crossing the North Atlantic or the Pacific Ocean when they can get in a 747 and do it in 5 hours.

Therefore, as we abandoned our passenger ship trade with ships that were constructed as a method of transportation—long periods endured by the passengers getting from point A to point B—other countries saw the recreational aspects of the cruise ship, doubled, tripled the size of the accommodations on it, and made them floating recreational parlors. Just allow Americans the chance and the breathing room and the protections of the Jones Act to get in the same trade with the same rule book. Don't hamstring them by allowing foreign-flag ships to come in, or we will never see it happen. We will never see it happen in this country.

I believe the American steamship industry has the ability to do it on their own, without subsidies, with or without title XI guarantees. They look toward the protection of the Jones Act to do it, and they will do it, but the more foreign-flag ships that are flagged in, the more it is just going to scrap any plans that are afloat.

Mr. HUBBARD. Thank you both. Just one last question: Do you favor a blanket exception for foreign-built vessels to enter the coastwise trade, as opposed to this particular proposed exception.

Captain MARTIN. You first, and then I will speak.

Mr. SIMPKINS. You may not necessarily agree with what I am going to say.

As it relates to passenger ships, it would seem to me that if we amended this or opened this up, bring all these ships in. Bring all these 55 ships into the American trade. Why just two?

Mr. HUBBARD. Therefore, you do favor a blanket exception?

Mr. SIMPKINS. For passenger ships——

Mr. HUBBARD. For passenger ships.

Mr. SIMPKINS [continuing]. If this is going forward. I would prefer it be forgotten. I think there is another approach.

Mr. HUBBARD. Captain Martin.

Captain MARTIN. We favor maintaining the sanctity of the Jones Act, but I would not like to take a position that we will let two in and deny other American citizens their right to do the same thing. If you let two in, any citizen should have the right to bring 10, 20, 30 in, and we just don't want the door opened.

Mr. BIAGGI. If the gentleman would yield. Every citizen has the right to petition Congress for that privilege. That is all the law provides. It doesn't mean that every citizen is going to be given the right. It would be within the contemplation of Congress as to whether or not their proposal is worth consideration.

Captain MARTIN. Therefore, we are talking about a blanket exemption, and we do not favor it.

Mr. BIAGGI. No, we are not talking about blanket exemptions. We are not talking about blanket exemptions at all. The gentleman, Mr. Simpkins, makes reference to bringing the 55 cruise vessels in. You are talking about a different trade entirely. They are oceangoing and they touch at foreign ports. We are not talking about that; we are talking about just touching on American ports. It is a little different, a little different. You seem to be in a dilemma, whether it is——

Mr. SIMPKINS. We have a ship now running from New York to Miami.

Mr. BIAGGI. Pardon me?

Mr. SIMPKINS. We have an operation now that is carrying automobiles from New York to Miami, a foreign-flag ship.

Mr. BIAGGI. Let's not talk about apples and oranges, Mr. Simpkins. You know better.

Mr. SIMPKINS. It is a foreign-flag ship.

Captain MARTIN. It is a breach of the Jones Act in coastwise trade.

Mr. BIAGGI. However—go ahead.

Mr. SIMPKINS. This one vessel is now running contrary to a true reading of the law, British Vancouver to the Alaskan trade.

Mr. BIAGGI. Have you initiated litigation?

Mr. SIMPKINS. We are thinking about it. We are thinking about a suit.

Mr. BIAGGI. You are thinking about it?

Mr. SIMPKINS. Yes, sir.

Mr. BIAGGI. I mean, if it is so forthright a violation, why, you should be underway.

Mr. SIMPKINS. It is a violation. Congress said they couldn't do it, but they are doing it. Customs said they could; Congress said they couldn't.

Mr. BIAGGI. Well, that is why they have courts. We have the same difficulty here with agencies. Congress says one thing and the agencies say a different thing.

In any event, I thank the gentleman for yielding. Mr. Hubbard?

Mr. HUBBARD. I didn't yield, Mr. Chairman. [Laughter.]

Mr. BIAGGI. Oh, excuse me. I thought you had. I am sorry.

Mr. HUBBARD. Just kidding. I am finished. Thank you very much, Mr. Chairman.

Mr. BIAGGI. Thank you.

No further questions?

[No response.]

Mr. BIAGGI. Gentlemen, thank you for a very interesting morning.

Mr. Dudley R. Briggs, president, Contessa Cruise Line, Inc., Houston, Tex.

STATEMENT OF DUDLEY R. BRIGGS, PRESIDENT, CONTESSA CRUISE LINE, INC., ACCOMPANIED BY J. BARRY SNYDER, PRESIDENT, BULKFLEET MARINE CORP.

Mr. BRIGGS. Good morning, Mr. Chairman.

Mr. BIAGGI. Do you have a statement?

Mr. BRIGGS. Yes, sir. I am Dudley R. Briggs, president of Contessa Cruise Line, Inc., of Houston, Tex. My purpose in being here is rather obvious, that I am opposed to H.R. 2883.

Contessa Cruise Line was formed after a commitment was made to enter the cruise line business. We are a joint venture with Bulkfleet Marine Corp. of Houston. In order that the committee might search a little more to the extent of their needs in examining Contessa Cruise Line's seriousness in entering this business, I have brought with me today Mr. Barry Snyder, president of Bulkfleet Marine Corp., and also the project manager of our design organization, Mr. John Boylston of Giannotti & Associates, naval architects

and marine engineers, so that in the event I am asked some questions that I cannot answer, I can explore the matter with them.

We are committed to the construction of a line of cruise ships that will be built in U.S. shipyards from American-made steel and as many other domestically manufactured components as are available. These ships will legitimately fly the U.S. flag. They will be manned by U.S. crews in full accordance with all provisions of the Jones Act.

This subcommittee has heard repeated testimony that Americans cannot build ships any more and compete in the cruise business with those competitive foreign operators. Evidently, the people who build ships so competitively cannot afford to ride in them, so immediately upon launching every new vessel heads straight for American shores to cater to people who can afford cruises, but who make so much money, we are supposed to believe, that they cannot compete in the building of ships.

Every time I consider this problem, I feel like a snake who has caught something only to find that he has his tail in his mouth. I just can hardly conceive of this concept. The real competitive edge up to now has been our unreserved acceptance of this con job—which I call it—which we have not only accepted for years but have been working on each other. I don't know where it started but it just seems to permeate our thinking, that we cannot build ships in the United States of America. I hear estimates as high as $400 million for a ship that can be built in Finland for $86 million.

Before making its commitment of a massive investment in the cruise line business, Contessa made extensive feasibility studies and economic analyses that convincingly proved otherwise. The first such study was undertaken over 2 years ago, when U.S. yards were busy building offshore vessels, drilling rigs, and ocean platforms, yet a strong potential for success was there even then.

Since that time, U.S. shipbuilding costs have plummeted and prospects for timely construction have vastly improved. America's work force is getting down to business. This fact was described most recently in a Business Week cover story just 6 weeks ago titled "A Work Revolution in U.S. Industry." It is called a revolution, not an adjustment. Business Week used the word "revolution."

At the same time shipbuilding costs in European yards have been climbing. Nevertheless, it does cost more to build ships in U.S. yards but their competitiveness in commerce does not hinge on that simple equation. The 53-year-old Jones Act limits the ability of foreign ships to plunder our coasts. This limitation provided the economic edge that was so important in our evaluation of the feasibility of this undertaking.

Bulkfleet Marine's founder, J. Barry Snyder, heard the same arguments about brutal foreign competition when he announced plans to build 45 million dollars' worth of tankers 3 years ago. However, today Bulkfleet sails to a full charter schedule while much of the world's tanker fleet lies idle. Mr. Snyder's reliance on freedom from unfair competition by foreign-built ships and his ability to operate in a businesslike manner generated employment for thousands of American workers engaged in building his ships, and his U.S. crews have continuing dependable employment.

The president of Cruise America Line has testified that his company was formed for the specific purpose of purchasing foreign-built passenger ships, to have them U.S. flagged and given full coastwise trading rights. In this manner Cruise America would instantly establish a U.S.-flag line, created by shopping around in the world's used ship lot. Not one man hour of American labor would be involved in the creation of this fleet; not a nickle's worth of made in U.S.A. steel, machinery, or equipment would be used. Furthermore, every other U.S. passenger ship operator coming behind Cruise America would be compelled by this precedent to build his line in the same mold, or at least attempt to.

Its genesis thus established, the passenger fleet of the United States of America would forever be composed of substandard or obsolete ships culled from the bottom end of the Danish, Norwegian, Greek, Italian, and British lines. Any thought of new vessel construction in the United States would be dead forever.

Contessa developed its strategy around existing laws that protect vital segments of the American economy from exploitation by importation of foreign-built ships. We determined that we could build in U.S. yards and operate profitably within established constraints. We have already put Americans to work. Every available employee of the naval architectural firm of Giannotti and Associates, in all four of their offices about the country, is working on the design of our ships. Some outside consultants are also involved.

We have notified 36 shipyards just last week that a preliminary bid package will be available on July 1, scarcely a week from today. This coming December, the successful yard will come to life and begin building the first Contessa ship. Thereafter, every morning 1,000 alarm clocks will go off and 1,000 happy wives will kiss their husbands off to the job. Then these mothers, relieved that the house won't be repossessed after all, will wave 2,000 or so kids off to school, and maybe their school work will reflect a little more harmony at home now that daddy is working again.

At Bethlehem, Pa., Bethlehem Sparrows Point, Armco Houston, United States Steel plants around the country and elsewhere, there will be a stirring as these firms begin making the necessary thousands of tons of ship plate and shapes. Other companies will be building furniture, electronics, wiring, piping, autopilots, and nav gear. Retail trade and service establishments around these centers of activity will feel the beat as workers' income is translated into purchasing power. You will also see an increase in Federal tax revenues. We all know that this is precisely the way our economy works, the way it reacts to an enterprise that is flourishing.

Cruise America's plan is more imaginative. They would have Congress throw the rule book in the trash can, at least as it relates to these two ships; buy two outdated foreign-built ships, for starters, we think, for a fraction of what it will cost us to build one luxury ship. They would hire a painter for an afternoon and instruct him to obliterate "Nassau, Bahamas" or whatever is on the transom of the Cunard ships, hoist the Stars and Stripes, and go about the country bragging about their U.S.-flag cruise line.

Things are already happening, without additional lawmaking, that will deliver vastly more than the benefits envisioned by the supporters of H.R. 2883. Most business firms wisely keep their de-

velopment plans to themselves as long as possible, and Contessa was hopeful that the inertia of the "America cannot build passenger ships" syndrome would have a trajectory beyond our first couple of ships— that we would get a jump on the rest of the industry.

Now that we have been obligated to reveal most of what we are up to, I can add that if left alone to pursue this business, regulated and protected by the rules, Contessa will build oceangoing luxury cruise liners in an endless stream until we are serving every coast of the U.S.A. and providing foreign service as well, and we will do it in ships bearing "made in U.S.A." labels.

Thank you very much, Mr. Chairman.

[Prepared statement follows:]

STATEMENT OF DUDLEY R. BRIGGS, PRESIDENT, CONTESSA CRUISE LINE, INC., HOUSTON, TEX.

Mr. Chairman and members of the subcommittee: Contessa Cruise Line, in a joint venture with Bulkfleet Marine Corporation, is committed to the design and construction of a line of cruise ships that will be built in U.S. shipyards from American-made steel and as many other domestically manufactured components as are available. These ships will legitimately fly the U.S. flag, manned by U.S. crews in full accordance with all provisions of the Jones Act.

This Subcommittee has heard repeated testimony that Americans can't build ships anymore and compete in the cruise business with those "competitive" foireign operators. Evidently the people who build ships so competitively cannot afford to ride in them. So immediately upon launching, every new vessel heads straight for American shores to cater to people who can afford cruises, but who make so much money, we are supposed to believe, that they can't compete in the building of ships. The real competitive edge up to now has been our unreserved acceptance of this con-job, which we have not only accepted for years but have been working on each other.

Before making its commitment of a massive investment in the cruise-line business, Contessa made extensive feasibility studies and economic analyses that convincingly proved otherwise. The first such study was undertaken over two years ago when U.S. yards were busy building offshore vessels, drilling rigs and ocean platforms, yet a strong potential for success was there even then. Since that time U.S. shipbuilding costs have plummeted and prospects for timely construction have vastly improved. America's workforce is getting down to business, as described in a Business Week cover story just six weeks ago titled "A Work Revolution in U.S. Industry". A revolution, Business Week says. At the same time, shipbuilding costs in European yards have been climbing steadily. Nevertheless, it does cost you more to build your ships in U.S. yards but their competitiveness in commerce does not hinge on that simple equation. The fifty-three year old Jones Act limits the ability of foreign ships to plunder our costs. This limitation provided the economic edge that was so important in our evaluation of the feasibility of this undertaking.

Bulkfleet Marine Corporation's founder, J. Barry Snyder, heard the same arguments about brutal foreign competition when he announced plans to build $60 million worth of tankers three years ago. But today Bulkfleet sails to a full charter schedule while much of the world's tanker fleet lies idle. Mr. Snyder's reliance on freedom from unfair competition by foreign-built ships and his ability to operate in a business-like manner generated employment for thousands of American workers engaged in building his ships; his U.S. crews have dependable employment. Mr. Snyder relied on the rules of the game, he conducts his business by the rules and Americans benefit.

The president of Cruise America Line has testified that his company was formed for the specific purpose of purchasing foreign-built passenger ships, to have them U.S.-flagged and given full coastwise trading privileges. In this manner, Cruise America would instantly establish a U.S.-flag line created by shopping around in the world's used-ship lot. Not one man-hour of American labor would be involved in the creation of this grand U.S.-flag fleet, not a nickel's worth of "Made-in-USA" steel, machinery or equipment would be used. Furthermore, every other U.S. passenger ship operator coming behind Cruise America would be compelled by this precedent to build his line in the same mold. It genesis thus established, the passen-

ger fleet of the United States of America would forever after be composed of substandard or obsolete vessels culled from the bottom end of the Danish, Norwegian, Greek, Italian, and British lines. Any thought of new-vessel construction in the United States would be dead forever.

Contessa developed its strategy around existing laws that protect vital segments of the American economy from exploitation by importation of foreign-built ships. We determined that we could build in U.S. shipyards and operate profitably within established constraints. We have already put Americans to work. Every available employee of the naval architectural firm of Giannotti & Associates, in all four of their offices about the country, is working on the design of our ships. Outside consultants are also involved.

We have notified 36 shipyards that a preliminary bid package will be available on July 1, scarcely a week from today.

This coming December, the successful yard will come to life and begin the first Contessa ship. Therefore, every morning a thousand alarm clocks will go off and a thousand happy wives will kiss their husbands off to the job. Then these mothers, relieved that the house won't be repossessed after all, will wave two thousand or so kids off to school, where their school work might reflect a more congenial atmosphere at home, now that Dad is working again.

At Bethlehem, Pa., Bethlehem Sparrows Point, Armco Houston and elsewhere there will be a stirring as these firm begin making the necessary thousands of tons of ship plate and shapes. Other firms will be building furniture, electronics, wiring, piping, autopilots and nav gear. Retail trade and service establishments around these centers of activity will feel the beat as workers' income is translated into purchasing power. You will also see an increase in federal tax revenues. We will know that this is precisely the way our economic system works.

Cruise America's plan is more imaginative. They would have Congress throw the rule book in the trash can, buy two out-dated foreign-built ships (for starters) for a fraction of what it will cost us to build one luxury ship. Then they would hire a painter for an afternoon and instruct him to obliterate Nassau, Bahamas or whatever is on the transom of the Cunard ships, hoist the Stars and Stripes and go about the country bragging about their U.S.-flag cruise line.

Things are already happening without additional lawmaking that will deliver vastly more than the benefits envisioned by the supporters of H.R. 2883. Most business firms wisely keep their development plans to themselves as long as possible and Contessa was hopeful that the inertia of the "America can't build passenger ships" thought processes would have a trajectory beyond the launch date of our first couple of ships. But now that we have been obligated to reveal most of what we are up to, I can add that if left alone to pursue this business—regulated and protected by the rules—Contessa will build ocean-going luxury cruise liners in an endless stream until we are serving every coast of the U.S.A. and provide foreign service as well. And do it in ships bearing "Made in USA" labels.

For the benefit of some who may be watching us hereafter with concern, I can say without reservation that Contessa has no plans to ask England, Denmark, Italy, Norway, or Monrovia, Liberia for coastwise rights.

Cover Story

A WORK REVOLUTION IN U.S. INDUSTRY

MORE FLEXIBLE RULES ON THE JOB ARE BOOSTING PRODUCTIVITY

A revolution in the way workers do their jobs is beginning to take hold throughout America's basic industries. Changes in work rules are moving the workplace away from rigid labor practices created by authoritarian management and institutionalized by narrowly focused unions. Instead, a more flexible structure is evolving that can adapt to advanced technology, provide new products at a competitive cost, and release the nation from the stranglehold of stagnant productivity. The movement is in its infancy, but the impact of international competition and deregulation is accelerating the trend.

Industrial America grew up and prospered with a work system that is rapidly becoming obsolete. At its foundation is "functional specialization"—pegging workers into narrowly defined jobs that required "arms and hands but no brainwork," as one steelworker puts it. The system also created a chasm between manager and worker that stymied cooperation and, in union settings, became a battleground between labor and management over contractual "rights."

Work rules are simply regulations that labor and management have set up to govern the workplace. And they have become restrictive largely because the system has, too. Now the recession—coupled with the declining ability of U.S. basic industries to compete in world markets—has given companies and unions a strong incentive to change these practices. "You can go back to almost any recession and find examples of unionized companies more aggressively going after work rules," says Thomas A. Kochan, a professor at Massachusetts Institute of Technology. "But you have to go back to the Depression to find as much of it as is going on now."

THE PAYOFF. Over the past two years airlines have persuaded their pilots to fly more hours for the same pay. Trucking companies have won the right to pay drivers on the basis of hours worked rather than by traditional, but outmoded, mileage formulas. Auto, rubber, and steel companies and oil refiners have overcome strong worker resistance—and what one oil executive calls "flat-out poor management"—to combine skilled maintenance trades such as millwright, welder, and boilermaker. In plants and offices—unionized and nonunion alike—work teams that increase productivity as well as job satisfaction are replacing the old, narrow production jobs.

The immediate payoff is improved productivity that will enable companies to make a profit at lower operating rates and compete more effectively in world markets. Changes in the rubber industry could boost productivity by at least 10%, says William K. Rusak, vice-president for labor relations at Firestone Tire & Rubber Co.'s World Tire Group. Oil refiners say work-rule changes have increased their output per worker by 10% to 15%. Jones & Laughlin Steel Corp. (J&L) has cut the man-hours required to make a ton of steel to three and a half, from six only five years ago.

Unions are not accepting all changes willingly. Several locals of the Oil, Chemical & Atomic Workers (OCAW) have mounted long and futile strikes

UNIONS ARE GRANTING THESE MAJOR CHANGES IN WORK RULES....		...IN THESE INDUSTRIES
Job assignments	Cutting size of crews, enlarging jobs by adding duties, eliminating unneeded jobs	Steel, autos, railroads, meatpacking, airlines
Skilled maintenance and construction	Combining craft jobs such as millwright, welder, rigger, and boilermaker; allowing journeymen to perform helpers' duties; permitting equipment operators to run more than one machine	Autos, rubber, steel, petroleum, construction
Hours of work	Giving up relief and wash-up periods; allowing management more flexibility in scheduling daily and weekly hours; working more hours for the same pay	Autos, rubber, steel, meatpacking, trucking, airlines (pilots), textile
Seniority	Restricting use of seniority in filling job vacancies, bumping during layoffs, and picking shifts	Autos, rubber, meatpacking, steel
Wages	Restricting pay to hours worked rather than miles traveled	Railroads, trucking
Incentive pay	Reducing incentives to reflect changing job conditions	Rubber, steel
Team work	Allowing team members to rotate jobs; permitting pay for knowledge instead of function; allowing management to change crew structure to cope with new technology	Autos, auto suppliers, steel, rubber

BEST AVAILABLE COPY

Mr. BIAGGI. Mr. Briggs, could you give us a little background on Contessa Line?

Mr. BRIGGS. Yes, sir. As you so aptly pointed out earlier, Mr. Chairman, unique ideas don't develop overnight. Contessa has been a consideration in the minds of a number of people for a couple of years. Only 2 months ago, or perhaps a week less, Contessa was formed into a corporation.

Mr. BIAGGI. May 6?

Mr. BRIGGS. Well, whatever it was. Of course, corporations are usually the result of months of haggling between the clients and their lawyers as to what kind of form to take.

Contessa began discussions with Giannotti & Associates before it was even a company, when it was a group of individuals considering the business, to begin the design of a cruise ship. They were formally given a design contract in March. The design is to a point at this time where next Friday, a week from tomorrow, a preliminary design package will be mailed to yards responding to bid invitation. We are right on schedule with our project.

That is a thumbnail sketch of Contessa Cruise Line.

Mr. BIAGGI. What will the tonnage of these vessels be?

Mr. BRIGGS. Estimated weight of the 540-foot ship is about 18,000 tons.

Mr. BIAGGI. If I recall correctly, we had some testimony in the first hearing that—well, how many passengers will it take?

Mr. BRIGGS. 750, approximately.

Mr. Biaggi.

Mr. HUBBARD. Would the chairman yield?

Mr. BIAGGI. Yes, I would be delighted to yield.

Mr. HUBBARD. Thank you.

Mr. Chairman, I know the next one to ask questions may be my friend and colleague from Houston, Tex.—probably your Congressman—and he may have several questions. I just simply wanted to thank you for being with us today. We appreciate your testimony and we will consider your views. Thank you very much.

Mr. BRIGGS. Thank you very much for the opportunity.

Mr. BIAGGI. The vessels, how long will it take these vessels to be on line?

Mr. BRIGGS. Mr. Chairman, we have asked the yards in our preliminary letter that preceded the invitation to bid, to attempt to complete the large ship, the 540-foot ship, in 18 months.

I might point out that there may be some confusion as to what kind of ship we are planning to build. We have two designs underway at once, one of which was a 365-foot ship that we had considered but have now more or less discarded, as the larger ship is more productive earningwise. Therefore, there may be some confusion. There have been some questions asked of me as to just what size ship we are building, because of comments that I had previously made to people who are interested about the 365-foot ship. However, our ship is the 540-foot ship, the one that we are actually going to build first, an 18,000-ton ship, 750 passengers.

Mr. BIAGGI. You are talking about preliminary designs. You know, that really is not all that significant. You don't have the formal designs drawn up, and now you are telling me in 18 months you are going to have a ship built?

Mr. BRIGGS. I am telling you, Mr. Chairman, that I might have confused you with my reference to a preliminary design. Our design is proceeding as a full-fledged design project. We have not entered into a preliminary design with Giannotti. Their instructions are to proceed to design this ship as a complete design project.

The preliminary feature that I brought out was that we are sending shipyards, a week from Friday, a preliminary design package that will allow them to make an estimated bid on a ship.

Mr. BIAGGI. Do you have your finances in place?

Mr. BRIGGS. Yes, sir, not completely, but we have no problem with that. Congress has passed legislation that makes it rather simple to approach this kind of a project in a conventional fashion. The investment tax credit, accelerated cost recovery, and more recently the income tax deductibility of cruises for business purposes, all these things combine to make it rather a formality to finance an operation that has a good foundation.

Mr. BIAGGI. We have a letter from you dated June 10, we have your statement last week, and also some statistics that you offered today making comparisons between your proposed vessels and the Cunard vessels, and they vary, each of them. First you state the ships will require 2,000 tons of steel, employ a crew of 150. In the testimony you say 3,000 tons of steel and a crew of 200. Today you have 6,000 tons of steel and a manning of 300. Now which one of these is accurate?

Mr. BRIGGS. The latter one reflects the large ship, the 6,000 tons of steel. The first figure, the 2,000 tons, was an approximation. It is more like 2,500 tons to build the smaller, 365-foot ship.

Mr. BIAGGI. What caused the difference? It has been a week, just about, since we got the first figures and now we have two additional sets of figures. What brought about the change?

Mr. BRIGGS. If we can refer to them as first, middle, and last——

Mr. BIAGGI. All right. That's OK.

Mr. BRIGGS. The middle figure I obtained over the phone from a naval architect not involved in this project, but I had to respond rather rapidly so I just asked him how many tons of steel might there be in a certain size ship, and he told me. Now my naval architects involved in the project, after I had an opportunity to consult in more detail with them, gave me the figures that I have given today.

Mr. BIAGGI. You are telling this committee that you will have a ship on stream in 18 months?

Mr. BRIGGS. No, sir, I am not. I am telling you that we have asked the shipyards to tell us whether they can build this ship in 18 months. The construction will begin in December.

Mr. BIAGGI. We have seen too many estimates that have overruns that are frightening, to begin with, and I haven't heard anyone say they could do it in 18 months.

Really the point, the reason I am pursuing that, is because we are talking about gaining 1,000 jobs, 900 to 1,000 jobs a year if this legislation were to be enacted. In my own estimate, and I think it is a practical one, it would be about 3½ to 4½ years before you are in fact in business. During that interim period we would have these

two vessels on line building up the business, building up the trade, and also employing these 1,000 taxpayers, as you refer to them.

The thought occurs to me that while they are in business, if they are in business at all, they would be initiating something new. They will have gone through the growing pains, and when you finally come online a very substantial American cruise market will have developed, and perhaps as a pioneer they might be helping. How would you respond to that?

Mr. BRIGGS. I would say, Mr. Chairman, that the fact that they would be out there would—you asked about our financing—that would affect our ability to obtain financing, unless perhaps some of that imaginative financing that was mentioned that Congress might help us with.

Mr. BIAGGI. You see, I am not as optimistic as you are. I wish we could have it done in 18 months. Who knows?

Mr. BRIGGS. No, sir; 2 years; though, 2 years from today, approximately, our ship will be through with its sea trials if we are able to have it built in 18 months, and we have had indications from yards that they can do that. Therefore, 2 years is not an eternity. We have to start somewhere.

Mr. BIAGGI. Well, of course, no, but our own observations over time would tell you even 2 years is pretty good. Would you agree?

Mr. BRIGGS. Yes, sir; it is an energetic schedule but we are on track with it, and we continue to be encouraged that it will not be missed.

Mr. BIAGGI. I will stay on this timeframe, and I stay with it because it bothers me to think that we could have a business developing, during the 2 or 3 years you are building your ship. It bothers me to think that because of your interest and our interest, really, in a successful American-flag enterprise we would have to forgo these thousands of jobs and this commerce.

Last week Mr. Lambert said two shipyards quoted prices for building luxury cruise ships between $250 and $400 million, with delivery schedules between 5 and 6 years. Would you care to make a comment on that?

Mr. BRIGGS. Well, I would comment on it by asking what they were given in order to make such a bid? Did he have a design package? How could a shipyard bid on a ship unless they have a design for one? I don't know. I cannot comment on Mr. Lambert's estimates of the cost of shipbuilding, but we have some fairly good estimates of our own—not good estimates, but some ball park figures. We will have, however, 30 days from this coming Friday, responses from the yards interested in building our ships, and we will know more precisely what they will cost. However, it certainly isn't going to be $400 million or even $300 million.

Mr. BIAGGI. Yes, but aside from the estimates—I am not going to get into that because that becomes a very immaterial thing from our perspective—how about the timeframe? How do you deal with 5 and 6 years——

Mr. BRIGGS. I don't know who he could have talked to, but I cannot imagine it taking 5 years. It doesn't take that long, I don't think, to build a nuclear aircraft carrier. I don't know what kind of ship he had in mind.

Mr. BIAGGI. You talked about ball park figures for the ship you plan to build. What are they? Are you at liberty to say? If it is business, I won't ask you.

Mr. BRIGGS. I would like to respond, Mr. Chairman, as completely as possible. However, inasmuch as we are asking yards to come to us with some bid estimates, I would hate to lead them into an area that we might have inflated.

Mr. BIAGGI. No problem, what service do you plan to put this vessel in?

Mr. BRIGGS. Our first ship will be operating out of Galveston, Tex., and it will serve the New Orleans-Gulfport area on one cruise, for example. Then it will go south on another cruise profile to south Texas, South Padre Island, on down through some Mexican ports, possibly Tampico, without question, Veracruz and the Cancun-Cozumel complex. That area of the Gulf of Mexico is where the first ship will operate, probably year round.

Our second ship will be operating on probably the east coast.

Mr. BIAGGI. Therefore, you are really not duplicating the entire Cruise America proposal, are you?

Mr. BRIGGS. I believe not their entire proposal. Of course, the way I read their projected routes, they apparently intend to operate all over the United States. I don't know where they would stop. Now we have the Great Lakes, both coasts, the Gulf of Mexico. Therefore, they do plan to operate in the Gulf of Mexico, according to their written statement.

Mr. BIAGGI. That is where you plan to go, right?

Mr. BRIGGS. Yes, sir; our plans are to operate in the Gulf of Mexico.

Mr. BIAGGI. If the Cunard vessels were prohibited from engaging in the area in which you plan to engage, would that lessen your opposition to the bill?

Mr. BRIGGS. It would be better than allowing them to do that, if the bill were to go through. I am not sure that it would materially lessen my opposition to the bill, but it would certainly be a temporary relief.

Mr. BIAGGI. I don't understand you. You testify that you want to get into this business and you talk about a specified area. The reason that you might be inhibited is because, if this bill were to be enacted, there would be competition. Therefore, let's assume that we eliminate that direct competition. Then what objection will you have to the bill?

Mr. BRIGGS. Well, your cruise line traffic comes from all over the United States for any ship. I mean, people crisscross each other. Therefore, it is just that they would still be out there as a competitor, with a piece of equipment that costs substantially less than ours, and the amortization of it affects their ability to price their cruises accordingly, so they would still be competition wherever they were.

Mr. BIAGGI. Well, if you are talking about competition in cruises, you have them in Hawaii and you have them in the inland waters, as someone testified. I am not so sure that it really would have that much effect on you.

Let me ask you this one question. I think you have responded, you have given me the answer, but I would like it in response to

my question for the record. If we enacted this bill, how would it affect your financing?

Mr. BRIGGS. It would affect it adversely, because of the fact that our economic feasibility is based on amortizing equipment that costs substantially more than these Cunard vessels would cost in this proposed sale. I have heard $100 million—I don't know what it is—for the two ships. Therefore, they would be out there.

We think that representing ourselves as an American-flag cruise line is very valuable to us. We think that the Americans are finally beginning to realize that some of our basic industries have been damaged very severely by foreign competition and Americans' willingness to buy foreign things and to do with foreign things. Therefore, when we tell the United States of America that we have a U.S.-flagship, we think it means a lot. It would also mean a lot to Cruise America to say, "We are a U.S.-flag cruise line," but then they have $50 million apiece in these ships which enables them to compete with us on an unfair basis, because they are imported ships.

Mr. BIAGGI. Did I hear you say your financing was in place?

Mr. BRIGGS. The financing is generally in place. We have a program for financing, but I might point out that Barry Snyder in his Bulkfleet program established his company exactly the same way we are establishing ours. I don't represent that we have our financing nailed down, but we have people ready to involve themselves financially in this project.

Mr. BIAGGI. All right. You will have to excuse us. We will have a 10-minute recess in order to vote.

Mr. BRIGGS. Thank you, sir.

[Recess taken.]

Mr. BIAGGI. The meeting is called to order.

Mr. Fields.

Mr. FIELDS. For the record, let me just thank the chairman for recognizing me, and at this point I am going to defer questions until the chairman does return.

I would like to begin by asking unanimous consent, I referred to a letter earlier, with the previous panel, from American Flagships, dated June 22, and I would like to ask unanimous consent that this be included in the record.

Mr. BIAGGI. Without objection, so ordered.

[Material follows:]

AMERICAN FLAGSHIPS,
June 22, 1983.

Hon. MARIO BIAGGI,
Chairman, Subcommittee on Merchant Marine, House Office Building, Annex No. 2, Washington, D.C.

DEAR MR. CHAIRMAN: American Flagships, Inc. has filed a Title XI application with the Maritime Administration pertaining to the construction of two new domestic built passenger vessels. The ships are to be built as twin screw passenger vessels with a displacement at full load draft in excess of 40,000 long tons. Classified by the American Bureau of Shipping for Unresticted Services, certified by the United States Coast Guard as passenger vessels for international voyages, the vessels will be operated in accordance with 46 CFR 70 Subchapter H.

These vessels will be operated by American Flagships as passenger ships with cruise itineraries on the east and west coasts of North American with northern ports-of-call in the summer months and southern ports-of-call in the winter. Competing within the leisure time industy for discretionary expenditures, said ships would be adversely impacted by any foreign built vessels permitted to operate coastwise

itineraries. Within the cruise industry all ships compete for the same consumer's discretionary expenditure, it is not comparable to the cargo industry where the market is segmented into a pattern of trade routes.

Within the last year passage of legislation permitting business convention deductions on U.S. flag cruise ships encourages penetration into the corporate meetings market by U.S. flag cruise ships. This new corporate meeting market is a large target that has influenced American Flagship's decision to build two U.S. flag vessels and provides an impetus to the revitalization of United States passenger ships. Nullifying existing law, by permitting the entrance of foreign built ships into this new market, is counter productive to the interests of the domestic maritime industry. No investment banking firm is going to generate funds for the construction or refurbishing of U.S. flag ships that will have to compete in the domestic market with less expensive subsidized foreign built ships.

All of the senior management team of American Flagships have recently held similar senior positions with foreign cruise lines, our knowledge and experience in the cruise industry prompted this endeavor by American Flagships to build the first passenger ships in United States shipyards in over 25 years. Both of these ships will require approximately 6,000,000 direct labor man hours to construct and will provide year round employment for 1350 crew members.

Approval of H.R. 2883 acts as a major deterrent to four American companies moving ahead with the refurbishing and construction of U.S. flag vessels.

United States shipbuilders and the merchant marine industry needs the support of the Subcommittee on Merchant Marine in denying to admit certain passenger vessels to the coastwise trade as proffered by this bill.

Sincerely,

JOSEPH L. GREENWELL, *President.*

Mr. FIELDS. Mr. Snyder, I would like to ask you a question. You know there has been much debate from this committee as to whether a ship can be built by Americans in American shipyards and yet be competitive, and it is my understanding that you have done that. Could you give us just a brief history of what you have done? I am talking about with Bulkfleet.

Mr. SNYDER. Yes, sir, I understand.

In 1976 I commenced the design and shipyard solicitation for the construction of two dedicated tank vessels, and in 1979, after 3 years of exploratory work, we executed contracts for the construction of two 28,000 deadweight ton tank vessels in American shipyards. The tank barges themselves, which are all U.S. Coast Guard, ABS Maltese Cross, A-1, were constructed at General Dynamics in Quincy, Mass., and the tugboats of 8,000 horsepower, using heavy fuel, medium speed diesel engines, were constructed at J. Ray McDermott in Morgan City, La.

The time from the commencement of the specifications and the drawings until the completion was approximately 19 months. We delivered them, delivered the barges in 1980, in December; delivered the tugs in May and June 1981; and we have been operating with American crews, domestic, coastwise, and some foreign ports, since that time, in U.S. commerce, delivering petroleum products from Portland, Maine, New York, Massachusetts, Rhode Island, all the way down the coast, the Carolinas, Florida, Louisiana, and Texas, and in the Caribbean and the Bahamas.

The vessels were built at a total cost of $45 million. The financing was put together with the U.S. Maritime Administration, which at that time was a part of the Department of Commerce, and it was put together with a limited partnership program using title XI guarantees, for which we were approved for the project in total for 35 million dollars' worth of bonds. The vessels have been operating since, and they are profitable.

Mr. FIELDS. One of the points that is made over and over is that a ship that is built in American shipyards is so expensive that a company that operates those ships cannot meet its debt service. Are you meeting your debt service?

Mr. SNYDER. Yes, sir, we are meeting our debt service.

Mr. FIELDS. I know you can't really compare apples and oranges but how much steel was used in those ships, American steel?

Mr. SNYDER. We used, between the tug and barge in combination, there are approximately 6,000 tons of steel used for those two units, so that for two units it would be 12,000 tons.

Mr. FIELDS. Do you have any idea how many American workers it took to build those ships?

Mr. SNYDER. At Quincy, Mass., during the construction period there were approximately 1,500 workers in the yard that were in one way or another attached to the vessels, and in J. Ray McDermott there were about 500 people that were employed, so it is about 2,000 people.

Mr. FIELDS. What is your role with Contessa Cruise Line?

Mr. SNYDER. There is a joint role. I personally own one-third of the Contessa Cruise Line, Inc., corporation, and my corporation, Bulkfleet Inc., out of Houston, is going to be the operator for the ships.

Mr. FIELDS. I guess what I am really trying to elicit through this line of questioning is that, you know, you do have some background in the funding and in the design stage and actually bringing the ships on line from American shipyards. Again, while you may not be able to compare apples and oranges, at least you have gone through the gamut using American yards to add ships to our fleet.

Mr. SNYDER. There is no doubt in my mind, either financially or constructive capability, that these vessels can be delivered from U.S. yards, and they can be delivered on time, and it will not take anywhere near the amounts of time that we have heard presented to us this morning. I think Mr. Briggs' assumption of 18 months to 2 years for project completion is fairly reasonable. Ours was done, and our vessels were fairly substantial units—certainly they weren't passenger ships—but they were built, from the time we laid the keel until the time we delivered them, actually that construction period took less than a year.

Mr. FIELDS. Mr. Briggs, I left because there was a vote on. I want the record to reflect that is why I didn't hear your entire answer, but the chairman was asking you if you might have a change of position if Cruise America was not in direct competition with you. I didn't hear your entire answer, but I was going to ask a variation of the question.

That is, is one of your concerns that while Cruise America might not be in direct competition, that some foreign-built ship in the future might see an opportunity to move into what you feel is a profitable area and consequently come back to this committee and ask for another exemption, and therefore have an impact not only on your particular situation but situations in the future, and particularly impact your possibility of financing?

Mr. BRIGGS. Well, Mr. Fields, without even considering the future—yes, the future would bother me—but without considering

the future, the Cruise America proposal, were it enacted into law, would affect our financing in this fashion:

We have to, before we can solicit financial participation in a project, we have to prepare a private placement document that describes the project to the satisfaction of the Securities and Exchange Commission, and that document must state what possible risk factors impact upon the project. We would have to state, therefore, that on a certain date Congress enacted a law that permitted the importation of two foreign ships that would be in competition with this vessel. That would have to be placed right on this document, even if it weren't public knowledge, which it would be.

Therefore, without considering the future implications of what might happen, and of course they worry us, that very fact would indeed affect the judgment of anyone being asked to look at this as an investment vehicle for themselves. The private placement document disclosure would, if they didn't learn about it from some other source, would have to come from us, that here is a risk. We have competition with two ships that cost a fraction of what we are going to spend for ours, and their debt service would therefore be less. They can charge less for their cruises.

Mr. FIELDS. In your testimony you talk about some feasibility studies and economic analysis. Who did these, and does this represent a major investment on your part?

Mr. BRIGGS. Well, as far as a major investment, it is comparatively small. Less than $20,000 has been spent on those kinds of studies. That certainly isn't a big investment, but qualified people, including our law firm in Houston, Foreman and Dyess, has some people who deal with economics and they have involved themselves in this, and there is another. I would say less than $50,000, $45,000, so as an expense to the project it is not enormous, but the facts are rather easily ascertained that this business is viable.

Mr. FIELDS. Well, I asked that question because the seriousness of your efforts, you know, have been questioned. Also I was going to ask you about your plans that are being drawn by the Giannotti firm. Does this represent a major investment for you?

Mr. BRIGGS. Well, we have spent with Giannotti and Associates over $250,000 up to now, and that is again just a small part of what we will spend with them as they proceed through this design process. Designing a cruise ship or any other kind of ship is a rather expensive undertaking. However, since I have been in Washington I have not concerned myself with whether anybody thought this was a viable project. Up until now it wasn't necessary that I convince anyone. In fact, we were happy to keep the project quiet as long as we could.

However, these expenditures began some time ago. Certainly it was not prompted by any opposition to this. I first learned of this H.R. 2883 on Tuesday a week ago.

Mr. FIELDS. Are you telling this committee that up to this point you have spent or will spend, from what you just mentioned, over $275,000——

Mr. BRIGGS. Well, probably closer to $300,000, I would say.

Mr. FIELDS. Mr. Chairman, I have no further questions.

Mr. BIAGGI. I have no questions. I want to thank you for your testimony.

Well, maybe I should come back to the question of where you intend to place your vessels. Would you tell this committee once again the area that you intend to service?

Mr. BRIGGS. Yes, sir, with the first ship. Of course, our plans, you have to understand, we have maybe 9 months to solidify our itinerary before we begin printing brochures and making solid route commitments, but our initial plans for this first ship are that it will operate year-round out of Galveston, serving Gulfport, Miss., and New Orleans in one direction, and Tampa, Fla., and Key West in the gulf. It will, in the other direction, serve the Corpus Christi to Veracruz, Mexico, route, and also Cancun-Cozumel in Mexico. That is generally the route as we see it right now.

Our second ship would be placed on the east coast, we are fairly certain, probably in the Miami area, and work northward.

Mr. BIAGGI. Pardon me? I see. Therefore, you intend to go beyond the gulf?

Mr. BRIGGS. Sir?

Mr. BIAGGI. You intend to go beyond the gulf?

Mr. BRIGGS. Yes. Of course, Cozumel would be considered a Caribbean port, the Cancun-Cozumel, and then also Key West, Fla.

Mr. BIAGGI. Are you going up the east coast?

Mr. BRIGGS. Not with this first ship. I doubt that it would serve the east coast. The second ship would be based in Miami, probably.

Mr. BIAGGI. When do you think the second ship could come on line?

Mr. BRIGGS. Probably, Mr. Chairman, we will start the second ship before the first one is finished.

Mr. BIAGGI. Therefore, you are talking about 4 years?

Mr. BRIGGS. No. The first one will be finished in 2 years, and perhaps the second one would be started in a year, so that would be a year from now, about next June or July. Therefore, that would mean 1½ years from then, the beginning of 1986.

Mr. Chairman, one thing I would like to say. I had an opportunity during the recess to talk with my naval architect, and we talked about this delivery time situation. He has been informed by more than 1 yard now that the 18-month construction estimate or the request that we made for that delivery period does seem quite achievable.

In fact, I asked him where could a 3- or 4-year estimate come from. He explained to me that up until the recent shipbuilding decline a year or two ago, most yards had so much work that they had to schedule you into a slot. Their engineering departments were consumed with other projects and so, therefore, the delay. However, we have had no problem getting confirmation that we can get our vessel out in 18 months.

Mr. BIAGGI. You are going to be looking for a yard that will be devoting its entire attention to your ships, right?

Mr. BRIGGS. Excuse me, sir?

Mr. BIAGGI. You will be looking for a yard that will be devoting its entire attention to your ships?

Mr. BRIGGS. Yes, absolutely, or at least has the capacity to apply themselves to it without conflict.

Mr. BIAGGI. Part of your statement says U.S. shipbuilding costs have plummeted. How did that happen?

Mr. BRIGGS. Well, in the first place employment at the shipyards, the decline in business has made them much more competitive. The employment posture at shipyards has undergone some adjustments favorable to shipbuilders. By that I mean that we have been told by yards that, in consultation with their union, if we would indicate that if that yard could be competitive we would let them bid our ship. We have stated we would, in which event they have gone to their unions and said, "Can you make some concessions to us? We can get a big job here and hire about 1,500 or 2,000 people." The unions have been, on at least one occasion that I have a direct knowledge of, the union said "We will cooperate to make our yard more competitive."

Therefore, there are those factors. Further, steel costs have gone down because of competition and the lack of steel sales. All of these things have impacted upon shipbuilding costs favorably to the shipbuilder. Actually, Mr. Chairman, right now is a very opportune time for U.S. firms to enter the cruise ship business because of all of the factors that impinge upon the cost of getting a ship in operation and the flourishing nature of the business, and we are taking advantage of that opportunity.

Mr. BIAGGI. You say you spent some $275,000 so far?

Mr. BRIGGS. Yes, sir.

Mr. BIAGGI. When did you start spending it?

Mr. BRIGGS. Beginning first in about February, probably the latter part of January or February, the first investment in this project was made.

Mr. BIAGGI. When did you first hear about the *Cunard Princess* and *Countess*?

Mr. BRIGGS. I heard it not more than 3 weeks ago, about midweek 2 weeks ago. It just came out in a conversation, and I then made some inquiries and learned this was in progress.

Mr. BIAGGI. You are in the shipping business and you just heard about these two vessels 3 weeks ago?

Mr. BRIGGS. That is right. I am pretty well consumed in my duties as the chief executive officer of Contessa, and rely on other people to bring me this kind of information, which they did, but not nearly as timely as I would have hoped.

Mr. BIAGGI. Well, your architect should have known about them. All the people concerned with the whole undertaking should have known about them. The minute they saw it someplace it should have lit a red light or set off a major alarm.

Mr. BRIGGS. I couldn't agree with you more.

Mr. BIAGGI. You know, looking at this date of Contessa's incorporation, which is 3 days after the bill was introduced, and the bill wasn't introduced until we had some considerable discussion, it would lead a less sophisticated individual to conclude that they are related, these dates.

Mr. BRIGGS. Well, I can assure you, Mr. Chairman, that there was no relationship.

Mr. BIAGGI. Then you tell me you didn't hear about it until 3 weeks ago. It is very difficult to understand that development, really. You are talking about a whole group of people embarked on a major undertaking, sensitive to everything that concerns this

area, and nothing is said or done about it or heard about it until 3 weeks ago. That kind of challenges my sense of credulity, really.

Mr. BRIGGS. Well, the matter of the incorporation being coincidental to the date of the introduction of the bill would no doubt further enhance your curiosity. I can understand that, Mr. Chairman.

We were in no hurry to get incorporated, and we let our lawyers dilly-dally around and explore the various means, vehicles, by which this company could be launched. It just was a coincidence, I assure you, that those dates concide so closely.

Mr. BIAGGI. Is there anything else?

[No response.]

Mr. BIAGGI. All I can say is, thank you very much, gentleman. You only made our problem more difficult.

Mr. BRIGGS. Well, thank you very kindly. It was considerate of you to let us present our views.

Mr. BIAGGI. The committee will stand in recess.

[Whereupon, at 1:23 p.m., the subcommittee recessed, to reconvene at the call of the Chair.]

[The following was submitted for the record:]

NINETY-EIGHTH CONGRESS

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CHIEF COUNSEL

U.S. House of Representatives
Committee on
Merchant Marine and Fisheries
Room 1334, Longworth House Office Building
Washington, D.C. 20515

M E M O R A N D U M

TO: MEMBERS, SUBCOMMITTEE ON MERCHANT MARINE

FROM: MAJORITY AND MINORITY STAFF

DATE: WEDNESDAY, SEPTEMBER 14, 1983

SUBJECT: H.R. 2883, A BILL TO ALLOW THE CUNARD PRINCESS AND THE CUNARD COUNTESS, FOREIGN-FLAG VESSELS, TO BE DOCUMENTED AS VESSELS OF THE UNITED STATES AND TO TRANSPORT PASSENGERS IN THE COASTWISE TRADE

H.R. 2883 was the subject of two days of hearings (June 15 and June 23). A Markup Session, held on July 13, was terminated after approval of a Motion to Postpone offered by the Honorable Gene Snyder, Ranking Minority Member of the Subcommittee. Discussion of the motion centered on a number of issues that some Members believed needed further exploration.

Because of those questions, the Majority and Minority staffs of the Subcommittee were directed to provide background information, analyze the relevant issues, and report on recent developments.

BACKGROUND

The U.S.-flag passenger cruise industry has declined over the past two decades to a point where it is almost nonexistent. In the late sixties, there were 20 active passenger and passenger/cargo vessels flying the U.S. flag. Today, there are only two large U.S.-flag luxury passenger vessels operating in the coastwise trade or in the foreign commerce of the United States (SS CONSTITUTION and SS INDEPENDENCE). Four smaller vessels -- operated by Exploration Holidays and Cruises, Inc., principally on the West Coast and Canada, have an 88-passenger capacity. Delta Lines, Inc., operates four Magdalena-class combination passenger/cargo vessels, each of which can accommodate up to 100 passengers. American Cruise Lines, Inc., operates four vessels on the East Coast; the passenger-carrying capacity ranges from 56 to 145 passengers. Other passenger services, not of the luxury cruise ship variety, include: limited accommodations aboard cargo ships for up to 12 passengers per vessel; two steamboats providing cruise service on the Mississippi and Ohio Rivers; as well as other small passenger ships in the coastwise trade.

The cruise ship business in general has experienced growth over the years. Foreign-flag vessels have filled the void created by the demise of the U.S.-flag passenger ship fleet and the concurrent increase of interest in "Loveboat" cruises. The expansion of the industry was confirmed by a 1980 study prepared for the Maritime Administration by Centaur Associates, Inc. entitled, "An Analysis of the North American Cruise Industry". The study found that the number of passengers embarking at U.S. ports grew from 590,000 in 1970 to over 1,000,000 in 1978. The study also revealed that, in 1980, 49 ships were serving the U.S. market; and it projected that, by 1985, 61 vessels would be sailing from U.S. ports. According to the Journal of Commerce,("Cruise Traffic Posts Large Gains at Port of Miami", April 23, 1982, P.2-c), in 1981 more than a million and a half persons sailed on cruises originating in Miami, Florida, and paid one and three quarter billion dollars.

There are several reasons for the decline of the U.S. passenger cruise industry. The cost of building a passenger vessel in a U.S. shipyard is higher than in foreign yards. Since the last large passenger vessel was built in the U.S. in 1958, no shipyard has actual detailed figures immediately available on the costs involved. It is difficult today to compare costs in a U.S. yard to actual costs in its foreign counterpart because of a number of factors, including the fact that many foreign governments own, heavily subsidize, or provide attractive tax and other incentives to shipbuilders. These direct or indirect subsidies distort the true cost picture. Another factor that makes U.S. passenger cruise ships noncompetitive is the great disparity between U.S. and foreign crew wages and benefits.

Recognizing the depressed state of the Unites States-flag passenger cruise industry, the Committee on Merchant Marine and Fisheries has considered and reported out several bills allowing vessels not qualified to engage in the coastwise trade to enter or reenter that trade. In 1979, a bill was enacted that removed statutory impediments from the the U.S.-built vessels OCEANIC INDEPENDENCE, UNITED STATES, SANTA ROSA, MARIPOSA, and MONTEREY and allowed them to be documented as vessels of the United States and to enter the coastwise trade (Public Law 96-111). Last year, Private Law 97-13 was passed which permitted the documentation of the OCEANIC CONSTITUTION as a U.S.-flag vessel once again and granted it coastwise privileges.

INDEPENDENCE AND CONSTITUTION

The INDEPENDENCE and the CONSTITUTION are presently cruising in the Hawaiian Islands.

UNITED STATES

The UNITED STATES was a part of the National Defense Reserve Fleet prior to being sold to United States Cruises, Inc. (USCI) for $5 million. After lengthy deliberations by the Department of Defense, considering whether the Department would requisition the vessel as a hospital ship in the Rapid Deployment Force, DOD decided in August of 1982 that it would not requisition the ship. Mr. Richard Hadley, President of USCI, has been negotiating for some months with U.S. shipyards to renovate the UNITED STATES. Until recently Bath Iron Works was the most likely candidate to perform the work. Representatives of Bath have advised Committee staff that it would cost between $100 and $150 million dollars and between two to two and one-half years to do the job. However, USCI has apparently broken off negotiations with Bath and entered into discussions with Tacoma Shipbuilding about the renovation of the ship.

SANTA ROSA

Vintero Corporation, owner of the SANTA ROSA, has been bottled up in legal suits with the Venezuelan government since at least the mid-1970's. On July 8, 1983, the 2nd Circuit Court of Appeals affirmed a lower court decision in Vintero's favor. Mr. Vincent De Lyra, President of Vintero, advised that he still intends to repair and renovate his ship and that he will have this vessel in a shipyard by September 15. He has not, as of September 7, signed a contract with any yard to perform the work. The vessel is located at Pier 12 in Baltimore at the present time.

MARIPOSA

The MARIPOSA is owned by American World Line(AWL); Conrad Everhard is Chairman. In the middle of July the Maritime Administration approved an application submitted by AWL to sell the vessel to Jingjiang Shipping Co. of Shanghai and to transfer its registry to the People's Republic of China. The Chinese plan to use the vessel in passenger and cargo trades in the South and East Coast China Seas.

MONTERREY

James L. Kurtz testified at the June 15 hearing on H.R. 2883 that he had "solidified" an arrangement with American Maritime Holding, Inc. to acquire their stock, and that he had the financing arranged through Switzerland to a U.S. company. Mr. Kurtz testified that the financial arrangements would be in place by the end of June. Staff contacted Mr. Kurtz on September 7 to check on whether the June target date had been met; according to one of Mr. Kurtz's assistants it had not. The efforts to nail down the financing are "moving along". He expects finalization of arrangements very soon.

PURPOSE OF THE LEGISLATION

H.R. 2883 would allow the CUNARD PRINCESS and the CUNARD COUNTESS to be documented as vessels of the United States and to transport passengers in the coastwise trade.

U.S. cabotage laws reserve the carriage of merchandise and the transportation of passengers between coastwise ports in the United States to coastwise-qualified vessels. A coastwise-qualified vessel is one that was built in and documented under the laws of the United States, and is crewed by Americans. Vessels that are prohibited from engaging in this trade include foreign-flag vessels, U.S.-flag vessels receiving subsidies, and U.S.-flag vessels built in foreign shipyards. Both the CUNARD PRINCESS and the CUNARD COUNTESS were built abroad, and are not allowed to engage in the coastwise trade.

There are a number of statutes that comprise the body of U.S. cabotage laws. Three are of immediate relevance to the passenger cruise trade and this legislation. The Act of June 19, 1886 (24 Stat. 81; 46 U.S.C. 289) prohibits foreign vessels from transporting passengers between ports or places in the United States -- either directly or by way of a foreign port.

The second applicable statute is the Vessel Documentation Act (94 Stat. 3453; 46 U.S.C. 65), which provides that a vessel of at least five net tons that is not registered under the laws of a foreign country, is eligible for documentation if certain ownership requirements are satisfied. In addition, the Act prescribes certain requirements for issuance of a coastwise or Great Lakes license -- including a requirement that the vessel must have been built in the United States.

The third law of immediate relevance is the Jones Act (section 27 of the Merchant Marine Act of 1920; 46 U.S.C. 883). The Jones Act requires that a vessel engaging in the coastwise trade must be built in, documented under the laws of, and owned by citizens of, the United States. While on its face the Act pertains to the transportation of cargo between coastwise ports, the U.S. Customs Service has interpreted this section to be applicable to the transportation of passengers as well as cargo.

Mr. Robert Lambert is President and principal owner of Cruise America Line, Inc., prospective owners and operator of the Cunard vessels. Prior to seeking legislative relief he attempted, through administrative means, to secure coastwise trading privileges for the PRINCESS. On December 15, 1982, he requested Secretary of Defense Caspar Weinberger to recommend a waiver of compliance with applicable laws in the interest of national defense -- pursuant to the Act of December 27, 1950 (64 Stat. 1120). Mr. Lambert said in this letter that the PRINCESS

would place a modern, shallow-draft, high-density, high-speed passenger ship -- capable of serving as an auxiliary to the Navy at the disposal of the government in times of national emergency. The Department of Defense did not request a waiver of the coastwise laws, saying there "would be no direct clear benefit to national defense as a result of granting the waiver".

Since the Customs Service is the agency charged with the responsibility of administering the provisions of law concerning passenger vessels in the coastwise trade, Cruise America advised Customs of its waiver petition pending before the Secretary of Defense. Customs then contacted the Maritime Administration for its comments. MARAD recommended that the waiver request be denied, but at the same time acknowledged the importance of the questions that the waiver request had raised concerning the potential use of high-speed vessels in a national emergency -- and the policy to be followed with regard to the procurement of those vessels. The agency suggested that the most appropriate process for addressing these questions is the legislative one.

In a letter to Mr. Lambert dated May 6, 1983 denying the request, the Customs Service said that, after consideration of all aspects of the matter, it was unable to determine that the waiver was necessary in the interest of national defense.

This waiver denial is not dispositive of the issue of whether these vessels could be used in time of conflict. Waivers of this nature are granted sparingly and only in response to an immediate and specific need. Since the United States is not involved in any conflict there is no present military need for these vessels.

Despite the denial of the Administrative waiver, the question of whether a passenger ship would be useful to the military during wartime remains. A spokesman in the Congressional Liaison Office of the Navy's Military Sealift Command said that a U.S.-flag commercial passenger vessel would indeed provide defense benefits. A spokesman in the Navy's Office of Legislative Affairs concurs in this conclusion. One of the lessons learned from the Falkland Islands conflict was the value of vessels that can serve as offshore dormitories and hospital ships where there are limited on-shore facilities for housing troops. These ships are necessary where airlift planes cannot land to deliver troops. They also provide valuable support capabilities, since their facilites can be used for food preparation. The MSC spokesman further said that the U.S. commercial fleet is deficient in this area. Presently, there are only three vessels that could serve as off-shore dormitories or troop ship vessels, two operating in the Hawaiian Islands trade and the UNITED STATES
in Norfolk, which is slated for renovations.

The CUNARD COUNTESS is currently an asset of the NATO shipping pool. The CUNARD PRINCESS is not, since the Bahamas is not a signatory to the NATO Treaty. In a time of military necessity, NATO vessels would not have the same availability as would U.S.-flag vessels. This issue was addressed by Vice Admiral Kent J. Carroll, USN Commander, Military Sealift Command, in a statement before the Merchant Marine Subcommittee on the importance of the U.S. merchant marine to this nation's strategic mobility, March 2, 1983.

> "In a conflict involving NATO, there is a standing commitment that the United States can count on a minimum of 400 dry cargo merchant ships from European NATO nations, but that's only for NATO reinforcement..." (emphasis added)

NATO vessels then, are available only where a NATO theater is involved, and then, presumably, only where these ships are not being used by their flag nation. Unless the foreign-flag vessel is U.S.-owned, or is lying idle within the territorial jurisdiction of the U.S. (50 USC 196), the U.S. has no authority to requisition NATO vessels as it has with respect to U.S.-flag vessels. Access to these vessels depends on the cooperation of allies.

DESCRIPTION OF THE VESSELS

The CUNARD PRINCESS (built in 1977) and the CUNARD COUNTESS (built in 1976) are sisterships. Both vessels were designed to meet American Bureau of Shipping (ABS) standards and were built by Burmeister & Wain of Copenhagen, Denmark. The CUNARD PRINCESS is registered in the Bahamas, and the COUNTESS is of British registry. They are owned by Cunard Line Limited. The following facts are common to both:

- gross tonnage	17,586
- length	536 feet, 7 inches
- width	74 feet, 8 inches
- draft	18 feet, 8 inches
- cruising speed	20.5 knots
- passenger capacity	900 plus

The CUNARD PRINCESS has been operating between Alaska and Canada of late. She has also cruised in the Caribbean Islands. The COUNTESS sailed in the Caribbean Islands prior to being commissioned by the British Government as a troop and support personnel shuttle during the Falkland Islands conflict. She was recently remodeled at the Malta Drydocks for the current owners, Cunard Line. The remodeling had a two-fold purpose: to remove the military features installed for the ship's service during the Falkland Islands conflict; and to repair and replace certain facilities and features of the ship. For example, prior to being taken for service in the Falklands, the ship had been scheduled to have its diesel alternators replaced by four new generators.

During the time the ship was under the control of the military, it spent eight months at sea receiving fuel and provisions by transfer from other ships. It received no maintenance at all and was in a badly deteriorated condition when it was returned to Cunard Line. The total cost of the work has been reported by Cunard Line to have been $4.5 million. The ship was brought to Malta on May 4th and work was completed on June 16th.

During the hearing, Mr. Lambert indicated that each Cunard ship would require about $5 million in work for conversion to U.S. standards and the work would be done in U.S. yards. The remodeling of the COUNTESS does not obviate the need for the additional work to meet the Coast Guard standards. In fact, the work done in Malta, in part, was in response to U.S. Public Health Service requirements for foreign-flag ships calling at U.S. ports, which are different from the requirements for U.S.-flag ships. She has recently begun service in the Caribbean.

The company that plans to operate the vessels (Cruise America Line, Inc.) states that it has an option to purchase them contingent upon authority being granted to operate the ships in the domestic commerce and coastwise trade of the United States.

LEGISLATIVE ACTION

H.R. 2883 was introduced by the Honorable E. Clay Shaw on May 3, 1983. An identical bill (S. 1197) was introduced in the Senate by the Honorable Ted Stevens on May 3, 1983.

The bill was referred to the Committee on Merchant Marine and Fisheries and subsequently to the Subcommittee on Merchant Marine.

A hearing was held on June 15, 1983, and supporter witnesses included the Honorable E. Clay Shaw; and representatives of the following: Cruise America Line, Inc.; Seafarers International Union; District 2, Marine Engineer's Beneficial Association; Port Authority of New York and New Jersey; City and County of San Francisco; Transportation Institute; American Society of Travel Agents; and OP Ship Limited.

Opponents included representatives of United States Cruises, Inc.; Vintero Corporation; American Waterways Shipyard Conference; and Mr. James L. Kurtz.

A second day of hearings was scheduled on June 23, especially to accommodate opponents of the measure who represented the National Maritime Union; International Organization of Masters, Mates, and Pilots; and Contessa Cruise Line, Inc.

POTENTIAL OPERATORS

There have been two companies predominantly involved in the consideration of this legislation. Cruise America Line, Inc., and Contessa Cruise Line, Inc. The following is a thumbnail sketch of the companies and their principal representatives.

CRUISE AMERICA LINE, INC.

Cruise America Line was incorporated in Fort Lauderdale, Florida. The company was formed for the purpose of purchasing vessels to operate in the cruise business. Its President and principal owner is Robert L. Lambert. He is a mortgage banker, developer of large commercial and residential properties, and a maritime business consultant. The Mayor of Fort Lauderdale wrote the Subcommittee about Mr. Lambert and mentioned that he had been a resident of that city since 1939. He has been actively involved in community, civic, and marine-oriented activities.

Members of the Board of Cruise America include: Hans J. Hvide, Chairman of the Board of Hvide Shipping Incorporated. He has been involved in shipping since 1935. F.G. Walton Smith, Ph.D., Dean Emeritus, Rosenthal School of Marine and Atmospheric Science, University of Miami. He has been involved with marine and ocean research since 1940. Guy B. Bailey is president of Cat Cay Associaties. He has been involved with a variety of businesses including land development, contracting, manufacturing, operating LPG ships, and marine hardware distribution. Marshall P. Keating, a lawyer since 1955, has worked at a New York firm specializing in maritime law. Most recently he has worked as Counsel to the Liverpool and London Steamship Protection and Indemnity Association, Ltd., insurers of a substantial portion of passenger lines.

Mr. Lambert testified at the June 15 hearing that prior to his efforts to purchase and reflag the Cunard vessels he looked into the feasibility of building a vessel in the United States. He said he had received estimates of $250 and $400 million from two major shipyards, Bath Iron Works and Todd Shipyards, respectively.

CONTESSA CRUISE LINE, INC.

Mr. Dudley R. Briggs is the President of Contessa Cruise Line, Inc., headquartered in Houston, Texas. Mr. Briggs is a retired commercial airline pilot. His experience subsequently has been primarily in various sales enterprises including being a U.S. sales manager for two Danish firms involved with marine services. Contessa, incorporated on May 6, 1983, was formed as a joint venture with Bulkfleet Marine Corporation also from Houston. The President of Bulkfleet is J. Barry Snyder. Bulkfleet owns and operates tug/barge units in the coastwise trade.

At the June 23 hearing, Barry Snyder testified that he personally owned one third of Contessa Line. Bulkfleet, Inc. was to have been the operator of the ship. In a letter to the Chairman of the Subcommittee dated August 9, 1983, Barry Snyder advised that Bulkfleet had withdrawn from the Contessa venture. He has been attempting to secure the return of his investment in Contessa but has not been successful.

He further advised the he is strongly committed to building a cruise ship fleet and operating those vessels in the domestic trade. His company is studying the cruise ship market and is preparing a detailed analysis of the elements necessary and whether it is feasible to support a U.S.-built vessel, crewed by American seamen in the Jones Act trade.

Contessa is proposing to build in the U.S. a large "state-of-the-art" passenger cruise ship, 543 feet long, with an 80 foot beam, carrying 784 passengers and a crew of 300. The long-range plans of the company are to look at a national effort involving possibly as many as six ships by the end of the decade cruising along the entire U.S. coastline.

The first vessel is to operate year round out of Galveston, Texas, servicing Gulfport, Mississippi; New Orleans, Louisiana; Tampa, and Key West, Florida. In the other direction, it will serve the Corpus Christi, Texas to Veracruz, Mexico route and Cancun-Cozumel, Mexico.

Contessa Cruise Line has a number of individual stockholders and the company is presently negotiating with a nationally-known investment firm on various aspects of the financing of the proposal. In addition, they plan to offer limited partnerships and are developing a package to send out to prospective partners. They also will be filing in October an application with the Maritime Administration (DOT) for a Title XI loan guarantee. In terms of future financial stability, the company is looking closely at the convention trade as a major source of operating income.

The company recently sent out about 35 bid packages on possible construction of the first ship. They consider that they received 15 serious bids and will be selecting 3-4 shipyards for "final" discussions. The prices in the bid responses range from $105 million to $180 million, averaging $122 million for one ship. Delivery time estimates were 24 months. The company plans to have a contract to build signed by the end of September 1983, with construction beginning in March, 1984, and delivery in March 1986. They are looking at the possibility of a contract for a second ship with a delivery date six months after delivery of the first ship.

ISSUES SURROUNDING ACQUISITION OF THE CUNARD VESSELS

Some concern has been voiced about the announcement in May by Trafalgar House that it planned to take over the Peninsular and Oriental Steam Navigation Company (P&O). Trafalgar House came to shipping through its 1972 acquisition of Cunard Line (owner and operator of the CUNARD PRINCESS and the CUNARD COUNTESS). P&O dates back to the days of Lord Nelson. It is Britain's largest shipping company. A merger of these two companies would create the world's largest cruise ship operator. P&O has strenuously opposed the takeover bid.

The proposed merger was referred by Mr. Cecil Parkinson, Secretary of State for Trade and Industry, to Britain's Monopolies and Mergers Commission for further study. The effort to block the merger followed colorful corporate battles in which the two companies regularly attacked each other in full-page newspaper advertisements. The Monopolies Commission has until the end of December to examine Trafalgar's bid.

One basis for referral of a merger to the Commission is that the merger might be against the public interest. P&O's executives had suggested that the proposed takeover could reduce Britain's access to shipping in wartime and therefore might be against the public interest. This public interest clause was apparently not a factor in the decision to refer the matter. Mr. Parkinson has made it clear that his reason for studying the bid was that a merger might restrict competition both in the cruise ship market and on cargo routes.

Some Members of the Committee have expressed some doubts, throughout the deliberations on the bill, whether Cunard could sell the vessels in the midst of the previously discussed takeover fight between Trafalgar House (Cunard's parent company) and P&O. Another issue was whether the British Government could or would prevent the sale because of public policy consideration, specifically the loss of these two vessels to the British in time of war.

Trafalgar House, the parent company of Cunard Line, seeks to merge with P&O. P&O would merge into Trafalgar; P&O would disappear and Trafalgar would be the survivor. Since this is the case, Trafalgar (Cunard) could dispose of its assets (the Cunard vessels) as it sees fit before, during, or after the merger. Therefore, the Monopolies Commission decision would not effect the legal question of whether the vessels may be sold to Cruise America Line. On July 5, Congressman Jack Fields wrote a letter to the Monopolies Commission requesting information about the status and scope of their deliberations. An interim reply was received from the Commission. Copies of both letters are attached. Final decision on the merger will be reached on December 15.

Staff contacted the British Embassy to determine whether there are any British laws that could be invoked to prevent the sale of the Cunard vessels to a U.S. company. Attached is the response from Nigel Simpson, Second Secretary Civil Aviation and Shipping, at the British Embassy. It appears that the only

relevant legal powers are contained in the Fair Trading Act of 1973. This Act deals with the authority of the Secretary of State for Trade and Industry to refer a planned merger to the Monopolies Commission. It appears that while this law may be "relevant", the sale of the Cunard vessels to the U.S. would not fall within its ambit.

Cruise America and Cunard have an option contract for the sale of the vessels. Attached is a letter dated June 23, 1983 from Mr. Ralph M. Bahna, President and Managing Director of Cunard reaffirming that company's desire to sell on a condition precedent that the vessels are allowed to enter the U.S. domestic trades. Following the Subcommittee meeting on July 13, Chairman Biaggi called Mr. Bahna, about their plans to sell the vessels. Mr. Bahma reconfirmed that his company intends to sell the vessels, subject to this condition.

Some questions have been raised about the part that the Cunard Line would play in Cruise America and the operation of the vessels if they were allowed to enter the coastwise trade. In the June 23rd letter Mr. Bahna asked that "Cunard or a U.S. affiliate" be given "every consideration to provide marketing or other services to this venture as allowed within law." Officials of Cunard have said, however, that they have no desire whatsoever to have a financial interest in the company.

The Documentation Act and the 1916 Shipping Act stipulate the citizen ownership requirements for a U.S.-flag vessel. The Documentation Act requires that in the case of a corporation the President or other Chief Executive Officer and Chairman of the Board must be U.S. citizens. No more of the directors may be non-citizens than a minority of the number necessary to constitute a quorum.

The Shipping Act requires that a controlling interest (75%) must be owned by U.S. citizens and, as in the Documentation Act, the Chairman and Chief Executive Officer must be U.S. citizens. The same requirement in the Documentation Act for the citizenship of the Board of Directors applies here. In addition the Shipping Act provides that the controlling interest shall not be deemed to be owned by a U.S. citizen if:

1. the title to a majority of the stock is not in U.S. citizen hands
2. the majority of the voting power is not vested in U.S. citizens
3. through a contract or understanding it is arranged that the majority of the voting power may be exercised directly or indirectly in behalf of a non-U.S. citizen
4. by any means whatsoever control of the corporation is conferred on or permitted to be exercised by a non-citizen.

This legislation does not waive these ownership requirements and Cunard's participation in the venture would be circumscribed by these Act.

COMPETITION

Some Members raised concerns that allowing the Cunard vessels into our coastwise trade would drive out small passenger vessel operators. American Cruise Lines, Inc., an operator of small vessels, was represented at the hearing on June 15. ACL operates four vessels with passenger carrying capacity ranging from 56-145. The vessels are the AMERICAN EAGLE, INDEPENDENCE, AMERICA, and SAVANNAH. ACL has a 2.6 million dollar Title XI application on file to build a 90-passenger vessel. ACL's representative expressed concern that competition from the Cunard vessels would harm ACL's operations and potential for growth.

Competition exists among all vacations, since they offer rather similar kinds of experiences. The cruise industry is a relatively small part of the total vacation market, however, it has grown at the same rate as total vacations and has maintained a relatively constant share of the total market. In addition, the cruise industry depends on repeat passengers. Various surveys show that as many as 40 percent of cruise passengers are repeaters. Some cruisers try different lines and vessels each time they travel; others, after finding a particular line or vessel to their liking may take repeated trips on that company's vessels. Cruise operators, recognizing this, direct their marketing to this repeat vacationer ("Analysis of the North American Cruise Industry"). Another important factor is that only 3-5 percent of the U.S. citizens have ever taken a cruise. This would indicate a great potential for growth in this market.

Various factors are considered by a potential cruise traveler when deciding which vacation to take including ports of call; size of vessel and amenities offered; and, cost.

Staff contacted a representative of the International Passenger Ship Association who advised that the selection of a cruise vacation is impacted most by the itinerary for first time cruisers. For repeat cruisers, the itinerary becomes less of a factor and the vessel, the service, and the operator become more significant.

American Cruise Line operates their vessels on the East Coast from Maine to Ft. Myers, Florida traveling on the inland waterways or within 20 miles of the U.S. coastline.

The Cunard vessels are to be operated on the Great Lakes, East Coast, Gulf Coast, and West Coast to Alaska, on a seasonal basis. Much of their cruising would be deep sea.

A second factor is the service and amenities a vessel offers. The Cunard and the ACL vessels are very different. A brief comparison of some basic aspects of the vessels follows:

	CUNARD	ACL
passenger capacity	900+	56-145
length	536'	141'-210'
swimming pools, movie theatre, commercial bars, hospital, night clubs, hair salons, gymnasium, sauana, jacuzzi, paddle tennis court, closed circuit TV, valet laundry	Yes	No

Bearing these differences in mind, one can speculate that some individuals might be attracted to the larger luxury liner with hundreds of people and myriad entertainment and recreational opportunities. Some individuals may prefer to take a quieter cruise on a smaller vessel with fewer people. Furthermore, there may be some people to whom both trips might appeal at one time or another.

The cost of the trip is another consideration. The differences between the very best accommodations on a large luxury passenger vessel, and the smaller ACL vessels is most outstanding in the deluxe accommodations. The differences in price is somewhat less significant on the lowest price rooms. The following is a comparison of these differences. (see page 13a)

While there may be competition between these vessels just as there is competition among all types of vacations, the question is whether these foreign-built, larger vessels will put the smaller ones out of business. This is a difficult question to answer, however, certain facts may be noted. The smaller vessels have continued to operated even after the end of U.S.-flag luxury line service. The smaller vessels have also continued to operate even with the large number of passenger ships calling or homeported at U.S. ports. These foreign-flag vessels are not permitted to engage in the coastwise trade, yet Customs has ruled they may make as many as four stops at U.S. ports provided they have touched at a foreign port. It may be further noted that the various vessels in the same class and size bracket such as the 88-passenger vessels operated by Exploration Holidays and Cruises, Inc. on the West Coast, or the 100-passenger "ultra-yacht" operated by Clipper Cruise Line, might offer more direct competition than the larger luxury passenger ships.

COST COMPARISONS.

Seven day cruises

	AMERICAN HAWAII CRUISES (U.S. Flag) CONSTITUTION, INDEPENDENCE Passenger capacity: 750 Decks: 7	CUNARD (Foreign Flag) COUNTESS, PRINCESS Passenger capacity: 900+ Decks: 6	AMERICAN CRUISE LINES (U.S. Flag) AMERICAN EAGLE, INDEPENDENCE, AMERICA, SAVANNAH Passenger capacity: 56-145 Decks: 3
Deluxe suite Outside (Uppermost Deck)	$2,295.00	$2,075.00 (Alaska Summer Rates)	$980.00 (All rooms appear to be outside rooms)
Lowest Deck	$895.00 (inside room)	$1,190.00 (Alaska Summer Rate)	$875.00 (outside room)

U.S. CONSTRUCTION COSTS

Congressman Jack Fields wrote to 27 major shipyards asking for responses to questions regarding their interest, capabilities, time constraints, and price estimates to construct a passenger ship comparable to the CUNARD PRINCESS and the CUNARD COUNTESS.

The following is a brief compilation of the building time and cost estimates provided to Congressman Fields. The Congressman requested that the confidentiality of this proprietary data be protected and that the material be for Committee use only. Therefore, in an effort to preserve confidentiality no shipyard names have been used. All response letters are on file with Majority and Minority offices.

SHIP-YARD	TIME	COST
1.	Assuming timely receipt of major components and optimal use of resources first vessel's completion time is 24-30 months. Follow-on vessels would require less time based on learning curves.	$150-$225 million
2.	36 months from the date of contract award, assuming all design and engineering data is complete and certain long-lead procurement orders, e.g., main engines or boilers, have been placed.	$280-300 for 900-passenger ship of luxury standard. $175-200 million if the owner determines that passenger volume is more desirable than cruise luxury, and if he is willing to compromise on size, speed, outfitting and comfort.
3.	34 months	$175 million
4.	45 months	$90 million
5.	36 months after contract award for first vessel; second vessel of same class to follow six months later.	$200-250 million depending on the impact of inflation
6.	42 months for the first 784-passenger vessel; second vessel to follow 12 months later.	$100-150 million.
7.	24 months for the first vessel; 30 months for the second vessel from the date of contract award.	$65-75 million for a 600-passenger vessel. $100-110 million for a 900-passenger vessel.

8.	34 months after contract award.	$140 million for a vessel comparable to the Cunard vessels; the price would escalate to $160 million assuming 6% inflation per year.
9.	Assuming overlap and based on progressive delivery of hull and outfit materials, each vessel would require a minimum of 30 months; a two ship order would require 45 months.	No cost estimate provided.
10.	42 months assuming that design and engineering are complete to contract level. If detailed engineering, including usable working drawings and reliable bills of material are available, this time could be reduced by at least six months or more.	$200-250 million.
11.	24-32 months depending on design, features, etc.	$150-200 million.
12.	Building time depends on complexity and size; 500'-550' could take between 33-40 months; 700'-750' could take between 34-42 months.	Cost also depends on complexity of interior design, length, and the development of the detailed design. 500'-550' - between $100-$150 million. 700'-750' - between $160-$250 million.
13.	36 months if working drawings are provided; working drawings would add 9-12 months to the time if they had to be drawn up.	700-passenger vessel: $70-84 million; 900-passenger vessel: $90-108 million
14.	36 months - 60 months	No cost estimates provided.
15.	42 months for the first ship; if two ships are being built by a shipyard, the second vessel could commence at the 18 month point and complete within 42 months. Total time for both: 60 months.	$120-140 million.

16.	"It is difficult and often misleading to estimate the price and time required to build a ship especially a cruise ship without seeing the details of a design package. The quality of the outfitting alone can cause a ship price to vary by 25 percent or more."	No cost estimate provided.
17.	"We regret that we cannot comment on both cost and schedule unless provided the proposed specifications for these ships." "It is interesting to note that the June 15, 1983, issue of the WALL STREET JOURNAL announced that a contract for the construction of two large cruise ships with delivery dates of 1986 and 1988 valued at $261.9 million had been awarded to a Swedish shipyard by Carnival Cruise Line, Ltd., of Miami, Florida. This provides a current indication for the potential cost for ships such as Cruise America Line, Inc., wants in today's world market."	No cost estimate provided.

Three other yards responded but did not provide cost or building time estimates.

Since the last large passenger vessel was built in the United States in 1958, these shipyard figures are merely projected estimates. Some inference of what it would cost and how long it would take to build a vessel here can also be drawn from experience overseas and predicted costs of overhauling the UNITED STATES.

Staff contacted the Maritime Administration for information about costs and building time experience in foreign yards. Foreign yards are generally heavily subsidized by their governments so the sale price of vessels is a distorted price. Actual values of the vessel would be considerably more if subsidies were not considered. According to the Maritime Administration the differential between costs in U.S. versus a foreign yard is one-third to one-fourth less.

Some examples of passenger cruise ships built in foreign yards follows:

> May 1981 - Holland America ordered a 32,000 GRT vessel from a yard in France; passenger capacity 1360; delivery January 1984 -- $135 million
>
> Early 1982 - P&O placed an order at a yard in Helsinki, Finland for a 40,000 GRT vessel; 1200 passenger capacity; estimated delivery 3 years -- $150 million
>
> 1982 - Cornwall Cruise Lines built a 45,000 GRT vessel in Copenhagen -- $172 million
>
> November 1978 - Hapag Lloyd contracted with Bremer-Vulkan shipyard to build the EUROPA, a 20,000 GRT 600-passenger vessel; it was delivered in 1982 -- $85 million (Kendall, The Business of Shipping, 1983).

MARAD advises that the predominant builders of cruise ships are shipyards in Finland, Norway, and France. They, therefore have at their immediate disposal the necessary expertise, labor, and materiel to build these vessels.

Information supplied to the Subcommittee shows that the owners of the UNITED STATES plan to rehabilitate this large ocean liner and reinstitute service. The UNITED STATES was built at Norfolk in 1952. She is 990 feet long and could accommodate 1500 passengers. Mr. Richard Hadley, President, United States Cruises, plans to operate the vessel. At the hearing on June 15, Mr. Hadley testified that it would cost $500 million to build the ship today in the United States. The shipyard that was to have renovated the ship estimates the renovation would cost $150 million and two to two and one-half years to complete.

In a response to a request for an estimation of the cost of a new passenger ship to be constructed in the United States, J.J. Henry Co., Inc., Naval Architects, sent a letter providing the following information:

> "...It is our opinion that foreign built passenger ship prices would cost 60-70 percent of the U.S. shipyard prices, assuming that comparable passenger ships continue to be built in North Europe."
>
> "Our staff has analyzed new overseas passenger ship construction prices starting in 1980 and developed a price per passenger berth for 1986/87 delivery for European built passenger ships. It is our opinion that the price per passenger berth would range from 135,000 to 160,000 U.S. dollars. Therefore, we would expect the price of a 900 passenger ship to be in the range of 113 to 135 million U.S. dollars when built in Europe. Accordingly, a 900 passenger ship built in the United States and delivered in 1987 would be priced in the range of 175 to 240 million U.S. dollars. Detailed study would be required to narrow this range."

TITLE XI APPLICATIONS

Staff contacted the Maritime Administration's Domestic Financing Guarantees Office to determine what Title XI loan applications for passenger ships had been submitted since January of 1983. The following are the only applications on file, none of which have been approved:

American Flag Ship, Inc. 126 East 56th Street New York, New York	1400 oceangoing passenger ship Actual Cost: $757 million Title XI: $568 million
American Cruise Line, Inc. 1 Marine Park Haddam, Connecticut	90-passenger cruise vessel Actual cost: $3.7 million Title XI: $2.6 million
Coastal Cruise Line, Inc. 120 South Central Avenue St. Louis, Missouri 63105	Three 100-passenger vessels (1) Actual cost: $8.7 million Title XI: $6.5 million (2) Actual cost: $9.7 million Title XI: $7.3 million (3) Actual cost: $10.1 million Title XI: $ 7.6 million

Great Alaska Boat Company 312 Park Place Building Seattle, Washington 98101	92-passenger vessel Actual cost: $3.6 million Title XI: $2.7 million
Hyannis Harbor Tours Pier One Ocean Street Hyannis Massachusetts 02601	110-passenger vessel, Actual cost: $6.6 million Title XI: $4.9 million

TAX RAMIFICATIONS

The Library of Congress has been requested to analyze what benefit or effect the recent changes in the tax laws could have on the passenger ship industry. That information will be circulated to Members separately.

Enc

BRITISH EMBASSY
3100 Massachusetts Avenue NW Washington DC 20008
Telex Domestic USA 89-2370/89-2384
Telex International 64224(WUI)/440016(ITT)
Telephone (202) 462-1340

Miss Cyndy Wilkinson
House Merchant Marine Subcommittee
Room 531
House Annex 2
Washington DC 20515

Your reference
Our reference ECOS 175/14/6
Date 22 August 1983

Dear Cyndy

You asked me whether there are any British laws which could be invoked to prevent the sale of the Cunard Princess and Cunard Countess to a US company. The following paragraphs describe the only relevant legal powers.

Under the Fair Trading Act (FTA) of 1973 the Secretary of State (for Trade and Industry) has order making powers:

(a) under Section 74 to prevent actions during the course of a merger reference which would prejudice the reference or impede the taking of action under the FTA which might be warranted by the Monopolies and Mergers Commission's report on the reference;

(b) under Section 73 in the event that the Monopolies and Mergers Commission's report concluded that a merger operates or may be expected to operate against the public interest, to remedy or prevent the adverse effects specified in the report. This power does not come into effect until a report is published and laid before Parliament.

These powers can include restrictions on the disposal of assets. However, they are rarely used. Usually voluntary undertakings are sought from the bidder to comply with certain conditions.

The orders and undertakings are aimed exclusively at meeting the circumstances described at (a) and (b) above. The sale of Cunard vessels to the US would not fall within their ambit.

Yours sincerely
Nigel Simpson

N G Simpson
Second Secretary
Civil Aviation and Shipping

CUNARD
Cunard Line Limited
555 Fifth Avenue, New York, N.Y. 10017
(212) 880-7333

RALPH M. BAHNA
PRESIDENT AND MANAGING DIRECTOR

June 23, 1983

Mr. Robert L. Lambert
President
Cruise America Line, Inc.
2300 East Las Olas Boulevard
Fort Lauderdale, Florida 33301

Dear Mr. Lambert,

Following our recent discussions, we confirm that Cunard is prepared to sell to Cruise America, on terms to be mutually agreed, the cruise ships Cunard Countess and Cunard Princess for Cruise America's operation in the U.S. flag domestic trade.

This sale would, of course, be contingent on your agreement to undertake any modification necessary for U.S. registration and to give Cunard or a U.S. affiliate every consideration to provide marketing or other services to this venture as allowed within law.

It is acknowledged that both Cruise America and Cunard's completion of the foregoing transactions is subject to governmental approvals or objections, and it is recognized that both Cunard and Cruise America will require a certain amount of lead time prior to delivery -- Cunard to protect published schedules and Cruise America to have time for introductory marketing.

Yours sincerely,

Ralph M. Bahna

Ralph M. Bahna

Congress of the United States
House of Representatives • Washington, D.C. 20515

COMMITTEE ON MERCHANT MARINE AND FISHERIES

July 5, 1983

United Kingdom Monopolies and
Mergers Commission
New Court
48 Carey Street
London, England
WC2
Attention: E. H. Whitaker

Gentlemen:

I am a Member of the United States House of Representatives.

By way of news reports in various U. S. publications, I am advised that the pending hostile takeover of Peninsula and Orient Steam Navigation Company ("P&O") by Trafalgar House has been referred to the U. K. Monopolies and Mergers Commission. I understand that an item of review by the Commission is the possible sale of the Cunard Princess and the Cunard Countess, two Trafalgar House cruise ships, to Cruise America Line, Inc., a U. S. corporation. I further understand that heretofore Trafalgar House has denied there is a contact to sell the cruise ships to Cruise America.

As the Commission may be aware, there is under consideration in the Congress of the United States legislation that would permit the Princess and the Countess to operate as passenger cruise ships under U. S. ownership in what is referred to as the coastwise trade between American ports. Under U. S. law only ships built, crewed and maintained in the United States can operate in this trade. In the House of Representatives this legislation is known as H. R. 2883. In the Senate it is known as S. 1197.

Currently, the legislation is being considered by the Merchant Marine Subcommittee of the Committee on Merchant Marine and Fisheries of the House of Representatives. I am a member of the Committee and serve on the Subcommittee. On June 15, 1983 and June 23, 1983 hearings on H. R. 2883 were held by the Subcommittee at which proponents and opponents of the bill were invited to testify.

At the hearing on June 15, 1983, testimony was presented by Mr. Robert L. Lambert, a Florida financier who is president of Cruise America. Mr. Lambert is the primary advocate of the proposed legislation and he testified that he has "definite arrangements" to buy the Countess and the Princess from Trafalgar House. He elaborated about the proposed U. S. itineraries of the ships, the planned renovations and capacities, and the labor agreements reached. He further discussed the number of direct American jobs that will be created if American documentation is authorized. He also testified as to the value of annual overhaul work that will be required in

[illegible]
Washington, D.C. [illegible]
[illegible]

[illegible]
Houston, Texas [illegible]
[illegible]

American shipyards($5 million plus per year per ship, not counting renovations and improvements) and estimated the revenue per passenger that will be generated at each American port-of-call ($250.00 per passenger per ship per day with an anticipated 900 passengers per ship). Mr. Lambert also noted that the vessels would be operating exclusively in American waters within 6 to 9 months from passage of the legislation. During that 6 to 9 month period each ship will be made to conform to U. S. safety standards in U. S. shipyards at a cost of $2 million per ship.

During his testimony and during questioning from members of the subcommittee, Mr. Lambert emphasized that the vessels could be converted to hospital or troop ships in the case of a U. S. national emergency, as was the Countess during the recent Falklands war. More significantly, when asked about the P&O and Trafalgar House dispute, Mr. Lambert said it would have no effect on his company's definite arrangements to buy the vessels. He described the takeover matter as "infighting."

Mr. Lambert declined to reveal the purchase price of the ships but it has been reported as being in excess of $100 million. Mr. Lambert noted, however, that the information will be made public "after the completion of the sale." I have the full transcript of Mr. Lambert's testimony, if you are interested.

On June 23, 1983, I requested that the subcommittee make formal inquiry to Trafalgar House and the Commission regarding this possible sale. This was agreed to by the Chairman, the Honorable Mario Biaggi. It appears to me that the putative parties to the transaction are providing different versions of their dealings, depending on the forum. In that regard, the Commission may wish to consider making inquiry of Mr. Lambert and the subcommittee.

This legislation involves a fundamental policy premise that has undergirded U. S. maritime legislation for 50 years, to wit: non-U. S. built vessels can not operate in the U. S. coastwise trade. I am concerned that this policy should not be excepted selectively by and for special interests whose real motivations are not necessarily revealed. For example, U.K. tax avoidance may be a Trafalgar House motivation, or the sale of the Countess and the Princess may be the means by which Trafalgar House intends to finance its takeover of P&O. Also, avoidance of U.K. maritime labor agreements may also be a Trafalgar House motivation. I believe the Commission may have similar concerns.

United Kingdom Monopolies and
Mergers Commission
July 5, 1983

Accordingly, I would appreciate it if you would provide me with information concerning the status and scope of the Commission's inquiry, particularly as it relates to the possible sale of the Princess and the Countess.

Please feel free to contact me if I can provide further information to you.

I appreciate your assistance in this most important matter and look forward to hearing from you in the very near future.

With best wishes, I am

Sincerely,

Jack Fields

JACK FIELDS
Member of Congress

JF:hb

MONOPOLIES AND MERGERS COMMISSION
New Court
48 Carey Street
London WC2A 2JT
01-831 6111 2001

Mr Jack Fields
Member of Congress
House of Representatives
Congress of the United States
Washington DC 20515

18 July 1983

Dear Mr Fields,

Thank you for your letter of 5 July addressed to my predecessor Mr E H Whitaker.

2. The Secretary of State for Trade and Industry decided on 21 June to refer the proposed acquisition by Trafalgar House PLC of the Peninsular and Oriental Steam Navigation Company to the Monopolies and Mergers Commission for investigation and report under the provisions of the Fair Trading Act 1973. The Commission are required to investigate and to report to the Secretary of State within six months whether the merger operates or may be expected to operate against the public interest. In assessing the public interest the Commission are required to take into account all matters which may be relevant to the particular circumstances and to have regard to the desirability of:-

(a) maintaining and promoting effective competition between persons supplying goods and services in the United Kingdom;

(b) promoting the interests of consumers, purchasers and other users of goods and services in the United Kingdom in respect of the prices charged for them and in respect of their quality and variety of goods and services supplied;

(c) promoting, through competition, the reduction of costs and the development and use of new techniques and new products, and of facilitating the entry of new competitors into existing markets;

(d) maintaining and promoting the balanced distribution of industry and employment in the United Kingdom; and

(e) maintaining and promoting competitive activity in markets outside the United Kingdom on the part of producers of goods, and suppliers of goods and services, in the United Kingdom.

3. The Commission's eventual report to the Secretary of State may recommend that a merger should be allowed, allowed on conditions or prevented. The Commission's recommendations are confidential until they are announced by the Secretary of State who is not obliged to endorse any recommendation of the Commission that a merger be prevented.

4. Trafalgar House has given undertakings to the Secretary of State not to proceed with its proposal and these undertakings remain in force until the Secretary of State has decided what action to take on the Commission's report. Otherwise the operations of the two companies are not affected by the merger reference.

5. In the course of their investigation the Commission are prepared to consider representations from any quarter on the merger and its effects. If you consider that the US legislation designed to facilitate the operation of the Cunard Princess and Cunard Countess under the US flag is relevant to the Commission's assessment of the public interest and wish to make representations to the Commission, you are quite free to do so. The same would apply to any representations which other members of Congress might wish to make, individually or collectively.

Yours sincerely,

M G PETTER

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

September 13, 1983

TO : Merchant Marine and Fisheries Committee,
Subcommittee on Merchant Marine
Attention: Cyndy Wilkinson

FROM : Thomas Woodward
Analyst in Public Finance
Economics Division

SUBJECT : Effect of Recent Tax Changes on the Passenger Liner Industry

This memorandum is in response to your inquiry concerning the impact of recent changes in the tax code on the operations of passenger liners. While there have been substantial changes in depreciation under the Economic Recovery Tax Act of 1981, there appears to be little research available that sheds much light on the likely effects of those changes on the liner industry. However, a general idea of the magnitude of these effects may be imputed from data provided by the Department of Commerce's Maritime Administration.

Two tax changes are relevant to an analysis of the passenger liner industry. First, depreciation allowances for tax purposes were substantially increased under the 1981 law. This should have had the effect of decreasing the capital costs in the industry. Second, business deductions are now allowed for meetings and conventions on U.S. Jones Act cruise vessels. This is a partial reversal of the 1980 tax change which prohibited deductions for such activities outside the U.S., and, thus, should have the effect of raising demand and revenues in the industry.

In its report, "Analysis of the North American Cruise Industry," the Maritime Administration provided estimates of the operating costs per day of various size passenger liners at different levels of utilization and with different amounts of investment. 1/ According to their figures, a 750 passenger ship with a $100 million investment entails a total cost (at 80 percent utilization) of $161,400 per day. Corporate income taxes affect the capital costs portion of this expense. These costs may be imputed on the basis of what they would be if the capital were rented, consisting of depreciation, interest, and taxes with allowance for inflation. For a ship, this rental cost is estimated to have been 13.9% before the tax cut and 12.2% afterward. 2/ This is an 11.6% fall in the capital cost of operating a cruise vessel.

Whether or not this would prompt additional investment in the industry would depend on the sensitivity of investment to capital costs. An idea of how big this impact might be can be derived from the cost estimates above. If capital and labor are not very interchangeable in the industry (as one might expect), then the cut in capital costs should reduce daily operating expenses from about $46,200 to $40,800. 3/ This is approximately a 3.5% fall in total costs. If one knows how many more passengers will use cruise ships as a result of a 3.5% fall in the price, and how many more ships would be necessary to accommodate them, one has an idea of the financial incentive to construct more vessels. Presumably this is small.

1/ Department of Commerce. Appendix C. October 1980.

2/ See U.S. Library of Congress, Congressional Research Service. Effective Tax Rates Under the Accelerated Cost Recovery System and the Tax Equity and Fiscal Responsibility Act of 1982, by Gregg A. Essenwein and Jane Gravelle, January 3, 1983, for an explanation of the formulas and assumptions used in these calculations.

3/ The rental costs of 13.9% and 12.2% are multiplied by $100 million and divided by 300, the number of operating days that appears to have been used in the Maritime Administration study.

The final impact on costs is likely to be even smaller. The tax incentives were made available for investment in all sectors of the economy, not just the maritime industry. Consequently, a rise in the demand for investment goods can be expected to occur throughout a wide spectrum of industries. However, total investment in the economy depends on the amount of saving available to provide the real resources needed to cover the borrowing for this investment. Unless saving increases as a proportion of income, the principal outcome of the tax incentive and resulting increase in investment demand will be a rise in interest rates. This interest rate increase could be a substantial offset to the capital cost savings that are supposed to result from reduced taxes. Indeed, if total economy-wide investment is essentially fixed by the amount available to borrow, then the effect of the tax cut will be only to reallocate investment among industries--not raise the total. In that case, the absolute level of the tax cut for an industry would not be the determinant of whether investment for that industry increases. Instead, the value of an industry's tax cut relative to the cuts for all other industries would be the relevant measure. The possibility exists that the tax cut could actually raise costs in a particular industry if the cut in taxes that the industry receives is a smaller cut than other industries get. 4/ Consequently, when the total, economy-wide effects of the tax cut are considered, the estimated cost reduction calculated above becomes at best the maximum potential effect of the tax cut on the costs of the passenger liner industry. The net effect is likely to be even smaller and possibly even negative (i.e., costs go up).

4/ Since ships are relatively long lived assets, the maritime industry is likely to be a net beneficiary of the tax cut, however.

Tracing the impact of the deductibility of conventions and meetings on domestic cruise liners is more difficult than making cost estimates such as those provided above. Since the 1980 tax law changes disallowed deductions for meetings and conventions abroad, and the 1983 tax change permitted the cruise ship deductions, the combined effects of the two changes should bring a certain amount of new business to the passenger liner industry. This should have the effect of increasing returns to the industry either by boosting utilization of current capacity and therefore raising revenues at little extra cost, or by pushing up the prices of cruises.

The magnitude of this revenue increase would be primarily determined by the responsiveness of cruise demand to price changes in alternative foreign travel. This is because other foreign travel is a substitute service and the disallowance of business tax deductions for conventions and meetings abroad constitutes an increase in the price of such activities. If travel on cruise ships is a close substitute for travel abroad then one can expect a substantial shift in business to the passenger cruise industry as a result of the tax change. If the two are not close substitutes, then little new business will be picked up by the cruise industry.

There appear to be no estimates available of this crucial measure. Presumably, a very high degree of substitutability would be necessary to raise revenues enough to stimulate new investment in the industry if such investment tends to be very costly and has not been undertaken before. However, even this assertion cannot be made with much certainty, and no estimates can be made of the degree of substitutability that would have to exist for this change in tax treatment to stimulate new investment in the industry.

AUSTIN TRAVEL "The Travel Agency That Cares"
Corporate Headquarters: 219 South Service Road, Plainview, N.Y. 11803 • (516) 752-9100

June 9, 1983

The Honorable Mario Biaggi
Chairman
Sub-Committee on Merchant Marine
Room 531, House Annex 2
Washington, D. C. 20515

RE: H.R. 2883/S. 1197

Dear Chairman Biaggi:

I am the President of Austin Travel, a retail travel agency and wholesaler with ten outlets throughout Long Island. I have been in the travel business for 28 years, having witnessed the demise of the U. S. passenger cruise industry which today is almsot totally monopolized by foreign operators.

We are well aware of the success of the foreign operators which set sail weekly from our shores, full to capacity. Americans have not, unfortunately, fared as well in the cruise business. The pride of our Merchant Marine, the S. S. United States, was laid up in 1969, probably never to return to service; the Grace Line's Santa Paula and Santa Rosa were withdrawn in the early 1970's. The two Pacific Far East Line vessels, Mariposa and Monterey were the last to go; the Mariposa today lies at anchor somewhere in the Far East, and the Monterey listing to port in San Francisco's China Bay.

If we are to have a viable U. S. Passenger Fleet consisting of modern, up-to-date tonnage which can effectively compete with the plethora of new foreign cruise vessels, you must enact H.R. 2883/S. 1197. This measure would provide for two of the newest liners afloat to operate in our coastal waters on unique new itineraries, appealing to both Americans and foreigners.

In short, your immediate attention is required of this Bill in order to revitalize our scuttled U. S. Passenger Fleet.

I respectfully request that you submit this statement for the record on the hearings of H.R. 2883.

Very truly yours,

AUSTIN TRAVEL CORP.

Larry Austin
President

LA:paj

ESTABLISHED 1870

R.S. STERN, INC.

SHIP CHANDLERS INSTITUTIONAL SUPPLIES

1000 S. Highland Avenue Box 8872
Baltimore, Maryland 21224 U.S.A.
(301) 342-7676 Cable:Sternbro Telex:87-439

June 10, 1983

Congressman Mario Biaggi
2428 Rayburn House Office Building
Washington, D.C. 20515

RE: H.R. 2883

Dear Congressman Biaggi:

As President of the National Association of Marine Services, Inc., a trade association of America's largest ships' stores and steamship supply companies, I ask you to support H.R. 2883.

This is a Bill to permit the M/S "Cunard Countess" and the M/S "Cunard Princess" to be redocumented to the American flag. These two Caribbean passenger ships presently carry thousands of American passengers in the Caribbean cruise trade, an industry in which there is not a single American flag vessel.

This Bill would provide American seamen with up to 1000 new jobs, and in an emergency, these vessels could be used as troopships or hospital ships, if necessary. Also, the Tourist industry could offer Americans a new vacation package, an American coastwise cruise.

I urge your support of H.R. 2883 and would appreciate your keeping me advised on this Bill. Please include this letter as part of the permanent record.

Very truly yours,
R. S. STERN, INC.

Alan H. Kotz,
President

AHK/Jmb

FULL SERVICE TO THE MARITIME INDUSTRY

bassra

Bay Area Ship Repair Association

THE FERRY BUILDING, Rm. 2000, San Francisco, CA 94111, (415) 391-8000 Ext. 323

June 13, 1983

The Honorable Mario Biaggi
Subcommittee on Merchant Marine
Room H2-531, Annex II
300 "D" Street, S. W.
Washington, D. C. 20515

Dear Chairman Biaggi:

On behalf of the San Francisco Bay Area Ship Repair Association, I am writing to support the passage of H.R. 2883, a bill to permit entry of the CUNARD PRINCESS and the CUNARD COUNTESS into the U.S. coastwise trade.

We have been advised that the company operating the vessels, Cruise America Line, Inc., intends to homeport the CUNARD PRINCESS in San Francisco. This will generate ship repair work which the local industry desperately needs. We further hope in the redocumentation of these vessels, that the conversion work will be done is U.S. shipyards.

The swift passage and enactment of this legislation will be a positive example to the U.S. maritime industry that the 98th Congress is putting words into action. The San Francisco Bay Area Ship Repair Association strongly supports H.R. 2883.

Sincerely,

Ronald L. Stone
Secretary Treasurer

RLS/prl

cc: Walt Willard
Reb Blake

Bay Area Ship Repair Association Steering Committee:

PRESIDENT: Walt Willard
VICE PRESIDENT: Reb Blake II
SECRETARY TREASURER: Ronald L. Stone

MICK ALLAIN/Service Engineering Co.
REB BLAKE II/Harbor Electric Co.
CLARENCE BRIGGS/Bay Cities Metal Trades Council
JOHN DAWSON/West Winds, Inc.
AL ENGEL, Jr./Triple "A" Shipyards
PETER GOSMAN/Office of Mayor Dianne Feinstein
BOB HAYDEN/San Francisco Chamber of Commerce
JAMES E. KAUHE/Todd Shipyards Corp.
JOHN LAPPIN/International Brotherhood of Electrical Workers
GAYNE MARRINER/Bethlehem Steel
TOM PATTERSON/Maritime Administration
RONALD L. STONE/Port of San Francisco
MEL WALL/Oakland Chamber of Commerce
CHARLES WARNER/Bayshore Metals
WALT WILLARD/Willard Marine Decking, Inc.

Chris Travel Travel Travel Travel Travel Travel Inc.

June 20, 1983

The Honorable Mario Biaggi
Chairman
Subcommitee on Merchant Marine
H2-531, Annex II
Washington, D. C. 20515

RE: H. R. 2883

Dear Chairman Biaggi:

I have been reading with great interest about Cruise America Line's efforts to bring into American flag and operate intra-city the two Cunard ships, Countess and Princess. Our industry is in great need for new cruise destinations, and we are excited about the prospects of offering our clients the opportunity of cruising on large American flag ships with all the amenities of the 'Love Boats', which our company has chartered in the past.

We are aware of no new major U.S. flag passenger ships having been built in at least twenty five years, and despite the continuous stream of annoncements concerning new ships (that never materialize), believe that the only feasible and immediate answer to our U.S. passenger ship dilemma is to utilize, where possible, modern ships built in foreign yards.

We urge your assistance in passage of H.R. 2883 before another twenty five years pass and request that you include this letter in the record of the hearings on H.R. 2883.

Sincerely,

Robert Christiansen
President

P.S.
W/ High Hopes for Providence, Newport
And Fall River Ports

Robert Christiansen • 269 South Main Street • Providence, Rhode Island 02903 • Telephone 401-274-2140

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DIRECTOR
SHIPBUILDING AND MARINE CONFERENCE

BLACKSMITHS · FORGERS & HELPERS

Kansas City, Kansas 66101

614 RAILWAY LABOR BUILDING
400 FIRST STREET, N. W.
WASHINGTON, D. C. 20001
LONG DISTANCE AREA CODE 202
638-8766

June 22, 1983

Hon. Mario Biaggi, Chairman
Subcommittee on Merchant Marine & Fisheries
2428 Rayburn House Office Building
Washington, D. C. 20515

Dear Mr. Chairman:

I wish to put our organization on record as being opposed to the passage of H.R. 2883, the bill to permit entry of the Cunard Princess and Cunard Countess into the coast-wise trade.

As you are well aware, because of Administration policies, there is very little, if any, commercial shipbuilding for the U.S. yards with the recent announcement by Secretary Lehman that the Navy's ambitious expansion plan is being reduced to a range of 10 billion to 13 billion dollars annually for the foreseeable future. This combined with the enactment of H.R. 2883 will certainly mean the closure of several American shipyards.

We did not object when your Committee legislated assistance to the Independent and the Constitution by putting them under the American flag and allowing them to operate between California and the Hawaiian Islands. The rationale, at the time, was it would be beneficial to the seagoing unions and we were only talking two ships. Now, the same group is back asking for two more.

The fact that Cruise American Lines Inc. has not even acquired the two vessels in question seems to be putting the cart before the horse. If this bill is passed, they would be the sole beneficiaries at the expense of the American shipbuilding industry.

I should also like to point out that it is estimated that in up front cost alone each vessel will have to undergo several million dollars worth of repair work in order to meet Coast Guard standards. No where has the representative of Cruise American Lines Inc. indicated that this work would be done in American shipyards. He does say, however, that as required by U.S. law all future repairs, maintenance, and overhaul would be performed in U.S. shipyards.

With yards closing and thousands of shipyard workers unemployed, I am reliably informed that there are several groups in the United States presently negotiating to build cruise ships in American shipyards. If H.R. 2883 passes, I am sure these people will have second thoughts.

It occurred to me that if the Committee really wanted to do something for the cruise business they would consider legislation that would either bar foreign-flag cruise ships from using U.S. ports or at the least put drastic limitations on them.

For your information and despite what you have been told, the AFL-CIO, the Metal Trades Department and the Maritime Trades Department all fully support the Jones Act and oppose any waivers.

Mr. Chairman, by defeating H.R. 2883, your Committee has an opportunity to underscore Congress' resolve to improve and utilize this nation's shipbuilding mobilization base and at the same time to preserve the integrity of the Jones Act once and for all.

I would appreciate very much your inserting this letter into the Record.

Respectfully,

Page Groton, Director
Shipbuilding and Marine Conference

PG/bjw
opeiu 320 afl-cio

CITY OF
PORTLAND, OREGON
OFFICE OF THE MAYOR

Francis J. Ivancie, Mayor
1220 S.W. 5th Avenue
Portland, Oregon 97204
(503) 248-4120

June 23, 1983

The Honorable Mario M. Biaggi
Chairman, House Subcommittee
on the Merchant Marine
Room 531
House Annex II
Washington, D.C. 20515

Dear Congressman Biaggi:

Please include the following written statement into the Hearing on H.R. 2883.

At present there are a significant number of foreign flag cruise ships servicing Alaska, producing a total cruise revenue which exceeds $300m per year.

Unfortunately, because of the Jones Act, these foreign ships depart from Vancouver, British Columbia, and bypass Northwest ports. The resulting loss to the economy of the states of Oregon and Washington is substantial. Accordingly, the City of Portland, Oregon strongly endorses efforts by Cruise America Line to commence U.S. flag operation using the ships Cunard Countess and Cunard Princess which would be reflagged American and carry American crew.

The City of Portland strongly endorses passage of H.R. 2883, to permit the Cunard Princess and the Cunard Countess to engage in the coastwide passenger trade.

Sincerely,

MAYOR

FJI/lsu

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western union **Telegram**

1-009877C174 06/23/83
TLX CENTROPORT NLN
01 NEW ORLEANS, LA. JUNE 23,1983
PMS THE HONORABLE MARIO BIAGGI
CHAIRMAN SUB-COMMITTEE MERCHANT MARINE
&FISHERIES COMMITTEE
H2-531 ANNEX 2
CAPTIOL HILL DC 20515

CHAIRMAN BIAGGI

AS ONE OF THE NATION'S LARGEST SEAPORTS, NEW ORLEANS, WISHES TO EXPRESS ITS SUPPORT OF H. R. 2883 AS AN IMMEDIATE MEANS OF BOLSTERING OUR RAPIDLY DIMINISHING U. S. FLAG MERCHANT MARINE AND PROVIDING JOBS FOR U. S. SEAMEN AND DOCK WORKERS.

OVER THE YEARS, NEW ORLEANS HAS HOSTED MANY CRUISE VESSELS, PRACTICALLY ALL OF FOREIGN FLAG REGISTRY. IN FACT, IN 1975, NEW ORLEANS BASED SOVIET FLAG PASSANGER VESSELS CARRIED MORE AMERICAN PASSANGERS FROM OUR SHORES THAN ALL AMERICAN OWNED, AMERICAN FLAGGED, AMERICAN CREWED CRUISE SHIPS COMBINED.

WE LOOK FORWARD WITH PLEASURE TO WELCOMING IN THE NEAR FUTURE THE U. S. COUNTESS AND PRINCESS FLYING THE STARS AND STRIPES.

PLEASE INCLUDE THIS STATEMENT FOR THE RECORD.

SINCERELY,
EDWARD S. REED
EXECUTIVE PORT DIRECTOR-
GENERAL MANAGER

1209 EST

12:27 EST

IPMPOHX WSH

Hoboken Shipyards, Inc.

1301 Hudson Street • Hoboken, N.J. 07030 | (201) 659-2070

June 28, 1983

Honorable Mario M. Biaggi
Chairman, Sub-Committee Merchant Marine
(Room 1334)
Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Biaggi:

RE: H.R. 2883

This will advise the Hoboken Shipyards, Inc. is in favor of passage of H.R. 2883, which would permit waiver of the domestic construction requirement in respect of the passenger vessels "CUNARD PRINCESS" and "CUNARD COUNTESS" for operation in the coastwise trade.

We understand the economies of the cruise industry and appreciate that it would be impracticable for a new U.S. built ship to compete on realistic terms with the foreign flag ships carrying passengers from North American ports and, therefore, favor passage of this legislation as the only realistic manner of ensuring a viable passenger fleet owned, manned, registered and classified in this country. U.S. shipyards would expect to benefit from future ship repair and modification work in respect of these ships.

Please include this statement for the record of the Sub-Committee hearings.

Your help in supporting this measure will be very much appreciated.

Very truly yours,

HOBOKEN SHIPYARDS, INC.

Joseph Cangelosi

Joseph Cangelosi
Assistant General Manager

JC:MC

Affiliated with the AFL-CIO

National Marine Engineers Beneficial Association

444 North Capitol Street • Suite 800 • Washington, D.C. 20001 • [illegible]

June 28, 1983

The Honorable Mario Biaggi
Chairman, Subcommittee on Merchant Marine
Committee on Merchant Marine & Fisheries
Room H-2-531, Annex II
300 D Street, S.W.
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the National Marine Engineers' Beneficial Association, I would like to express for the record to you and the Subcommittee my firm opposition to H.R. 2883 which would permit the CUNARD COUNTESS and the CUNARD PRINCESS, foreign-built passenger vessels, to operate as re-flagged American vessels in the U.S. coastwise trades.

I find this bill to be unconscionable for several reasons.

First, if enacted, it would seriously undermine the Jones Act upon which so much of the U.S.-flag fleet depends. Indeed, I believe that it will open the door to wholesale exceptions that could end up destroying this valuable segment of our fleet and the important remaining ship-building base it provides. If these exceptions are permitted, where will the line be drawn in the future when some other "operator" makes a similar proposal? Those now operating in the Jones Act have played by a set of rules; they have invested major sums of capital on the assumption that competition utilizing different standards and different rules would not be allowed into our coastal trades to compete with unfair advantage -- primarily the use of far less expensive foreign-built ships. It would, plainly and simply, be a travesty -- Mr. Chairman, a travesty -- to strand these operators high and dry when they have made a commitment to our country and our fleet and our shipyards. Honor alone would require that this bill not be approved.

Mr. Chairman, some will draw a parallel with the CDS payback proposal and say that support of one should mean support of the other. Such a parallel is erroneous. CDS payback involves American-built ships. CDS payback means that the operators entering the trades will

J.M. CALHOON, President | C.E. De FRIES, Secretary-Treasurer | R.T. McKAY, Executive Vice President | LEON SHAPIRO, Vice President | M.H. PELFREY, Vice President

have to put an enormous amount of capital up front in repaid CDS with interest so that the competition will be on an equal footing. Such would not be the case with this CUNARD ships proposal where the vessels are built and depreciated already, posing an unsurmountable and unfair competitive advantage. CDS payback will not stop a single ship from being built in U.S. yards; the CUNARD ships bill will — as I intend to mention later. CDS payback will preserve American ships not destroy them, and perhaps most important of all, CDS payback does nothing to undermine the Jones Act.

On the subject of the Jones Act, it may interest the Subcommittee to know that the May 1983 Currents, published by the Transportation Institute whose Executive Director testified in favor of H.R. 2883, announced the formation of a "Jones Act Coordinating Committee" to: "develop a program aimed at informing the Congress, the Administrative agencies and departments and the general public of the essentiality of strong cabotage laws to the national security and the economy. The decision of member companies of the Institute to form the new group was based on the increasing number of attempts by foreign and other interests to obtain waivers and/or repeal of the law (my emphasis)." I suggest that the first order of business for this Transportation Institute Committee ought to be to reexamine and reject the support already given by the Institute for H.R. 2883.

Second, I find this proposal unconscionable because it would destroy what may well be the rebirth of the U.S.-built, U.S.-flag passenger fleet — primarily to be used in the cruise trades. You and the Subcommittee have already heard testimony from several potential U.S.-flag passenger ship operators. I find it little short of incredible that the Subcommittee might actually favor a company that exists only on paper, that has little net worth, that will dissolve if permission is not granted for these ships to enter or if CUNARD itself decides not to sell these ships (which appears still to be an open question). I find it quite incredible as well that this paper company would be favored over at least two others that intend to use U.S.-built ships and that have already invested millions on the proposition that time-honored rules would remain honored. In at least one other case, Contessa Cruise Lines, a company is seriously interested in building up to five new U.S. passenger ships in U.S. yards. All these plans and the investments made would be for nil if H.R. 2883 becomes law. I find this to be a very strange way to rebuild our merchant fleet and a suicidal way to encourage future investment in the U.S.-flag and U.S. shipyards.

Third, I find this bill unconscionable, because it will ruin one of the few avenues open to keeping our commercial shipyard mobilization base intact in any form. For a variety of reasons (and most certainly not efficiency alone), foreign shipyards can turn out low cost ships. It is not an "American disease" -- it is an illness afflicting shipyards in virtually every Western country. It is just impossible to compete, even if you are just as efficient,--with countries employing very inexpensive Third World labor or using truly massive subsidies that enable ships to be sold for less then the sum of their component parts. Jones Act shipbuilding is the one way to keep our shipyards in business, unless we want them merely to become appendages of the U.S. Navy. Every member of the Subcommittee has spoken of the importance of our commercial shipyard mobilization base. Every member of the Subcommittee knows the grim statistics of today and what they portend for years to come. It defies logic and common sense -- especially when Americans have appeared before the Subcommittee and said they want to build American -- to crush this one opportunity. In this connection, I should note that one of these CUNARD ships, the COUNTESS, has recently had $10 million of work done on it -- ensuring that it will probably be many years before any significant repairs or refurbishing contracts will be in U.S. hands.

Now some will ask how one can be for build and acquire abroad for the U.S.-flag in foreign trades and state what I just stated in the preceeding paragraph. First, build and acquire abroad does not involve the Jones Act trades, only our international fleet. Second, build and acquire abroad is a necessity, because we must compete with foreign companies using foreign-built ships. The differential is so great that sheer survival dictates this position if we ever want to see the U.S. Flag in a foreign port. There is, however, Mr. Chairman, no necessity, no necessity, involved in this CUNARD ships proposal...just one operator and a few supporters.

One of these supporters has been the most vocal leader of the opposition to build and acquire abroad. Yet he fervently supports the CUNARD ships proposal, citing a host of reasons that he dismisses when mustering arguments against build foreign. He even stated recently before this Subcommittee that it would take an "act of God" to build a ship in the United States. Some say that consistency is the hobgoblin of small minds. However, in this case there is no virtue, let alone honor, in its opposite. Indeed, the only "virtue" (and a dubious one at that) I can see is that the sum received is considerably more than a mere 30 pieces of silver.

This leads to the fourth reason why I find this bill to be unconscionable. The President has proposed — as an integral part of his maritime program — that U.S. operators in the international trades be allowed to build and acquire vessels abroad and still receive operating subsidies. Unless hundreds of millions, perhaps billions, of dollars are allocated in this budget for construction subsidies — and we know that there is neither support nor money for such an allocation -- then build and acquire abroad is the only way you will see very many new U.S.-flag ships. Indeed, I find it most ironic that those who oppose build abroad and support H.R. 2883 will draw us inexorably toward the day when the only U.S.-flag ships are painted grey and manned with sailors in uniform.

The President's proposal has yet to be considered, yet meanwhile this special interest bill is being shepherded expeditiously up the ladder. This is not the way to re-build coherently the U.S.-flag fleet. It is, however, the sure way to sink it as everyone abandons ship and swims for their own life preserver.

Fifth, history alone makes this bill unconscionable. Some of us remember that it is CUNARD that has been a most vicious competitor of the U.S.-flag fleet. Few, however, now recall that one of the prime reasons for the Merchant Marine Act of 1936 was to combat the abuses of CUNARD. In years that followed, U.S. line after U.S. line, such as Munson, Savannah, Delta, and Grace, has been forced to leave the passenger business — in no small measure due the fact that they had to adhere to long-standing rules and build and repair ships in the United States. Now, when all these lines are gone, why should CUNARD -- I repeat, a vicious competitor as the U.S. lines went down one by one — be entitled to special largesse from this Congress, largesse that, by undermining the Jones Act, will undermine the rest of the U.S.-flag fleet as well? On the subject of CUNARD, I would like to draw the Subcommittee's attention to an article on page 3 of Lloyd's List, dated June 17, 1983, which states that "CUNARD is said to be interested in acquiring a 50 percent stake in the company." The company is Cruise America Line, the company that is proposing to bring these two ships into our coastwise trades. If ever there was a case of a child murdering his parents and then throwing himself on the mercy of the court because he is an orphan, this is it!

Mr. Chairman, there is more about this bill that recommends its rejection, such as claims of national security that even the Navy will not support. But I would conclude on a different but related — and fundamental — consideration.

From time to time, and with increasing frequency, the Merchant Marine & Fisheries Committee is criticized for being merely a special interest committee and there are calls for its abolition. Nothing can fuel these sentiments faster than bills such as this one which has "special interest" written all over it. Nothing can fuel these sentiments faster than squabbling and bickering on bills like this one when we all should be developing together a coherent, comprehenisve program to rebuild our merchant fleet. Nothing can lead more surely to the eventual demise of the U.S.-flag fleet — for this Committee is our staunchest friend and our most loyal supporter, and if it is dissolved, you can be certain that our opponents — here and abroad — will strike. And they will strike hard.

It is time to be serious about the problems that face our industry. This bill — on that ground alone — should be dismissed.

Sincerely yours,

J.M. Calhoon

J.M. Calhoon
President

JMC/kmy

JOINT MARITIME CONGRESS

Hall of the States Building, 444 North Capitol Street, Suite 801, Washington, DC 20001 Telephone (202) 638-2405

David A. Leff
Executive Director

June 28, 1983

The Honorable Mario Biaggi
Chairman, Subcommittee on Merchant Marine
Committee on Merchant Marine and Fisheries
Room H 2-531, Annex II
300 D Street, S.W.
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the Joint Maritime Congress, an association representing more than a hundred U.S.-flag steamship companies that operate in the domestic and foreign trades of the United States, I would like to register our strong opposition to H.R. 2883. The measure now before your Subcommittee would permit two foreign-built passenger vessels, the CUNARD COUNTESS and the CUNARD PRINCESS, to be "re-flagged" as American vessels, granting them the privilege of operating in our protected coastwise trades. We speak out against this proposed legislation for two reasons -- one, for the health and future of our country and our merchant and passenger fleets, the Jones Act should not be undermined, and two, we must develop a cohesive national policy on foreign construction of vessels to be flying our flag instead of addressing this dilemma on a slipshod case-by-case basis.

There is no need to repeat what has been said time and time again about the integrity of the Jones Act -- that it cannot be watered down if we are genuinely committed to maintaining a strong domestic fleet capable of providing economic and national security benefits. You correctly recognized this fact during hearings on H.R. 1372, earlier this month. What does need to be clearly stated, however, is that an exception to the cabotage principle, recognized by our country since 1793 and in its current form since 1920, would not provide the national security benefits alleged by proponents of this legislation. Jones Act principles, based in large part upon national security considerations, contribute far more to our security than admission of these vessels into the trade possibly could. The Department of the Navy, on behalf of the Defense Department made that quite clear in its response to Cruise America Lines, Inc's petition to waive Jones Act restrictions for the CUNARD PRINCESS asserting that "...it is not apparent that permitting the CUNARD PRINCESS to operate in the U.S. coastwise trade would provide a clear and direct [national defense] benefit to the Department."

Cable USFLAG Telecopier (202) 638-2833 Telex 89479 MARICONG

The argument that operation of this vessel and the CUNARD COUNTESS in the domestic trades would strengthen our military preparedness by adding sealift and hospital ship capacity at times of national emergency is without basis and a smokescreen. In this case, national security is being used to mask what is actually commercial opportunism. Proponents of this legislation are not motivated by either the integrity of United States law or our national defense posture. National defense serves merely as an excuse to embark on a venture which would in fact further the interests of one individual, and, allegedly, a foreign corporation that cynically exploited U.S. maritime policies in the past. Furthermore, passage of this legislation will stifle entirely the future for new U.S.-built, U.S.-flag passenger ships.

Additionally, to make matters worse, we continue to lack a national policy on foreign construction or acquisition of vessels to be registered under the U.S. flag either in the Jones Act trades or in U.S. foreign commerce. This larger question, looming in the minds of all U.S. operators, must be a top priority of the Subcommittee. Furthermore, when examining H.R. 2883, it is important to note that the measure involves re-flagging foreign-built vessels for the domestic trade -- not the international trade, where we do face competition from foreign operators with foreign-built vessels. Under these circumstances, it is certainly impossible to justify an exception to the law.

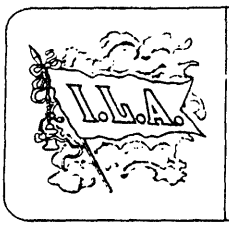
In conclusion, we at the Joint Maritime Congress urge the Merchant Marine Subcommittee to reject H.R. 2883. The measure would not enhance our national security position and it precedes when it should follow the overriding build-abroad question. Your consideration of our position on this matter is greatly appreciated.

Sincerely,

David A. Leff
Executive Director

cc: Subcommittee on Merchant Marine

DAL/pac



OFFICE OF
THOMAS W. GLEASON
President

International Longshoremen's Association
AFL-CIO

17 BATTERY PLACE, NEW YORK, NEW YORK 10004 TELEPHONE (212) 425-1200

June 28, 1983

Hon. Mario Biaggi
Chairman
U.S. House of Representatives'
Subcommittee on Merchant Marine
Washington, D.C.

Re: H.R. 2883

Dear Congressman Biaggi:

The International Longshoremen's Association, AFL-CIO wishes to register its strong opposition to a bill pending before your Subcommittee, namely, H.R. 2883. The proposed bill is designed to depart from this nation's long-established Maritime policies under the Jones Act, by granting coastwide privileges to passenger vessels of the Cunard Line, the CUNARD PRINCESS and CUNARD COUNTESS. They are owned and operated, and were built by foreign interests. They cannot now engage in carrying passengers between one American port and another because of our nation's historic promotion of its own intra-coastal trade.

H.R. 2883 strikes at the economic health of the U.S.'s shipbuilding and ship-operating industries. If this bill is favorably recommended and eventually passed, it will more than merely set a precedent for similar legislation on behalf of other foreign carriers. To the extent that such vessels are allowed to swallow the domestic passenger trade, they will be displacing and eventually replacing U.S. flag vessels. In turn, these events will discourage those who want to build cruise vessels in U.S. shipyards from going ahead with present and future plans. This is because the prospects of survival and profitability in moving passengers between American ports will no longer be reasonable. Financing for such ventures, which has been difficult enough until now, inevitably will dry up.

I believe that no member of Congress is more committed to the operation of vessels under the American flag, including passenger ships and their construction here, than yourself. You know that these activities will result in considerable employment for shipyard and shipboard workers. It will also benefit those who service them in their ports of call, including our own members. You and the other members of your Subcommittee are also aware that U.S. vessels under American control are necessary to both economic and military security by sea. Unless we have a readily available shipyard capacity and the ability to call upon our vessels as and when a crisis may arise, we will be at a definite disadvantage in moving our troops and cargo.

Some sponsors of H.R. 2883 are promoting a fiction when they contend that the bill is required for our national defense. This argument evaporates in light of the February, 1983 statement by the Deputy Assistant Secretary of the Navy for Sealift and Maritime Affairs on that matter when he stated that "it is not apparent that permitting the CUNARD PRINCESS to operate in the U.S. coastwide trade would provide a clear and direct benefit to the Department". The Falklands adventure demonstrates that these, like other British vessels, are always subject to the call of their own parent country. They hold no legal or moral allegiances to the countries where they ply their trade. Assuming that the vessels in question are conscripted by their mother country to meet some sudden need, it will leave a vacuum in servicing our own citizens one which cannot be readily filled if we don't provide the ships with which to do it.

Which brings me to another myth advanced by the backers of this bill. They claim that the American shipyards cannot attract or perform the essential work to construct and maintain cruise vessels.

The Subcommittee has already heard testimony concerning the plans of American Cruise Lines (which already operates three U.S. built passenger vessels in the coast-wide trade) to build two additional 600-passenger cruise ships right here in the United States. We have also learned that Contessa Cruise Line will be introducing a U.S.-built vessel into the trade sometime later this year. There are other projects in progress that are geared to the eventual re-entry of major vessels into the trade, such as the MONTEREY, SANTA ROSA and the UNITED STATES, once-upon-a-time our nation's flagship.

These vessels will help restore America's pride and position among the world's commercial fleets. However, to do so, they must be economically sound. This will not happen unless they have the opportunity to show that they can get and hold the passenger trade. If the Cunard line is permitted to try to take over that trade by obtaining a foot-in-the-door through this bill, it will be followed by their compatriots and competitors. Then, the revival of American passenger shipping will have been caused by Congress' own action to become a self-willed myth. This must not be allowed to happen if we are to protect our own vital interests. This realization must be uppermost in your Subcommittee's consideration.

I therefore urge you, not only on behalf of the ILA but also in keeping with the resolutions of the AFL-CIO's Executive Council and Maritime Trades Department, to convince the members of the Subcommittee and of the House not to yield to this undisguised assault upon American policies. These are expressed in the Jones Act and other historic and still valid maritime and defense legislation.

I urge you and them to use this occasion to reassert our national leaders' confidence in the ability of the shipping - including ship-building - sectors of our economy to renew and to grow. This is a perfect opportunity to reaffirm their conviction that, given the will and the means, America can rebuild its maritime base and recapture the business of our own countrymen. It can do so by retaining for them the option of using American flagships.

This is the time to promote employment in all construction industries, including building ships. This is not the time to scuttle longstanding national policies and practices by "giving up the ship" and letting others tow it away. What we need is a spirit of encouragement and commitment, and not the resignation and defeatism represented by this destructive piece of legislation.

Please feel free to call upon our union to render whatever support you may find necessary or desirable to put this ill-advised bill into permanent mothballs.

Sincerely yours,

Thomas W. Gleason
International President

2/jam

The Seafarers International Union
OF NORTH AMERICA • AFL-CIO
5201 Auth Way, Camp Springs, Maryland 20746
301-899-0675

FRANK DROZAK
President

June 29, 1983

The Honorable Mario Biaggi
2428 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Biaggi:

On behalf of the Seafarers International Union of North America, I am writing to urge your support for H.R. 2883, a bill to help revitalize the U.S.-flag passenger fleet and strengthen U.S. national security.

The legislation would permit the passenger vessels CUNARD PRINCESS (currently under Bahamian registry) and CUNARD COUNTESS (currently under British registry) to be registered in the United States and operate in the coastwise passengership trade.

The successful revival of the U.S.-flag passenger fleet is important to both our economy and national security. Allowing the CUNARD COUNTESS and CUNARD PRINCESS to join the U.S.-flag fleet would offer employment opportunities to American seamen and provide jobs in related maritime industries. It would generate revenues to the U.S. Treasury through taxes on domestic and corporate incomes. It would also improve the country's balance of payments deficit by reducing the amount of tourist dollars paid to foreign-flag cruise lines.

Of greater importance is the national security role of a U.S.-flag passenger fleet. By law, the CUNARD PRINCESS and CUNARD COUNTESS would be available for naval auxiliary service in times of national emergency. These vessels would serve well as troopships and hospital ships. During the Falkland Islands crisis, Great Britain relied on four passenger ships to carry troops and provide medical capabilities essential to the successful conclusion of that crisis.

In addition, the entry of the CUNARD PRINCESS and CUNARD COUNTESS into the coastwise trade will help maintain the U.S. shipbuilding mobilization base. It is estimated that $5 million

annually would be spent in U.S. shipyards for maintenance and repairs. In turn, this will provide jobs for shipyard workers in a depressed shipbuilding industry.

In conclusion, the Seafarers International Union endorses H.R. 2883 and requests your strong support for this legislation.

Sincerely,

Frank Drozak
President

PAUL J. BURNSKY
President
General Offices:
AFL-CIO Bldg.,
815 16th Street, N.W.,
Washington, D.C. 20006
Tele 202-347-7258

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Metal Trades Department

American Federation of Labor and Congress of Industrial Organizations

June 30, 1983

Honorable Mario Biaggi
Chairman, House Merchant
Marine Subcommittee
Room H2-531
House Office Building Annex 2
Washington, D. C. 20515

Dear Mr. Chairman:

The AFL-CIO's Metal Trades Department, representing some 5 million members of twenty-two national and international unions, is strongly opposed to the passage of H.R. 2883, legislation to permit the Cunard Princess and the Cunard Countess to be documented as vessels of the United States and to enter the coastwise trade.

The Metal Trades Department and the AFL-CIO itself, as well as the Maritime Trades Department have been among the most consistent supporters of the Jones Act for many years. To permit the "reflagging" of these two foreign-built ships and to allow them to engage in U.S. Coastwise passenger trades would be to seriously undermine the Jones Act and to further weaken our already enfeebled Merchant Marine. It would also be unfair to American firms planning to build a full line of cruise ships in U.S. shipyards, to be manned by U.S. crews and legitimately fly the U.S. flag, in full compliance with Jones Act requirements.

We contend that any waivers such as provided in H.R. 2883 are unacceptable erosions of the integrity of the Jones Act, and are totally unnecessary, since there is no national defense consideration involved. Approval of this measure would further weaken our shipbuilding industrial base, break faith with those who are working to revitalize our U.S. shipbuilding effort within the framework of the Jones Act, and seriously damage ongoing work to rebuild our U.S. Merchant Marine. We fully appreciate the need to create more seagoing jobs for our people, but to permit any foreign-flag, "bargain basement" vessels to enter the U.S. coastwise passenger trade through this abridgment of Jones Act principles is not the proper way to address maritime unemployment, either seagoing or onshore.

Metal Trades Department
American Federation of Labor and Congress of Industrial Organizations

Approval of this bill would signal to others interested only in the big cruise lines dollar trade of wealthy Americans that they need only buy up as many obsolete passenger vessels as they can from around the world, put on a new coat of paint and whatever else they must do, and then have their own "U.S.-flag cruise line" via another Jones Act waiver route. It would send another signal to U.S. shipbuilding ventures seeking to build in American yards, using American workers, American-made steel, machinery, and other equipment. That signal to the U.S. shipbuilding firms would be "don't bother, because Congress has decided that the Jones Act has outlived its usefulness."

Moreover, Mr. Chairman, it is our understanding that those who are seeking passage of this bill do not even own the two vessels for which U.S.-flag status is being sought and that they may not even be up for sale for this or any other purpose. If such information is correct, it would appear that the proposed "legal" violation of the Jones Act may be the only way in which such proposed transaction could even take place. Whatever might be the pretext, we do not consider Jones Act waivers to be justified in such cases.

Over the years, this Committee has fought valiantly to preserve the spirit, as well as the letter of the Jones Act, to maintain our shipbuilding industrial base, and for jobs for shipbuilding and maritime workers. Your own leadership has been invaluable in these and other efforts to strengthen our U.S. Merchant Marine and to help forge a modern national maritime policy. We strongly believe that the public interest can best be served by your committee's rejection of H.R. 2883 so that strict observance of Jones Act protections against special commercial interests and foreign-flag operators may be continued and its integrity preserved.

I would appreciate your making this letter a part of the hearing record on this legislation.

Sincerely,

Paul J. Burnsky
President

STATE OF FLORIDA

OFFICE OF GOVERNOR BOB GRAHAM

July 8, 1983

The Honorable Mario Biaggi
Chairman
Subcommittee on Merchant Marine
H2-531, House Office Building Annex II
Washington, D.C. 20515 RE: H.R. 2883

Dear Chairman Biaggi:

I am writing to you regarding H.R. 2883 and Florida based Cruise America Line, Inc., which proposes to operate the "CUNARD COUNTESS" and "CUNARD PRINCESS" in the coastwise cruise trade. The State of Florida, as I am certain you are aware, enjoys more cruise departures annually than any other state, which contributes significantly to our state's welfare. Our fine cruise ports, which include Jacksonville; Port Canaveral; Palm Beach; Port Everglades; Miami; Key West; Tampa and the newly constructed port of St. Petersburg last year combined accounted for 1,134,308 passenger embarkations, not one of which was aboard a deep-sea American flag; American crewed vessel, all of which were destined to distant foreign ports of call.

I understand that Cruise America vessels will not only embark passengers at our ports, but will also offer cruise calls as a number of Florida cities, affording passengers the opportunity of touring our peninsula by luxury cruise ship for the first time in our state's history. We well understand the economic impact of these prospects and suspect other Atlantic, Gulf, Pacific, and Great Lakes coastal states would equally benefit from the passage of H.R. 2883.

As Governor of the State of Florida, I strongly urge your Committee's endorsement of the legislation which, if enacted, will provide for much needed employment in maritime and tourist industries and will permit American and foreign vacationers to enjoy our nation's seagoing heritage and seacoast areas.

Please include this statement for the Record.

With warm regards,

Bob Graham

Governor

BG/klb

AUG 8 1983

CITY OF
FORT LAUDERDALE
FLORIDA

ROBERT A. DRESSLER
MAYOR

P. O. DRAWER 14250 • 33302
100 N. ANDREWS AVENUE
(305) 761-2245

August 2, 1983

The Honorable Carroll Hubbard
The House of Representatives
Rayburn Building, Room 2182
Independence and South Capitol Street, S.W.
Washington, D.C. 20515

RE: H.R. 2883

Dear Congressman Hubbard:

The City of Fort Lauderdale would like to express its support of H.R. 2883 and Fort Lauderdale-based Cruise America Line, Inc. Our city has become a major international cruise port which has contributed significantly to our local economy, with 63,505 passenger embarkations last year. Our port has not, however, hosted an American owned, American crewed, American flag passenger vessel since the demise of the Prudential-Grace Line cruise service in the early 1970's.

Robert L. Lambert, President of Cruise America Line, has been a citizen of our city since 1939 and has been actively involved in our community in both civic and marine-oriented activities.

We believe that the proposal of Mr. Lambert and Cruise America would be beneficial to our City and hope that the Merchant Marine and Fisheries Committee will enact H.R. 2883 without further delay, thus permitting our citizens to cruise from Port Everglades aboard American flag ships.

Please include this statement in the record.

Sincerely,

Robert A. Dressler

Robert A. Dressler
Mayor

RAD/2334n

City of St. Petersburg
Office of the Mayor and Council

August 23, 1983

The Honorable Mario Biaggi
Vice Chairman, Merchant Marine and Fishery
Sub-Committee
2428 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Biaggi:

RE: H.R. 2883

The City Council of St. Petersburg, Florida, by resolution on August 18, 1983, expresses its full support of H.R. 2883. Our City has recently expended hundreds of thousands of dollars to construct a new cruise passenger terminal in order to attract additional tourists to our City. The terminal is located in the heart of our recently renovated downtown district and is an integral part of the redevelopment of our inner City.

St. Petersburg has a significant local market area, a major airport to support air/sea packages and a strong desire and commitment to support the cruise industry, and Cruise American Line in particular, in its quest to service communities such as ours. The City of St. Petersburg well understands the economic impact of the Cruise America proposal and the local services to be provided by the Port and private companies. The proposed Cruise America program will mean much-needed jobs, business income, tax revenues, investment opportunities and tourism promotions to our City.

The City of St. Petersburg hereby requests that you and your committee expeditiously consider, and pass as written H.R. 2883. This will permit St. Petersburg and other seacoast communities to share in the cruise industry by enabling the CUNARD COUNTESS and CUNARD PRINCESS to cruise our shores as American Flag Ships.

Sincerely,

Corinne Freeman

Mayor Corinne Freeman

CF:bph2

cc: Congressman C. W. "Bill" Young

CITY OF ST. PETERSBURG

August 29, 1983

The Honorable Mario Biaggi
Vice Chairman, Merchant Marine
and Fishery Subcommittee
2428 Rayburn House Office Bldg.
Washington, D.C. 20515

Dear Representative Biaggi:

RE: H.R. 2883

The Port of St. Petersburg wishes to express its full support of H.R. 2883, to permit Cruise America Line, Inc. to operate the M.S. Cunard Countess and M.S. Cunard Princess under the American flag. Our new 13,000 square foot passenger facility, located in St. Petersburg's redeveloped Bayboro Harbor and waterfront, would be an ideal cruise port for large American flag cruise ships.

In addition, the Port of St. Petersburg is situated immediately adjacent to Albert Whitted Airport, a full-service general aviation facility. This unique location allows passengers to literally fly to the cruise ship with direct walk through access. This feature would be of particular interest to special aviation or professional groups desiring ease of embarkation for cruise ship sponsored meetings and symposiums.

The Port of St. Petersburg, and the City of St. Petersburg fully recognize the tremendous economic impact of cruise ships. We are therefore, most hopeful and strongly urge that this important legislation will be enacted in an expeditious manner so that we may soon welcome the first American cruise ship ever to visit our City.

Please include this statement for the record.

Sincerely,

D. Timothy Travis, Director
PORT OF ST. PETERSBURG

DTT:pm

c.c. Congressman C.W. "Bill" Young

City of St. Petersburg, P.O. Box 2842 St. Petersburg, Florida 33731 Council-Manager Government Telephone: (813) 893-7171

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TELEX 422-036

TWO WORLD TRADE CENTER
SUITE 9528
NEW YORK, N.Y. 10048

JOHN M. DEMPSEY, JR.
VICE PRESIDENT

September 9, 1983

The Honorable Mario Biaggi
Chairman
Sub-Committee on Merchant Marine
Rayburn House Office Building
Room 531, Annex II
Washington, D. C. 20515

Dear Congressman Biaggi:

We were asked to review what the estimated price would be for a new passenger vessel to be constructed in the United States to a standard equivalent to that found in modern passenger liners. Since there is no recently U.S. built passenger ship which can be used to establish a benchmark, we have had to derive our estimate from other known data and J. J. Henry Co., Inc.'s many years of experience.

Detailed comparisons between U.S. and foreign built ships have not been made in the past few years due to the fact that there has been no need for this information since the expiration of construction differential subsidy programs. It is, however, generally accepted that U.S. built ships cost more than twice as much as containerships, tankers and bulk carriers which are normally built in the Orient. However, we would not expect that passenger ships would follow this relationship due to the large amount of outfitting work required and the fact that European wage rates are more comparable to those in the U.S. It is our opinion that foreign built passenger ship prices would cost 60-70 percent of the U.S. shipyard prices, assuming that comparable passenger ships continue to be built in North Europe.

Our staff has analyzed new overseas passenger ship construction prices starting in 1980 and developed a price per passenger berth for 1986/87 delivery for European built passenger ships. It is our opinion that the price per passenger berth would range from 135,000 to 160,000 U.S. dollars. Therefore, we would expect the price of a 900 passenger ship to be in the range of 113 to 135 million U.S. dollars when built in Europe. Accordingly, a 900 passenger ship built in the United States and delivered in 1987 would be priced in the range of 175 to 240 million U.S. dollars. Detailed study would be required to narrow this range.

We also reviewed the cost of a 1400 berth vessel comparable in size to those new being built in Europe and derived prices in the range of 270 to 375 million U.S. dollars.

Enclosed herewith for information is our corporate credentials as outlined in the J. J. Henry Co., Inc. brochures and attachments.

Please include this statement for record in HR 2883.

Sincerely,

J. J. HENRY CO., INC.

John M. Dempsey, Jr.

JMD/nh
Enc.

TRANSPORTATION INSTITUTE

923 FIFTEENTH STREET, N.W.
WASHINGTON, DC 20005
(202) 347-2590

PETER J. LUCIANO
Executive Director

THOMAS A. ALLEGRETTI
Director, Domestic Waterways

WILLIAM K. BARCLIFT
Director, Government Relations

GERARD C. SNOW
Director, Policy Planning

WILLIAM LAWRENCE
Manager, Pacific Coast Office

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Vice President
Victory Carriers, Inc.

EDWARD P. WALSH
President
Waterman Steamship Corporation

September 12, 1983

The Honorable Mario Biaggi
Chairman
Subcommittee Merchant Marine & Fisheries
2428 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As you know, on September 14, 1983, the House Subcommittee on Merchant Marine is expected to mark up H.R. 2883, legislation to permit the passenger vessels Cunard Princess and Cunard Countess to be registered in the United States and operate in the coastwise passenger ship trade of the United States. The Transportation Institute respectfully urges you to support this legislation. H.R. 2883 bodes well for the U.S.-flag maritime industry, and beyond that, there is the promise of beneficial effects for tourism and the American economy in general.

The American-flag passenger fleet has virtually disappeared from the sea. In the past couple of years, Congress has taken a number of steps to restore this important sector of the fleet. The reflagging of these additional vessels, two of the newest and most modern ships in the world, will mark important further progress in the revitalization of the U.S. merchant passenger vessel fleet.

Passage of H.R. 2883 will provide hundreds of jobs in the U.S. seafaring and related maritime industries. This increased employment will carry over to the U.S. shipbuilding industry as well. In up-front costs alone, each vessel will have to undergo several million dollars worth of repair work in order to meet U.S. Coast Guard standards. It is our understanding that this initial work, as well as all future maintenance and repair work, will be completed in American shipyards. While the Transportation Institute would favor the construction of passenger vessels in U.S. shipyards, reality dictates otherwise. In the past 25 years, no large passenger ships have been constructed in this country. Furthermore, given the high cost differential between a U.S.-built and a

foreign-built passenger vessel, it is highly unlikely that any large passenger vessel will be built in the United States at any time in the near future.

H.R. 2883 also will greatly enhance the Nation's defense posture. The United States commercial merchant fleet has long been recognized as a vital national asset. It is well known that the U.S. merchant marine serves as an auxiliary to the U.S. Naval forces in time of war or national emergency. In recent years, the U.S. military has placed increased emphasis on the role of sealift in strategic mobility. Nonetheless, the number of ships capable of performing this vital role is declining. One need only look to the recent Falkland Islands crisis to appreciate the value of a strong privately owned U.S.-flag passenger fleet. Some of Britain's most valuable assets were the British-flag passenger ships employed in that encounter. These vessels, one of which in fact was the Cunard Countess, provided Great Britain with the vital troop carrying and medical capabilities necessary to successfully accomplish their military objectives. If the United States were to be involved in even a minor conflict today, it would not have the passenger ships necessary to fulfill its military needs. In light of the present state of world affairs, and the presence of three wars, America cannot afford to let this important segment of our merchant fleet disappear.

In addition, we would like to comment on the possible impact H.R. 2883 would have on the existing U.S.-flag cruise ship industry. During the recent hearings on H.R. 2883, concern was raised over the impact this legislation would have on existing U.S.-flag vessel passenger services. We would like to point out that, based on the itinerary outlined by Cruise America Line, Inc., neither one of these vessels will compete with any existing American passenger services. If anything, passage of H.R. 2883 could very well have a positive impact on the American cruise industry. This will be realized from the fact that Cruise America Line, which has already expended considerable sums of money for planning, will be entering a previously untested market, and if successful, will serve as an encouragement and incentive for other potential U.S. operators. This, in turn, by demonstrating the viability of this new market, could create further business for American shipyards in the future.

In conclusion, the Transportation Institute expresses its appreciation for your recent efforts to reinvigorate the American merchant marine, and in particular, the American-flag passenger fleet. We believe that every effort should be made to assist every American operator that shows an interest in devoting capital to this type of venture. It consistently has been our position that a successful U.S.-flag cruise industry could be and should be redeveloped in this country. H.R. 2883 will go a long way to insure the realization of this goal.

Sincerely,

Peter J. Luciano
Executive Director

PUERTO RICO PASSENGER TRANSPORTATION

WEDNESDAY, OCTOBER 19, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The subcommittee met, pursuant to call, at 10 a.m., in room 1334, Longworth House Office Building, Hon. Walter B. Jones (chairman of the full committee) presiding.

Present: Representatives Jones, Forsythe, Fields, and McKernan.

Staff present: Ricardo A. Ratti, Cynthia M. Wilkinson, Ann Mueller, Gerry Seifert, Stephen D. Little, Kip Robinson, Gwen Lockhart, and Brian Kelly.

Mr. JONES. The subcommittee will come to order, please.

We have before us today H.R. 89. H.R. 89 would allow vessels other than coastwise-qualified vessels to carry passengers between ports in Puerto Rico and other ports in the United States. U.S. cabotage laws permit only U.S.-flag, U.S.-built vessels to carry passengers directly or indirectly between ports in the United States. Puerto Rico—a commonwealth of the United States—is part of the coastwise trade.

The problem—and the reason this legislation is necessary—is that American-flag cruise ships have not traveled between the mainland United States and Puerto Rico on a regular basis for approximately 30 years. As a result, the only direct commercial means of travel between the island and the mainland has been by air carrier. Many people are unable—because of physical or psychological reasons—to use this method of transportation. The alternative is a costly, circuitous, and lengthy trip by water via the Virgin Islands.

The Puerto Rican tourist industry also suffers from the restrictions in the cabotage laws. The island is a very popular tourist attraction—yet the coastwise laws and the fact that only foreign-flag cruise ships service Puerto Rico conspire to divert important tourist dollars from its economy. This bill would help to lessen the dollar diversion by allowing Americans to take advantage of the popular fly-cruise packages from other U.S. ports to Puerto Rico—an opportunity presently denied them.

Last Congress, this subcommittee held two hearings on a similar measure—H.R. 1489. That bill was amended in committee and sent to the House of Representatives where it passed by a resounding and decisive vote of 387 to zero. The administration supported the bill—but, since our Senate colleagues failed to act, H.R. 1489 died with the adjournment of the 97th Congress.

H.R. 89 is identical to the legislation passed by the House last year. It sets up a three-tiered regime whereby a noncoastwise-qualified vessel may enter the Puerto Rican trade if no coastwise-qualified vessel is available. The bill also gives preference to U.S.-flag ships that are not coastwise-qualified over foreign-flag vessels.

This legislation would do much to assist our fellow citizens in Puerto Rico. At the same time, H.R. 89 has a built-in mechanism that insures there will not be a permanent incursion into the Jones Act passenger trade between the mainland and the commonwealth.

The Chair recognizes Mr. Forsythe.

Mr. FORSYTHE. Thank you, Mr. Chairman.

Mr. Chairman, I want to thank you for scheduling this hearing on H.R. 89, which will permit foreign-flag passenger service between the United States and Puerto Rico. I also want to welcome our distinguished visitors from Puerto Rico.

Presently, U.S. cabotage laws allow only U.S. coastwise-qualified vessels to carry passengers between points in the coastwise trade, which, of course, includes Puerto Rico. The problem, however, is that there has been no regular U.S.-flag passenger service for Puerto Rico since about 1953. In fact, today there are only two U.S.-flag passenger vessels operating in coastwise service, both in the Hawaiian Islands trade.

Although adequate air service is available, some people simply cannot travel by air. Those who must travel by passenger vessel may not be able to afford the time it now takes to make the trip. I understand a round trip by the current Virgin Islands route can take up to 12 days.

The problem goes well beyond the matter of travel inconvenience. The absence of U.S.-flag passenger service has undoubtedly deprived the Puerto Rican economy of its share of a significant, lucrative island tourist cruise business. While current customs regulations permit noncoastwise-qualified vessels to call at Puerto Rico's ports, they can stay no longer than 24 hours. This, naturally, limits the revenues which Puerto Rico can expect from this segment of its tourist trade. Puerto Rico has so much to offer; a fuller participation in this trade would surely produce welcome economic results.

I am fully aware of the criticisms aimed at this bill and think we should always look carefully at any measure which permits a foreign-flag vessel to enter the coastwise trade to evaluate its potential effect on Jones Act operators. In this case, I believe U.S.-flag vessels may stand to gain as a result of this measure. I am anxious to hear the witnesses' testimony so that these issues can be fully explored.

Thank you.

[The bill and a departmental report follow:]

[H.R. 89, 98th Cong., 1st sess.]

A BILL To permit the transportation of passengers between Puerto Rico and other United States ports on foreign-flag vessels when United States flag service for such transportation is not available

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) notwithstanding any other provision of law, passengers may be transported on passenger vessels not qualified to engage in the coastwise trade between ports in Puerto Rico and other ports in the United States, directly or by way of a foreign port, except as otherwise provided in this Act.

(b)(1) Upon a showing to the Secretary of Transportation, by the vessel owner or charterer, that service aboard a United States passenger vessel qualified to engage in the coastwise trade is being offered or advertised pursuant to a Certificate of Financial Responsibility for Indemnification of Passengers for Nonperformance of Transportation (46 U.S.C. 817e) from the Federal Maritime Commission for service in the coastwise trade between ports in Puerto Rico and other ports in the United States, the Secretary shall notify the owner or operator of each vessel transporting passengers under authority of this Act that he shall, within two hunderd and seventy days after notification, terminate all such service. Coastwise privileges granted to an owner or operator under this Act shall expire on the two hundered and seventieth day following the Secretary's notification.

(2) Upon a showing to the Secretary, by the vessel owner or charterer, that service aboard a United States passenger vessel not qualified to engage in the coastwise trade is being offered or advertised pursuant to a Certificate of Financial Responsibility for Indemnification of Passengers for Nonperformance of Transportation (46 U.S.C. 817e) from the Federal Maritime Commission for service in the coastwise trade between ports in Puerto Rico and other ports in the United States, the Secretary shall notify the owner or operator of each foreign-flag vessel transporting passengers under authority of this Act that he shall, within two hundred and seventy days after notification, terminate all such service. Coastwise privileges granted to an owner or operator under this Act shall expire on the two hundred and seventieth day following the Secretary's notification.

(c) If, at the expiration of the two-hundred-and-seventy-day period specified in subparagraphs (b)(1) and (b)(2) of this Act, the vessel that has been offering or advertising service pursuant to a certificate described in either of those subparagraphs has not entered the coastwise passenger trade between ports in Puerto Rico and other ports in the United States, then the termination of service required by either of those subparagraphs shall not be required until ninety days following the entry into that trade by the United States vessel.

(d) Any coastwise privileges granted in this Act that expire under subparagraph (b)(1) or (b)(2) shall be reinstated upon a determination by the Secretary that the service on which the expiration of the privileges was based is no longer available.

(e) For the purposes of subparagraphs (b)(1) and (b)(2), the Secretary, by regulation, shall define the term "passenger vessel" and shall consider as the basis for the definition the type and volume of service provided in the Caribbean passenger trades, as well as the volume of service required or being provided between ports in Puerto Rico and other ports in the United States.

U.S. DEPARTMENT OF TRANSPORTATION,
Washington, D.C., October 18, 1983.

Hon. WALTER B. JONES,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request for the Department of Transportation's views on H.R. 89, a bill—"To permit the transportation of passengers between Puerto Rico and other United States ports on foreign-flag vessels when United States-flag service for such transportation is not available."

The Commonwealth of Puerto Rico comes within the cabotage laws of the United States. These laws require that the ocean transportation of merchandise and passengers between Puerto Rico and the United States be in U.S.-flag vessels. The Act of June 19, 1886, as amended (46 U.S.C. 289), resticts the ocean transportation of passengers in such trade to U.S.-flag vessels. However, not all U.S.-flag vessels are eligible to provide such coastwise service. For example, a U.S.-flag vessel that was constructed abroad could be operated in the foreign commerce of the United States but not in our coastwise trade between Puerto Rico and the United States.

H.R. 89 would provide an exception to existing law for the ocean transportation of passengers between ports in Puerto Rico and other ports in the United States. Subject to the terms and conditions set forth in the bill, (a) in the absence of qualified U.S.-flag service, H.R. 89 would authorize the operation of U.S.-flag vessels not qualified to operate in the coastwise trades, and (b) in the absence of any U.S.-flag service, H.R. 89 would authorize the operation of foreign-flag vessels. H.R. 89 is almost identical to H.R. 1489—97th Congress, as it passed the House of Representatives on August 17, 1982.

The purpose of H.R. 89 is twofold. First, it would permit nonqualified U.S.-flag and foreign-flag vessels to transport passengers in the U.S. coastwise trade between ports in Puerto Rico and the U.S. mainland, an activity currently prohibited under

existing law. Second, the bill would continue to protect qualified U.S.-flag vessels from such competition in the event such a qualified vessel should choose to enter the U.S.-Puerto Rico cruise ship trade. The effect of the bill would be to permit Puerto Rico to develop tourism and transportation initiatives relating to cruise ship travel.

In the course of developing the Caribbean Basin Initiative, the Executive Office of the President and the Department of Transportation promised the Governor of Puerto Rico that the Administration would attempt to reduce restrictions on the carriage of passengers between U.S. mainland ports and Puerto Rico by foreign-flag vessels as long as no U.S.-flag vessels were providing the service. In the case of the U.S.-Puerto Rico trade, no U.S.-flag vessels have provided passenger service for many years. Thus, options for developing this trade, as well as the ability of persons in Puerto Rico to take advantage of the services currently provided by foreign-flag vessels stopping over in Puerto Rico, have been severely restricted. In the continued absence of participation by U.S.-flag vessels in this trade, H.R. 89 would permit Puerto Rican tourism and transportation interests to develop this transport option more fully.

The Department believes that the approach set out in H.R. 89 strikes a reasonable balance between the interests of Puerto Rico and the U.S. maritime industry and does not compromise the Administration's commitment to support the substantive provisions embodied in the Jones Act.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the submission of this report for the consideration of the Committee.

Sincerely,

JIM BURNLEY, *General Counsel.*

Mr. JONES. The Chair is now happy to recognize the honorable Commissioner, Mr. Corrada, from the Commonwealth of Puerto Rico.

STATEMENT OF BALTASAR CORRADA, RESIDENT COMMISSIONER IN CONGRESS, COMMONWEALTH OF PUERTO RICO

Mr. CORRADA. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to appear before this subcommittee to testify in support of H.R. 89, legislation to allow the transportation of passengers between ports in Puerto Rico and ports in the U.S. mainland on foreign-flag vessels when U.S.-flag service is not available. Mr. Chairman, as you know, this is a very simple and straightforward bill designed to address a pressing need of many of my constituents in Puerto Rico and others throughout the mainland United States; that is, the need for an alternative to air transportation between the mainland and the island.

During the 97th Congress, with your efforts and strong support, we were able to move an identical bill, H.R. 1489, here in committee. On August 17, 1982, by a vote of 387 to zero, the House approved this legislation. There was a clear recognition of the need for the legislation which was supported by the administration.

There are two important reasons for this bill: First, as an alternate mode of transportation for thousands of residents in Puerto Rico and the mainland who cannot or will not travel by air; second, as a way of providing an incentive to our tourism industry and for economic development of the island of Puerto Rico.

The health of the tourism industry in Puerto Rico has suffered during the past year as a result of the ripple effect of the economic downturn in the country. Our tourism industry is in need of stimuli to recover its strength.

Preliminary figures show a loss of 3.8 percent in the total number of visitors to the island, from 2,007,824 in fiscal year 1982 to 1,930,614 in fiscal year 1983. Of that figure, 444,148 were cruise passenger visitors in fiscal year 1982 compared with 411,150 in fiscal year 1983—a loss of 7.4 percent. Translated into dollars and cents, this drop represents a loss of $8.2 million in revenues from the previous year. The tourism industry is an important part of the economic picture of Puerto Rico and its development must be enhanced and strengthened. My bill would offer such an incentive.

H.R. 89 consists of provisions which outline the criteria under which foreign-flag vessels may operate between Puerto Rico and the U.S. mainland. For over 20 years, there have been no passenger vessels providing this service to Puerto Rico. The hearings held during the 97th Congress presented ample evidence of the need and support for this legislation, and the subsequent markup by your subcommittee and full committee further refined the legislation to address some of the concerns expressed. H.R. 89 is identical to the bill as passed by the House last year.

This bill provides for the transportation of passengers between the U.S. mainland and Puerto Rico on foreign-flag vessels in the absence of U.S.-flag vessel service. In the event that U.S.-flag service becomes available, there is a three-tier system so that U.S.-flag vessels not qualified to engage in the coastwise trade and U.S.-flag vessels qualified to engage in the coastwise trade would displace foreign-flag vessels in providing service. The legislation provides that a period of 9 months, 270 days, shall be given to the operator to terminate service, in the event that U.S.-flag service is available. This language ensures the orderly transition of service while providing continuity to the passengers.

As you will hear from the Governor of Puerto Rico and the Director of the Puerto Rico Tourism Co., it is estimated that passage of this legislation will result in the creation of 4,000 jobs and an additional $28 million in total tourist expenditures from the anticipated increase of 81,000 new tourists during the first year of operation after the bill's enactment.

My legislation will help to stimulate the development of a cruise/vacation/passenger transportation industry that would in turn help spur the renewal of the U.S.-flag ship industry. I, again, want to restate the fact that my bill addresses only passenger transportation. In no way is this bill addressing the issue of cargo transportation. I am not asking for waivers or exemptions from the Jones Act for cargo transportation in this bill.

There are two factors which have taken place since you considered the bill last year and which have a bearing on the legislation. The first is the enactment of Public Law 98-67, the Caribbean Basin Economy Recovery Act. As approved by the Congress, the CBI extended the business convention deduction to eligible countries. Prior to the signing of the law, only persons attending business conventions held in the United States, including Puerto Rico, Canada, Mexico, and Jamaica were eligible for this deduction. The purpose of that limitation was to help the domestic tourism industry and to prevent abuses against this deduction. The extension of that provision to the CBI countries was not part of the original CBI version.

Although I strongly supported the enactment of the CBI and continue to believe in its potential, the extension of the business convention deduction to other countries in the area has the potential of having a negative impact on tourism in Puerto Rico. This is due to the fact that conventions which may travel to these nations are similar to those which now take place in Puerto Rico—small- and medium-sized conventions of less than 4 days' duration. From 1977 to 1981, the number of conventions on the island tripled from 375 to 1,209. They generated $168 million in 1977 and $355 million in 1981.

While it is difficult at this time to fully assess what the future impact of that provision will be on Puerto Rico, it is clear that we have lost a competitive advantage that we previously had. With a strong U.S. dollar, these countries could develop attractive packages at the expense of the U.S. mainland and Puerto Rico. H.R. 89 would restore some of that advantage by allowing us to develop tourism packages to retain those travelers in the United States and keep their money at home.

The second new factor is the approval by your committee of H.R. 2883, legislation to allow the entry of the Cunard *Princess* and *Countess* into the coastwise trade. The merits of that bill are clear, and I want to congratulate the chairman for his effort on behalf of that legislation.

It is interesting to note that in support of H.R. 2883, representatives from a maritime union which opposed my bill used basically the same arguments that we have used on behalf of our legislation. That is, first, that there is no U.S. vessel industry available; and, second, that whenever someone comes up with a good idea designed to stimulate the domestic industry, it is shot down. This is a good idea whose time has come, and maybe my bill together with H.R. 2883 will offer the necessary incentives to spur the rebirth of a domestic cruise industry.

The Government of Puerto Rico has been making inquiries aimed at attracting ships to provide service to Puerto Rico. In his testimony, Governor Carlos Romero-Barcelo will expand on those efforts.

One last point that I would like to bring to the attention of the subcommittee has to do with the 24-hour rule. The proposed change in the regulation that currently provides that passengers traveling in a foreign ship may not disembark in a U.S. port for a period longer than 24 hours has yet to be issued. The proposed new rules, providing for a 96-hour period, have been awaiting action by the Secretary of the Treasury.

I was told earlier this week that the proposed change is under review. Once approved and published in the Federal Register, there will be a comment period of 60 to 90 days before the regulations are final. It has now been over one year since the changes were first discussed, and we are still awaiting their publication in the Federal Register. I would appreciate any assistance the subcommittee and full committee can give us in speeding the issuance of those changes.

In conclusion, Mr. Chairman, I would like to restate my thanks for your assistance in the past on behalf of my legislation, and I look forward to working with you to obtain approval of this bill.

At this time, Mr. Chairman, I would ask permission to include in the record, in addition to my testimony, the testimony of the Puerto Rico Ports Authority. Mr. Carlos Soler-Aquino could not come for the hearings today. However, he has written testimony which I would like to have inserted in the record of these hearings, Mr. Chairman.

Mr. JONES. Without objection, so ordered.

[The statement of the Puerto Rico Ports Authority follows:]

PREPARED STATEMENT BY THE PUERTO RICO PORTS AUTHORITY

We are very pleased to refer to H.R. 89 which will allow the transportation of passengers between Puerto Rico and other United States ports on foreign-flag vessels whenever there are no U.S.-flag vessels available to render such services.

This bill is of vital importance to the economy of Puerto Rico. Its enactment into law, which the Ports Authority urges, will provide Puerto Rico with a means to fill a need which the Island has been suffering for three decades.

Before going into the specifics of the proposed legislation, we deem it advisable to portray a general picture of Puerto Rico.

GEOGRAPHICAL AND HISTORICAL FRAMEWORK

Located 885 miles southeast of Florida, Puerto Rico is the easternmost island of the Greater Antilles in the Caribbean. The Island is roughly 3,500 square miles in size, that is, 100 miles long by 35 miles wide, and harbors some 3.2 million United States citizens, with its capital city San Juan housing the largest number. San Juan is also the hub of economic activity of the Island, and holds among its many facilities the most important installations serving the needs for external transportation, among which we can mention the Puerto Rico International Airport and the San Juan Port Area.

Its geographical condition forces Puerto Rico to the exclusive use of ocean crafts and aircraft as the sole means of transportation between other states, territories or foreign countries. This is remarkably different to the case of Mainland states where, in addition to the aforementioned means of transportation, ground vehicles means, railroads and channel transportation are available.

The island of Puerto Rico was discovered by Christopher Columbus on November 19, 1493 on his second voyage to the Americas. Since its discovery the Island remained under the Spanish rule until 1898. On this date Puerto Rico was ceded to the United States as a result of the Spanish American War. The U.S. Congress provided a civil government through the Foraker Act of 1900 and Puerto Ricans were granted United States citizenship in 1917 by virtue of the Jones Act.

Public Law 600 approved in 1950 established a relationship in the nature of a compact between the United States and Puerto Rico. A local constitution was ratified in 1952 which established the present Commonwealth status within the United States of America.

DEVELOPMENT OF PUERTO RICO AS A COMMONWEALTH WITHIN THE UNITED STATES

The development of Puerto Rico can be traced back to a single crop agricultural based economy—mainly sugar—when Puerto Rico shifted to U.S. sovereignty. By that time, its greatest stumbling blocks were the total lack of natural resources and poverty.

The population of Puerto Rico was approximately one million in 1900 and by 1940 it had grown to 2.2 million. The average rate of employment in 1940 was 512,000; in 1950, 596,000; and at present 719,000. Per capita income increased from approximately $266 in 1940 to $300 in 1950 and to $3,150 in 1982. Despite the economic growth, the present unemployment rate is around 23.5. This has been a traditional basic problem with which the government of Puerto Rico is firmly committed to tackle and minimize.

Being the people of Puerto Rico U.S. citizens by birth, they are entitled to all privileges and rights granted under the United States Constitution. Also, we are under obligation to serve the country as need be. As a matter of fact, over 200,000 Puerto Ricans have served in the U.S. Armed Forces since the First World War and many have died or were wounded. There are about 2.0 million Puerto Ricans now residing all over the United States, who participate in all positive aspects of life in the Mainland.

PREDOMINANT POSITION OF CARGO TRADE WITH THE UNITED STATES

The balance of trade for Puerto Rico experienced a deficit of $609 million by 1950. However, a change for the better occurred in 1982 when the Island experienced a favorable balance of $304 million. Imports for 1982 amounted to $8,491 billion and exports $8,795 billion. Of total imports, $5,442 billion or 64 percent originated in United States Mainland which by world-wide standards makes the Island the sixth major purchaser of U.S. Mainland products.

Traditionally, the trade between Puerto Rico and the United States has been evenly distributed among the different regions of the United States.

The following computation presents the statistical total comparative Puerto Rico dollar trade figures from the 50's through the 70's and fiscal years 1981 and 1982 broken down into Mainland, Virgin Islands, and foreign:

EXTERNAL TRADE STATISTICS

[Dollar amounts in millions]

	Total traffic	U.S. mainland	Virgin Islands	Foreign traffic	U.S. mainland [1]	Others [1]
Fiscal year:						
1950	$579	$528	NA	$51	91.2	8.8
1960	1,537	1,355	$13	169	88.2	11.8
1970	4,285	3,498	101	686	81.6	18.4
1980	15,592	11,020	256	4,315	70.7	29.3
1981	17,371	12,483	291	4,597	71.9	28.1
1982	17,286	12,840	342	4,104	74.3	25.7

[1] Percent of total.
[2] NA—Information not available.

In tonnage terms the U.S. Mainland ports which show the greatest trade with the United States are those of the East Coast with 80 percent of the total followed by Gulf ports with roughly 20 percent of the total. The East Coast total is shared by the North Atlantic ports with 39 percent of the trade, and the South Atlantic ports 41 percent.

PUERTO RICO PASSENGER TRADE

Passenger movement between United States and Puerto Rico is presently limited to that provided by air transportation as there is no water transportation passenger service available. There is no U.S.-flag ship rendering passenger transportation service between United States and Puerto Rico, and there has been none since March 1953, and we have no knowledge of any ocean transportation related interests willing to render such service by American flag ships.

There are a good number of foreign-flag vessels which regularly stop at San Juan, Puerto Rico and which start or end their cruises between foreign ports at San Juan. In their services with foreign countries they may legally carry passengers (46 U.S.C. 289) but not in the domestic trips. As a result, any United States citizen or person wishing to travel for any purpose between the Mainland and the island is compelled to travel by airplane. If by ship, he or she may journey from or to a foreign port and/or from there must board another ship to Puerto Rico or the Mainland. Furthermore, according to law and Customs regulations, foreign-flag cruise ships cannot stay in an American port for more than 24 hours.

In 1950, latest year on which data is available and when passenger ship service using American flag ships was rendered between New York and Puerto Rico by Bull Insular Line, 7,000 passengers were transported. Considering the rate of growth of the economy since that date and the volume of passengers which may be moved in a passenger ship, we estimate that under present circumstances, passenger movement by ship could well be 12 to 15 times higher than that of 1950. That is, in the first year of operation under the subject bill 84,000 to 105,000 passengers would avail themselves of the service. The benefit to the Puerto Rican economy, now badly hurt by the world recessionary conditions would be of considerable magnitude. Considering that every tourist visiting the Island spends an average of $422 per visit, an input of $35.5 million to $44.5 million initially can be estimated.

For 1982 the expenditures by visitors to Puerto Rico amounted to $660.6 million which represented 6 percent of Puerto Rico Gross Product (1973 Price Index).

Exhibit "A" presents the number of cruise ships and passengers visiting the Port of San Juan from 1970 through 1983. This trade increased from 301 ships and 136,300 passengers in 1970 to 545 ships and 411,150 passengers in 1983. While the peak year in this trade for ships was 1974 with 739 vessels, the record high in number of passengers occurred in 1981, with 531,222 travellers. During the last two years due to the world wide economic crisis and its impact upon this trade, the number of ships and passengers has decreased as similarly experienced in other areas.

PASSENGER TRANSPORTATION FACILITIES IN PUERTO RICO

The Puerto Rico Ports Authority is the Commonwealth's agency entrusted with providing facilities for the passenger trade of Puerto Rico.

The Puerto Rico Ports Authority, a public corporation and instrumentality of the Commonwealth of Puerto Rico, was created for the purpose of developing and operating any and all types of air and maritime transportation facilities, and to promote an excellence of service to and from Puerto Rico in the most economical way to promote the general welfare and commerce of the Island.

The Authority is empowered to fix, charge, and collect rates and other charges to cover its expenses in the conservation, development, improvement, repair, maintenance, and operation of its facilities. The fixing of these charges is based on a rate schedule which is periodically revised, and which is also based on the break-even needs of the agency, including debt service payment requirements related to its financial obligation in connection to various bond issues.

The Ports Autority owns and operates the seaport facilities at seven of the eight active ports on the Island, of which the ports of San Juan and Mayaguez are commerce-oriented, and the other five: Guayanilla, Guayama, Yabucoa, Guánica and Arecibo, are basically designed to serve industrial port activities. The second most important port in Puerto Rico is located at Ponce, in the south coast, and is owned and operated by the Municipality.

Of the above, by far, the most important and holding a preeminent position in the infrastructure that supports our economic and commercial development is the Port of San Juan.

San Juan Bay is almost completely landlocked about three miles long and varying in width from .6 to 1.3 miles. It is the only harbor in the north coast of Puerto Rico which affords protection against all kinds of weather.

Facilities at the Port of San Juan consist of 32 piers with 51 berths that are used for general cargo and container ships. Besides, insofar as terminal piers for passenger and cruise ships is concerned, the port holds berthing facilities for seven deep-draft ships handling passengers and baggage, and has experienced up to thirteen tourist or cruise ships at a time. You will never see at San Juan a tourist ship remaining at anchor as it coincides with other tourist ships visiting ports in the Caribbean.

We can describe the San Juan Port Area installations as basically consisting of some 22,700 linear feet of berthing space; 1,100,000 square feet of transit shed area; 1,500,000 square feet of open storage area, and 105 acres of marshalling yards. These latter facilities are located mostly at the Puerto Nuevo port zone in the south and at Isla Grande in the center. Within the port boundary, there is also the zone known as the Sabana Industrial Area, where the rice, flour, and feedstuff mills are located.

Outstanding statistics regarding our activities show that for 1982 the Port of San Juan ranked 8th among world ports and second among United States ports in number of containers handled, with the Port of New York taking the first place.

During the last two years, the Ports Authority has undertaken a vast program of improvements at the Port of San Juan. The construction of the port promenade from Pier 1 to Pier 6 at a cost of approximately $400,000, in only the first phase of this improvement program. This promenade meets the functional, passive recreation and the aesthetic requirements of the area.

The demolition of Piers 6 and 7, at a cost of $130,000, has already been completed and the construction of a new cruise ship terminal has already been started for completion by mid-1984. These facilities that will extend the port promenade from Pier 6 to Pier 7 will include a sterile passenger corridor, two Customs inspection stations and areas for concessions and other services.

A structural fendering system will also be installed to protect the berthing facilities.

This project, which being undertaken at an approximate cost of $3,000,000, will provide facilities capable of handling simultaneously two additional cruise ships.

With respect to the aviation field, the Puerto Rico Ports Authority owns and operates eleven active airports which include: the Puerto Rico International Airport and Ponce Airport, and the regional airports at Mayaguez, Ramey at Aguadilla, Arecibo, Isla Grande, Fajardo, Vieques, Culebra, Humacao, and Pattilas.

Looking into the future, the Puerto Rico Ports Authority contracted and recently finished Master Planning Studies which are useful in providing the long range perspective to guide its ongoing development program.

EFFECT OF THE PASSAGE OF H.R. 89

With the passage of H.R. 89 by Congress the island and economy of Puerto Rico, as already indicated elsewhere in this statement, will substantially benefit the tourism industry of Puerto Rico. Undoubtedly, the establishment of passenger transportation services in vessels presently not allowed to engage in the coastwise trade between ports in Puerto Rico and other ports in the United States, directly or by way of a foreign port when there are no U.S.-flag vessels available will create more port jobs and revenues, not only in Puerto Rico but in Mainland ports as well. This bill is not intended to affect the American Merchant Marine or American flag passenger vessels, inasmuch as there has existed none in this trade for a long time, thirty years now, but rather will provide for job opportunities for those devoted to supporting activities such as stevedores, ship chandlers, maintenance and repair, and other similar activities.

The exemption provided by the bill would actually become ineffective when the Secretary of Transportation determines that U.S.-flag service is available. An adequate notification of 270 days will be served upon the exempted operator who may be rendering the service. In addition, if passed, the legislation will not apply to the transportation of cargo. It will actually create a basis and an incentive toward American flag vessels to provide passenger services between Puerto Rico and United States Mainland ports.

Furthermore, there are precedents set on this respect which support this proposed legislation. For example, Public Law No. 87-877 of October 20, 1962, extended for several years, provided for the Secretary of Commerce to grant permits to United States Mainland lumber companies to contract for the transportation of lumber to Puerto Rico using foreign-flag ships whenever there were no American-flag vessels matching the price of the foreign flag ships. Under this law the Secretary of Commerce granted permits to Georgia Pacific Corporation, Oregon Lumber Co., Simpson Lumber Co., Dart Russell, Inc., Seaboard Lumber Co., and the Warsaw Lumber and Trading Co. By virtue of Public Law 85-103 of July 1, 1957, subsequently extended, Canadian vessels have been allowed to transport passengers and merchandise between ports in Alaska and between Alaska and other points in the United States outside Alaska either directly or via foreign port, or for any part of the transportation.

A particular impact consideration in analyzing H.R. 89 is that of the role of Puerto Rico within the Caribbean Basin Initiative, as well as the island's direct relationship and economic condition in comparison to other points in the Caribbean. These other points in the Caribbean, including the United States Virgin Islands, enjoy the advantage of foreign-flag passenger vessel transportation without any restriction whenever volume warrants. If such passenger vessels are allowed to render service between United States Mainland ports and Puerto Rico, as provided in H.R. 89, the small countries in the Caribbean which naturally lack enough passenger volume with the United States Mainland will also benefit because of the short distance between said countries and the Port of San Juan, Puerto Rico where passengers travelling from or to such points may transfer and board or leave a ship.

Summing up, our feeling is that approval of H.R. 89 will benefit not only the Puerto Rican economy but also that of the ports in the Continental United States that would be served by this trade without in no way affecting any rights or privileges enjoyed by private, government or labor U.S. interests.

We, therefore, respectfully request approval of H.R. 89.

EXHIBIT A.—CRUISE SHIP VISITORS TO PUERTO RICO

[Fiscal years 1970 through 1983]

Year	Cruise ships (number)	Visitors (number)
1969 to 1970	301	136,604
1970 to 1971	323	163,771

EXHIBIT A.—CRUISE SHIP VISITORS TO PUERTO RICO—Continued

[Fiscal years 1970 through 1983]

Year	Cruise ships (number)	Visitors (number)
1971 to 1972	534	261,159
1972 to 1973	734	344,341
1973 to 1974	739	411,086
1974 to 1975	698	415,627
1975 to 1976	640	412,712
1976 to 1977	685	445,083
1977 to 1978	654	453,280
1978 to 1979	681	484,162
1979 to 1980	700	501,124
1980 to 1981	713	531,222
1981 to 1982	603	444,148
1982 to 1983	545	411,150

Source: Tourism Company of Puerto Rico.

Mr. JONES. Mr. Corrada, last year the House passed this legislation; yet the Senate failed to act.

Do you foresee action in the Senate this year?

Mr. CORRADA. Mr. Chairman, we have been in close communication with the Senate. We have had meetings and conversations, particularly with Senator Stevens, Senator Inouye and others. I am under a clear impression that should the House again move on this bill this year, there are good opportunities that in the second session of this Congress, early next year, the Senate may act on it.

However, there is no commitment on their part in that sense. But I do feel more confident this time around that we will have time for the Senate to act.

Let me remind you that when this bill was in the Senate in the 97th Congress we were already in the second session, and it was caught up in a jam at the end of the session there which did not allow the Senate to act in due time.

Mr. JONES. Any questions of Mr. Corrada?

Thank you very much for your testimony. If you would, sir, we would be happy for you to join the committee up here and remain for the proceedings.

Mr. CORRADA. Thank you very much, Mr. Chairman. I appreciate your courtesy.

Mr. JONES. Our next witness is the Governor of Puerto Rico, the Honorable Carlos Romero-Barcelo.

We are delighted to have you here this morning. You may proceed at your pleasure.

STATEMENT OF HON. CARLOS ROMERO-BARCELO, GOVERNOR, COMMONWEALTH OF PUERTO RICO

Governor ROMERO-BARCELO. I would like to thank you for being present at these hearings. We feel this matter is important to our tourism industry.

It is a pleasure for me to be here today testifying in support of H.R. 89, Resident Commissioner Baltasar Corrada's bill to permit non-coastwise-qualified vessels to carry passengers between ports in Puerto Rico and ports on the U.S. mainland, until coastwise-qualified vessels become available for that purpose.

Last year, this subcommittee held a hearing in San Juan at which I appeared in support of a similar bill, H.R. 1489. That bill was reported out of committee and unanimously approved by the House. I commend particularly Chairman Biaggi for the important role he played in securing House approval of that bill. My only regret is that the bill did not become law. I must, therefore, again ask for your help in obtaining the enactment of H.R. 89.

The bill did not become a law because there was some objection by some of the unions, particularly SIU, which said to us that they had knowledge of the fact that some companies were going to have ships making the route to Puerto Rico. The only companies that made any kind of indications so far are the Clipper Cruise Line. We wrote to them, and we have a copy of the letter which we would like to introduce in the record, where they indicated they are not going to be making any trips to Puerto Rico from the mainland. In the first place, their vessel is not large enough. We will include a copy of that letter.

The other cruise line has not answered our letters yet, but the information they have made public does not include Puerto Rico on their routes.

We have since then spoken to Senator Inouye and Senator Packwood. Although they have not made a firm commitment, they feel the events that have transpired since last time is that they might see a more favorable turn of events in the Senate if the bill is again passed by the House.

The U.S. coastwise shipping laws prohibit the transportation of passengers on one-way voyages between Puerto Rico and mainland ports in non-coastwise-qualified vessels. For over two decades now, there has been no regular one-way passenger service between Puerto Rico and the mainland, principally because no coastwise-qualified vessels have been available for that purpose. There is no reason to believe that this situation will change in the near future.

The lack of passenger vessel service has meant that Puerto Ricans who must travel to the mainland are forced to do so by air. With the possible exception of Hawaii, Guam, and American Samoa, no other group of U.S. citizens has as narrow a choice of travel options. Indeed, the restrictions that the coastwise laws place on the people of Puerto Rico may be so severe as to infringe upon their constitutional right to travel freely.

From other places in the Nation, you can go by car, rail, bus, have other ways of travel; but from Puerto Rico to the mainland, only by air. There are instances of people who cannot travel by air—for psychological reasons, some for physical reasons. As a matter of fact, my daughter, my youngest daughter, has a problem, psychological problem with airplanes because she was in on a time when a plane took a deep plunge. She cannot travel here by plane.

She is not the only person I know. There are many other persons in Puerto Rico now that testified during the hearings. It is amazing to realize the trouble they have to go through to be able to come to the mainland. They have to take a boat to the Virgin Islands, because the Virgin Islands are excluded from the Coastwise Shipping Act. From there, they can take a vessel to the mainland, whether it is going to Jacksonville or Miami. From there, they take a train or bus to Washington, New York or wherever they are going.

Tourism is a vital component of Puerto Rico's economy. In 1982, 2 million tourists visited the island. While in Puerto Rico, these visitors spent $660 million. Our economists estimate that these expenditures represent an additional 48,000 jobs to our economy.

Puerto Rico needs these jobs very badly. We have been hit hard by the national economic recession. Our recession problems have, in turn, been compounded by Federal budget cutbacks which have necessitated significant reductions in public sector employment. Today, although certain facets of our Nation's economy may be recovering, Puerto Rico's unemployment rate is still at the unacceptably high level of 24.1 percent. The coastwise laws restrictions have placed a restraint on the growth of our tourism industry and the jobs it can create.

One of today's most popular forms of vacation travel provides for one-way transportation on a foreign passenger vessel between a mainland and a Caribbean port. This is followed by a stay in a resort hotel in the Caribbean port and return to the mainland by air. Because they prohibit one-way transportation between Puerto Rico and the mainland in foreign vessels, the coastwise laws deny our tourism industry the opportunity to offer this type of vacation plan.

Now it will be aggravated by the fact that the Caribbean Basin Initiative offers some of the island's tax exemption for the conventions to be held in some of the Caribbean countries. Now the competition will be a little bit greater. If we cannot have passengers traveling to and from Puerto Rico by vessel, it will be even harder for us to compete.

The tourism industry of the U.S. Virgin Islands does not suffer from the same restriction. They are exempted from coverage by the coastwise laws. This means that one-way transportation in foreign vessels between the Virgin Islands and U.S. ports is permissible. It also allows them to reap the tourism and other benefits that flow from such travel. This disparity is totally unfair and provides an additional reason for passage of H.R. 89.

The only objection which has been lodged against this bill is that its enactment would be inconsistent with the purposes of the Jones Act. If this were true, I would oppose the bill. A review of the facts, however, establishes that enactment of H.R. 89 would do no real damage to the shield that the Jones Act creates for our maritime industries.

First, it must be remembered that there has been no regular coastwise-qualified passenger service between Puerto Rico and the mainland for over 20 years. Thus, enactment of H.R. 89 would not adversely affect any U.S. business or workers.

Second, the bill would apply only to passenger transportation and not to the transportation of cargo. In this regard, the subcommittee should be aware that the Government of Puerto Rico owns Navieras, the shipping line that provides cargo service between the island and the mainland. Accordingly, it would not be in our best interest to support a Jones Act cargo exemption, and we emphatically do not support such a measure. It would be prejudicial for the Government of Puerto Rico to have such an exemption for cargo, so we did not support that. We feel for passengers it is a completely different situation.

Third, the bill expressly provides that the exemptions it would create for noncoastwise-qualified vessels would terminate within a very short period after coastwise-qualified vessels became available for service between Puerto Rico and the mainland. In fact, there are some who fear that H.R. 89 is so restrictive in this area that it might discourage all but the most daring of noncoastwise-qualified operators to institute one-way service.

In summary, I submit that Puerto Rico has a very real need for one-way passenger vessel service to the U.S. mainland. Moreover, without enactment of H.R. 89, we have no reason to believe that such service will be instituted. Accordingly, I urge you in the strongest terms to report H.R. 89 to the full committee and to do all that you can to secure the bill's passage by the House.

I thank you for this opportunity to appear before you again and would be glad to answer any questions you may have.

I would like to underscore the fact that I am personally here to make and underscore the importance that this bill has for Puerto Rico for its tourism industry. Even though I have testified before—and my testimony is substantially the same as before—I feel it is so important to us that my trip here is worth our while. We want to make sure everyone is aware of how important this is to us in Puerto Rico.

Mr. JONES. Governor, we are very grateful for your appearance here this morning. I have one quick question.

Since Puerto Rico operates a Jones Act cargo carrier, why wouldn't the Commonwealth itself operate a Jones Act passenger vessel?

Governor ROMERO-BARCELO. We got into the cargo business during another administration. We feel that the Government should not be in cargo or any type of private business. As a matter of fact, we tried to sell our shipping lines and could not find a buyer who would pay a reasonable amount of money. So we are still in the business of cargo shipping. But we would certainly not want to get involved in the passenger aspect.

Mr. JONES. One involvement is enough.

Governor ROMERO-BARCELO. Definitely. The losses are substantial.

Mr. JONES. Mr. Forsythe, do you have any questions?

Mr. FORSYTHE. Thank you, Mr. Chairman.

Welcome to you, Governor. I think I have just a couple of questions.

Commissioner Corrada said you could expand on your search for a specific foreign-flag passenger company that is interested in providing regular passenger vessel service calls to Puerto Rico. If you do, can you supply us their names?

Governor ROMERO-BARCELO. One is a Clipper Cruise Line. The other one is Cruise America. We have written to both. Clipper Cruise Line has answered. We are submitting a copy of the answer. Cruise America has not answered, but yet all of their information does not include Puerto Rico.

Mr. FORSYTHE. Clipper, I understand, is an American-flag line which would not need this exemption.

Governor ROMERO-BARCELO. Yes; but they are not including Puerto Rico in their itinerary.

Mr. FORSYTHE. They would not need this legislation.

And Cruise America, assuming the passage of the legislation dealing with those two vessels that Cruise America is trying to acquire, would be in the same category as the Clipper Cruise Line. So if those two were available, you would have American-flag service, if you could get them to serve.

Governor ROMERO-BARCELO. Yes; but they are not interested in serving.

Mr. FORSYTHE. You have no foreign line flag vessel that has shown a specific interest in providing the service that you are seeking?

Governor ROMERO-BARCELO. Foreign vessels, yes. And they do stop at Puerto Rico. We have a large number of foreign vessels who stop in Puerto Rico. For instance, you take a ship from wherever, Miami, Jacksonville, Baltimore, New York, and you are going to cruise down the Caribbean, and then you reach San Juan and you say, "I would like to stay here." Well, you cannot, because you commit a crime. And it is a great disadvantage.

Mr. FORSYTHE. I see. Well, that clears that point.

I think this is just kind of a technical correction, Governor. On page 2 of your testimony you indicate that Puerto Rico is unique in this regard. Certainly, in the eastern area that is true. But you also name Hawaii. I believe American-flag service is available from Hawaii to the mainland.

Governor ROMERO-BARCELO. Yes, sir, that is correct. I noticed that when I was reading. I did not notice it when I proofread it. There are shipping lines. There are also lines from Alaska. People from Alaska have the option of traveling by land to Canada, but they also have lines available.

Mr. FORSYTHE. Yes.

I don't think I have any other questions. I certainly would hope, as you do, that this can move so that we can give the Senate a good opportunity to work on it. Your help there will be important.

Governor ROMERO-BARCELO. Thank you.

Mr. JONES. The Chair recognizes Mr. Corrada.

Mr. CORRADA. Thank you, Mr. Chairman.

First of all, I would like to welcome and commend the Governor of Puerto Rico for his testimony.

Governor, you mentioned that you supported, as I also did, the President's Caribbean Basin Initiative, although there were some sacrifices for Puerto Rico in that proposal, particularly the provisions in the legislation which would allow free entry of products from the Caribbean Basin countries into the U.S. market.

There is a letter sent by the General Counsel of the Transportation Department, Jim Burnley, to Chairman Jones, dated yesterday, where that fact is recognized. It is said that:

> In the course of developing the Caribbean Basin Initiative, the Executive Office of the President and the Department of Transportation promised the Governor of Puerto Rico that the Administration would attempt to reduce restrictions on the carriage of passengers between U.S. mainland ports and Puerto Rico by foreign-flag vessels as long as no U.S.-flag vessels were providing the service.

Furthermore, in that letter he says:

> The department believes that the approach set out in H.R. 89 strikes a reasonable balance between the interests of Puerto Rico and the U.S. maritime industry and

does not compromise the Administration's commitment to support the substantive provisions embodied in the Jones Act.

Do you believe, Governor, that in light of passage of the CBI legislation, this bill becomes even more important to the Puerto Rican economy?

Governor ROMERO-BARCELO. Definitely, because the opportunity now to avail themselves of income tax deductions for conventions gives them a larger competitive edge. We can benefit ourselves from the deductions for conventions. But then the conventions who like to go one way, going down or coming back by vessel, cannot go to Puerto Rico. So, therefore, they have something else to offer, an alternative to offer that we cannot offer.

At this moment, I think if the foreign vessels are allowed to come in and if they build a market, if there is ever going to be an incentive for the U.S. Merchant Marine to get involved in the passenger travel business between Puerto Rico and the mainland, the business will have to be first established. The only way it will be established is by foreign vessels. Once it is established, there will be American interests which will desire to make the investment to have cruise ships between Puerto Rico and the mainland.

Mr. CORRADA. Thank you, Governor.

I have no further questions, Mr. Chairman.

Mr. JONES. Any further questions?

Mr. Fields.

Mr. FIELDS. Thank you, Mr. Chairman.

Governor, H.R. 89 would permit vessels in the trade only if the Secretary determines that no U.S.-flag vessels are available.

Do you support the idea of giving U.S.-flag vessels priority over foreign-flag vessels?

Governor ROMERO-BARCELO. Yes, definitely. I think our national interests are better served by having U.S.-flag vessels serving all the coastwise shipping routes. I am all for it; but as long as there is no service, then we should have an alternative service.

Mr. FIELDS. In an attempt to correct a disadvantage which Puerto Rico has vis-a-vis its neighbors who are not subject to the Jones Act, what is your reaction to the idea of applying the Jones Act to the Virgin Islands rather than exempting Puerto Rico from the Jones Act?

Governor ROMERO-BARCELO. I don't think I would like to impose the same limitations we have on the Virgin Islands. Right now we have limitations on availability of travel alternatives to the rest of the nation. There are 3,200,000 U.S. citizens in Puerto Rico who can only travel to any other part of the nation by air. They have no other alternative. That puts a big limitation on us.

I don't know what would happen if someone were to question this law in a court of law—as far as their constitutional right to travel freely throughout the nation—that they have some limitations which other citizens do not have.

Mr. FIELDS. Well, if the Virgin Islands were part of the Jones Act, doesn't that solve some of your problem?

Governor ROMERO-BARCELO. No; It would just create a problem for them. Right now the cruise ships can come to the Virgin Islands and people can get off, so they will have more tourists. They have not only the ones on the cruise ships, but those that come and

stay in the Virgin Islands for a week or a few days. Then they would lose that business.

Mr. JONES. Governor, again thank you for your appearance here this morning.

Our next witness is Mrs. Frances Rios de Moran, executive director of the Puerto Rico Tourism Company.

You may proceed at your pleasure.

STATEMENT OF FRANCES RIOS de MORAN, ESQ., EXECUTIVE DIRECTOR, PUERTO RICO TOURISM COMPANY

Mrs. MORAN. Mr. Chairman and members of the subcommittee, I am Frances Rios de Moran, executive director of the Puerto Rico Tourism Co., known as Turismo. It is a pleasure for me to testify in support of H.R. 89, a bill to permit non-coastwise-qualified vessels to transport passengers one way between Puerto Rico and U.S. mainland ports.

Turismo is a public corporation of the government of Puerto Rico. It has official responsibility for the overall development of the island's tourism industry, through planning, promotion, training, and the provision of transportation and other tourist services. Turismo, with a budget of more than $12 million in fiscal year 1983, devotes considerable efforts to carrying out its responsibilities.

We are currently involved in a complete effort to improve the industry, including a $20 million investment in new pier and airport facilities, and the remodeling of most of our hotels. We are in the process of retraining our work force, from hotel workers to taxi drivers, in a vocational hotel school established last year. This year we are retraining 1,500 persons, and expect to retrain 8,000 over the next 4 years.

The Caribbean Basin Initiative has been enacted since I last testified before this subcommittee. Although the government of Puerto Rico supports the CBI, it can nevertheless have a negative impact on our tourism. It contains a provision allowing tax deductions for business expenditures for conventions in Caribbean countries who have signed a tax treaty with the United States.

The number of conventions in Puerto Rico has increased from 375, with 68,000 attendees in 1977, to 1,298, with 89,000 attendees in 1981. These visitors spent approximately $168 million in 1977 and $355 million in 1981. Puerto Rico normally attracts small conventions. We have a maximum capacity of 5,000 persons per convention, similar size to that of our Caribbean neighbors. Thus, with the new CBI provision, we will be competing for the same small- and medium-sized conventions.

The tourism industry has been a major force behind Puerto Rico's economic development, and contributes significantly to the economy. For instance, in fiscal year 1982, tourist expenditures amounted to $681 million, and constituted 5.4 percent of Puerto Rico's gross domestic product. Tourism is extremely important in terms of employment because it is labor-intensive. The $681 million spent by visitors in 1982 created more than 48,000 jobs.

Puerto Rico is the Caribbean's No. 1 tourist destination. Largely due to our success in attracting additional air service in recent years, and in expanding and improving our tourist facilities, we

have been able to draw an increasing number of visitors. In fiscal year 1982, Puerto Rico attracted 2 million tourists. A total of 1.5 million visitors came by air. Of that number, 1.2 million came from points within the United States. The visitors arriving by air spent $660 million in 1982.

I believe that H.R. 89 will allow Puerto Rico to fill a major void in its cruise ship visitor market. You have heard me say that we are able to attract cruise ship visitors who come to San Juan and leave shortly thereafter by the same vessel, and visitors who take San Juan—originating and—returning cruises. You have not heard me speak of visitors who wish to travel from the mainland to Puerto Rico by cruise ship, and return by air. I have not mentioned such visitors because, at the present time, they are legally precluded from making such trips.

The legal restriction in 46 U.S.C. section 289, prevents us from developing the cruise ship market to its full potential. At roughly 440,000 visitors annually, that market is of a respectable size, but not nearly as large as it could be. Actually, we lost volume in the last year due to our competitive disadvantage.

You are aware, of course, that no U.S.-flag cruise ships serve San Juan or indeed any points in the Caribbean. San Juan receives service only from foreign vessels. And because of the current law, foreign vessels are prohibited from carrying passengers between the U.S. mainland and Puerto Rico on a one-way basis. Removal of that prohibition will allow Puerto Rico to go after the one-way cruise ship visitor market.

I would like to describe in more detail the nature of the market that Puerto Rico can attract with passage of H.R. 89. First, we believe that there are a substantial number of individuals who would like to take a cruise to San Juan from a mainland port, and would then like to spend some time visiting the island before returning home.

Second, there should be some individuals who are interested in taking a cruise but, because of time or cost constraints, are not able to go in both directions. For them, the opportunity to first take an abbreviated cruise on a one-way basis and to then fly home would be attractive.

Some of the above individuals would be drawn from the ranks of cruise ship passengers who already visit Puerto Rico. To the extent that those individuals extend their stay beyond the 24 hours or less that they now are spending in Puerto Rico, tourism and the Puerto Rican economy will benefit.

But perhaps even more significantly, we expect to be able to induce a substantial number of new passengers to visit Puerto Rico for the first time, with the innovative transportation offering that we contemplate. These visitors may come on cruise ships that already call at San Juan, and in even greater numbers, on the new ships that we expect to attract to take advantage of the one-way cruise ship visitor market.

We have given this matter considerable thought, and are convinced that we have an opportunity to increase Puerto Rico's tourist base, and tourism revenues substantially. One-way cruise ship offerings are not uncommon. A passenger can travel by ship be-

tween the U.S. west coast and various points in Alaska on a one-way basis, thanks to an exemption already granted by Congress.

Perhaps even more significantly, the Royal Caribbean Line, of Norwegian registry, is now extensively promoting several one-way cruise ship packages in the Caribbean. Under Royal Caribbean's programs, the passenger boards the vessel in Miami, visits various Caribbean locations such as Jamaica and Curacao, and flies back to the U.S. mainland from Barbados. The passenger can also fly from the United States to Barbados, board a ship there, and cruise to Miami via various Caribbean destinations such as St. Thomas and the Dominican Republic.

It should be noted that the U.S. Virgin Islands are exempted from these restrictions. Puerto Rico should have and wants the ability to compete with these foreign and U.S. Caribbean islands for the one-way cruise ship market.

At the present time, the great majority of cruise ship offerings in the Caribbean consist of a departure from a major gateway, a tour of various island ports, and a return to the gateway where all passengers debark and the next group is taken on to repeat the cycle. If a passenger wishes to spend more than part of a day in any given port—for instance, if he wishes to debark and catch a later sailing, or debark and return home by air—he makes special arrangements for this, pays a slight premium to the cruise line, and accepts a booking on the basis of final confirmation only near to actual departure time.

This type of arrangement is usually made available by the lines only on a space-available basis. Such an arrangement, of course, is not possible at all in the case of Puerto Rico, due to the section 289 restriction.

The obvious option is to develop and aggressively market services on a one-way basis—fly one way and cruise the other—along the general lines of the Royal Caribbean offerings. Two essential ingredients are needed to make such a service viable on a large scale. These are ingredients that Puerto Rico has, and many other Caribbean locations lack: a high quality air service infrastructure which ties both a Caribbean port and a U.S. mainland port with a wide range of city markets, served by frequent and direct air services; and a local tourism infrastructure at the Caribbean point capable of providing varied attractions for meaningful multiday visits, and with sufficient total and surge capacity year-round to provide the necessary amenities.

Puerto Rico is uniquely qualified as a Caribbean point for this type of service offering. Both of the necessary conditions are fulfilled. Air service to Puerto Rico from U.S. city markets is clearly superior to the service to any other Caribbean point. As to tourist amenities, Puerto Rico's existing infrastructure is generally considered unequaled in the region.

Moreover, the one-way cruises that Puerto Rico contemplates should be particularly attractive to the most price-sensitive component of the tourist market. Air fares from Puerto Rico to the major mainland point of New York can be as low as $139 on some flights. These low air fares could be combined with the low rates for some Puerto Rican accommodations, such as the Paradores Puertorriquenos.

Because of the nature of the contemplated service, which would be new to Puerto Rico, it is difficult to estimate the possible tourism volume impact. Based on contacts with representatives of the cruise industry, we feel confident that the impact will be substantial, particularly as the service matures.

Currently, Puerto Rico attracts roughly 162,000 annual cruise ship visitors who originate and terminate their voyages in San Juan. We project, at a minimum, that the number of new visitors attracted to Puerto Rico by the one-way cruise ship service will amount to 50 percent of that figure. Thus, we believe that it is not unreasonable to expect an additional 81,000 visitors in the first year of operations.

These additional visitors, many of whom would spend time enjoying Puerto Rico, would be a tremendous boon to our economy. Since each mainland visitor spends an average of $422 in Puerto Rico, the new visitors would add approximately $34 million to the island's tourist revenues. In addition, this translates into a $59 million boost to the economy's total output, and into the creation of approximately 4,000 new jobs. All of this, of course, does not include the positive economic impact to be expected as a result of current cruise ship passengers who decide to extend their stay in Puerto Rico once they are able to take a plane back to the mainland.

Puerto Rico will not be the only one that will benefit from enactment of H.R. 89. U.S. air carriers will also benefit since they will be having additional one-way passenger traffic between San Juan and the U.S. mainland.

We are all concerned that a result of airline deregulation has been the reduction of routes flown. Earlier this summer, Pan American Airlines completely shut down its operations in Puerto Rico. In addition, Eastern Airlines, the largest carrier serving the island, is facing serious financial difficulties. While enactment of H.R. 89 will not solve all the problems the airlines are confronting, it would help preserve and possibly enhance their service to Puerto Rico. Moreover, the U.S. balance of payments will be enhanced to the extent that mainland residents are attracted to Puerto Rico rather than to foreign Caribbean islands.

There is no prospect of U.S.-flag service to Puerto Rico in the near future. We would like to be able to promote Puerto Rico in the same way that foreign cruise ship services promote vacations to Alaska. We expect to be able to attract new cruise ship lines.

Of course, we need not rely on new companies alone to reap the benefits of H.R. 89. The many foreign-flag cruise ships that now sail between the mainland and Puerto Rico, and those that originate cruises to the Caribbean from San Juan, would also be in a position to quickly take advantage of H.R. 89. We could immediately begin working with these companies to market one-way cruises that would be an immediate benefit for our tourism industry.

As a final note, I would like to reemphasize one aspect of the Governor's testimony. H.R. 89 should be enacted not only to remove an unnecessary legal impediment to our ability to attract tourists, but also to facilitate the Puerto Rico-mainland travel of persons who are unable to travel by plane. For many of these people, we are not talking about the luxury of taking a cruise, but

about the essential question of whether they will be able to travel at all. Just as I am concerned about tourism, I am also concerned about insuring that all U.S. citizens have a viable means to travel to and from Puerto Rico.

Thank you very much.

[The statement of Mrs. Moran follows:]

PREPARED STATEMENT OF FRANCES RIOS DE MORAN

Mr. Chairman and members of the subcommittee, I am Frances Rios de Moran, executive director of the Puerto Rico Tourism Company, known as Turismo. It is a pleasure for me to testify in support of H.R. 89, a bill to permit non-coastwise qualified vessels to transport passengers one-way between Puerto Rico and United States mainland ports.

Turismo is a public corporation of the Government of Puerto Rico. It has official responsibility for the overall development of the island's tourism industry, through planning, promotion, training, and the provision of transportation and other tourist services. Turisomo is, with a budget of more than twelve million dollars in fiscal year 1983, devotes considerable efforts to carrying out its responsibilities.

We engage in large scale advertising and promotion of Puerto Rico's attractions, both abroad and on the U.S. mainland, including approximately 20,000 visits to travel agents, who are the largest providers of tourism to the Caribbean. We work closely with the airlines and cruise ship companies. We publish a monthly visitor's guide to Puerto Rico, entitled "Que Pasa." We regulate standards for the island's hotels and other tourist facilities. In addition, we engage in extensive efforts to develop a wide range of tourist facilities and attractions. In this regard, we promote the convention center, which makes Puerto Rico a strong contender in the region for convention business. We also operate "paradores puertorriqueños," a network of moderately priced small hotels and country inns located throughout the island.

We are currently involved in a complete effort to improve the industry, including a twenty million dollar investment in new pier and airport facilities, and the remodelling of most of our hotels. We are in the process of retraining our work force, from hotel workers to taxi drivers, in a vocational hotel school established last year. This year we are retraining 1,500 persons, and expect to retrain 8,000 over the next four years. We have increased our marketing and advertising budget by 66 percent, which will include television coverage on the mainland.

The Caribbean Basin Initiative has been enacted since I last testified before this subcommittee. Although the Government of Puerto Rico supports the CBI, it can nevertheless have a negative impact on our tourism. It contains a provision allowing tax deductions for business expenditures for conventions in Caribbean countries who have signed a tax treaty with the United States. The number of conventions in Puerto Rico has increased from 375, with 68,000 attendees in 1977, 10 1,298, with 89,000 attendees in 1981. These visitors spent approximately 168 million dollars in 1977 and 355 million dollars in 1981. Puerto Rico normally attracts small conventions. We have a maximum capacity of 5,000 persons per convention, similar in size to that of our Caribbean neighbors. Thus, with the new CBI provision, we will be competing for the same small and medium sized conventions.

We have a lot to work with in promoting tourism. Not only does Puerto Rico have many natural attractions, but it also has an extensive array of top quality hotel offerings in all price ranges. As of June 1983, we had approximately eight thousand available rooms in hotels, guest houses, tourist villas and in the paradores puertorriqueños.

The tourism industry has been a major force behind Puerto Rico's economic development, and contributes significantly to the economy. For instance, in fiscal year 1982, tourist expenditures amounted to 681 million dollars, and constituted 5.4 percent of Puerto Rico's gross domestic product. Tourism is extremely important in terms of employment because it is largely labor intensive. The 681 million dollars spent by visitors in 1982 created more than forty eight thousand jobs.

Without going into too much detail, I would like to give you an idea of the magnitude of our tourist trade. Attached to my written statement you will find detailed statistics that back up what I am about to say, and other information related to my testimony.

Puerto Rico is the Caribbean's number one tourist destination. Largely due to our success in attracting additional air service in recent years, and in expanding and improving our tourist facilities, we have been able to draw and increasing number

of visitors. In fiscal year 1982, Puerto Rico attracted two million tourists. A total of 1.5 million visitors came by air. Of that number, 1.2 million came from points within the United States. The visitors arriving by air spent 660 million dollars in 1982.

Another 444,148 cruise ship passengers attributable to 700 different cruise ship sailings, visitors who spent an additional twenty million dollars, came to Puerto Rico in fiscal year 1982. This category of passenger comes to Puerto Rico in one of two days. The majority comes on cruise ships originating in mainland ports and calling at San Juan. These cruise ships' stay in Puerto Rico is extremely short. Cruise ships that originate in mainland ports can only call at San Juan for 24 hours or less. Thus, the passengers on those ships are able to get only a very small taste of the many things that Puerto Rico has to offer, regardless of whether or not they would like to stay longer. The remainder of cruise ship passengers come to Puerto Rico to board vessels that originate at and return to San Juan.

I believe that H.R. 89 will allow Puerto Rico to fill a major void in its cruise ship visitor market. You have heard me say that we are able to attract cruise ship visitors who come to San Juan and leave shortly thereafter by the same vessel, and visitors who take San Juan-originating and returning cruises. You have not heard me speak of visitors who wish to travel from the mainland to Puerto Rico by cruise ship, and return by air. I have not mentioned such visitors because, at the present time, they are legally precluded from making such trips. The legal restriction in 46 U.S.C. section 289, prevents us from developing the cruise ship market to its full potential. At roughly 440,000 visitors annually, that market is of a respectable size, but not nearly as large as it could be. Actually, we lost volume in the last year due to our competitive disadvantage.

You are aware, of course, that no U.S. flag cruise ships serve San Juan, or, indeed, any points in the Caribbean. San Juan receives service only from foreign vessels. And because of the current law, foreign vessels are prohibited from carrying passengers between the U.S. mainland and Puerto Rico on a one-way basis. Removal of that prohibition will allow Puerto Rico to go after the one-way cruise ship visitor market.

I would like to describe in more detail the nature of the market that Puerto Rico can attract with passage of H.R. 89. First, we believe that there are a substantial number of individuals who would like to take a cruise to San Juan from a mainland port, and would then like to spend some time visiting the island before returning home. Second, there should be some individuals who are interested in taking a cruise but, because of time or cost constraints, are not able to go in both directions. For them, the opportunity to first take an abbreviated cruise on a one-way basis, and to then fly home, would be attractive.

Some of the above individuals would be drawn from the ranks of cruise ship passengers who already visit Puerto Rico. To the extent that those individuals extend their stay beyond the 24 hours or less that they now are spending in Puerto Rico, tourism and the Puerto Rican economy will benefit. But perhaps even more significantly, we expect to be able to induce a substantial number of new passengers to visit Puerto Rico for the first time, with the innovative transportation offering that we contemplate. These visitors may come on cruise ships that already call at San Juan, and in even greater numbers, on the new ships that we expect to attract to take advantage of the one-way cruise ship visitor market.

We have given this matter considerable thought, and are convinced that we have an opportunity to increase Puerto Rico's tourist base, and tourism revenues substantially. One-way cruise ship offerings are not uncommon. A passenger can travel by ship between the U.S. west coast and various points in Alaska on a one-way basis, thanks to an exemption aleady granted by Congress.

Perhaps even more significantly, the Royal Caribbean Line, of Norwegian registry, is now extensively promoting several one-way cruise ship packages in the Caribbean. Under Royal Caribbean's programs, the passenger boards the vessel in Miami, visits various Caribbean locations, such as Jamaica and Curaçao, and flies back to the U.S. mainland from Barbados. The passenger can also fly from the U.S. to Barbados, board a ship there, and cruise to Miami via various Caribbean destinations such as St. Thomas and the Dominican Republic. It should be noted that the U.S. Virgin Islands are exempted from these restrictions. Puerto Rico should have and wants the ability to compete with these foreign and U.S. Caribbean islands for the one-way cruise ship market.

At the present time, the great majority of cruise ship offerings in the Caribbean consist of a departure from a major gateway, a tour of various island ports, and a return to the gateway where all passengers debark and the next group is taken on to repeat the cycle. If a passenger wishes to spend more than part of a day in any

given port, for instance, if he wishes to debark and catch a later sailing, or debark and return home by air, he makes special arrangements for this, pays a slight premium to the cruise line, and accepts a booking on the basis of final confirmation only near to actual departure time. This type of arrangement is usually made available by the lines only on a space-available basis. Such an arrangement, of course, is not possible at all in the case of Puerto Rico, due to the section 289 restriction.

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Puerto Rico is uniquely qualified as a Caribbean point for this type of service offering. Both of the necessary conditions are fulfilled. Air service to Puerto Rico from U.S. city markets is clearly superior to the service to any other Caribbean point. As to tourist amenities, Puerto Rico's existing infrastructure is generally considered unequalled in the region.

Moreover, the one-way cruises that Puerto Rico contemplates should be particularly attractive to the most price-sensitive component of the tourist market. Air fares from Puerto Rico to the major mainland point of New York can be as low as $139 on some flights. These low air fares could be combined with the low rates for some Puerto Rican accommodations, such as the paradores puertorriqueños, to put together an attractively priced cruise/fly package.

Because of the nature of the contemplated service, which would be new to Puerto Rico, it is difficult to estimate the possible tourism volume impact. Based on contacts with representatives of the cruise industry, we feel confident that the impact will be substantial, particularly as the service matures. Currently, Puerto Rico attracts roughly 162,000 annual cruise ship visitors who originate and terminate their voyages in San Juan. We project, at a minimum, that the number of new visitors attracted to Puerto Rico by the one-way cruise ship service will amount to fifty percent of that figure. Thus, we believe that it is not unreasonable to expect an additional 81,000 visitors in the first year of operations.

These additional visitors, many of whom would spend time enjoying Puerto Rico, would be a tremendous boon to our economy. Since each mainland visitor spends an average of $422 in Puerto Rico, the new visitors would add approximately thirty four million dollars to the island's tourist revenues. In addition, this translates into a fifty nine million dollar boost to the economy's total output, and into the creation of approximately four thousand new jobs. All of this, of course, does not include the positive economic impact to be expected as a result of current cruise ship passengers who decide to extend their stay in Puerto Rico once they are able to take a plane back to the mainland. Puerto Rico will not be the only one that will benefit from enactment of H.R. 89. U.S. air carriers will also benefit since they will be have additional one-way passenger traffic between San Juan and the U.S. mainland. We are all concerned that a result of airline deregulation has been the reduction of routes flown. Earlier this summer, Pan American Airlines completely shut down its operations in Puerto Rico. In addition, Eastern Air Lines, the largest carrier serving the island, is facing serious financial difficulties. While enactment of H.R. 89 will not solve all the problems the airlines are confronting, it would help preserve and possibly enhance their service to Puerto Rico. Moreover, the U.S. balance of payments will be enhanced to the extent that mainland residents are attracted to Puerto Rico rather than to foreign Caribbean islands.

There is no prospect of U.S. flag service to Puerto Rico in the near future. We would like to be able to promote Puerto Rico in the same way that foreign cruise ship services promote vacations to Alaska. We expect to be able to attract new cruise ship lines. Of course, we need not rely on new companies alone to reap the benefits of H.R. 89. The many foreign flag cruise ships that now sail between the mainland and Puerto Rico, and those that originate cruises to the Caribbean from San Juan, would also be in a position to quickly take advantage of H.R. 89. We could immediately begin working with these companies to market one-way cruises that would be an immediate benefit for our tourism industry.

As a final note, I would like to reemphasize one aspect of the Governor's testimony. H.R. 89 should be enacted not only to remove an unnecessary legal impediment to our ability to attract tourists, but also to facilitate the Puerto Rico-mainland

travel of persons who are unable to travel by plane. For many of these people, we are not talking about the luxury of taking a cruise, but about the essential question of whether they will be able to travel at all. Just as I am concerned about tourism, I am also concerned about ensuring that all U.S. citizens have a viable means to travel to and from Puerto Rico.

Let me also add that I am grateful to the chairman and the subcommittee for their efforts last year with H.R. 1489, and hope that this year we are successful in finally obtaining enactment of H.R. 89. I would be happy to answer any questions you may have. Thank you.

PRELIMINARY STATISTICS PUERTO RICO TOURISM INDUSTRY, FISCAL YEARS 1982 and 1983

	1982	1983	Change (Percent)
Regular visitors	1,563,676	1,519,464	−2.8
Regular visitors expenditures (millions)	$660.6	$656.2	−1.1
Cruise ship visitors	444,148	411,150	−7.4
Cruise ship visitors' expenditures (millions)	$20.9	$20.2	−3.3
Total visitors	2,007,824	1,930,614	−3.8
Total visitors' expenditures (millions)	$681.6	$673.4	−1.2
Average occupancy rate	[1] 60.5	58.7	−3.0
Contribution to GNP [2] (millions)	$852.0	$841.8	−1.2
Contribution to net income [2] (millions)	$668.0	$659.9	−1.2
Contribution to government revenues (millions)	$184.0	$181.8	−1.2
Rooms available	8,808	7,473	−15.2

[1] Revised
[2] Direct and indirect contribution.

Source -Puerto Rico Tourism Co, August, 1983

ORIGIN OF VISITORS—SUMMARY REPORT FOR THE MONTH OF JUNE 1983 AND FISCAL YEARS 1982-83

	Month			Fiscal year		
	1983	1982	Percent of change	1982-83	1981-82	Percent of change
Residents total	18,350	19,635	−6.5	192,724	214,822	−10.3
Nonresidents total [1]	25,447	31,451	−19.1	481,468	534,197	−9.9
U.S. mainland	18,925	21,067	−10.2	342,544	347,238	−1.4
Canada	165	261	−36.8	13,183	19,408	−32.1
Mexico	435	940	−53.7	8,476	19,921	−57.5
Central America	115	176	−34.7	1,963	2,943	−33.3
South America	871	2,614	−66.7	30,694	50,219	−38.9
West Indies	3,083	3,306	−6.7	40,720	41,853	−2.7
Europe	840	1,572	−46.6	20,730	29,743	−30.3
Asia	91	147	−38.1	1,495	1,375	8.7
Other foreign countries	176	259	−32.0	5,680	4,672	21.6
Other Non/Res/Nes	746	1,109	−32.7	15,983	16,825	−5.0
Grand total [1]	43,797	51,086	−14.3	674,192	749,019	−10.0

[1] Does not include crew members of the airline companies previously considered as nonresidents.

REVENUE FROM BUSINESS CONVENTIONS

	Number of conventions	Number of people	Revenues (millions)
Fiscal year:			
1977	375	68,000	$169
1978	577	81,050	324.2
1979	717	85,459	340.8

REVENUE FROM BUSINESS CONVENTIONS—Continued

	Number of conventions	Number of people	Revenues (millions)
1980	855	82,639	330.6
1981	1,298	88,850	355.4

Source —Puerto Rico Convention Bureau

Mr. JONES. Thank you, Mrs. Moran.

I direct your attention, if I may, to page 6, next to the last paragraph, in which you testify a passenger can travel by ship between the U.S. west coast to various points in Alaska on a one-way basis, thanks to an exemption already granted by Congress.

Would you mind explaining that exemption to us?

Mrs. MORAN. I will submit the answer later. I don't have the answer at this moment. I cannot explain it clearly at this moment. I am sorry.

Mr. JONES. The committee is not aware of any exemption having been granted by Congress.

Mrs. MORAN. Apparently, one of our counselors submitted this to us, and we will have to recheck it.

Mr. JONES. For the time being, to correct the record I would like to state that Congress has not created any waiver for the west coast-to-Alaska cruise trade.

Mrs. MORAN. Apparently, the information submitted to us was erroneous, then, and we will take it out of the record.

Mr. JONES. Thank you.

COMMONWEALTH OF PUERTO RICO TOURISM CO.,
San Juan, P.R., October 19, 1983.

Hon. WALTER B. JONES,
Chairman, House Committee on Merchant Marine and Fisheries,
Longworth House Office Building, Washington, D.C.

DEAR CHAIRMAN JONES: It was a pleasure to appear before you and the other Members of the Subcommittee today on H.R. 89, the bill to allow foreign flag vessels to begin one-way passenger service between the mainland and Puerto Rico until such time as U.S. carriers begin such a service.

Part of my testimony referred to an exemptio granted to Alaska which allows a similar service to exist. During the questions directed to me, you inquired as to the specific exemption for Alaska. At that time, I did not have the exact citation for you. I am pleased, through this letter to provide it for you. I was referring to 46 U.S.C. 289b, the so-called "Hyder provision". It is my understanding that this provision is seldom used today, but it does serve as an example of what we are seekiing for Puerto Rico.

Again, it was a pleasure to appear before you.

Cordially,

FRANCES RIOS DE MORAN,
Executive Director.

Mr. JONES. Mr. Corrada, any questions?

Mr. CORRADA. No, Mr. Chairman. I have no further questions, other than to of course commend Mrs. Moran for her testimony and appearance here today.

Thank you, Mr. Chairman.

Mr. JONES. I, too, would like to commend her on her appearance.

Mr. Forsythe.

Mr. FORSYTHE. We are certainly happy to have you, Mrs. Moran.

Just one question: Are you aware of a contract just recently signed for the construction of two new passenger vessels in a U.S. shipyard? These vessels would provide coastal passenger service, and I believe the projection is that the first one of those will come out of the yard in 1986.

You say you don't anticipate any U.S.-flag service available in the near future. Would 1986 qualify as "near future"?

Mrs. MORAN. Could you please repeat the question, sir?

Mr. FORSYTHE. Just this week a contract to build two U.S. passenger vessels in a shipyard in the State of Washington was signed. The first vessel is to come on line in 1986, in 3 years. I think it is proposed to serve at least gulf coast service and maybe east coast.

If that line were to serve Puerto Rico, would you consider 3 years the near future in terms of getting U.S.-flag ship service?

Mrs. MORAN. It would depend on what the near future would mean, sir, how long it would take.

Mr. FORSYTHE. Three years.

Mrs. MORAN. Well, the problem is that at this moment, because of the fact that there are no U.S.-flag ships going to Puerto Rico, it is affecting our tourism industry at this moment. It would hurt, definitely.

Mr. FORSYTHE. Thank you.

Mr. JONES. Mr. McKernan.

Mr. MCKERNAN. Just two questions to follow up on Mr. Forsythe's question.

If this law were passed fairly quickly, I take it there are existing ships that could easily offer packages to Puerto Rico, because they are in the Caribbean now.

Mrs. MORAN. Yes, sir. As a matter of fact, we have been speaking already with the Caribbean Norwegian lines, and we have been speaking also to the Greek ships and also to the Italian lines. They have been offering some packages.

Mr. MCKERNAN. These are ships that are already servicing other islands in the Caribbean?

Mrs. MORAN. Yes, sir.

Mr. MCKERNAN. So it probably would not take any major capital investment by any of these lines in order to furnish trade to Puerto Rico?

Mrs. MORAN. We don't believe it will.

Mr. MCKERNAN. I take it, therefore, if an American-flag vessel came on line, there would not be anybody who would be already in service within the next 2 or 3 years who would be really financially injured except for having lost passengers.

Mrs. MORAN. Right.

Mr. MCKERNAN. Finally, are there any other islands in the Caribbean that cruise ships are prohibited from servicing?

Mrs. MORAN. As far as I know, none of the other islands are, sir.

Mr. MCKERNAN. Thank you. No further questions.

Mr. JONES. Mrs. Moran, thank you again.

Mr. CORRADA. Would the Chair yield?

Mr. JONES. I recognize the gentleman.

Mr. CORRADA. In connection with your testimony, and the question by the gentleman from New Jersey, I would like to reemphasize that at any time that American-flag vessels are able and will-

ing to provide the service, then they would have the priority and there are provisions in the bill to phase out service by the foreign-flag vessels. In other words, we are simply protecting ourselves now in Puerto Rico from the lack of availability of this service; but should there be in the future, on a short-term basis or long-term basis, am American-flag vessel willing and able to provide the service, then of course they would have definite priority, and the foreign-flag service would have to be phased out under the provisions of the bill.

Mr. McKERNAN. You make an excellent point.

I think one thing we ought to keep in mind is that it is one thing to say that foreign-flag vessels would be phased out if there has been no capital investment by that particular company that has put the vessel on line, and another instance where you might be encouraging somebody to make a major capital investment, and then all of a sudden have the rug pulled out from under them by allowing a domestic vessel to come into the trade. I think in this case we are not talking about the latter situation where anybody would be investing any major capital. And therefore I, for one, do not see a problem with this particular proposal.

Mr. CORRADA. Thank you.

Mr. JONES. Mrs. Moran, again thank you for your appearance here today. Delighted to have you as a witness.

Mrs. MORAN. Thank you very much.

Mr. JONES. At this point I ask unanimous consent there be included in the record of these proceedings a statement by Jose Madera, administrator, Puerto Rico Economic Development Administration.

[The statement of Mr. Madera follows:]

PREPARED STATEMENT OF JOSÉ R. MADERA, ADMINISTRATOR, PUERTO RICO ECONOMIC DEVELOPMENT ADMINISTRATION

My name is José R. Madera. I am the Administrator of the Puerto Rico Economic Development Administration, which is commonly referred to as Fomento. Fomento has been Puerto Rico's primary economic development agency since 1942. Fomento's primary task has always been, and is, to promote the economic improvement of Puerto Rico—to create job opportunities and income for our people, to channel net capital investment into development, to promote the orderly growth of the industrial and service sectors of the economy, and to assist firms to establish and sustain viable operations.

I urge this Committee to act favorably on H.R. 89 because its passage is significant to Puerto Rico's socioeconomic development, and to even closer links with the United States. A transportation system is obliged to be service and price competitive, and to guarantee our citizens no matter where they live on the U.S. mainland, Alaska, Hawaii or Puerto Rico, the right to travel freely to and from the United States.

If maps were drawn based upon these economic political links instead of geography, Puerto Rico would be shown nestled very close to the mainland United States instead of 1,000 miles from Florida beyond Cuba and Hispaniola. Puerto Rico is a major customer for U.S. products, importing $5.209 billion worth of U.S. made goods and exporting to the U.S. $7.105 billion in fiscal 1982. According to a recent study, our purchases from the United States in fiscal year 1980 accounted for 151,289 jobs in the United States and generated $4.76 billion in income. Worldwide, we are the ninth largest customer for U.S. exports.

In the manufacturing sector alone, U.S. parent companies have some 2,500 operations in Puerto Rico accounting for 75 percent of all direct manufacturing employment. Since they are concentrated in a high wage, high technology sector, these companies account for an even larger percentage of indirect jobs. According to the

most recent count in June 1983, over 128 companies in Puerto Rico are subsidiaries of Fortune 500 manufacturing companies.

In one important respect, however, our distance from the United States is greater even than our actual geographic distance. It is the subject of today's hearing, the unavailability of surface transportation for passengers between Puerto Rico and the United States mainland. The Jones Act requires that all shipping between Puerto Rico and the United States mainland be done in United States flagships, and cost considerations now prevent any U.S. passenger or cruise ships from serving this route. The only way that a person can travel directly between Puerto Rico and the United States is by airplane. As an Island, we have no other alternative means of travel available to our citizens today. This is both a hardship for many Puerto Ricans who cannot fly and an invidious form of discrimination since our fellow citizens in the U.S. Virgin Islands are exempt from the Jones Act provisions. In this connection, "higher cost" U.S. flag vessels must move raw materials and finished products between the U.S. mainland and Puerto Rico. We are heavily burdened with the extra cost. On the U.S. mainland there are alternatives to this extra cost—surface transportation, and no "higher cost flag obligation".

Fomento's comprehensive development objectives emanate from policy guidelines laid down in 1977, five years ago, after an exhaustive analysis of industrial incentives, social objectives and future prospects in terms of vertical and horizontal expansion of Puerto Rico's markets

As a result of that thorough and across-the-board analysis, the government of Puerto Rico created a multifaceted development strategy designed to met our social commitment to our working people, provide stability to our industrial community (and thereby to our economy as a whole), diversify further our manufacturing base and spur intermediation in our manufacturing sector.

Moreover, an essential first step was to broaden our local tax base to relieve the increasingly heavy burden on our middle classes as well as give our growing community of corporate citizens a direct opportunity to contribute to public services and expanded infrastructure. A simple, graphic illustration of our eroding tax base at that time required nothing more than to imagine an overturned pyramid, with our bulging economic structure and future resting on an ever-narrowing point at the bottom.

At the same time, we had to entirely revamp our industrial incentives to enable both established and future industries to maintain and expand their operations here on a long-term or permanent basis.

And finally, we had to provide opportunities for manufacturing industries and export-oriented service firms to expand into the growing and diverse markets of the Caribbean, Central America and the continent of South America.

During this five-year period of sweeping structural changes, we clearly achieved significant results:

(1) Better salaries and wages, greater social justice for our workers (including top fringe benefits, job stability, promotion and technological advances, etc.);

(2) Intermediation, i.e., increased vertical and horizontal integration of our manufacturing sector, providing linkages among our plants and factories, and with the high-tech industries, developing into the second generation of "upstream development" or core (block-building) industries; which in turn

(3) Create opportunities for local entrepreneurs.

Also, we have a more attractive "on-demand" PRIDCO factory building availability at competitive rates, cutting start-up time from one to two years, reducing investment requirements at a time when private investors face high interest and other cost pressures.

During this period, 1977 through 1983, Fomento-promoted employment in 1,313 local industrial projects amounted to 77,918. The actual employment, up to date, from these contractural commitments has been 44,670, or almost 94 percent of the initial commitment.

During this same six-year period, Fomento's efforts to target industrial enterprises that would establish here on a long-term basis, would continue expanding and would provide not only abundant, high-paying jobs (plus top fringe benefits and good working conditions) but also diversify and expand our technological capability, have all been extremely successful. Indeed, of total employment in all Fomento-promoted industries, some 40.4 percent of these jobs are in so-called high-tech industries.

Puerto Rico enjoys the fastest growth rate of computer and high technology electronics of any major industry location in the world. In computers alone, the number of plants making computers and related equipment increased from five in 1977 to 33 at present. In that brief period, the number of employees in the industry has grown from 3,077 to 7,151. And this number of employees can be expected to rise quickly in

the near future because the typical computer investor begins with a small operation to test the industrial climate and then expands when he sees how well he can do in Puerto Rico. Next, exports of computer products from Puerto Rico to the U.S. from $26.8 million to $110.36 million in fiscal year 1980, a two-year increase of 265 percent! And altogether there are over 296 plants in the computer, non-computer electrical electronics and instruments industries, employing some 38,529 men and women.

Our computer companies are among the most advanced in the world; and they are rapidly expanding their sophisticated, as well as, their basic operations here. Eight of the 33 U.S. firms with plants making computer products in Puerto Rico are Fortune 500 companies, such as Digital Equipment, Honeywell, Wang Laboratories, Hewlett-Packard, Westinghouse and so forth. These and other companies are manufacturing a wide range of sophisticated products in Puerto Rico, such as high density recording units, Digital circuit modules, memory systems, mini computers, printed circuit boards and a host of others.

However, although we in Puerto Rico today are immersed in a technological revolution, let us not forget that our traditional industries, such as apparel, continue to be major pillars of strength in our manufacturing community.

Consider these facts:

The apparel industry is still the island's single biggest employer in manufacturing, with 31,038 workers in 325 plants, including some of the world's leading companies, manufacturing a wide variety of high quality products.

Net income from apparel has risen in each of the last five years. Despite the U.S. mainland's economic slowdown, the value of off-island apparel shipments increased a phenomenal 11.3 percent to reach $688.5 million in 1982.

The fact that Puerto Rico's apparel industry has maintained its employment levels of the early 1970's proves that it has succeeded in raising productivity to readjust to the new environment of the later 1970's and early 1980's.

The inevitable turnover of plants (due to qualitative upgrading of the island's output and market changes) often makes available excellent turnkey (immediate occupancy) manufacturing facilities.

Puerto Rico has more trained and experienced skilled apparel workers available for hire than any other western hemisphere area.

The apparel industry in Puerto Rico has made a successful readjustment to changed economic circumstances. Recent apparel employment has been maintained at levels that prevailed for the decade of the 1970's between some 37,000 in times of prosperity and a low point of about 32,000 in recessions.

The apparel industry in Puerto Rico has been able to increase its productivity, adjusting to higher minimum wage levels and increasing foreign competition.

Often productivity increases have taken the form of change to higher quality output, with new firms taking over existing buildings under the guidance of Fomento's apparel specialists.

The net result has been an apparel sector better able to confront the challenges of the 1980's. This is evident by the industry's maintenance of employment levels, its growth in new income and the large increase in the value of its off-island shipments.

Additionally, Puerto Rico is prepared to play an essential role in Caribbean economic development. Puerto Rico has much to offer—especially in respect to the smaller, less-developed economics of the region—when you consider our comparable socio-economic size, similar problems and our unparalleled experience of more than three decades of rapid economic growth. Moreover, we have much to gain from increased trade and expanded markets for our wide range of manufactured products, goods and services. Above all, Puerto Rico has clearly demonstrated effective, cooperation between the government sector and the private sector. Indeed, we have shown that the social objectives of a modern democratic government are not in conflict with the objectives of enlightened private capitalism.

But Puerto Rico's experience cannot be traced in detail, naturally. Yet may specifics of our diverse development experience can be transmitted and adapted. And given our Caribbean demographics, recent development experience, bilingual capability, et al, Puerto Rico can make available its myraid experts in a host of areas such as low-cost housing, agricultural credit systems, technical education and training, cooperatives, energy conservation and, of course, industrial development, such as modern promotional techniques and creation of industrial park buildings and infrastructure. We can also arrange with many of our neighbors a "twin-plant" system of co-production of goods and products, with our contribution at the advanced skills level.

The Government of Puerto Rico has not hung back waiting for encouragement from Washington to take important steps on its own initiative, toward implementation of a Caribbean cooperative development program. In fact, we are setting an example for interregional cooperation. After some preliminary talk, the first major step was taken on October 30, 1981, when Jamaica's Prime Minister Edward Seaga met with Governor Romero at La Fortaleza. On that occasion, an agreement was reached to begin mutually beneficial economic, educational and cultural cooperation. Later, there were follow-up exploratory missions to Kingston, in which U.S. Embassy officials participated, to identify areas of immediate need. And, last year, an 18-member Puerto Rican mission, headed by Secretary of State Carlos Quiros, met in Jamaica with the Prime Minister and his comparable contingent of experts to create working-level committees, action agendas, work plans, etc. Our "Jamaica Initiative", in other words, is already being implemented.

With respect to the tourism sector, Fomento has invested $25.8 million in improvements on hotel properties owned by the Puerto Rico Industrial Development Co., and is considering the addition of two new towers, at a total cost of $8 million, to the Caribe Hilton Hotel; the alternative would be to provide the hotel complex with a 560-car capacity parking garage at a cost of $8 million.

The $25.8 million in improvements have been phased over fiscal 1982 and 1983, in addition to the $4 million Fomento spends every year on regular maintenance of its properties.

In spite of all our contributions to an improved socio-economic posture in Puerto Rico, we are faced with new challenges. Like our neighbors on the U.S. mainland, we are being affected adversely by the continuing recession, and the high interest rates prevailing in the credit markets. The Island, which historically has had high unemployment and a per capita income far below even the lowest U.S. state, now has an unemployment rate of 24.7 percent. And in certain areas, notably in southern Puerto Rico, the figure is much higher, in the 30 percent range.

Because we have been lagging behind the U.S. states, socio-economically, we were particularly affected by U.S. social program cutbacks and tax reduction, by sharp federal budget cuts in Comprehensive Employment and Training Act programs, and by cuts in the federal food stamp program.

Moreover, the positive aspects of the President's economic recovery plan, have yet to apply to Puerto Rico, although the application of some of its measures are being implemented by Congress through the Caribbean Basin Initiative Plan signed by the President recently.

H.R. 89 is extremely important to Puerto Rico. The removal of an artificial constraint to tourism and to the associated commercial and service sectors would contribute to our economy. And because of our continuing high unemployment rate and low per capita level, we must be obliged to aggressively pursue every appropriate contributor to our socio-economic development—and H.R. 89 would certainly permit us to do just that. H.R. 89 would permit Puerto Rico a very real opportunity to attract more visitors and to compete more effectively in the Caribbean cruise ship market. As a result, the total number of cruise ship visitors, 444,148 in fiscal year 1982 and 411,150 in fiscal year 1983, would be expected to increase dramatically.

Cruise ship passengers originating at a port other than in Puerto Rico, and calling at San Juan, stay in Puerto Rico for only 24 hours or less. With the enactment of H.R. 89, the existing cruise ship passenger will not be limited to an overnight stay. Potentially this is an important economic plus.

H.R. 89 would also contribute to more U.S. job opportunities in maritime-related industries—repair, maintenance, service and supplies. At the present time, there are no U.S. cruise ships serving Puerto Rico, and as far as we know, there are no U.S. lines interested in doing so. H.R. 89 would allow foreign vessels to serve a nonexistent U.S. market. Indeed, H.R. 89 could be particularly beneficial to U.S. shipping interests. It places the risk of developing the U.S. mainland-Puerto Rico maritime transportation market on the foreign lines, giving the U.S. flag shipping interests a cost advantage—the choice of entering a market after it has been developed and has achieved viability.

Finally, I would like to point out that although my testimony has focused on the economic development of Puerto Rico, and the importance of H.R. 89 in that context, I am primarily concerned as my Puerto Rican colleagues about the legitimate right that the bill will return to the U.S. citizens by permitting an alternative to the mode of travel between the U.S. mainland and Puerto Rico. And for those U.S. citizens who are unable to fly, the bill will be particularly beneficial.

I urge prompt affirmative action on H.R. 89 by this Subcommittee and by Congress.

Mr. JONES. I also ask to be included in the record a statement by Frank Drozak, president of the Maritime Trades Department, AFL-CIO, and Seafarers International Union.

[The statement of Mr. Drozak follows:]

PREPARED STATEMENT OF FRANK DROZAK, PRESIDENT, MARITIME TRADES DEPARTMENT, AFL-CIO AND SEAFARERS INTERNATIONAL UNION

Mr. Chairman and members of the subcommittee, my name is Frank Drozak and I am President of the Maritime Trades Department, AFL-CIO and Seafarers International Union. As the representative of 8 million workers in the maritime industry and affiliated fields, I am very pleased to have this opportunity to present our views on H.R. 89. This bill would allow foreign-flag passenger vessels to operate between ports in Puerto Rico and other ports on the mainland United States, either directly or by way of foreign ports, unless the Secretary of Transportation determines that U.S.-flag passenger service is being offered.

The Seafarers International Union has always been and continues to be a strong supporter of all U.S.-built, U.S.-flagged, U.S.-crewed, domestic cabotage laws. The reality of the industry occasionally does require that this basic principle be waived. However, in the legislation considered today, there are no advantages to be realized by granting the exception requested.

In determining what limited waivers should be allowed on a case-by-case basis, four essential questions must be asked. One, will the waiver harm existing operators? Two, will it discourage or encourage growth of a U.S.-flag domestic fleet? Three, will it offer benefits to the U.S. merchant marine? Four, will it augment U.S. defense requirements?

As we all know, there are presently no existing U.S.-flag passenger vessel operations between the mainland and Puerto Rico. One might argue, therefore, that no U.S. operators will be harmed. This argument, however, fails to view this segment of the passenger industry as a part of the whole trade.

As we are all aware, interest in developing a viable U.S.-flag domestic passenger trade has recently increased. The most viable operation being contemplated at this time envisions coastwise passenger service in luxury cruise liners along the East and Gulf coasts. Passage of H.R. 89 would seriously undermine development in the lower East Coast and Gulf trades. Foreign-flag vessels operating between Puerto Rico and these same mainland ports would drain off much of this potential market. U.S. operators intent on establishing a successful domestic market would be faced with serious competitive obstacles during the crucial start-up phase of their operations.

As a corollary, the second criteria addressing growth in a U.S.-flag passenger fleet would be completely unsatisfied. The competitive disadvantages to be overcome by U.S. vessels operating either in the Puerto Rico trade or the East and Gulf coast trade would virtually preclude and potential U.S. operator from entering these markets. There are no provisions in the bill safeguarding U.S. coastwise operators from the market drain of nearby foreign competition.

The bill, by its very terms, closes the Puerto Rico to mainland market to future U.S. operations. The nine month phase-out period for foreign ships in the bill would require some period of head-to-head competition with those ships. The first year of a new operation is always the most precarious. Short term losses during market development are to be expected, but H.R. 89 compounds this risk so greatly that viable U.S.-flag service would never be achieved.

In response to the third criteria outlined, it can hardly be argued that opening this market to wholesale foreign-flag service will benefit the U.S. merchant marine. Nor can any potential increase in revenues for Puerto Rico outweigh the lasting damage done to the renascent U.S.-flag passenger fleet. The recent interest in developing a U.S. passenger trade will eventually benefit Puerto Rico, if potential U.S. operations are only given a chance. U.S.-flag service between the mainland and Puerto Rico would almost certainly be the next step once East and Gulf Coast markets are developed. But enactment of H.R. 89 will eliminate that potential once and for all. And in the process, all interest in developing a U.S-flag coastwise passenger fleet may also die.

The fourth criteria for a case-by-case waiver of the domestic passenger laws, of course, will never be met by enactment of this bill. No possible defense benefit can be read into this waiver. Moreover, any potential for addition of militarily essential U.S. passenger vessels to augment our national security needs will most probably be lost.

In summary, passage of H.R. 89 will not meet even one of essential criteria needed to support the waiver of the basic principles underlying our domestic cabotage laws. The timing of this legislation could not be worse. For the first time in several decades we have the opportunity to encourage development of a viable, militarily-useful, domestic passenger fleet with all the concomitant benefits to the U.S. economy. The enactment of this legislation could single-handedly destroy this potential. The Seafarers International Union strongly opposes this legislation and urges the Subcommittee to oppose further action on H.R. 89.

Thank you.

Mr. JONES. That concludes the hearing this morning. The subcommittee stands adjourned.

[The following was received for the record:]

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C., October 27, 1983.

MS. FRANCES RIOS DE MORAN,
Executive Director, Tourism Co., Commonwealth of Puerto Rico, San Juan, P.R.

DEAR MS. RIOS: Thank you for your letter of October 19 clarifying the testimony you gave before the Subcommittee on Merchant Marine on H.R. 89.

The clarification in your letter will be included as part of the record. The Hyder amendment, as you correctly observed, is infrequently used because all voyages have to originate or terminate in Hyder. In this respect, the Hyder provision does not truly serve as a fair example for what you are seeking for Puerto Rico.

Thank you again for the clarification and for your appearance before our Committee.

Sincerely,

WALTER B. JONES, *Chairman.*

PREPARED STATEMENT OF PETER J. LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE

We appreciate the opportunity to provide this statement for the record on H.R. 89, a bill which would allow foreign-flag passenger vessels to operate between ports in Puerto Rico and other U.S. mainland ports. The Transportation Institute is a nonprofit research and educational organization dedicated to the promotion of a strong American merchant marine. Our 174 member companies operate U.S.-flag vessels in the Nation's foreign and domestic shipping trades, including the Great Lakes and inland waterways.

As is clear to all parties interested in the U.S.-flag passenger fleet, the industry has been in the doldrums for the last several decades. At this time, however, we are seeing a rekindling of interest in re-establishing the U.S. passenger fleet. Passage of H.R. 89, however, would seriously undermine this interest and could bring recent positive initiatives to a standstill. Now is the least auspicious time to permanently carve out a portion of potential U.S. passenger markets and offer it to foreign interests. Such an action would certainly discourage interested investors from risking entrance into the Puerto Rican passenger trade, especially given the 270 day period during which the new U.S. flagship would be burdened by costly start-up expenditures and head-to-head competition with an established foreign-flag vessel. Although H.R. 89 contains a provision eliminating foreign-flag service if a U.S.-passenger vessel enters the trade, foreign interests still have an ongoing opportunity to jump back into the trade if the U.S.-flag vessel leaves, regardless of particular circumstances at that time. Rather than allow foreign-flag vessels into the Puerto Rican trade on a permanent basis, it would be preferable in our view to explore methods of attracting U.S.-flag operators to enter the trade.

Adherence to the key principles of domestic cabotage has been a long standing policy of U.S. lawmakers. There are times when it has been beneficial to waive certain provisions of these laws. However, these cases are rare and must be carefully considered in terms of their longterm effect on the health and survival of the U.S. maritime industry. Current legislation to permit the Cunard vessels to operate in the domestic cruise trade is one example of a waiver carefully aimed at benefiting the U.S.-flag passenger fleet. That legislation will require U.S.-flag documentation, thus augmenting American maritime employment and revenues and increasing the number of U.S.-flag passenger vessels available during national emergencies. H.R. 89, on the other hand, will primarily benefit foreign interests at the expense of po-

tential U.S. operations. There is a critical difference between allowing U.S.-flag documentation, as in H.R. 2883, and allowing the foreign-flag operations, as in H.R. 89. This bill advocates a permanent change of long standing law as opposed to a limited one-time waiver, and would set a precedent too dangerous to be acceptable to those interested in the preservation of the U.S. maritime industry.

Although it is unfortunate that geographic accident places limitations on transportation to and from Puerto Rico. it is more important to preserve the long-standing policy which serves as the foundation to an entire industry, particularly in light of the maritime industry's importance to U.S. national security. An exception made for Puerto Rico would discriminate against Alaska, Hawaii, Guam and American Samoa. As commonwealths and as states in the union, they have accepted geographic reality and have complied with prevailing national policy.

Finally, it is uncertain how the U.S. Customs Service would see fit to interpret the changes proposed in H.R. 89. In the past, Customs has seen as a violation the practice of foreign-flag vessels originating a cruise in a U.S. port, stopping briefly in the Bahamas and then dropping passengers in a second U.S. port. Although the proponents of this bill do not intend for this type incursion to happen, Customs is unclear how passage of H.R. 89 will affect their view of a similar practice utilizing a short stop in Puerto Rico.

It is in the national interest to preserve the foundations of the U.S. maritime industry, the fourth arm of defense. At this time of increased interest in rebuilding the U.S.-flag passenger industry, we must move very cautiously and be very wary of doing permanent damage to the future U.S. passenger fleet.

Mr. Chairman, and members of the Subcommittee, allow me to express the appreciation of the Transportation Institute for your efforts to preserve one of the nation's most important assets.

PREPARED STATEMENT OF M. LEE RICE, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. Chairman and members of the subcommittee, I am Lee Rice, President of the Shipbuilders Council of America, the national trade association representing the principal domestic shipbuilders, ship repairers, and providers of equipment and sources to the industry. A copy of our membership list is attached to this statement.

We oppose HR-89, which would permit foreign-flag vessels to engage in United States coastwise passenger trades between Puerto Rico and other ports in the United States.

We oppose this bill as part of the continuing erosion of the Jones Act. The Shipbuilders Council has steadfastly supported the Jones Act and its requirements for American construction, ownership, and crewing of all ships operating in our coastwise trades. For roughly 200 years, this law has helped preserve part of the fleet and shipyard capacity we need in the interest of our national security. Now there are multifarious attacks on it, seeking exceptions for particular trades, states, or ships. The Jones Act is, now, the only market for U.S.-built commercial ships. It should not be destroyed piecemeal.

This Subcommittee has before and shall again hear of the need to sustain an adequate mobilization base of shipyards and skilled shipbuilding workers in support of our Nation's security. The soon-to-be published Navy/Maritime Administration "Shipyard Mobilization Base Analysis" concludes that a significant commercial workload must be maintained in the shipyard if wartime needs are to be met.

The only market for commercial shipbuilding left to U.S. shipyards is that created by the Jones Act. Each time foreign-built ships are allowed to enter the Jones Act trades, a part of that vestigial market is lost, and along with it, part of our mobilization base is also lost. It is not in our Nation's interest to permit this decimation of the mobilization base to continue.

We share the concern, often expressed by the Honorable Baltasar Corrada, that Puerto Rico suffers unfairly from being subject to the Jones Act while the U.S. Virgin Islands is not. We agree that this disparity in treatment should not continue. However, we suggest that the answer to this problem is found in ending the administrative blockage of application of the Jones Act to the Virgin Islands in the manner provided by HR-3774, Mr. Snyder's bill to phase in the Jones Act with respect to the passenger trade between the United States and the U.S. Virgin Islands. We support HR-3774 and suggest that this Subcommittee should act promptly to pass it.

We do not oppose the idea of passenger ship service to Puerto Rico. Unfortunately, at this time, there are no Jones Act ships carrying passengers between Puerto

Rico and other U.S. ports. It may be, should a sufficient market for the service be demonstrated and should other alternatives fail, that foreign-flag ships should be permitted to operate temporarily in that trade. We are gravely concerned, however, that if such a temporary exemption is granted, it be framed in a way which will not effectively preclude U.S. ships from later entering the market.

In its present form, HR-89 permits foreign-flag vessels to continue to operate in the Puerto Rico Jones Act trade for nine months after a U.S.-built U.S.-flag vessel has qualified itself to engage in that trade. Only then, after nine months continued, competing service, would the foreign-flag vessel have to withdraw from the trade. This is too great a burden for a new U.S.-flag ship to bear in its first year serving a trade.

Any new business venture must prove itself to its managers, shareholders, and customers in its first year. Where the venture is capital intensive, such as ship operation, the venture's financiers must also be satisfied that it will succeed long before it is built.

If a new U.S.-flag ship is to face nine months of unlimited competition from foreign-flag vessels, with lower capital and operating costs, its ability to produce a profit in its first year will be questionable at best. In fact, this will provide so powerful a disincentive for any prospective operator to enter the trade, that none may ever attempt to do it. We therefore submit that this period of competition must be circumscribed in a commercially practicable way.

In order to remove this disincentive from HR-89, we suggest foreign ships be barred from the trade upon the expiration of the shorter of the following two time periods:

No foreign-flag ships be permitted to operate in the Puerto Rico Jones Act trade on or after the first date on which a U.S. passenger vessel qualified to engage in the Jones Act trade is available and scheduled to operate in that trade; and

Regardless of the first date the U.S.-flag vessel is scheduled to operate, no foreign-flag vessel should be permitted to engage in the Puerto Rico Jones Act trade more than 90 days after the Federal Maritime Commission issues a Certificate of Financial Responsibility for Indemnification of Passengers for Nonperformance of Transportation for a U.S. passenger vessel to engage in that trade.

If the foreign-flag vessel must leave the trade in whichever period is shorter, the U.S.-flag vessel would have adequate protection and should be able to engage in the trade.

In the event that foreign-flag vessels are permitted to enter the trade, they should be required to have all repairs, overhauls and modifications performed in U.S. shipyards. This should include all modifications necessary to comply with U.S. operating regulations.

We submit that the foregoing approach is a reasonable compromise on this issue. It should satisfy the legitimate concerns of the Commonwealth of Puerto Rico as well as the U.S. shipbuilding and ship operating industries.

[Attachment A]

REGULAR MEMBERS

ADDSCO Industries, Inc., Post Office Box 1507, Mobile, AL 36601.

The American Ship Building Co., Suite 800, Lincoln Pointe Building, 2502 Rocky Point Road, Tampa, FL 33607; Amship Division, Lorain, OH; Tampa Shipyards, Inc., Tampa, FL.

Avondale Shipyards, Inc., Post Office Box 50280, New Orleans, LA 70150.

Bath Iron Works Corp., 700 Washington Street, Bath, ME 04530.

Bay Shipbuilding Corp., 605 N. 3rd Avenue, Sturgeon Bay, WI 54235.

Bethlehem Steel Corp., Shipbuilding Division, Bethlehem, PA 18016; Beaumont, TX; Sparrows Point, MD.

Coastal Dry Dock & Repair Corp., Brooklyn Navy Yard, Building 131, Brooklyn, NY 11205.

Dillingham Maritime Group, P.O. Box 4367, Portland, OR 97208.

General Dynamics Corp., Pierre Laclede Center, St. Louis, MO 63105; Electric Boat Division, Groton, CT and Quonset Point, RI; Quincy Shipbuilding Division Quincy, MA and Charleston, SC.

General Ship Corp., 400 Border Street, East Boston, MA 02128.

Ingalls Shipbuilding Division, Litton Industries, Post Office Box 149, Pascagoula, MS 39567.

Jacksonville Shipyards, Inc., 750 East Bay Street, Post Office Box 2347, Jacksonville, FL 32203.
Jeffboat, Incorporated, P.O. Box 610, 1030 East Market Street, Jeffersonville, IN 47130.
Lockheed Shipbuilding and Construction Company, 2929 Sixteenth Avenue, SW, Seattle, WA 98134.
Marine Power & Equipment Co., Inc., 1441 North Northlake Way, Seattle, WA 98103.
Marinette Marine Corp., Ely Street, Marinette, WI 54143.
Maryland Shipbuilding & Drydock Co., Post Office Box 537, Baltimore, MD 21203.
National Steel & Shipbuilding Co., Harbor Drive at Twenty-Eighth Street, Post Office Box 80278, San Diego, CA 92138.
Newport News Shipbuilding, 4101 Washington Avenue, Newport News, VA 23607.
Norfolk Shipbuilding & Drydock Corp., Post Office Box 2100, Norfolk, VA 23501; Norfolk, VA (2 plants); Berkeley, VA.
Northwest Marine Iron Works, Post Office Box 3109, Portland, OR 07208.
Pennsylvania Shipbuilding Company, P.O. Box 442, Chester, PA 19016.
Peterson Builders, Inc., 101 Pennsylvania Street, P.O. Box 47, Sturgeon Bay, WI 54235-0047.
Savannah Shipyard Co., Post Office Box 787, Savannah, GA 31402.
Southwest Marine, Inc., Foot of Sampson Street, Post Office Box 13308, San Diego, CA 92113.
Todd Shipyards Corp., Todd Pacific Shipyards Corp., One State Street Plaza, New York, NY 10004; Alameda, CA, Brooklyn, NY, Galveston, TX, Houston, TX, Los Angeles, CA, New Orleans, LA, San Francisco, CA, Seattle, WA.
Tracor Marine, Inc., Post Office Box 13107, Port Everglades, FL 33316.

ALLIED INDUSTRIES MEMBERS

American-Standard, Industrial Products Group, Williamsville, NY.
Bird-Johnson Co., Walpole, MA.
Borg-Warner Corp., York Division, York, PA.
Colt Industries, Inc., Washington, DC.
Combustion Engineering, Inc., Windsor, CT.
Eaton Corp., Cutler-Hammer Products, Rockville, MD.
General Electric Co., Schenectady, NY.
Hopeman Brothers, Inc., Waynesboro, VA.
Hughes Aircraft Co., Los Angeles, CA.
Jamestown Metal Marine Sales, Inc., Boca Raton, FL.
Jered Brown Brothers, Inc., Troy, MI.
Lake Shore, Inc., Iron Mountain, MI.
MacGregor-Comarain, Inc., Cranford, NJ.
Raytheon Service Company, Arlington, VA.
Sperry Corp., Marine Systems, Great Neck, NY.
Transamerica Delaval, Inc., Trenton, NJ.
Union Carbide Corporation, Danbury, CT.
Ward Leonard Electric, Co., Inc., Mount Vernon, NY.
Western Gear Corp., Lynwood, CA.
Westinghouse Electric Corp., Pittsburgh, PA.
Worthington Pump Corp., Harrison, NJ.

NAVAL ARCHITECT MEMBERS

J. J. Henry Co., Inc., New York, NY.
John J. McMullen Associates, Inc., New York.

ASSOCIATION MEMBERS

The American Waterways Operators, Inc., Arlington, VA.
New England Ship Repair Yard Assn., East Boston, MA.
New York and New Jersey Dry Dock Assn., New York, NY.
Western Shipbuilding Assn., San Francisco, CA.

AFFILIATE MEMBERS

Tomlinson Refrigeration & Supply Co., Elizabeth, NJ.
Standard Marine Services, Inc., Bayonne, NJ.
New York Protective Covering Industries, Inc., Brooklyn, NY.
C-O-Two Sales & Service, Hoboken, NJ.

Ocean Electronics, Inc., Brooklyn, NY.
Terry Corporation, New London, CT.
Hayward Industrial Products, Inc., Elizabeth, NJ.
Poten & Partners, Inc., New York, NY.
McNab, Inc., Mount Vernon, NY.
McLean Contracting Company, Baltimore, MD.
Tidewater Construction Corporation, Norfolk, VA.
Williams & Watts, Inc., Fairfield, NJ.
Seacoast Electric Supply Corp., Rye, NY.
ManTech International Corporation, Alexandria, VA.

PREPARED STATEMENT OF BOB LEITH, PRESIDENT, CHAMBER OF COMMERCE OF PUERTO RICO

Mr. Chairman; good morning, my name is Bob Leith. I am president of the Chamber of Commerce of Puerto Rico, an association representing the private sector from all areas and business sectors of Puerto Rico, including some 40 affiliated associations.

The importance of H.R. 89 must be considered in the context of the overall Puerto Rico-United States economic relationship, of the maritime transportation service between both areas, and of the Puerto Rican tourism and cruise-ship tourism industries.

Puerto Rico is part of the U.S. economy, but it is less developed economically. It is small, has few natural resources, and it is geographically separated from the United States. Our net income per capita is approximately one fourth that of the United States; the Island has an area of about 3,500 square miles; a great part of the land is mountainous and not adequate for intensive agricultural use; we have practically no minerals to speak of.

Puerto Rico is a trade economy. Most of what we consume, we ship in; and most of what we produce, we ship out. Our external trade in 1982 amounted to $17 billion, exceeding by 40 percent our Gross National Product of $12 billion. That is the importance of our external trade.

Of our total external trade last year, about $13 billion, or 80 percent was with the United States. Assuming that about $25,000 in sales create one job, this would mean that about 216,000 jobs in the United States are dependent on sales to Puerto Rico of $5 billion, and about 312,000 jobs in Puerto Rico depend on sales to the United States of $8 billion. That is the importance to both the United States and Puerto Rico of our trade relationship.

From the importance of our trade derives the importance of our transportation services. From our Island condition derives our total dependence on maritime and air transportation. And from our condition as a United States port, according to the cabotage laws, derives our dependence on U.S. flag ship service for maritime passenger transportation service between the United States and Puerto Rico.

With respect to cargo transportation we must use ships at whatever cost. Air freight service is simply non competitive for almost all products, and there are not other alternatives.

Our disadvantage in this respect is unique. Mainland cities and towns have alternative means of internal cargo transport (trucks, railroads, pipelines). Cargo transportation by internal waterways must be competitive, and carries only about 16 percent of all intercity domestic freight traffic. In United States foreign trade, U.S. cargo ships must also compete with foreign flag ships; thus they carry only about 5 percent of the trade.

The U.S. Virgin Islands have a higher per capita income than Puerto Rico and can use foreign flag vessels. Hawaii has one of the highest per capita incomes of any State, has a modern, efficient fleet, and has had Senator Inouye as Chairman of the Senate Merchant Marine and Tourism Subcommittee for quite a few years. Alaska can use pipelines and some Canadian vessels while having the highest per capita income of any State. Thus, the poorest American citizens of any area carry an extra-heavy burden in supporting the United States Merchant Marine. This justifies, in our opinion, a federal subsidy.

Unlike Puerto Ricans, who must use maritime cargo transportation at whatever cost, U.S. passengers do not have to use U.S. flag cruise ships at any cost to come to Puerto Rico. They are not allowed to come in foreign flag cruisers. Therefore, they go to other places. Consequently, there is no cruise ship passenger service between the U.S. and Puerto Rico.

It is important that we have such a service. As I said before, we have few natural resources. And we have over 200,000 persons looking for jobs who cannot find any. That's over 20 percent of our labor force. But we do have nice, sandy beaches, and our sun shines throughout the year. And we have a lovely old San Juan, with many historic monuments and sites, recreational areas and entertainment activities, and well-stocked, interesting shops. Thus we have an important tourism industry with a good, natural foundation, and with an unquestionable potential for growth.

In the short period of 9 years, from 1971 to 1980, the number of visitors increased by 69 percent, from 1.3 million to 2.2 million. Their expenditures grew even more, by 162 percent, from $235 to $615 million. Cruise-ship visitors increased faster than regular, airborne visitors, from 212 thousand to 501 thousand; that is a 136 percent increase. Their expenditures grew more than threefold: from $5.8 million to $19.7 million.

But our cruise ship visitors are foreign visitors. Our fellow citizens from the U.S. mainland have been in fact denied the opportunity of taking cruises to Puerto Rico. They are not allowed to come in foreign-flag ships. U.S. flag service would be uneconomical. No service has existed for over 30 years. The inexistence of the service may save us. No U.S. passenger lines would be hurt by the proposed bill. No U.S. jobs would be lost, while quite a few Puerto Rican jobs could be created, whose incomes would largely be spend in U.S. goods and services to the benefit of mainland workers.

Approval of Bill H.R. 89 is a step in the right direction. It's a modest, fair, necessary step. The Chamber of Commerce of Puerto Rico endorses it.

NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION,
Washington, D.C., October 20, 1983

Hon. MARIO BIAGGI,
Chairman, Subcommittee on Merchant Marine, Committee on Merchant Marine and Fisheries, Washington, D.C.

DEAR MR. CHAIRMAN: On behalf of the National Marine Engineers' Beneficial Association, I would like to offer the following comments on H.R. 89 for the record.

I want to note at the outset, Mr. Chairman, that—with certain changes which I will propose below—I support H.R. 89. I take this position, because I do understand the unique problems faced by Puerto Rico as a result of the Jones Act. Something must be done to set today's unfortunate situation right. At present, travel by water between Puerto Rico and the United States is restricted to U.S. vessels, yet no U.S. passenger vessels serve this trade. Puerto Rican citizens and tourists are consequently left in a "catch-22" situation, forced to devise creative and circuitous routes to get them to and from the United States. Not only does this hamper the movement of individuals who must travel by surface for health or other reasons, but it keeps many tourist dollars out of the country.

I believe that H.R. 89 is a sincere effort to address these problems, and therefore I can support it—provided certain changes are made. My principal problem with the current language in the bill is that the exemptions from the Jones Act are far too broad. The objective of the bill is to provide direct passenger service between the United States mainland and Puerto Rico. That objective can be achieved merely by allowing foreign-flag vessels to serve in this trade until such time as they can be replaced by U.S.-built, U.S.-flag passenger vessels as the Jones Act intends. This is a perfectly practical solution. It meets the objective of Puerto Rico, since there are many foreign-flag vessels willing and able to provide this service, yet it does not permanently undermine the Jones Act because (1) U.S.-built, U.S.-flag vessels could take over the trade when they become available and thus keep this solution a temporary one to meet a particular need, and (2) it does not challenge the fundamentals of the Jones Act in the way that permitting U.S.-flag, foreign-built or U.S.-flag subsidized ships would.

It may appear that I am drawing a very fine distinction in taking this position, but I believe that it is extremely important. The use of foreign ships to serve the needs of Puerto Rico is a temporary solution, and it is preferable because it can be kept temporary—revoked easily when U.S.-built ships arrive to perform the same task. It will be far more difficult to keep a temporary solution from becoming permanent if U.S.-flag ships and U.S. interests are involved.

As you know, the Jones Act is now the sole sustainer of the U.S. commercial shipbuilding industry. I believe that U.S.-built passenger ships have a future if the integrity of the Act is maintained—an integrity that will be lost if foreign buildings are allowed into the Jones Act trades. This future has been shown to be reality not dream by the recent contract signing for two cruise ships to be built in Washington

State—the first passenger ships to be built in the United States since 1963. If the exemptions in H.R. 89 for U.S.-flag, foreign-built and subsidized vessels were in effect today, I can guarantee that this breakthrough—which will provide thousands of new jobs in industries that desperately need help—would not have occurred. The competitive advantages held by subsidized and foreign-built ships are such that U.S.-built ships would never be in a position to offer service in the same trade. I find it inconceivable that it is the Committee's intention to halt the demonstrated progress recently made in the U.S. passenger vessel industry.

I suggest, therefore, that Section (b)(2) be struck entirely from the bill. This section, which requires that foreign-flag service be terminated if U.S.-flag subsidized or foreign-built passenger vessels enter the trade, is both unwise and unnecessary. Since there are adequate foreign-flag passenger vessels to service this trade, no justification can be made to open up the Jones Act to still another category. Foreign-flag vessels will provide service only until such time that eligible U.S.-built vessels are available.

I stress again that the point of the bill is to provide service where there is none not to change the entire framework and foundation of the Jones Act, or to provide a back-door route to bring in vessels to the trade that would not be approved in other circumstances.

Another change that would improve the bill would be to limit the U.S.-flag, U.S.-built vessels eligible to terminate the foreign service of this trade to 20 years and younger. This change will insure the militarily usefulness of the ships in the Jones Act which is one of the major reasons for having cabotage laws in the first place. It will also serve to encourage the development of a modern and efficient fleet, a goal that all of us share.

Thank you for allowing me to the opportunity to comment on this proposal. I believe that the bill with the modifications I outlined is a fair and reasonable approach to address the lack of passenger service to Puerto Rico.

Sincerely yours,

J. M. CALHOON, *President.*

INTERNATIONAL ORGANIZATION OF MASTERS, MATES & PILOTS,
New York, N.Y., October 25, 1983.

Hon. MARIO BIAGGI,
Chairman, Subcommittee on Merchant Marine,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The International Organization of Masters, Mates and Pilots, ILA, AFL-CIO, opposes HR 89, to permit the transportation of passengers between Puerto Rico and other United States ports on foreign vessels.

We have consistently opposed waivers of our coastwise shipping requirements absent on overriding national defense consideration. In this case, there is no pressing national security justification for allowing foreign-built and foreign-flag vessels to operate between Puerto Rico and American ports, much less allowing them to operate between any American ports. In fact, we believe the unrestricted entry of foreign passenger vessels into the domestic trade will ultimately destroy any chance that such vessels would be built in this country. That would adversely affect the ability of American shipyards and American vessels to meet national defense needs.

Despite the fact that the sponsors of HR 89 have included within its text language to encourage American-built and American-flag passenger cruise vessel operations, the language is insufficient and does not negate the harmful effect of abandoning a long-held principle. Such abandonment would extend a significant economic benefit to foreign vessels and yet would demand no comparable benefit in return for the United States and the American maritime industry.

Specifically, the legislation should require that every vessel operating in the United States domestic trade be a United States-flag vessel. This would greatly increase employment opportunities for American seafaring personnel. Similarly, every vessel operating in this trade should be required to perform all repairs and maintenance in American shipyards. This would provide much needed work for our yards and the workers in the shipbuilding and repair industry.

If Congress is to open the domestic trade to foreign-built vessels, then we should demand something in return to benefit the American economy and our maritime workforce.

Finally, we believe Congress should not be trying to improve Puerto Rico's competitive position by exempting it from the coastwise laws. On the contrary, we urge that HR 3774, which would bring under the coastwise laws the passenger trade be-

tween the Virgin Islands and other American ports, be considered and adopted instead. As Congressman Gene Snyder stated upon introduction of HR 3774, the phase-in of the Jones Act "will provide the maritime industry with a sufficient opportunity to demonstrate that adequate U.S. shipping capacity does exist and that the underlying reasons for the Virgin Islands exemption, in regards to passengers, are no longer valid."

We urge that HR 89 be rejected and request that this statement be included in the Subcommittee's hearing record on HR 89.

Sincerely,

Capt. ROBERT J. LOWEN, *President.*

[Whereupon, at 10:55 a.m., the subcommittee adjourned subject to the call of the Chair.]

25-905 O - 84 - 18

GRANTING COASTWISE PRIVILEGES TO CERTAIN VESSELS

WEDNESDAY, NOVEMBER 2, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:50 p.m., in room 1334, Longworth House Office Building, Hon. Mario Biaggi (chairman of the subcommittee) presiding.

Present: Representatives Biaggi, Borski, Carney, and Bateman.

Staff present: Ric Ratti, Rudy Cassani, Ann Mueller, Steve Little, Kip Robinson, and Gwen Lockhart.

Mr. BIAGGI. The meeting will come to order.

The subcommittee is meeting today to consider three bills that are intended to restore coastwise trading privileges to three U.S.-built vessels. After the hearing it is my intention to go into subcommittee markup to consider a number of technical and conforming amendments and report the three bills to the full committee.

All three of the bills were passed by the Senate on August 4, 1983. They permit *La Jolie, Dad's Pad,* and *Endless Summer,* all three U.S.-built vessels that have a defect in their chain of title, to engage in the coastwise trade.

I am not aware of any person or organization that opposes the bills, and I expect today's testimony to be noncontroversial. The facts concerning these vessels are in each member's folder, and I therefore will not repeat them.

I would like to make it clear that these bills solely restore coastwise trading privileges and do not exempt the vessels from other applicable provisions of law, such as those pertaining to maritime or navigation safety. These bills are noninflationary and will result in no cost to the Government.

I ask unanimous consent that the following be placed in the record of these proceedings: A statement by Hon. Norman D'Amours, a Member of Congress from New Hampshire, in support of S. 1186, *Dad's Pad;* a statement by Hon. Harold E. Shear, Administrator, Maritime Administration, Department of Transportation; a statement by John Sciacca, owner of the vessel *Dad's Pad;* and a statement by Hon. Edwin B. Forsythe, ranking minority member of this committee.

[Material and bills follow:]

STATEMENT OF HON. NORMAN E. D'AMOURS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW HAMPSHIRE

Mr. Chairman, members of the committee, I want to thank you for this opportunity to appear before you regarding the bills S. 1186, Legislation to clear certain impediments to the licensing of the Yacht *"Dad's Pad"* For employment in coastwise trade.

This non-controversial bill was introduced by Senator Warren Rudman of New Hampshire on May 2nd and was passed by the Senate on August 4th.

"Dad's Pad" is a 1972 Hatteras sportsfisherman boat built in High Point, North Carolina. Since its construction it has been registered in the U.S. as a pleasure craft and has been berthed in Noth Carolina and Florida. In February, 1982, Mr. and Mrs. John C. Sciacca of Plaistow, New Hampshire purchased the boat with the intention of operating a commercial fishing venture on the New England coast. While attempting to license and document *"Dad's Pad"* as a commercial fishing vessel, it was discovered that a previous owner was not a U.S. citizen, but rather a dual citizen of Canada and Jamaica. All other previous owners, including the owner from whom the Sciaccas purchased the vessel, have been U.S. citizens.

Since this vessel was once owned by a foreign national, it is disqualified from coastwise trading privileges in accordance with section 27 of the Merchant Marine Act of 1920, As amended (46 U.S.C. 883). These privileges can only be restored by legislation such as S. 1186.

Mr. Chairman, the circumstances here parallel those of a number of other pieces of legislation upon which this subcommittee has looked favorably in recent years. In view of these circumstances, and of the unquestionable good intentions of Mr. and Mrs. Sciacca, the granting of relief through the passage of S. 1186 would clearly not be contrary to the purposes of the Merchant Marine Act of 1920. Therefore, I strongly urge you to give this legislation favorable consideration.

Thank you Mr. Chairman.

PREPARED STATEMENT OF ADM. HAROLD E. SHEAR, MARITIME ADMINISTRATOR, DEPARTMENT OF TRANSPORTATION

Mr. Chairman and Members of the Subcommittee on Merchant Marine. My name is Harold E. Shear, and I am the Maritime Administrator of the Department of Transportation.

It is a pleasure for me to present the views of the Administration with respect to S. 1015, S. 1186 and S. 1689, three bills that would direct the U.S. Coast Guard, upon compliance with the usual requirements, to document the vessels *La Jolie, Dad's Pad,* and *Endless Summer*, as vessels of the United States with the privilege of engaging in the coastwise trade. We assume that these bills do not intend to waive applicable inspection, certification, or manning requirements. S. 1015 would provide for the vessel *La Jolie,* S. 1186 concerns the vessel DAD'S PAD, and S. 1689 names the vessel *Endless Summer*. These bills passed the Senate on August 4, 1983.

Our coastwise laws require that the waterborne transportation of merchandise and passengers between two points in the United States shall be in vessels constructed in the United States, documented under the U.S.-flag, and owned by citizens of the United States. (46 App. U.S.C. 289, 883). Coastwise trading restrictions have been enacted since the founding of the Republic in order to protect and foster the U.S. maritime industry, and this Department has consistently opposed any routine relaxation of this longstanding policy. In this regard, Secretary Elizabeth Dole reaffirmed the sanctity of the so-called Jones Act just a few weeks ago.

The vessel *Dad's Pad,* 32 Net Tons, Official No. 549526, was constructed in 1972 at High Point, North Carolina. The vessel ENDLESS SUMMER, 37 Net Tons, Official No. 296259, was constructed in 1964 at Thomaston, Maine. Finally the vessel *La Jolie,* 5 Net Tons, was constructed in 1979 in Florida. The *La Jolie,* was never documented, and currently has Michigan registration number MC 2780 LB. These U.S. constructed vessels subsequently lost coastwise trading privileges because of foreign ownership. The proposed legislation before the Subcommittee would generally restore these privileges.

The Department of Transportation opposes the enactment of S. 1015, S. 1186, and S. 1689, absent a showing of factual circumstances with respect to each of these small vessels which present compelling reasons to exempt them from the application of the coastwise laws.

Thank you.

PREPARED STATEMENT OF JOHN C. SCIACCA

STATE OF NEW HAMPSHIRE, COUNTY OF ROCKINGHAM

I, John C. Sciacca, being first duly sworn, on oath depose and say as follows:

On the 12th day of February, 1982, I purchased a 53-ft. 1972 Hatteras Sports Fisherman vessel, now named "Dad's Pad," (formerly bearing the names of "Mylin", "Linnie Gras" and "Donna Re") for the sum of $168,000.00. Since the original date of acquisition, I have added improvements in the sum of $32,000.00, making a total investment of approximately $200,000.00.

Said boat was built in High Point, North Carolina and all previous owners of the vessel were United States citizens, with the exception of one Ray Rousseau, who was of Canadian and Jamaican citizenship.

The purpose of acquiring this vessel was to utilize same in the trade or business of coastwise chartered fishing. In other words, I was going to use same in a commercial nature at all times and not for pleasure purposes. However, as a result of the alien's break in the chain of title, I have been unable to register same on a commerical basis.

At the time the boat was purchased, I has no knowledge of an alien owner, and this fact was not brought to my attention until I went to document same, a period of two to three months after the original acquisition.

I had already been committed to the original seller and has signed a mortgage agreement with a financing company to help facilitate said acquisition. It appeared virgually impossible to rescind this sale, and so therefore, I am endeavoring to fulfill my original purposes before the United States Congress.

At no time did I ever contemplate that this vessel could not be used for commercial fishing. Because I have been unable to do so, I have incurred extraordinary expenses, not only in the carrying cost for the approximate original $200,000.00 investment, but in addition, I have had expenses in the area of storage, maintenance, security, insurance and transportation from Florida to New England.

I have acted with due diligence in attempting to charter this boat for commercial fishing, by immediately requesting a bill such as S. 1186 be filed in my behalf through United States Senator Warren Rudman.

At all material times, I have acted in good faith and feel that an undue hardship and inequitable result will be occasioned by me if I am not able to use this boat for the purpose for which it was purchased, namely, commercial fishing. In short, I feel that I have demonstrated a compelling reason for enactment of this legislation, and that the public interest shall be promoted by a favorable consideration.

All previous statements in favor of S. 1186 being submitted at this hearing by other proponents of said legislation, are incorporated herein by reference and are to be considered part of my statement hereto.

STATEMENT OF HON. EDWIN B. FORSYTHE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

We are here today to consider private legislation to waive Jones Act restrictions on three small, U.S.-built and U.S.-owned vessels. Although the circumstances associated with each request for private relief may be radically different, there is a common strand which links the three—each has had a foreign owner.

The Jones Act prohibits the entry of a vessel into the coastwise trade if there is foreign ownership in the chain of title. This is true even if the vessel was built in a domestic shipyard and is currently owned by a U.S. citizen. The prohibition extends to vessels which, prior to being sold foreign, operated within the Jones Act privilege. Once a vessel is foreign-owned, under the Jones Act it may not again operate between points in the United States. Our private bill procedure is the only way to overcome the impediment.

During our consideration of these measures, I believe we should compare the potential benefit of enforcing the Jones Act restriction with the detriment it could cause for the parties requesting our help. It seems to me that a decision not to allow the *Dad's Pad, La Jolie,* and *Endless Summer* into coastwise operation would do little to advance the policy underlying the Jones Act, but for the parties involved here, the benefit will be substantial.

In this case, all of these vessels are small vessels which were built in the United States—two are currently owned by U.S. citizens and the third by the Commonwealth of Virginia. We have acted favorably when similar measures came before us in the past. I fully support these requests and urge favorable action today. Thank you.

I

98TH CONGRESS
1ST SESSION

S. 1015

IN THE HOUSE OF REPRESENTATIVES

AUGUST 4, 1983

Referred to the Committee on Merchant Marine and Fisheries

AN ACT

To clear certain impediments to the licensing of the vessel La Jolie for employment in the coastwise trade.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That, notwithstanding the provision of section 27 of the Mer-
4 chant Marine Act of 1920 (46 U.S.C. 883), or any other
5 provisions of law to the contrary, the Secretary of the depart-
6 ment in which the United States Coast Guard is operating
7 shall cause the vessel La Jolie (Michigan registration number
8 MC 2780 LB) owned by Hugh Lewis, of Union Lake, Michi-
9 gan, to be documented as a vessel of the United States, upon
10 compliance with the usual requirements, with the privilege of

1 engaging in the coastwise trade so long as such vessel is
2 owned by a citizen of the United States.

Passed the Senate August 4 (legislative day, August 1), 1983.

Attest: WILLIAM F. HILDENBRAND,
Secretary.

I

98TH CONGRESS
1ST SESSION

S. 1186

IN THE HOUSE OF REPRESENTATIVES

AUGUST 4, 1983

Referred to the Committee on Merchant Marine and Fisheries

AN ACT

To clear certain impediments to the licensing of the yacht Dad's Pad for employment in the coastwise trade.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That notwithstanding the provisions of section 27 of the Mer-
4 chant Marine Act of 1920 (46 U.S.C. 883), or any other
5 provisions of law to the contrary, the Secretary of the depart-
6 ment in which the United States Coast Guard is operating
7 shall cause the vessel Dad's Pad (official numbered 549526)
8 owned by John C. Sciacca, of Plaistow, New Hampshire, to
9 be documented as a vessel of the United States, upon compli-
10 ance with the usual requirements, with the privilege of en-

1 gaging in the coastwise trade so long as such vessel is owned
2 by a citizen of the United States.

Passed the Senate August 4 (legislative day, August 1), 1983.

Attest: WILLIAM F. HILDENBRAND,
Secretary.

I

98TH CONGRESS
1ST SESSION

S. 1689

IN THE HOUSE OF REPRESENTATIVES

AUGUST 4, 1983

Referred to the Committee on Merchant Marine and Fisheries

AN ACT

To clear certain impediments to the licensing of the vessel Endless Summer for employment in the coastwise trade.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That, notwithstanding the provisions of section 27 of the
4 Merchant Marine Act, 1920 (46 U.S.C. 883), or any other
5 provision of law to the contrary, the Secretary of the depart-
6 ment in which the United States Coast Guard is operating
7 shall cause the vessel Endless Summer, owned by the Com-
8 monwealth of Virginia, to be documented as a vessel of the
9 United States, upon compliance with the usual requirements,

1 with the privilege of engaging in the coastwise trade so long
2 as such vessel is owned by a citizen of the United States.

Passed the Senate August 4 (legislative day, August 1), 1983.

Attest: WILLIAM F. HILDENBRAND,
Secretary.

Mr. BIAGGI. The first witness is Bob Carr, a Member of Congress. Congressman Carr, welcome.

STATEMENT BY HON. BOB CARR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. CARR. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, thank you for the opportunity to testify this afternoon on S. 1015. One of my constituents, Mr. Hugh Lewis of Union Lake, Mich., contacted me last spring to help him with a small problem he was having with the Coast Guard. Mr. Lewis had worked for some 22 years for a company in Troy, Mich., until he had a heart attack and it forced him into early retirement. Since his retirement income was rather meager, he decided to turn to his favorite hobby, fishing, to supplement his income. His plan seemed simple enough: He would use his boat, that had been a means of recreation for him and his family, and he would hire out his services to take people charter fishing in Lake Huron.

When he went to the Coast Guard to have his boat documented so that he could begin his business, he was informed that there was a clause in the Merchant Marine Act of 1920 that prohibited him from engaging in this endeavor. Although the vessel was manufactured in the United States and has never been, to the best of our knowledge, operated out of U.S. waters, and it has never been used for any commercial venture of any kind, it seems that Mr. Lewis' boat was at one time owned by a Canadian citizen and, therefore, under the law cannot be documented for trade in the United States.

Mr. Lewis contacted me to find out what could be done so that he could go fishing and earn a living, and with much embarrassment all of us in the Michigan delegation had to inform him that the only solution to his simple little problem was an act of Congress. Because I don't believe the authors of the original act intended to prohibit this kind of venture, I feel that Congress would not be outside the bounds of propriety in their duty by permitting this exception to statutory law.

Mr. Lewis has asked me to extend his apologies to the committee for not being here personally to testify today, but the expense of the trip was more than his retirement budget could afford. Therefore, on his behalf I ask that the committee support the passage of S. 1015 so that Mr. Lewis can begin earning and supplementing his retirement income.

Mr. BIAGGI. Thank you.

Mr. Bateman, any questions?

Mr. BATEMAN. No questions, Mr. Chairman.

Mr. BIAGGI. Thank you very much. Nice to see you.

Mr. CARR. Thank you, Mr. Chairman.

Mr. BIAGGI. Mr. Bateman.

Mr. BATEMAN. Thank you, Mr. Chairman.

If I may, I will read for the record a rather brief statement, and perhaps that will assist Mr. Shaw, our next witness, in making a more abbreviated presentation.

Mr. Chairman, on August 4 of this year I introduced H.R. 3854, which is identical to S. 1689. The purpose of both these bills is to clear the way for the U.S. Coast Guard to document the U.S.-built vessel, *Endless Summer,* thereby permitting that vessel to engage in U.S. coastwise trade.

The *Endless Summer* was built in 1964 by the Morse Boatbuilding Co. in Thomaston, Maine. The vessel has changed hands several times. In June 1981 the vessel was deleted from the U.S. Coast Guard documentation, presumably because it was sold to a British firm, which under the Merchant Marine Act of 1920 automatically categorizes it as a foreign bottom and therefore not permitted to engage in the U.S. coastwise trade.

On May 5, 1982, the *Endless Summer* was seized in Virginia waters by agents of the Coast Guard and the Drug Enforcement Administration and the Virginia State Police. The vessel had about 13,700 pounds of marihuana aboard. The seizure was part of a cooperative State-Federal drug enforcement effort. The Federal authorities involved agreed to allow Virginia to pursue all criminal violations arising from the seizure and forfeited ownership of the vessel to the State. After following all of the proper procedures, Virginia auctioned the vessel but was not able to convey a clear title to the vessel because of the previous ownership by a British entity. The bidders on the vessel apparently were never advised of the restriction on the licensing and use of the vessel.

The Commonwealth of Virginia wishes to have the U.S.-built vessel documented as a U.S. vessel so that they can once again auction it, but this time with clear title. The Commonwealth would like to recoup some of its costs of holding the *Endless Summer.* In addition, the net proceeds of the sale after payment of expenses will go to the State's literary fund.

The case of the *Endless Summer* is clearly not within the intent of the Merchant Marine Act of 1920. The Senate already has passed S. 1689, and I am hopeful that after the hearing and the testimony today, the subcommittee would see fit to report the bill with whatever technical amendments may be necessary to the full committee with recommendation that it be sent to the floor by suspension of the rules, so that the measure can be expedited.

Thank you, Mr. Chairman. I would only comment that we are dealing here with a situation where, had the seizure and the confiscation gone forward by Federal authorities, there is already a general exemption of the Jones Act with reference to a transaction of that kind. It is only the fact that the Commonwealth of Virginia was deferred to or asked to go forward with the seizure and the confiscation, that we even need this bill in order to permit documentation and use in the coastwise trade.

Mr. BIAGGI. Thank you.

The Honorable William H. Shaw III, Commonwealth's Attorney, County of Gloucester, Commonwealth of Virginia. Mr. Shaw?

STATEMENT OF WILLIAM H. SHAW III, COMMONWEALTH'S ATTORNEY, COUNTY OF GLOUCESTER, COMMONWEALTH OF VIRGINIA

Mr. SHAW. Thank you, Mr. Chairman and members of the committee.

I am Commonwealth's attorney of Gloucester County, Va., which is a county of approximately 23,000 people on the Chesapeake Bay and a part of the First Congressional District of Virginia, represented by Mr. Bateman.

I have submitted previously a statement for the committee. I ask that that be made part of the record.

Mr. BIAGGI. Without objection, so ordered.

Mr. SHAW. I would supplement Mr. Bateman's statement today by indicating that the seizure was effected by the Circuit Court of Gloucester County in September 1982. It has been in the possession of the Commonwealth of Virginia since that time, at the Virginia Institute of Marine Science Dock at Gloucester Point, Va. The condition of the boat is deteriorating; it is deteriorating rapidly, and we are concerned about its condition over the next 3 or 4 months.

At the first sale in March 1982, as Mr. Bateman indicated, there was apparently a representation made at the sale that the boat had no restrictions on its use—I did not attend the sale—even though the copy of the documentation with the note "coastwise trading restriction" was in the court file. In any case, because of that representation the court rescinded the sale.

I would like to add that the sale price at that time was $67,000. The second bidder was $66,000, both of whom wanted to have the boat engaged in coastwise trade through the charter service. The next bidder was about $20,000 to $25,000 lower, so we do feel that with the restriction on the vessel, the potential sale value is greatly reduced. Without the restriction on the vessel, the Commonwealth can gain that much more funds through its sale. All of the net proceeds go to the Commonwealth of Virginia, and the expenses of keeping the boat to date have been paid by the Commonwealth of Virginia.

Therefore, I strongly urge passage of the bill.

Thank you.

[Material follows:]

PREPARED STATEMENT OF WILLIAM H. SHAW III

I urge passage of S. 1689 restoring coastwise trading privileges to the "Endless Summer", Official No. 296259.

On May 5, 1982, the Oil-Screw motor-sailing vessel "Endless Summer", No. 296259, was seized in Gloucester County waters by agents of the U.S. Coast Guard accompanied by agents of the federal Drug Enforcement Administration and the Virginia State Police. At the time of seizure the unoccupied vessel was loaded with approximately 13,700 lbs. of marijuana. Consistent with the policy of the federal authorities to encourage state authorities to investigate and prosecute drug cases, it was agreed that the state authorities would pursue all criminal violations arising from the seizure. Concomitantly, the federal authorities, after having had custody of the vessel for approximately six weeks, transferred custody of the the Commonwealth for sale or other disposition by the latter. After following prescribed state statutory procedures, the vessel and other items found thereon were forfeited to the Commonwealth for sale or other disposition, by order of the Circuit Court of Gloucester County, entered September 17, 1982. The vessel was then sold at public auction on March 16, 1983, for $67,000.00. The buyers deposited $6,700.00 with the Court as required; settlement was to be made within 21 days thereafter, at which

time the Commonwealth would convey the vessel by clear, unrestricted title in return for the balance of the purchase price. The Commonwealth could not do so and the sale was rescinded by order of the Circuit Court on May 27, 1983.

The vessel was built in 1964 at the Morse Boatbuilding Company in Thomaston, Maine, initially bearing the name *Prudence*. Through various ownership changes it acquired the name *Afterglow* and later its current name *Endless Summer*. One subsequent owner caused the vessel to have a foreign registry. Its last owner of record in the documentation office of the Coast Guard at Philadelphia was Mississippi Realtors Investment Co., Inc., a Delaware Corporation, which sold it to Showing Off, Inc., also a Delaware Corporation, for $210,000.00. Showing Off, Inc. was incorporated in May 1981, apparently by the same parties who were involved in the transfer of marijuana, and was dissolved by operation of Delaware law in December 1982. Showing Off, Inc. never recorded or otherwise perfected its title to the vessel, but as the real owner the corporation was the defendant owner in the forfeiture proceeding.

Problems with the transfer of unrestricted title became apparent after the March 16th sale. On the face of the enrollment certificate appears the restriction that the vessel lacked coastwise trading privileges. Only then was the import of the language realized. The vessel carried the restriction as to use because of its foreign registry despite its subsequent ownership by Mississippi Realtors Investment Co., Inc., a U.S. corporation. The restriction essentially limits the vessel's use to the owners' personal recreation or bareboat charter leases, but not other charter nor other commercial purposes. The vessel was not offered for sale by the Commonwealth with advertisement of this restriction; bidders at the sale inadvertently may have been informed that there were not restrictions upon the vessel's use. Relying upon such information, the highest bidders requested rescission of the sale, and the Court, as noted above, granted the request.

The limitation upon coastwise trade would also appear to arise for an independent reason. The citizenship of Showing Off, Inc. is not clear, and if it cannot be established, the vessel would be treated as a foreign vessel, thus giving rise to the limitation. For obvious reasons, proving United States citizenship of the corporation is difficult.

The vessel is currently moored at the Virginia Institute of Marine Science dock at Gloucester Point, Virginia. Its condition is deteriorating. Custody is maintained by the Sheriff of Gloucester County. Under Virginia law, the Commonwealth must sell the Endless Summer, which it now owns, at public auction; the net proceeds from the sale are paid into the State Literary Fund. The Commonwealth is now faced with either selling the vessel "as is", or obtaining through your kind efforts passage of this bill. Without the coastwise trading restriction the potential sale value is not otherwise depressed; with the restriction the potential sale value may be depressed.

If the "Endless Summer" has been forfeited to the United States for illegal purposes pursuant to cognate forfeiture statutes and sold by it, the restriction, regardless of its origin, can be lifted rather easily. Forfeiture and sale by a state, however, does not eliminate the restriction; it can only be done, as here, by special Congressional legislation. There does not appear to be any legitimate reason for the disparate treatment resulting from federal forfeiture on the one hand, and state forfeiture, on the other. A change in federal law to describe a forfeited vessel as one adjudged forfeited by a state court pursuant to drug interdiction statutes as well as by a federal court would alleviate the need for special legislation, placing the states and the federal government on an equal footing for these purposes. My concerns are shared by the Honorable Gerald L. Baliles, Attorney General of the Commonwealth of Virginia, as shown by the attached letter. The problem will no doubt continue to arise so long as state authorities seize and seek forfeiture of a vessel used in illegal drug-related activities. While I respectively encourage the Congress to address the general principal, my immediate concern is the resolution of this problem as it applies to the Endless Summer.

Thank you very much.

Mr. BIAGGI. Thank you, Mr. Shaw.

Any questions? Mr. Bateman.

Mr. BATEMAN. No questions.

Mr. BIAGGI. Mr. Carney, any questions?

Mr. CARNEY. Mr. Chairman, I have no questions at this time.

Mr. BIAGGI. All right. That completes the hearing on these bills.

[The following was received for the record:]

COMMONWEALTH of VIRGINIA

Office of the Attorney General

June 1, 1983

Gerald L. Baliles
Attorney General

William G. Broaddus
Chief Deputy Attorney General

Donald G. J. Gehring
Deputy Attorney General
Criminal Law Enforcement Division

Marion T. Jenks
Deputy Attorney General
Human & Natural Resources Division

Elizabeth B. Lacy
Deputy Attorney General
Judicial Affairs Division

Walter A. McFarlane
Deputy Attorney General
Finance & Transportation Division

Karl E. Bren
Director of Administration

The Honorable William H. Shaw, III
Commonwealth's Attorney for Gloucester County
P. O. Box 456
Gloucester, Virginia 23061

Re: "Endless Summer"

Dear Mr. Shaw:

I have read with interest your letters concerning the difficulties the Commonwealth is having with the forfeiture sale of the vessel "Endless Summer." I agree that the Commonwealth's interest would be best served by your seeking special legislation to allow "Endless Summer" to engage in coastwise trade.

It would also appear appropriate to bring to the attention of Senators Warner and Trible and Congressman Bateman that the states are treated differently from the federal government in forfeiture situations such as this. I am not aware of any reason for this disparate treatment. A change in 46 C.F.R. § 67.19-5 to describe a forfeited vessel as one adjudged forfeited by a state court as well as a federal district court would alleviate the need for special legislation, and would place both the states and federal government on equal footing.

Sincerely yours,

Gerald L. Baliles
Attorney General

3:2/57

Supreme Court Building • 101 North Eighth Street • Richmond, Virginia 23219 • 804 • 786 • 2071

Hugh Lewis
Boat Documentation
Boat Name: La Jolie
MC 2780-LB

June 30, 1983

Captain J.C. Fox
U.S. Coast Guard
456 N. Street S.W.
Washington, D.C. 20024

Dear Captain Fox:

I purchased my thirty foot Sea Ray on May 26, 1981 from McMachen Sea Ray of Sterling Heights, Michigan. They acted as the broker for a Mr. George Dauphinais. I then took the Coast Guard Pilot Test in the winter of 81-82 and received my license on May 20, 1982. My purpose was to use the boat for sport fishing charters on Lake Huron.

I then made arrangements for inspection by the Department of Natural Resources of Michigan's Marine Safety Division. While talking to the DNR, they told me that because of the boat's size, they thought it would be required by the Coast Guard to be documented. The state did not require documentation for me to operate as a charter boat.

I contacted the documentation officer, a Mr. Leonard Mathews in Detroit, and an appointment was made for him to come from Detroit to Oscoda, Michigan. The necessary measurements of the boat were then taken. While making the inspection, Mr. Mathews asked questions pertaining to prior ownership of the vessel. I informed him that the boat was built in Marriot Island, Florida. It was then sold to a Sea Ray dealer, Bassett Boat Works of Springfield, Massachusettes, who could not sell the boat. They then sold it to McMachen Sea Ray, Michigan who then sold it to Mr. Dauphinais. Mr. Mathews informed me that there would be no problem because of only one private owner, being that the bill of sale and title are required from every prior owner. He then asked if I knew Mr. Dauphinais. I said yes. He provided me with all of the forms required. During our conversation, he asked me if Mr. Dauphinais was a U.S. citizen. I told him that as far as I knew he was because in conversation with Dauphinais, he indicated he worked for GM Tech Center in Warren, Michigan for some 25-30 years. He also said he was born in Montreal, Canada but had lived in the U.S. for some thirty odd years. Mr. Mathews said that this would not affect documentation because the boat was built in the U.S., sold in the U.S., and always registered in Michigan.

I proceeded to get all the necessary paperwork ready in approximately three to four weeks. I made an appointment with Mathews and gave him the paperwork. He took one look at Mr. Dauphinais' bill of sale where it states that he is a Canadian citizen and told me that the boat could not be used for Inter Coastal Commercial purposes. He informed me that I could document the boat for pleasure craft and also for commercial use if I departed from a U.S. port and delivered to a foreign port.

I asked him about his statement in Oscoda about Mr. Dauphinais' citizenship status and this not being of concern and he denied ever saying this.

He told me that the only hope I had was to sell the boat and get a different one, which would be a great financial loss, or to get a private bill passed for my boat, the La Jolie.

I left his office and called Coast Guard stations Toledo, Cleveland, and St. Ignace. I gave the entire story on ownership of the boat to each station. One hundred percent of the people I talked to said that they felt an error had been made and that the boat could be documented. I called Mr. Mathews and informed him of this information and he said he didn't care what the other stations said, no.

I then contacted Senator Carl Levin's and Congressman Robert Carr's offices regarding this matter.

I realize that this may sound very confusing, but I hope that I've explained my problem to you in the fullest.

I thank you for your time and consideration and hope everything will be worked out soon. I look forward to hearing from you and also to be able to start my fishing.

Sincerely,

Hugh R. Lewis

Hugh R. Lewis

Phone Number: (517)739-9873

DEPARTMENT OF TRANSPORTATION
U. S. COAST GUARD
CG-1261 (Rev. 9-74)

Form Approved Bureau of Budget No. 04-R3030

MASTER CARPENTER'S CERTIFICATE
(BUILDER'S CERTIFICATE)

PLACE	DATE	NAME OF MASTER OR PRINCIPAL CARPENTER
Merritt Island, Florida	April 6, 1982	Belinda Bullock

ADDRESS: 100 SEa Ray Drive, Merritt Island, FL 32952

RIG[1]: Twin Engine-Gas Screw

NAME OF THE VESSEL[2]:

HULL NO.: SERF21910279-300EC-642

VESSEL WAS BUILT (Insert "By me," "Under my direction," or "By ....." giving firm or corporate name, if applicable)

By: Sea Ray Boats, Inc.

YEAR OF COMPLETION	PLACE WHERE BUILT[3]	MATERIAL OF BUILD[4]
1979	Merritt Island, Brevard, Florida	fiberglass

NAME OF PERSON OR PERSONS FOR WHOM BUILT AND INDIVIDUAL INTEREST OWNED

Bassett Boat Company 100%
P.O. Box 186 H.S.
Springfield, Mass. 01109

NUMBER OF DECKS	NUMBER OF MASTS	CONTOUR OF STEM	SHAPE OF STERN
1	0	Vee Hull	Flat

LENGTH OF VESSEL[5]	BREADTH OF VESSEL[5]	DEPTH OF VESSEL[5]
29'7" FEET	11'5" FEET	6' FEET

GROSS TONNAGE	NET TONNAGE
7 Tons	5 Tons

[1]Insert here the rig of the vessel. For a vessel having a steam engine write "steam side wheel," "steam stern wheel," "steam screw"; and for a vessel having an internal combustion engine write "gas (or oil) side wheel," "gas (or oil) stern wheel," "gas (or oil) screw," or as the case may be.
[2]"If the master carpenter or builder knows the name of the vessel, that name shall be inserted herein."
[3]Write the name of the city or town at or nearest to which the vessel was built, and include the name of the state and country.
[4]Insert "wood," "iron," "steel," or as the case may be.
[5]Dimensions are to be calculated as specified in R.S. 4153.

THE FOLLOWING ADDITIONAL PARTICULARS SHALL BE GIVEN FOR THE ENGINE OF MACHINERY-PROPELLED VESSELS

TYPE OF ENGINE (Reciprocating, beam, turbine, etc., if steam, oil, gas, etc., if internal combustion)

Reciprocating-Gasoline

PLACE WHERE BUILT	YEAR BUILT
Fond du lac, Wisconsin	1979

BUILT BY: Mercury Marine

POWER (Steam, heavy oil, light oil, gasoline, naphtha, etc.)

Gasoline

NOTE.—An *oil* engine is an internal-combustion engine in which the fuel is injected into the air that is under compression in the cylinder; the combination is ignited by the heat generated from the compression (Diesel type), or from additional outside heat when that in the cylinder is not sufficient (Semi-Diesel type). A *gas* engine is also an internal combustion engine, but in it the fuel and air are admitted into the cylinder simultaneously and the combination is ignited by a spark.

I certify that the information given above is true and correct to the best of my knowledge and belief.

SEA RAY BOATS, INC.

Belinda Bullock
SIGNATURE OF MASTER CARPENTER OR BUILDER

GPO 899-408

FORM MA-4557 Mg Machen
12-1951

OWNER OR MORTGAGEE OF VESSEL
(Section 40, Shipping Act, 1916, as amended)
46 U.S.C. 838, 40 Stat. 902, as amended

U.S. DEPARTMENT OF COMMERCE
MARITIME ADMINISTRATION

DECLARATION OF OFFICER OF INCORPORATED COMPANY[a]

I, Bill McMachen, of 36250 Van Dyke Sterling Hgts. MI

declare that I am[1] President of the[2] McMachen Marine Inc.

a corporation organized under the laws of the State of Michigan

with offices at[3] 36250 Van Dyke Sterling Hgts. MI 48077, that said corporation is the owner (or)[4]

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX[5] called SERF21910279-300EC-642

of _____, official number _____, gross _____, net _____

_____, built in 19____, at _____

as appears by Certificate of Master Carpenter No. _____, issued at _____

on _____, 19____, surrendered[6] _____ (Give cause of surrender)

that I am a citizen of the United States of America by birth, having been born at Leelanau (City)

Michigan (State), on 4-25-41 (Date of birth) XXXXXXXXXXXXXXXXXXXX

_____ (Name of court), for _____ (District, county, or State)

_____ (Date naturalized), XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX _____

that the president or other chief executive officer and chairman of the board and all directors of said corporation are citizens of the United States of America; [7]except ..... alien directors which represent a minority of the number of directors necessary to constitute a quorum as provided under Public Law 86-327, 73 Stat. 597, September 21, 1959; that[8] the controlling interest (or)[9] seventy-five (75) per centum of the interest in said corporation is owned by citizens of the United States of America; that the title to a majority of the stock (or)[9] seventy-five (75) per centum of the stock of said corporation is vested in citizens of the United States of America free from any trust or fiduciary obligation in favor of any person not a citizen of the United States of America, and that such proportion of the voting power of said corporation is vested in citizens of the United States; that through no contract or understanding is it so arranged that[8] the majority of the voting power (or)[9] more than twenty-five (25) per centum of the voting power of said corporation may be exercised, directly or indirectly, in behalf of any person who is not a citizen of the United States of America, that by no means whatsoever is[8] the control of said corporation (or)[9] the control of any interest in said corporation in excess of twenty-five (25) per centum conferred upon or permitted to be exercised by any person who is not a citizen of the United States of America.

4-26-82 — Date

Bill McMachen — Signature

[a] This declaration is to be taken whenever any bill of sale, mortgage, hypothecation, or conveyance of any vessel, or part thereof, or interest therein, is presented by a corporation to any Officer in Charge, Marine Inspection, U.S. Coast Guard, for recording.

[7] The "except" clause shall be deleted when this declaration is executed in behalf of corporations under Title VI, Merchant Marine Act, 1936, as amended.

[1] Insert "President," "Secretary," or "Treasurer," or any other duly authorized official thereof, as the case may be.
[2] Insert full corporate name of company.
[3] Insert business address of corporation.
[4] Strike out each or expression not appropriate.
[5] Insert other means whereby vessels become entitled to American registry, when appropriate.
[6] i.e., document now surrendered, or document lost surrendered heretofore (46 U.S.C. 840).
[8] Strike out reference to naturalization if party is native-born citizen.

[9] Where there one vessel is involved, only one form of declaration need be filed if by a notation inserted in the clause immediately prior to the clause about the citizenship of declarant, appropriate reference is made to a schedule added to said declaration, in which schedule shall be inserted the name and date of each additional vessel as required for the first vessel, owned by or under mortgage to the party on behalf of whom said declaration is made.

PENALTY FOR FALSE STATEMENT: Section 40, Shipping Act, 1916, as amended, provides "Whoever knowingly makes any false statement of a material fact in any such declaration shall be guilty of a misdemeanor and subject to a fine of not more than $1,000, or to imprisonment for not more than five years, or both."

USCOMM-DC 61651-P72

FORM MA-4558
(11-15-63)

U.S. DEPARTMENT OF COMMERCE
MARITIME ADMINISTRATION

OWNER OR MORTGAGEE OF VESSEL
(Section 40, Shipping Act, 1916, as amended)
46 U.S.C. 838, 40 Stat. 902, as amended

DECLARATION OF VENDEE, TRANSFEREE, OR MORTGAGEE WHEN AN INDIVIDUAL.*

I, GEORGE J. DAUCHINAIS, of LATHRUP VILLAGE MICH.

declare that I am the sole owner[1], (or) sole mortgagee[1], of the vessel or part thereof, or interest therein[1], called

La Jolie

of _____ official number SER F 219102279

gross 5 TONS, net _____, [2]built in 1979 at _____

as appears by _____ No. _____

issued at _____, _____, 19____

surrendered[3] _____ (Give cause of surrender) ;

that I am a citizen of the ~~United States of America~~ CANADA by virtue of my birth in _____ (Place of birth)

_____ (City and State) on _____ (Date of birth) (or)[1]

by virtue of my naturalization under the laws of the United States before the _____ (Name of court)

_____ for _____ (District, State, or county)

on _____ (Date of naturalization), having been issued Naturalization Certificate No. _____

April 21 1982 (Date) George J. Dauchinais (Signature)

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*This declaration to be taken whenever any bill of sale, mortgage, hypothecation, or conveyance of any vessel, or part thereof, or interest therein, is presented by a person in case vessel, or part thereof, or interest therein, is owned by one individual, not in partnership, joint ownership, or an unincorporated company or an association. If more than one vessel is involved, only one form of declaration need be filed if by a notation inserted in the clause immediately prior to the clause about the citizenship of declarant, appropriate reference is made to a schedule added to said declaration in which schedule shall be inserted the name and data of each additional vessel as required for the first vessel, owned by or under mortgage to the party on behalf of whom said declaration is made.

[1]Strike out words not appropriate.

[2]Insert other means whereby vessel became entitled to American registry, when appropriate.

[3]i.e., document now surrendered, or document last surrendered heretofore (46 U.S.C. 865).

PENALTY FOR FALSE STATEMENT: Section 40, Shipping Act, 1916, as amended, provides "Whoever knowingly makes any false statement of a material fact in any such declaration shall be guilty of a misdemeanor and subject to a fine of not more than $5,000, or to imprisonment for not more than five years, or both."

USCOMM-DC 51673-P63

FORM MA-4558 (11-15-63)
GPO 864-48

TO: JUDY
FR: DONNA
RE: COAST GUARD DOCUMENTATION FOR LA JOLIE

Our office was contacted by Hugh Lewis of Union Lake, Michigan, regarding his attempts to secure documentation from the Coast Guard for his boat, La Jolie, which he wants to use for charter fishing on the Great Lakes. Mr. Lewis had been told after going through several offices and levels of the CG that his boat could not be documented (licensed) because it was previously owned by a Canadian citizen.

Apparently, the Jones Act of 1920 (see attached copy) prohibits licensing of "foreign-owned" vessels for use in "coastwise trade". The fact that La Jolie's previous owner resided in Michigan and kept the boat here does not alter the fact that, as a Canadian citizen, he was a "foreign owner".

According to the enclosed letter from the Coast Guard, an act of legislation is necessary to provide an exception to the Jones Act. I contacted Peter Friedmann, Counsel to the Senate Commerce Committee, in this regard. He says that a special relief bill is necessary, and that, on average, five such bills are passed by Congress each year.

I have told Mr. Lewis that Carl is considering the possibility of legislation. As you can imagine, he is anxious for some word on whether Carl will sponsor a bill. Please let me (or my replacement) know as soon as you get some idea of the chances of this happening. Thanks.

RELEVANT INFO.:

Constituent's Name & Address: Hugh Lewis
8200 Fox Bay Drive
Union Lake, MI 48085
(313) 698-2977

Boat Name: La Jolie

Boat Model: Sea Ray

Regist. #: SERF 21910279

Cost: $30,000

Intended Use: Charter Fishing

ATTACHMENTS:
1) Jones Act
2) Letter from Coast Guard
3) Letter to Constituent

Owner's Name and Address: Mr. Hugh Lewis
8200 Fox Bay Drive
Union Lake, MI 48085
(313) 698-2977
Length and Weight: 30 feet, 5 gross tons
Boat Name: La Jolie
Boat Model: Sea Ray
Registration Number: SERF 21910279
Michigan Watercraft Registration: MC 2780 LB
Cost: $30,000
Intended Use: Charter Fishing in the Great Lakes
Location of Boat: Oscoda, Michigan

According to Mr. Lewis, the boat was manufactured by an American Company in Florida and sold to a marine on the East Coast. The East Coast marine sold the boat to McMacken Marine Company in Michigan. McMacken sold the boat to a Michigan resident, George J. Daupinais, who happened to be a Canadian citizen. The boat was registered in Michigan but was not documented because it was used strictly as a pleasure boat. Apparently, McMacken Marine Company acted as a broker for Mr. Duapinais when he sold the boat to Mr. Lewis. When Mr. Lewis attempted to have the boat documented for charter fishing, he learned that because he had purchased it from a Canadian citizen he would not be able to participate in the coastwise trade, pursuant to the Merchant Marine Act of 1920.

DEPARTMENT OF TRANSPORTATION
UNITED STATES COAST GUARD

MAILING ADDRESS:
U.S. COAST GUARD (G-CC/1
WASHINGTON, D.C. 20593
PHONE: 202-426-4280

1982 JUL -5 AM 10:00

1 JUL 1982

The Honorable Carl Levin
United States Senate
Washington, D.C. 20510

Dear Senator Levin:

Your letter of May 25, 1982 concerned the vessel LA JOLIE, which is owned by one of your constituents, Mr. Hugh Lewis. The vessel was at one time owned by a Canadian citizen. Coast Guard officials have [illegible] fact prohibits documentation of the vessel.

The fact that the vessel was owned by a Canadian does not preclude its documentation under United States law. However, any certificate of documentation issued to the vessel will bear a legend prohibiting its use in the coastwise trade. This prohibition arises from the Merchant Marine Act of 1920, 46 U.S.C. 883, which provides that a vessel sold to a non-citizen forever loses coastwise trading privileges.

Since the prohibition is statutory, there are no administrative avenues for its removal. If Mr. Lewis desires to use the vessel for coastwise trade, legislation granting that privilege will be necessary.

Sincerely,

[illegible] Burns
Commander, U.S. Coast Guard
Liaison Officer
By direction of the Commandant

International Convention for Safety of Life at Sea, 1929. International Convention for Safety of Life at Sea, 1929, definition of passenger ship as one which carries more than 12 passengers, see 50 Stat.Pt. 2, 1121, particularly Art. 2(36) of such Treaty.

Library References

Shipping ⟹14, 162. C.J.S. Shipping §§ 5, 6, 175, 177.

Code of Federal Regulations

Inspection and certification requirements, see 46 CFR 176.01-1 et seq.

§ 883. Transportation of merchandise between points in United States in other than domestic-built or rebuilt and documented vessels

No merchandise shall be transported by water, or by land and water, on penalty of forfeiture thereof, between points in the United States, including Districts, Territories, and possessions thereof embraced within the coastwise laws, either directly or via a foreign port, or for any part of the transportation, in any other vessel than a vessel built in and documented under the laws of the United States and owned by persons who are citizens of the United States, or vessels to which the privilege of engaging in the coastwise trade is extended by section 18 or 808 of this title: *Provided*, ~~That no vessel having at any time acquired the lawful right to engage in the coastwise trade, either by virtue of having been built in, or documented under the laws of the United States, and later sold foreign in whole or in part, or placed under foreign registry, shall hereafter acquire the right to engage in the coastwise trade:~~ *Provided further*, That no vessel of more than five hundred gross tons which has acquired the lawful right to engage in the coastwise trade, by virtue of having been built in or documented under the laws of the United States, and which has later been rebuilt, shall have the right thereafter to engage in the coastwise trade, unless the entire rebuilding, including the construction of any major components of the hull or superstructure of the vessel, is effected within the United States, its Territories (not including trust territories), or its possessions: *Provided further*, That this section shall not apply to merchandise transported between points within the continental United States, including Alaska, over through routes heretofore or hereafter recognized by the Interstate Commerce Commission for which routes rate tariffs have been or shall hereafter be filed with said Commission when such routes are in part over Canadian rail lines and their own or other connecting water facilities: *Provided further*, That this section shall not become effective upon the Yukon River until the Alaska Railroad shall be completed and the Secretary of Commerce shall find that proper facilities will be furnished for transportation by persons citizens of the United States for properly handling the traffic: *Provided further*, That this section shall not apply to the

8200 Fox Bay Drive
Union Lake, MI 48085

(313) 698-2977

May 25, 1983

Mr. Robert Carr
91 North Saginaw
Pontiac, MI 48058

Dear Mr. Carr:

I have been working with Senator Carl Levin's office regarding a private bill for documentation of my Michigan Charter fishing boat.

The Senate House Bill S-1015, that Mr. Levin is sponsoring, is for the boat La Jolie.

The boat was built in 1979 in Florida by Sea Ray, Inc. which has several plants throughout the U.S.A. I purchased the boat from McMechen Sea Ray in Sterling Heights, Michigan on May 26, 1981.

The first owner, a Mr. George Dauphinais, purchased the boat from the above dealer when it was new.

Mr. Dauphinais is a Canadian citizen who has lived in the U.S. and has worked at General Motors for more than twenty-five years.

I purchased the boat for use orginally as a pleasure craft for myself and my family. Then, on May 20, 1982, I took the exam for a Coast Guard license and received such.

I then proceeded to have the boat inspected by the D.N.R. of Michigan. The boat was passed by the D.N.R. Marine Safety Division. I was informed by the D.N.R. inspector that the boat was ready to be used as a charter boat in the state of Michigan. However, he thought because of the size of the boat, the Coast Guard would require the boat to be documented.

I contacted the Detroit Coast Guard Documentation officer, a Mr. Mathews. He agreed that the boat had to be documented. We scheduled a date for his inspection of the boat at the boat's home port, Oscoda, Michigan.

The inspection was done and forms were given to me to have filled out by the manufacturer and the previous owners. Mr. Mathews said that sometimes getting these papers signed was a problem, especially by the former private owners.

I told him that this would not be a problem because there was only one private owner prior to me. Throughout our discussion that morning, he asked my knowledge about prior ownership of the boat. I informed him of Mr. Dauphinais and that I thought he may be a Canadian citizen, living and working in the U.S. Mr. Mathews said this would not be a problem because the boat was built and sold in the U.S. and registered in Michigan.

I then proceeded to have all the forms filled out and notorized. I took these forms to Mr. Mathew's office in Detroit.

Mr. Mathews, upon receiving this data, told me the boat could not be documented for the Commericial Inter-Coastal Trade because of being formerly owned by an alien. He called someone in Washington, D.C. who heads up documentation and they confirmed this.

I was told that the only thing to do was to sell the boat or get a private bill passed. As you can well imagine, I was dumbfounded to say the least.

I then took it upon myself to call the Coast Guard Documentation people at stations; Toledo, Cleveland, and St. Ignace. I talked to the commander at each station and they informed me that the boat should be documented being that it was U.S. built and had never been registered outside of the state of Michigan. They said that documentation should be no problem, that Detroit was wrong. They suggested that I contact Detroit and review.

This was done that very day and Detroit still refused the paperwork. I then contacted Mr. Levin's office and proceeded to where we are now.

I had to leave my work of twenty-two years in 1979 due to a heart attack. This boat, and its use for commercial fishing, is a very big part of income for my family.

I would appreciate your support of Mr. Levin's bill S-1015.

When I purchased the boat I had never heard of the Jones Act, which is the law pertaining to alien owned watercraft. The use that I desire for my boat, which is a Michigan Charter Boat, I'm sure was never considered when the Jones Act was passed.

I know that this has been a long, and probably confusing issue, but I hope you understand the problem. We have over $45,000 invested in boat and equiptment and cannot operate because of a law that is outdated and really doesn't pertain to this situation.

I thank you for your consideration and if I can give any more information regarding this issue, please do not hesitate to call.

Say Yes to Michigan,

Hugh Lewis

Hugh Lewis

(10/27/83)

FACT SHEET

S. 1015 -- Documentation of the LA JOLIE in the coastwise trade

S. 1015, passed by the Senate on August 4, 1983, will permit a U.S.-built vessel that has a defect in the chain of title to engage in the coastwise trade.

The LA JOLIE (Michigan registration number MC 2780 LB), a vessel of 5 gross tons and 30 feet in length; was built by Sea Ray, Inc. of Florida in 1979; is presently owned by Hugh Lewis of Union Lake, Michign; is registered as a pleasure boat; and is authorized to operate as a charter boat by the State of Michigan. The present owner would like to use the vessel for charter and commercial fishing.

The vessel cannot be used in our domestic commerce because the vessel had at one time been sold to a Canadian citizen. Accordingly, pursuant to section 27 of the Merchant Marine Act, 1920, as amended (46 App. U.S.C. 883), the vessel lost its coastwise trading privileges.

Since the loss of coastwise trading privileges is a matter of law, these privileges can only be restored by private legislation such as S. 1015. A companion bill, H.R. 3672, has been introduced by the Honorable Bob Carr.

S. 1689 -- Documentation of the ENDLESS SUMMER in the coastwise trade

S. 1689, passed by the Senate on August 4, 1983, will permit a U.S.-built vessel that has a defect in her chain of title to engage in the coastwise trade.

The ENDLESS SUMMER, official number 296259, a vessel of 45 gross tons and 57 feet in length; was built at Thomaston, Maine in 1964; is owned by the Commonwealth of Virginia; and is documented as a pleasure vessel. She was seized in Gloucester County, Virginia waters by agents of the Coast Guard, the Federal Drug Enforcement Administration, and the Virginia State Police. At the time of seizure, the unoccupied vessel was loaded with approximately 13,700 pounds of marijuana. Federal authorities, after having had custody of the vessel for about six weeks, transferred custody to the Commonwealth of Virginia for sale or other disposition.

The vessel was eventually sold at public auction on March 16, 1983 for $67,000. Subsequently, it was discovered that the Commonwealth could not convey the vessel with a clear and unrestricted title, and the sale was rescinded by court order. Since the vessel had once been owned by a British entity, it lost its coastwise trading privileges pursuant to section 27 of the Merchant Marine Act, 1920, as amended (46 App. U.S.C. 883).

Since the loss of coastwise trading privileges is a matter of law, these privileges can only be restored by private legislation like S. 1186. A companion bill, H.R. 3854, has been introduced by the Honorable Herbert H. Bateman.

S. 1186 -- Documentation of DAD'S PAD in the coastwise trade

S. 1186, passed by the Senate on August 4, 1983, will permit a U.S.-built vessel that has a defect in her chain of title to engage in the coastwise trade.

DAD'S PAD, official number 549526 (ex-NIRVANA), a vessel of 40 gross tons and 53.6 feet in length, was built in High Point, North Carolina in 1972; is presently owned by John C. Sciacca of Outward Bound Fisheries, Inc. of Plaistow, New Hampshire; and is documented as a pleasure vessel. The present owner would like to use the vessel for commercial fishing and chartering.

The vessel cannot be used in our domestic commerce because the vessel had at one time been sold to an alien of Canadian and Jamaican citizenship. Accordingly, pursuant to section 27 of the Merchant Marine Act, 1920, as amended (46 App. U.S.C. 883), the vessel lost her coastwise trading privileges.

Since the loss of coastwise trading privileges is a matter of law, these privileges can only be restored by private legislation such as S. 1186. No companion bill has been introduced in the House.

[Whereupon, at 2:59 p.m., the subcommittee recessed, to reconvene immediately thereafter for markup.]

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