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ABSTRACT

This paper reviews the interdependence of U.S. flag shipping and the American economy. A discussion of U.S. flag shipping and its impact upon the U.S. economy, the background of the industry, the reasons for the demise of the fleet, and some possible untested solutions are included. The author assumes the reader has a basic knowledge of U.S. flag shipping. The paper was written to meet an Industrial College of the Armed Forces writing requirement.

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U.S. Liner Fleet and the Economy

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U.S. Army

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DISCLAIMER

INTRODUCTION

U.S. flag ships fulfill important functions in support of our economy and security; and therefore, the national interest. It is through foreign trade that the nation maintains its industrial posture; and through shipping, the industrial power of the U.S. is sustained. The variety of goods carried by ships in U.S. foreign trade is numbered in the tens of thousands, the volume in the tens of millions of tons, and the value in the hundreds of billions of dollars. Our nation has the highest level of absolute productivity of any nation in the world;(1) and in 1991, the U.S. regained the title of world's largest exporter with exports doubling in the last six years.(2) In 1992, less than 20 percent of our liner trade moved via U.S. ships. If tankers and bulk ships are added, this number drops to five percent.(3) The relatively small share of the nation's foreign trade carried by its merchant fleet is due to a variety of reasons.

Shipping as a catalyst for economic development is not a new concept. Adam Smith, the father of modern economics, described shipping as one of the principal steps to economic development.(4) He argues in Chapter 3 of The Wealth of Nations that the central economic force in a capitalist society is the division of labor; and the extent to which this is practiced depends upon the size of the market. Larger markets mean more efficient and more specialized product-producers. Economic development then goes hand in hand with sea trade for sound economic reasons. Smith explains, "...therefore, are the advantages of water carriage, it is natural that the first improvements of art and industry should be made where this conveniently opens the whole world to a market for the produce of every sort of labor."(5)

If the interdependence of U.S. flag shipping and the American economy is important, why has the fleet declined? It is this question that I will try to answer in this paper. To understand the answer, we must look at the impact of U.S. flag shipping on the economy, the background of the industry, the demise of the fleet, and some possible untested solutions.

IMPACT OF U.S. FLAG SHIPPING UPON THE ECONOMY

The total spectrum of the United States economy including agriculture, manufacturing, mining, numerous service industries, the government, and the ultimate consumer are dependent upon shipping to serve their needs. The farmer looks to export markets, just as the miners of coal and minerals. Industry looks to import raw and semi-finished commodities to produce finished goods for shipment to both domestic and foreign markets. People in banking, insurance, domestic transportation, port operations, investing, and a multitude of other services are indispensable in the movement of products to and from overseas. Ships serve the government in supplying overseas bases and to stockpile essential commodities such as oil and strategic minerals in the national interest. All of us -- farmers, industrialists, importers, exporters, financiers and the government -- have a stake in U.S. shipping.

A dated study prepared by the Port Authority of New York and New Jersey in 1978, indicated the extent to which U.S. flag shipping contributes to our economy. The findings are impressive. U.S. merchant fleet operations:

- accounted for revenue $8.3 billion;
- created and maintained 244,900 jobs;
- generated personal income of $2.4 billion and corporate incomes of $800 million;
- contributed $500 million to federal taxes;
- contributed $300 million to state and local taxes;
- produced for each $1 of sales, generated a $1.80 in sales throughout the economy.

No other recent study showing the detail of the 1978 study was found. However, Department of Commerce figures show revenue generated from international ocean transport for 1990 was $5 billion.(6) Although revenue dropped from 1978 to 1990 (just as the other measures from the 1978 study probably have), U.S. shipping still has a large positive impact upon the U.S. economy.

The U.S. flag fleet offers shipping services to and from the five major foreign trade areas of the world. Even though participation in these is minimal, to the extent that U.S. carriers operate, they increase international competition which benefits American shippers. They act as a stabilizing force on freight rates and ensure continuity of shipping services. Scheduled shipping is generally confined to a specific route; the operators' sales approach, space, and services support the ability of U.S. flag carriers to be a stabilizing factor.(7)

Just the opposite can be said for the small number of U.S. tanker and bulk carriers. Those operating in foreign trade have little effect, given the large number and tonnage of foreign flag ships available to shippers. Bulk carriers in the non-liner trades operate worldwide wherever cargo is available. Therefore, cargo supply and available shipping influence bulk freight rates.

During the last 30 years, a notable increase occurred in the merchant fleets of developing nations and in the size of state-owned or controlled shipping. Nationalism is obviously one reason for the growth. However, this is secondary to access to hard currencies and foreign exchange for shipping services.(8) Highly subsidized, state-controlled fleets offer lower freight rates to gain foreign currency. They also tend to support cargo-sharing between their countries and the trading partners. The presence of U.S. flag ships on overseas trade routes gives the U.S. some negotiating leverage in opposing the reservation of cargoes for these state-controlled flag ships.(9)

Competition between foreign ship operators is intense. They see expansion as a means to obtain more foreign exchange earnings and a larger share of the world's economic output. Governments of the Third World countries grant financial aid and other subsidies, such as cargo prefe ence, to their maritime industries, as part of their political and economic policies. The nations of Chile, Algeria, and Korea are but three of many that subscribe to this tactic.(10) But even with all its present inadequacies and the conditions under which it must operate, the U.S. flag fleet does provide a diminishing safeguard against foreign flag shipping discrimination of American shippers.

INDUSTRY BACKGROUND

The U.S. Merchant Marine was born and grew out of necessity. In the early years, America was home to a small population, but it quickly outgrew the ability to consume all domestic, agricultural and industrial production. Trade was essential for economic development. More profit could be gained by ensuring a portion of that trade was carried on U.S. built and crewed ships.

By 1790, Congress passed protectionist legislation toward promotion of U.S. shipping, trade, and the development of a merchant marine industry while excluding use of foreign made vessels. A year earlier, Congress passed the first tariff act. This act reduced custom duties ten percent for goods imported via U.S. shipping and imposed a tonnage tax on foreign vessels.(11) These laws formed the basic principle which has characterized U.S. maritime programs ever since -- U.S. flag shipping will have privileges over competitive foreign flag shipping.

Government support, excellent shipbuilding techniques, and efficient ship company operations made the early to mid 1800's a great success for U.S. shipping. Over 90 percent of all United States imports and exports moved aboard American vessels. Direct federal support began in the late 1840's when legislation was passed to award ocean mail contracts to U.S. flag shipping, and interest free loans for ship construction. However, the American Merchant Marine's great success was short lived. Decline in the industry started just prior to the Civil War and continued into the early 1900's. Two major factors for this decline are evident:

-- U.S. ship builders were slow to convert to production of steam powered iron ships; and

-- U.S. sail powered ships were slow compared to European, and especially British steam powered ships.(12)

Despite substantial U.S. government intervention, the American merchant marine has never come close to regaining its pre-Civil War competitive stature.

By the Civil War's end, the U.S. had become an industrial power. Immigration and an improving mortality rate caused the population to more than double in the latter half of the 19th century.(13) A large and increasingly affluent society consumed most of the country's production. New industries abounded, and building railroads, steel mills, and a national infrastructure pushed the health of the merchant marine industry to a low national priority. U.S. imports and exports carried aboard U.S.

flag ships fell from 90 percent in the 1850s to nine per cent by 1900.(14) In 1904 Congress tried to help the merchant marine by mandating that all U.S. military cargo moving to a foreign destination would move by American flag shipping. But this was not much help in stemming the U.S. fleet's decline.

At the start of World War I, U.S. shipowners were facing Sherman Anti-Trust Act violations. Excess shipping had been around for over a decade. Low shipping rates and the fear of rates going lower caused major liner fleet companies to form associations, known as shipping conferences. They regulated rates and sailing schedules, shared cargo, and developed tactics to reduce non-conference competitors' cargo shipping opportunity. The 1890 Sherman Anti-Trust Act stated, "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize any part or trade or commerce among the several states, or with foreign governments shall be deemed guilty of a misdemeanor."(15) In 1914, the House of Representatives investigated the conferences and found them useful. They weren't declared illegal, but brought under government control. The Shipping Act of 1916 legalized conferences and established a five-member shipping board.

World War I was good for the U.S. flag shipping industry. A record number of cargo ships were constructed to support the war effort. Under the Shipping Board, the Emergency Fleet Corporation had managed a large fleet of government-owned vessels. The allied victory gave the government an opportunity to improve private liner company competitiveness. The Merchant Marine Act of 1920 authorized the Emergency Fleet Corporation to sell the modern ships. The Act also provided insurance assistance and construction subsidies.(16)

Over-capacity on international trade routes, increasing operating costs, and a European and U.S. depression kept the U.S. Merchant Marine unprofitable. Congress tried to improve profitability by passing subsidy acts in 1925 and 1928, which did not help. In the midst of the Great Depression, Congress passed the Merchant Marine Act of 1936. The act framed the American merchant marine and for the first time defined U.S. maritime policy as:

- -- sufficient to carry domestic water-borne commerce
- -- sufficient to carry a substantial portion of its water-borne foreign commerce
- -- sufficient to provide shipping service on the essential trade routes, and for maintaining the flow of domestic and foreign water-borne commerce at all times
- -- capable of serving as a naval or military auxiliary in time of war or national emergency
- -- owned and operated under the U.S. flag by U.S. citizens

-- serviced by efficient American-owned facilities for construction, repair, and insurance

The act provided operating and construction subsidies, and dropped the earlier mail contracts. These subsidies were to off-set the higher U.S. operating costs as compared to foreign ship operators; and offset higher U.S. construction costs as compared with foreign shipbuilders. U.S. flag ship owners thereby could make a profit under the conference rate structure.

The Merchant Marine Act of 1936 supplemented the Merchant Marine Act of 1916. This act did not provide support for the bulk carriers and only provided small subsidies for tramp shipping. The act was intended to prop up the liner trade fleet just as the mail subsidies had under the 1916 Act.

The Act of 1936 changed a number of administrative responsibilities. In 1933, the redesignated Shipping Board, the U.S. Shipping Board Bureau, moved under the jurisdiction of the Department of Commerce. The Merchant Marine Act of 1936 replaced the U.S. Shipping Board Bureau with an independent U.S. Maritime Commission. The Commission assumed all the responsibilities of promotion, regulation, and subsidy administration from the Merchant Marine Act of 1916 through the Merchant Marine Act of 1936.(17)

As had occurred in World War I, shipyards flourished from 1938 to 1946. Production was staggering. In the peak year 1944, U.S. yards launched some 1463 ships or 12.4 million tons of shipping.(18) Some 5600 merchant ships were built to support World War II. In 1946 about 130 U.S. shipping companies carried 60 percent of the world's liner trade.(19) But at the close of the war, the Merchant Marine again, just as after WWI, went into decline.

The Merchant Marine Act of 1946 opened two years of bidding for the excess ships. This altruistic act effectively rebuilt the merchant marines of Europe and Japan. In two years, 1946-48, the U.S. sold approximately1000 ships into foreign registry at 41 percent of their building costs.(20/21) With their lower operating costs, the Europeans, and later the Japanese, began to regain their traditional markets. This forced American shipowners to rely more heavily on government relief cargoes. By 1954 the foreign aid shipments of surplus from both WWII and the Korean conflict dwindled.

Excess ships that had not been sold under the Act of 1946 were sold under provisions of the Merchant Marine Act of 1920 to continue sales. During the mid 1950's through the 1960's many ships were sold to companies registered in Panama, Liberia, or Honduras. These "flag of convenience" countries permit easy registry of ships at low or no taxes, low labor costs, and low repair costs.

Dissatisfaction with the Maritime Commission's dual regulatory and administrative roles result in more changes in 1950. A Federal Maritime Board took over regulatory responsibilities, while the administrative activities were given to the new Maritime Administration in the Commerce Department. The same person acted as chairman the Maritime Board and the head of the Maritime Administration; the separation of responsibilities was in fact, theoretical. In 1961, the Federal Maritime Board was replaced by two agencies. Despite the efforts of the new Maritime Subsidy Board and the Federal Maritime Commission, the U.S. flag merchant marine continued to decline. The high cost, and therefore, less competitive U.S. liner fleet lost more market share as highly subsidized, low cost foreign flag carriers took over the movement of U.S. imports and exports.

Under another arrangement to help American shipowners, Congress passed the Ship Exchange Act of 1960. The Act authorized the Maritime Administration to exchange government-owned ships for privately-owned ships. The program essentially traded newer ships of WWII technology for prewar, older vessels. A large number of Liberty ships were traded for C3 and C4 ships. (Note: The designations for ships follows a standard pattern: type -- P, passenger; C, cargo; T, tanker, etc: length category -- 1, 2, 3, etc.) This attempt to modernize the aging merchant fleet, although noteworthy, had little effect in combating foreign flag shipping competitiveness. U.S. trade carried by U.S. flag ships fell from a high of 60 percent during WWII to a low of 6.5 percent by 1967.(22)

By 1969, demise of the U.S. merchant fleet seemed eminent. The cost of building ships in the United States was 50 percent greater than in foreign yards. Construction subsidies had not kept pace with increasing construction costs. The result was over 75 percent of the U.S. liner fleet was more than two decades old. President Nixon, upon recommendations from the Maritime Advisory Council and the Interagency Maritime Task Force, sent Congress a bill to increase vessel construction. Previous legislation had authorized ten subsidized ships per year. Nixon's proposal was for 30 ships per year. Congress authorized construction of 19 vessels under Nixon's request, and by amending the Merchant Marine Act of 1936 established a ten-year subsidy program for construction of 300 vessels.(23) The amendments became known as the Merchant Marine Act of 1970. The act expanded the subsidy program in two ways:

-- construction and operating subsidies were extended to bulk carriers

-- ship-builders were permitted to apply for subsidies.

Much of the failure of the Nixon administration's 1970 plan was based upon the world economic situation. The Organization of Petroleum Exporting Countries increased oil prices and reduced production. There were excess tankers moored worldwide. Of the 83 ships built under the 1970 Act, 30 were tankers delivered during this economic low point.(24) Many nations that struggled to keep their economies from collapsing restricted trade, which reduced liner fleet cargoes. Although imports and exports moving by U.S. flag fell to below 5 percent, over 25 percent of our high value cargo moved by U.S. flag vessel. This one bright spot was a direct result of improved service through technology and smart management.

Through the late 1970's and 80's, vessel aging remained a problem. The privately owned U.S. flag fleet averaged 23 years in age in 1983, compared to other industrial nations fleets of just 13 years in age.(25) The Omnibus Maritime Regulatory Reform, Revitalization, and Reorganization Act of 1979 was to restore the U.S. merchant marine by reducing government control. It actually did little to help the industry and represented more the political competition within the industry.

During the 1980's, actions were taken that had a profound impact upon the U.S. merchant marine. First, in 1981, direct construction subsidies authorized under the Merchant Marine Act of 1936 were eliminated after payments to shipyards of some $3.8 billion over the last 40 years.(26) In 1982, Congress permitted overseas construction of U.S. flag ships, and authorized them to qualify for operating subsidies. For the first time since WWI, and only through 1984, shipyards were separated from the U.S. flag liner fleet's survival. Limited operating subsidy funds could go to qualifying U.S. operators of foreign-built U.S.flag shipping. Congress had made a choice and sent a message: in terms of limited federal funding, shipping was considered a higher priority than shipbuilding.

Secondly, the Shipping Act of 1984 liberalized the Shipping Act of 1916. The new act defined Congressional intent for antitrust and regulation of the maritime industry. The role of the Federal Maritime Commission was clarified and its powers were defined and increased. The role of the Justice Department in maritime affairs was restricted. The Commission was given authority to levy penalties against U.S. and foreign carriers; suspend certain tariffs for up to 12 months with Presidential consent; and regulate intermodal cargoes.(27)

Shippers benefited most from this act. Carriers and shippers could now negotiate service contracts -- special rates and services for minimum tonnage over a specified time. This independent action outside the conference, usually deviating from the published conference rate, was designed to enhance competition; and that it did. Another provision of this act required carriers to negotiate with shippers' associations; something individual carriers and conferences had previously refused to do.(28)

U.S. flag operators benefited, too. The litigation process under the Federal Maritime Commission was streamlined. Conference agreements and service contracts became effective 45 days after filing with the Commission. Loyalty contracts and rebates were banned; however, this could be petitioned to the Justice

Department for approval. The intended effect of the Shipping Act of 1984 on intermodal rates was to provide lower costs and more responsive service, allow a larger range of U.S. cargoes to benefit from the obvious advantages of intermodal transport, and thereby, further shield the U.S. flag fleet from unfair treatment by foreign governments or ship lines.(29) However, the 1984 act failed to address the systemic problems of the U.S. merchant marine industry. Competitive imbalances still exist between foreign and U.S. flag operators.

In hopes of reducing the imbalances that still existed after the 1984 act, Congress passed and the President signed the Omnibus Trade and Competitiveness Act in August 1988. Title X of this act is known as the Foreign Shipping Practices Act of 1988. Under this act, the Federal Maritime Commission (FMC) was directed to look at adverse conditions affecting U.S. flag carriers in foreign waters while on foreign oceanborne trade. This legislation was the basis for two actions taken by the FMC last year. The People's Republic of China was found in violation of the 1988 act for restricting port services, levying excessive port charges, limiting U.S. carrier activities, and restricting inland services. In a second incident, Japan was found imposing fees, called Harbor Management Funds, on U.S. carriers for the cargo offloaded at Japanese ports. Both China and Japan have committed to stopping their respective practices: China is still being monitored and Japan stopped requiring the fund payment in March 1992.(30)

The Act of 1988 recognizes the inequities of international shipping. It represents the type of legislation needed to support the U.S. fleet. However, much needs to be done to insure its viability in the future.

CAUSES FOR THE DECLINE

Many people and interests share the blame for the decline and pending demise of the U.S. liner fleet. Fault can be found in government, the industry, and shippers.

There are many disagreements over the role and effectiveness of federal regulation and subsidies to the U.S. merchant fleet. However, one fact is clear: the objective of maintaining a viable and sufficient merchant fleet in foreign trade was not accomplished, despite massive aid and discriminatory regulation.

The lack of coordination of federal transportation policy throughout our history, coupled with the lack of long-range planning and goal-setting, seems to provide the framework for the Merchant Marine demise. It is almost impossible to gain consensus on any policy when a decentralized administrative and legislative structure with 32 federal agencies and 12 major congressional committees is responsible for transportation policy and programs. More than half of these agencies and committees deal with transportation responsibilities for the Merchant Marine.(31)

Past legislation reflects the inadequate efforts to coordinate regulation and aid support of the maritime industry. Cargo preference costs have continued to rise, while subsidies, although disappearing, have resulted in friction with trading partners and countermeasures with trading competitors. Over the history of the U.S. Merchant Marine industry, many proposals for policy changes have made their way into law. Effective policy and regulatory changes must encourage new investment, improve management, and foster operational responsiveness to global competition. Almost all previous legislation has failed that task. The lessons are: government aid tied to government management does not work; and subsidies and cargo preference laws are effective only when they provide the framework for eventual unaided commercial shipping.

The U.S. flag share of U.S. foreign trade has continued to drop to low levels, although there has been a slowing of this decline in recent years. The ability to control factors affecting the U.S. flag fleet under existing legislation is marginal; and our effective competition in the world market has become more and more difficult. The sole exception is containerized liner operations. They are able to maintain a respectable share of U.S. carried trade, while U.S. shipping in general carries a negligible proportion. Interestingly, Sea-Land, the most successful U.S. container liner company refuses to accept U.S. government subsidies.

Most of the problems faced by the American merchant marine are based on the single issue of costs, and the inability to offset those costs through increased productivity and innovation.(32)

Technology transfer has become mobile and tends to reduce innovation. Containerization is a good example. As soon as U.S. companies demonstrated the practical use of containers, European and Far East shippers adopted them, too. Productivity has become the hallmark of the U.S. fleet; in fact, it is the key to their survival. But the industry must contend with a number of almost insurmountable factors.

In 1936, American seamen earned slightly less than factory workers, but during WWII, sea-going wages jumped 50 percent above those of factory workers. By the late 1960's, that difference was 200 percent. Required U.S flag ship manning dropped significantly less than foreign ship manning in spite of modern innovations in ship machinery, navigation, and communication equipment. It is estimated that U.S. ship crews cost 3 times more than that of a comparable foreign flag ship.(33) The crew of a U.S flag ship can easily account for more than half of a vessel's total operating costs.(34)

How did this happen? Simply, by the militant actions of the labor unions (or so my readings lead me to believe). They have demanded exorbitantly high wages, superior working conditions, inflated ship manning and reduced work schedules with no improvement in productivity. The unions concentrated on short-term gains over the future well-being of their membership; all at the expense of the industry's long-term viability. In 1946, the maritime unions forced the overturning of the pay formula established by the Wage Stabilization Board to gain a 72.5 percent pay increase.(35) In 1948, West Coast shipping lines were forced to accept the use of hiring halls to avoid strikes. Just two years later, unions forced the same shipping lines to pay hiring hall employees the equivalent wages of a seamen.

Longshoring costs have contributed to the U.S. flag fleet's demise too. Theft and racketeering activities have long been a part of port operations. It is no surprise that the shipping industry adopted the relatively theft-proof and easily handled container in the 1960s. The longshore unions extorted a huge amount of money for this productive innovation. Although only seven workers are needed to loan and unload containers, East coast shippers had to hire a full gang of 21 men. The Gulf and West Coasts had similar contractual requirements.

U.S. ship owners have little ability to stand up to the unions. Collective bargaining in the industry has given way to compulsory arbitration. The ship owners have everything to lose, while the unions risk nothing in a strike. Shipowners are not unified in dealing with the unions, and financially unable to withstand any shutdown.

The average age of the American merchant seamen is now 50 years.(36) He tends to be uneducated and possess few skills marketable ashore. The industry itself caused this labor crisis: the attitude of the unions toward ship owners, the indifference of the ship owners toward labor, and working conditions have all contributed. Rumors of lax licensing practices by responsible agencies adds to the present problems. Recently and far too late, labor and management have started to work more closely. They have realized that the existence of the industry is at stake.

Shippers too have participated in the demise of the U.S. liner fleet; although most of the 100,000 or more American exporting companies would probably deny it. The use of transportation, and especially water transport, to reduce total distribution costs is well established. But the concept of a transportation strategy to promote product demand and to maintain competitive advantage is rarely talked about or considered. Transportation, especially sea transport, has been considered costly and not profit-making.

The need for a U.S flag merchant marine is well established. All the great industrialized nations have their own fleets. As the world's superpower, certainly one is necessary for the United States. The reasons for the decline are well known, too; and there is more than enough blame to go around. If the status quo, according to John Lillie, head of American President Lines, means the industry's orderly liquidation; what then, is the solution?

SOLUTIONS

Any solution to a problem that has languished for most of this century requires revolutionary thinking. Therefore, by its very nature, not everyone involved will be ecstatic with any solution. This recommendation tries to address many of those areas that government and industry have been unwilling to do. The U.S. flag fleet cannot be shored up cheaply or with a single infusion of taxpayer's money. It requires commitment, investment, and compromise by all parties.

First, the government's role must change: government regulators must attack the basic causes of U.S. liner fleet's non-competitiveness. Government must encourage efficiency, reward innovation, and reduce paperwork. No recent administration has been willing to commit itself to a strong maritime policy in order to accomplish this. Most administrations have talked loudly but done little or nothing, hoping the problem would go away. The National Security Sealift Policy, published in October 1989 by the Bush Administration is representative of this traditional view. The policy is narrowly focused on sealift for national security, but mentions little of sealift for economic security. Furthermore, the policy states no goal; in my view, a major failing, as any policy should have a stated vision. This lack of a vision and weak policy throughout the history of our fleet is amplified by the regulatory agencies. In fact, they are fairly ineffective in supporting the industry. In the near-term, the Maritime Administration's (MARAD) role should be expanded from promotional to more of an industry catalyst, a leader in increasing imports and exports via U.S. flag carriers. When the subsidy program expires in 1997, MARAD should divert manpower used for program administration to fulltime industry promotion and moved to the Department of Commerce; thereby formally linking shipping to U.S. trade.

The Federal Maritime Commission (FMC) needs to expend more effort on reducing adverse conditions for the U.S. fleet under the Shipping Practices Act of 1988, and less effort regulating the U.S. carriers. Only in U.S. liner shipping does a federal agency exist whose major purpose is to police and maintain an inventory of commercial rates, and includes a government staff to police the market -- all at taxpayer expense. The amount of regulating actually done may be open to question, since administrators imposed NO penalties on subsidized vessels carrying preference cargoes throughout the 1980s (as required by law).(37) Both MARAD and FMC's roles need reevaluation and possible elimination.

Imposed vessel standards add to the disadvantages faced by U.S. flag operators. The Coast Guard has set vessel standards over and above those required by the uniform code of standards set by the International Maritime Organization. The U.S. code for construction and safety exceed international standards and need review. Where proven inadequate, international standards should be modified by U.S. code for U.S. built flag ships. Where proven adequate, the U.S. code should equal the international code. The cost burden under present regulations add to the U.S. fleet's lack of competitiveness and makes shipping less attractive for investors. If we are serious about the fate of the U.S. liner fleet, review of construction and safety standards are required.

The overall approach must be less government regulation and more promotion.

Secondly, the ocean carriers, shippers, and maritime unions have to change from adversaries to advocates. Shippers and U.S. flag carriers have traditionally had an adversarial relationship. Somehow this wasted emotion must be refocused toward advocacy of U.S. trade and fleet support. The benefits are obvious. Although shippers have built associations to gain clout against ocean carriers, they have gained little. Carrier and shipping associations have failed in any attempt to foster a transportation strategy to focus on an advocacy role. It is this concept of transportation strategy and the premise that U.S. flag shipping to foreign markets adds value to products that must gain acceptance. U.S. transport is not just a cost center for the shipper; it is a profit center for the United States. Shippers and ship owners alike must realize this point. U.S. flag carrier companies must understand that transportation services embrace more than the technical output of on-time delivery performance, but also information and intangible services, such as cooperation and responsiveness. Some U.S. ocean carriers are spearheading innovation in this area. A transportation strategy embracing more than technical outputs would help give shippers and carriers a competitive advantage in the international marketplace. As mentioned earlier, government could act as a catalyst here both through leadership and tax incentives for using U.S. flag carriers. We have markets to gain, but an industry to lose if we do not try.

Militant actions by the maritime labor unions have not helped shippers, ocean carriers, or, for that matter, labor itself. They have gained a deservingly poor reputation because of their short-sightedness. However, the unions' actions and attitudes have been changing over the last decade, the reason being the decline in jobs. Fewer ships and the advent of containerization in the 1960s, saw employment fall from 38,000 in 1970 to 12,000 by 1992.(38) This past summer in a press release endorsed by the presidents of the major maritime unions, a note of advocacy was evident.(39) Their statement was in general support of a Senate Committee appearance by then Secretary of Transportation Andrew Card when he presented 16 initiatives which, if made law, would significantly change maritime policy. The unions support for this policy is obvious; it could mean more union jobs in the years ahead. But what they do not realize is that they will be a part of the success or failure of the industry. They must be fully ready to forego wage and benefit increases for the industry to survive. They must become an industry advocate, too. No strikes during contract negotiations, and procedures for the resolution of disputes without work stoppages would be a start. Compromise and support become the primary actions instead of strikes and walkouts. Jobs and the maritime unions' very existence hang in the balance.

Third and lastly, new legislation is needed. The ship owners' complaint of antitrust laws reducing their competitiveness with foreign shipping seems valid. It is obvious that the 1984 Act took into account the interest of foreign governments and represented a compromise.(40) But now the survival of our liner trade is at stake. We must separate American liner companies from antitrust legislation and, as a first, allow U.S. flag carriers to participate in closed conferences. Closed conferences control most of the cargoes in trades not involving American ports.(41) Applying domestic laws to the international scene has always caused the United States trouble. The cliche most often heard when discussing U.S. shipping is, "the international arena is not a level playing field." Allowing U.S. carriers to participate in closed conferences would act as a forum for smoothing out inconsistent business practices. The potential gains for our ocean carriers is too great to ignore. This fact should be recognized by all and acted upon by Congress.

In January 1992, Sea-land Service Incorporated and American President Lines announced they will place most of their ships under foreign flag beginning in 1995, unless there is acceptable federal action.(42) The signal sent by this statement is twofold: 1) Two U.S. shipping companies that are fierce competitors have banned together; 2) This threat is a cry for help for their industry. It is sad that these two companies had to threaten the United States to get action, but the result was a bold move by then Secretary of Transportation, Andrew Card. In an appearance before the Senate Subcommittee on Merchant Marine of the Committee on Commerce, Science, and Transportation, he outlined 16 initiatives to revitalize the Merchant Marine. Basically the new policy would:

-- allow U.S. flag operators to acquire ships on the world market and carry any cargo, including government cargo immediately;

-- eliminate the 50 percent customs penalty on U.S. ship repairs done overseas;

-- eliminate design and safety standards that are outdated, and which are excess to international shipping standards;

-- provide for reemployment rights during national emergencies;

-- ease U.S. citizen ownership requirements of U.S. ships to encourage foreign investment;

-- fund research and development to increase productivity in ship building and operations;

-- and increase effort toward foreign governments to stop excessive shipping and shipbuilding subsidies.

This legislative package has temporarily stalled because of the change in administrations from President Bush to Clinton. The initiative was endorsed by U.S. carriers, labor, and many in congress, but some issues are still being worked out.(43) If the final law looks like the original 16 initiatives outlined by Secretary Card, the industry may survive. However, that remains to be seen. In my estimation, the proposal does not go far enough. The link between shipbuilding and ship operations remains a contestable point. Historically, through the legislative process, bills tend to get "watered down" by the time consensus is reached. This bill will probably suffer a like fate or worse.

The reduction and outright elimination of restrictions always concerns those that have benefited from them. It will be hard for some U.S. flag carriers and the unions, who gain from protected trade at the public's expense, to endorse more competition or share their previous protected status. We can only hope that major interest groups take a long range view of the health of the industry over short range profits. If they do not, the demise of the industry is imminent. The foreign flagging of the U.S. fleet will be the first real sign.

Our U.S. flag fleet is a multi-billion dollar industry that represents an element of economic and trade security. No foreign government's fleet can insure that security. In a global economy, where trans-national interdependence is the norm, we must have a degree of control over imports and exports. It is very important for our national leadership, shippers, and citizenry to understand the fact that other nations view a commercial fleet as an economic weapon. To be held hostage economically for the lack of U.S.

shipping foretells a dismal future. In 1776, Adam Smith described shipping as one of the principal steps to economic development. For the United States, the loss of its fleet could mean an economic step backwards...a step that could end in a fall.

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