

SUTR

||

SENATE COMMITTEE REPORT

FURTHER:

3/13/87

DATE TURNED INTO OFFICE 1/22/88

Mr. President:

FINANCE Committee considered SJR 11

Urging repeal of certain portions of the Merchant Marine Act of 1920.

and recommended:

replace with CS FOR SJR 11 (Finance)) same title
 or adopt _____ CS FOR _____) new title
 attached amendment(s) and

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

letter of intent adopted _____

Committee attached or adopted fiscal note(s)
 new updated or previous
 zero fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Signature]
[Signature]
[Signature]

[Signature] do pass
Chairman signature and recommendation

Committee Backup Attached

FISCAL NOTE

REQUEST:

Revision Date: 1/19/88
Title: Repeal the Jones Act
Sponsor: Senator Coghill
Requestor: _____

Agency Affected: Revenue
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	\$35 to \$100 million					

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: (Attach a separate page if necessary)

The above numbers reflect the savings in transportation costs and thus the gain to the state.

THE ACTUAL AMOUNT DEPENDS ON VARIATIONS IN THE PROPOSALS AND MARKET REVENUE.

Prepared By: Vincent D. Wright Phone: 465-2173
Division: Commissioner's Office/Research Date: January 19, 1988

Approved by Commissioner: Hugh Malone Date: January 19, 1988
Agency: Department of Revenue

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Original sponsors: Coghill, Kerttula,
Faiks and Jones

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE JOINT RESOLUTION NO. 11 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 Urging the repeal of certain portions of
6 the Merchant Marine Act of 1920.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 WHEREAS the Merchant Marine Act of 1920, commonly known as the Jones
9 Act, requires that vessels carrying goods between United States ports be
10 built and registered in the United States and owned and crewed by United
11 States nationals; and

12 WHEREAS the Act gives domestic-built vessels protection from free
13 market competition by foreign ships that have much lower construction and
14 crew costs; and

15 WHEREAS, as is typical of protected markets, higher freight rates may
16 follow in the United States coastwise trade; and

17 WHEREAS the Act was originally passed to build a sheltered environment
18 for United States vessels to create domestic prosperity and wartime secur-
19 ity, yet the United States merchant fleet has dropped by half since World
20 War II while the world tonnage has gone up sixfold; and

21 WHEREAS Alaska, Hawaii, and the noncontiguous territories of the
22 United States bear the cost of that sheltered environment even though it
23 was created to benefit all Americans; and

24 WHEREAS the Alaska trade now supports nearly one-third of the entire
25 Jones Act fleet; and

26 WHEREAS the effect of the Act is to reduce Alaska's state oil revenue,
27 to raise the cost of all domestic freight coming to Alaska, and to discour-
28 age the development of new oil fields and mineral deposits in Alaska; and

29 WHEREAS the direct cost to Alaska's treasury due to the Act has been

1/25/88
AS SJR 11 (Fin)
Adopted

011960

1 estimated at \$63 - \$176 million yearly and the direct cost to the federal
2 treasury has been estimated at \$135 - \$378 million yearly;

3 BE IT RESOLVED by the Alaska State Legislature that the United States
4 Congress is urged in the national interest to repeal those portions of
5 46 U.S.C. 883 that adversely affect the coastwise trade by prohibiting the
6 use of foreign-built vessels; and be it

7 FURTHER RESOLVED that until the Act is so amended, the United States
8 Congress is urged to allow foreign-built ships into the Jones Act trade if
9 they meet American safety standards, are registered in the United States,
10 and are owned and crewed by United States nationals.

11 COPIES of this resolution shall be sent to the Honorable Ronald
12 Reagan, President of the United States; the Honorable James H. Burnley IV,
13 Secretary of Transportation; the Honorable Ted Stevens and the Honorable
14 Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Repre-
15 sentative, members of the Alaska delegation in Congress.
16
17
18
19
20
21
22
23
24
25
26
27
28
29

A/B

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST _____ Bill Version: SJR/11
 _____ Publish Date: _____
 Revision Date: _____ Agency Affected: Revenue
 Title: Repeal the Jones Act BRU: _____
 Sponsor: Senator Coghill Components: _____
 Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	40 to 62 million				

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

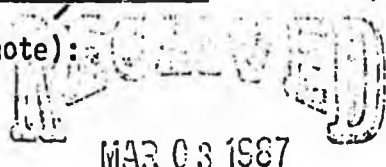
ANALYSIS: Attach a separate page if necessary

See attached.

Prepared By: Vincent Wright Phone: 465-2173
 Division: Research/Revenue Date: 2/27/87
 Approved by Commissioner: Hugh Malone Date: 2/27/87
 Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary



STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST _____

Bill Version: SJR/11

Publish Date: _____

Revision Date: _____

Agency Affected: Revenue

Title: Repeal the Jones Act

BRU: _____

Sponsor: Senator Coghill

Components: _____

Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	*	*	*	*	*

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary

* Analysis attached

Prepared By: Vincent Wright

Phone: 465-2173

Division: Research/Revenue

Date: 2/18/87

Approved by Commissioner: Hugh Malone *Hugh Malone*

Date: 2/18/87

Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

STATE OF ALASKA

Department of Revenue

Petroleum Research Section

January 27, 1987

To: Vincent D. Wright, Chief of Research

From: Charles Logsdon, Petroleum Economist



Subject: Reevaluation of the Revenue Impact of Removing the Ban
on ANS Exports

Per your request I have reevaluated the revenue potential of allowing the export of ANS crude oil by looking at the impact on severance tax and royalty income. This represents a modest revision of the analysis done July 18, 1986 to reflect more current information on transportation costs and market deliveries. The key assumptions, method, and estimates are as follows.

Assumptions:

1. Alaska would sell 100,000 bbl/day of its royalty oil to Far East purchasers. Current production of ANS is 1,800,000 bbl/day of which Alaska's royalty share is roughly 225,000 bbl/day. Alaska is currently committed to sales of roughly 107,000 bbl/day royalty crude oil on long term contract. This leaves approximately 118,000 bbl/day available for other disposal.
2. Major Alaska producers would sell an additional 200,000 bbl/day to Far East purchasers. This is an arbitrary assumption which may be too high or too low.
3. The price paid by Far East purchasers would not be substantially different than what would have been received if the oil were sold on the U.S. Gulf.

4. The transportation cost savings due to avoiding the U.S. Gulf haul would be roughly \$1.90/bbl if shipped in Jones Act tankers or \$2.95/bbl if shipped in foreign tankers.
5. All exports are assumed to be barrels diverted from the U.S. Gulf and all the cost savings are assumed to translate directly into higher wellhead values. Currently 40% or roughly 650,000 bbl/day of the ANS marketed in the lower 48 goes to the U.S. Gulf. All royalty revenue impacts are prorated on this basis.
6. Although exports to the Far East could have direct effects on the ANS price on the U.S. West Coast, no attempt is made to estimate this impact because of uncertainty over the willingness of major ANS producers to export. Market theory suggests that competition would drive the West Coast price up. Further analysis would be needed to attempt to estimate this effect.

Method:

1. Increased Royalties = State Royalty Direct Sales + Invalue Royalties + Sales to Instate Refineries at Invalue Prices.
2. State Royalty Direct Sales

Jones Act Tankers	=	100,000*365*1.90*.4
	=	\$27.74 million/yr.
Foreign Tankers	=	100,000*365*2.95*.4
	=	\$43.07 million/yr

Where .4 is the proportion of total royalties displaced from the Gulf Coast now earning higher wellhead value

3. In-Value Royalties and

Direct Sales at In-value Prices

$$\begin{aligned} \text{Jones Act Tankers} &= 200,000 * 365 * 1.90 * .125 * .222 \\ &= \$3.85 \text{ million/yr} \end{aligned}$$

$$\begin{aligned} \text{Foreign Tankers} &= 200,000 * 365 * 2.95 * .125 * .222 \\ &= \$5.98 \text{ million/yr} \end{aligned}$$

Where .125 is the royalty percentage of gross ANS production and .222 is the percentage of ANS royalties taken in-value or taken in-kind and sold at in-value prices after the 100,000 bbls. are sold to Japan adjusted for the amount displaced from the Gulf Coast, i.e. $(1 - 100/225) * .4$

4. Increased

Severance Tax

$$\begin{aligned} \text{Jones Act Tankers} &= \text{Taxable bbl} * \text{Value} * \text{Tax Rate} \\ &= 200,000 * 365 * 1.90 * .12 * (1 - (.125 * .222)) \\ &= \$16.18 \text{ million/yr} \end{aligned}$$

$$\begin{aligned} \text{Foreign Tankers} &= 200,000 * 365 * 2.95 * .12 * (1 - (.125 * .222)) \\ &= \$25.12 \text{ million/yr} \end{aligned}$$

Where .12 is the tax rate after ELF kicks in for Prudhoe in July 1987.

Summary:

	<u>State of Alaska Gross Production Revenue Effect</u>	<u>Less State of Alaska Permanent Fund Effect</u>	<u>State of Alaska Net Revenue Effect to General Fund</u>
Jones Act Tankers	\$47.77 million/yr	\$7.89 million/yr	\$39.88 million/yr
Foreign Tankers	\$74.17 million/yr	\$12.26 million/yr	\$61.91 million/yr

State of Alaska
Department of Revenue
Oil and Gas Audit Division

M E M O R A N D U M

TO: Vince Wright

FROM: Charles L. Logsdon, Petroleum Economist *CL*

DATE: January 19, 1988

SUBJECT: Update of the Estimate of the Fiscal Impact of ANS Export

I have briefly reexamined the fiscal impact of removing the ban on the export of ANS crude oil using the most current information on transportation costs and market prices. The revenue impact to the State of Alaska of such a change in federal policy would be very significant. The exact magnitude would depend on several critical assumptions. Namely, the effect of the Jones Act on tanker cost savings, the willingness of ANS producers to export, and the extent to which West Coast oil prices would rise to the world competitive level. I have developed a range of estimates for the best guess without world competitive pricing on the West Coast (assumes no impact on prices with all revenue increases associated with transportation cost savings) and one with such a pricing assumption.

No Change in West Coast Prices

Jones Act Tankers
Foreign Tankers

Increased State Revenue
\$35 million
\$100 million

West Coast Prices at World Competitive Level

Jones Tankers
Foreign Tankers

Increased State Revenue
\$150 million
\$240 million

CLL/pjt

Senator John B. (Jack) Coghill
Alaska State Legislature



Box V
Juneau, Alaska 99811
(907) 465-4797

Box 55028
North Pole, Alaska 99705
(907) 488-0862

M E M O R A N D U M

TO: Members of the Senate Finance Committee
FROM: Senator Coghill
RE: SJR 11, Repeal of the Jones Act
DATE: January 20, 1988

BACKGROUND

The term 'Jones Act' refers to Section 27 of the Merchant Marine Act of 1920, which states;

"No merchandise shall be transported by water, or by land and water,...between points in the U.S.... 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 U.S. and owned by persons who are citizens of the U.S."

The purpose of the Merchant Marine Act of 1920 is:

"That it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States..."

JONES ACT EFFECT ON ALASKA

The Jones Act restricts the "coastwise" waterborne transportation of the United States, including transportation between Alaska and Lower-48 ports and transportation within Alaska, to vessels that are US-built, US-owned, US-registered, and manned by US nationals. Detached from the other states on the extreme Northwest corner of North America, Alaska depends disproportionately on ocean transportation for its economic

links with the rest of the nation. The Jones Act has long been a point of contention between Alaskans and other Americans --- it was one of the grievances that motivated Alaska's struggle against "colonialism" and the desire to become a State; 24 years after Statehood some Alaskans still regard the law as a symbol of their state's second-class membership in the American union.

Whatever transportation-cost penalty the Jones Act carries is imposed disproportionately on the Alaska economy. In general, the relatively small size of Alaska's economy makes it a "price-taker" in national and international markets. That is, both the prices of goods exported from Alaska and those of goods imported into the state tend to be set in larger markets outside its borders. Higher transportation costs are thus added to the cost of Alaska's imports, and subtracted from the market prices of her exports. Thus, the prices of most consumer goods in Anchorage are composed of a price determined in some outside market, plus the transportation cost from that market to Anchorage. This does not include local distribution markups.

Alaska's position as a price-taker means that its economy tends to suffer a double penalty from any adverse transport-cost differential. In general, the state's exports to Lower-48 markets will have lower prices at their point of origin than would otherwise have been the case. The most obvious impact of this kind is on the state government's natural resource royalties and severance taxes, which are keyed to netback prices.

The biggest cost impacts of the Jones Act will be on crude oil, Alaska's chief export commodity. The estimated reduction in the value of Alaska crude resulting from the Jones Act is \$225 million per year.

Alaska North Slope Crude must be shipped pursuant to Jones Act regulations, which provide an exclusive monopoly to U.S. flag ships for all domestic intercity shipborne freight. The transportation of ANS crude accounts for more than half the business conducted by the Jones Act tanker fleet. It is contended that the majority of Jones Act tankers, however, are aging, inefficient, and uncompetitive with foreign flag vessels. The inefficiency stems from; very high labor costs; direct tax subsidies for construction and operating costs; indirect tax subsidies from wellhead-price manipulation by vertically integrated oil-and-tanker companies, allowing greater shipping costs to be offset against reduced wellhead netbacks.

Below is a comparison of transportation differentials between markets:

Valdez to Japan	\$0.50
Persian Gulf to Japan	1.00
	<u>\$0.50</u>
Valdez to Gulf Coast	\$4.00*
Persian Gulf to Gulf Coast	2.00
	<u>\$2.00</u>

*With Trans Panama Pipeline (\$5.00 without)

As shown from these equations, there is an efficiency loss equaling \$2.50 per barrel. Consumers everywhere lose because economic efficiency has been sacrificed resulting in higher delivered costs to both markets. While Valdez to Gulf Coast is just twice the distance from Valdez to Japan, transportation costs are 10 times as high. The bulk of this expense is directly attributable to Jones Act tanker costs, which do not compete with foreign-owned tankers in the U.S. trades.

SUMMARY OF FINDINGS ON THE JONES ACT FOR THE ALASKA STATEHOOD COMMISSION

The Alaska Statehood Commission prepared a report in January of 1982. In this report was the commissions conclusions on the Jones Act. Listed below are some of those conclusions:

The costs of industry subsidies are not evenly distributed nationwide, but are borne by heavy users of Jones Act protected shipping.

Many Alaskans have called the Jones Act a gross form of discrimination against Alaska.

We (AK Statehood Commission) believe that if national security requires a protected merchant fleet, all the nation - not just the states heavily dependent on shipping - should support the cost.

Transportation is Alaska's lifeline, and Alaska's growth needs may be severely restricted by the Jones Act because of its inflexibility and the unwillingness of interests that benefit from the act to allow even small changes.

We find from our preliminary studies of the Jones Act... (that it) discriminates blatantly against Alaskans, helps drive up the cost of living here, and stifles economic development.

NOT JUST ALASKA

The Jones Act repeal is not just an Alaskan issue. Other states are adversely impacted as well. A recent article in the Seattle Post Intelligencer, (2-22-85) mentions that the Jones Act has failed in many respects:

The U.S. fleet has diminished over several decades from 1,300 to 400 vessels. Commercial shipbuilding in the country has come to a virtual standstill.

These laws "keep Seattle from becoming a premier destination for cruise ships. Foreign-flag ships, unable to transport passengers between U.S. ports, dock instead in Vancouver, B.C., when cruising to and from Alaska." "A cruise ship exemption could inject millions of dollars into the local economy from passenger traffic through Seattle."

CONCLUSION

The largest adverse effects of the Jones Act for Alaska are likely to be in the future, as transportation costs for crude oil and other minerals can be an important factor determining the economic feasibility of developing specific deposits.

- * Information for this committee report was taken from:
More Perfect Union; A Final Report by the Alaska Statehood Commission. January 24, 1983.
The Jones Act And Its Impact On The State Of Alaska; Volume I: Executive Summary and Volume II: Final Report. July, 1982.
Alaska's Economy and The Merchant Marine Act of 1920; September, 1982.
The Alaska Oil Export Ban; A briefing paper by the Legislative Budget and Audit Committee, April 23, 1983.

MEMORANDUM

State of Alaska Department of Transportation & Public Facilities

TO: The Honorable Jack Coghill
Senator
Alaska State Legislature

DATE: March 2, 1987

FILE NO:

TELEPHONE NO: 465-3900

FROM: Mark S. Hickey *MSH*
Deputy Commissioner
Operations

SUBJECT: SJR 11

The Alaska Department of Transportation and Public Facilities (ADOT&PF) has reviewed SJR 11 and is in general agreement with it. The thrust of the resolution to allow the use of foreign built vessels in domestic maritime trade - provided they satisfy the same standards of design, construction, ownership and crewing as US building vessels - is in line with the recommendations in the 1986 Jones Act Report to the Legislature. Inasmuch as ADOT&PF was the lead agency in developing that report, we have no problem in supporting the resolution.

Last year U. S. Senator Stevens introduced S 1935 which would have accomplished the purpose of your resolution for tourships which serve Alaska, allowing them to operate from Seattle rather than Vancouver, B.C. Unfortunately, the bill died in committee last year and no subsequent measure has yet been introduced into the present Congress.

MEMORANDUM

State of Alaska

SJR 11

TO: Senator Frank Ferguson
Co-chair, Joint Special Committee

DATE: September 10, 1986

FILE NO: 87-592

THROUGH: Gordon S. Harrison, Associate Director
Office of Management and Budget

TELEPHONE NO: 465-3568

FROM: Gregg Erickson, Senior Economist
Division of Strategic Planning
Office of Management and Budget

SUBJECT: The Jones Act and the
Price of Alaska Oil

Introduction

At the July 21 meeting of the Joint Special Committee on Tax Policy you requested that OMB provide you with background information and material regarding the Jones Act and the price of Alaska oil.

Background

Shipyard inefficiencies, lack of competition, and high labor costs, make American ships two to three times as expensive to build and operate as their foreign counterparts. Despite these higher costs, virtually all waterborne commerce between Alaska and the rest of the United States moves in U.S. rather than foreign ships. The reason is the Jones Act (Sec. 27 of the federal Merchant Marine Act of 1920), which requires that maritime trade between U.S. ports be carried in ships built in the U.S., documented under U.S. law, owned by U.S. citizens, and crewed by Americans.

Trade goods shipped between the Alaska and American ports must bear this burden, either as lower return to the seller or a higher price to the buyer. As a practical matter, Alaska usually bears the burden regardless of which way the commerce moves. In the case of Alaska crude oil, the burden is reflected in reduced wellhead values; over \$100 million per year may be lost to the State treasury due to lower severance taxes and royalties.

A related burden on the value of Alaska oil comes from the Export Administration Act of 1979 and other U.S. laws that prohibit the foreign export of Alaska oil. The prohibitions deny Alaska oil its most profitable markets in the Far East, and thus make the oil less valuable at the wellhead. A recent study by the federal Department of Commerce estimated the loss to the State treasury at \$333 million per year.

Some oil companies have opposed any relaxation of the export limitations, noting that much of their investment in U.S. flag tankers could be lost if exports were allowed. Oil companies'

production revenues would be enhanced if exports were allowed, however, and this would marginally encourage additional development of existing fields and further exploration.

Recent Studies

Several recent studies have addressed these issues. An annotated listing of those that appear most interesting in terms of the State revenue implications is attached. Copies of the studies themselves are attached with the original of this memorandum.

GKE/dmc

Attachments

cc: Committee Members

**Annotated Listing of Selected Studies
On The Jones Act, Oil Export Limitations,
and Alaska Oil Revenue**

U.S. Department of Commerce, *Report To Congress on Alaskan Oil*, June 1986. In 1985 Alaska made an unsuccessful effort in Congress to amend the Export Administration Act to allow some exports of Alaska oil. As a consolation prize for Alaska, Congress authorized and directed the administration to conduct the study that led to this Report. According to the study, the export limitations will cost Alaska \$1,330 million in the 1987-90 period (\$333 million per year), \$1,510 million in 1991-95, and \$1,116 million in 1996-2000. The study's findings generally support Alaska's position, though the authors make some factual errors and incorporate a number of unusual assumptions. For example, the federal study's "low" oil production scenario shows about twice as much annual production as the state's current "mean" production forecast.

Samuel A. Van Vactor and Arlon Tussing, "The Export of Alaska Crude Oil: Its Significance for Pacific Basin petroleum Trade," prepared for the International Association of Energy Economists annual meeting, June 1986. The authors believe that "[o]ver the coming year...the distortions and waste entailed by [the export limitations] will become more apparent, and as they come to light, the policy is likely to change. Once the inhibition on exports of Alaska oil is removed, there will likely be a cascade of reactions that will substantially increase crude-oil and petroleum product trade throughout the Pacific Basin."

State of Alaska, *Report to the Legislature on Implementation of Initiative 83-02*, January 1986. The initiative was adopted by the voters in 1982. It directs the governor to work for repeal of the Jones Act, and to annually report on those efforts. This was the first of these annual reports, and was largely prepared by John Katz and his staff in the governor's Washington, D.C. office. the report uses data from the Alaska Statehood Commission studies (cited below) to estimate that the Jones Act costs Alaska consumers \$40 million per year, and the state treasury \$225 million. The report is not optimistic about the prospects for near-term fundamental change in the trade restrictions.

National Advisory Committee on Oceans and Atmosphere, *Shipping, Shipyards and Sealift*, July 1985. The report focus on the national security implications of the Jones Act. It concludes that the nation's defense capabilities would be improved if foreign built ships were allowed to be used in the domestic maritime trade. The authors say they had access to "secret" and "official use only" Department of Defense materials on sealift capacity, etc.

Alaska Department of Revenue, "The Export of Oil to Japan - State Revenue Impacts," by Dr. Charles Logsdon in *Petroleum Production Revenue Forecast Quarterly Report, March 1983*. "Under a wide range of assumptions the State of Alaska would enjoy revenue increases should the current ban on exports [of Alaska North Slope crude oil] be removed. Though the impact illustrated ranges between \$10 and \$500 million per year..., the best guess revenue impact would probably be about \$50-\$100 million per year."

Simat, Hellieson, & Eichner, Inc., for The Alaska Statehood Commission, *The Jones Act and Its Impact on the State of Alaska*, July 1982; and Arlon R. Tussing and Associates, Inc., for The Alaska Statehood Commission, *Alaska's Economy and the Merchant Marine Act of 1920 (the Jones Act)*, September 1982. Though now somewhat out of date, these two studies still remain the best starting point for anyone wishing a good understanding of the effects of the Jones Act (and the export limitations) on Alaska.

SJR 11

regulations respecting life-saving equipment: *Provided further*, That when any such vessel carries persons other than the crew as herein provided for, the owner, agent, or master of the vessel shall first notify such persons of the presence on board of any dangerous articles, as defined by law; or of any other condition or circumstance which would constitute a risk of safety for passenger or crew.

Notice of risk, etc. to be given.

The privilege bestowed by this section on vessels of the United States shall be extended insofar as the foreign trade is concerned to the cargo vessels of any nation which allows the like privilege to cargo vessels of the United States in trades not restricted to vessels under its own flag.

Reciprocal allowance to foreign cargo vessels.

Failure on the part of the owner, agent, or master of the vessel to give such notice shall subject the vessel to a penalty of \$500, which may be mitigated or remitted by the Secretary of Commerce upon a proper representation of the facts.

Penalty for failure to give notice of risk.

SEC. 27. That 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 sections 18 or 22 of this Act: *Provided*, That this section shall not apply to merchandise transported between points within the continental United States, excluding 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 Shipping Board shall find that proper facilities will be furnished for transportation by persons citizens of the United States for properly handling the traffic.

Merchandise transported in coastwise trade, etc., in other than American vessels to be forfeited.

Proviso. Exception.

Application to Yukon River delayed.

SEC. 28. That no common carrier shall charge, collect, or receive, for transportation subject to the Interstate Commerce Act of persons or property, under any joint rate, fare, or charge, or under any export, import, or other proportional rate, fare, or charge, which is based in whole or in part on the fact that the persons or property affected thereby is to be transported to, or has been transported from, any port in a possession or dependency of the United States, or in a foreign country, by a carrier by water in foreign commerce, any lower rate, fare, or charge than that charged, collected, or received by it for the transportation of persons, or of a like kind of property, for the same distance, in the same direction, and over the same route, in connection with commerce wholly within the United States, unless the vessel so transporting such persons or property is, or unless it was at the time of such transportation by water, documented under the laws of the United States. Whenever the board is of the opinion, however, that adequate shipping facilities to or from any port in a possession or dependency of the United States or a foreign country are not afforded by vessels so documented, it shall certify this fact to the Interstate Commerce Commission, and the commission may, by order, suspend the operation of the provisions of this section with respect to the rates, fares, and charges for the transportation by rail of persons and property transported from, or to be transported, to such ports, for such length of time and under such terms and conditions as it may prescribe in such order, or in any order supplemental thereto. Such suspension of operation of the provisions of this section may be terminated by order of the commission whenever the board is of the

Restriction on lower rail charges for transportation from foreign countries, etc., by water carriers.

By American vessels excepted.

Suspension if no adequate facilities afforded by American vessels.

Termination when facilities afforded.



STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

SJR 11

January 23, 1987

Dear Reviewer:

A copy of the Jones Act Report is attached for your information and consideration. The report satisfies the requirements of Initiative 83-02, which mandates the Governor to report annually to the Legislature any actions taken during the preceding year toward repeal of the Jones Act or mitigation of its effects.

This report to the 1987 Legislature covers the calendar year of 1986. It is the product of a team effort by the Governor's Office in Washington, D.C., the Office of Management and Budget, the Department of Revenue, the Department of Commerce and Economic Development, and the Department of Transportation and Public Facilities. If you have any questions about the report, please call Elliot Lipson at 465-2178.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written over the typed name.

Steve Cowper
Governor

Attachment

A REPORT TO THE ALASKA LEGISLATURE

JONES ACT RELATED ACTIVITIES
AND EFFORTS DURING 1986

JANUARY 1987

The purpose of this report is to satisfy the requirements of Initiative 83-02, adopted by Alaskan voters on November 6, 1984. The initiative requires the Governor to lobby Congress for the repeal of the Jones Act and to report annually to the legislature any actions taken in this regard and their effects. This report is an update and expansion of the initial report submitted to the Legislature on January 13, 1986.

In developing the legislative issues list for the second session of the 99th Congress, the Washington, D.C. Office staff identified Jones Act modification as a state priority. In a February 21, 1986, report, it also identified Cook Inlet and North Slope Oil Exports as priorities for the second session. These items are related to the Jones Act initiative because their purposes are to stimulate the international trade activity of Alaskan industries, and to remove the barriers that exist to achieving that goal.

In a series of meetings with key staff from each of the Congressional delegation offices, and in subsequent meetings with delegation principals, the Washington Office discussed the requirement of the initiative to work for the repeal of the Jones Act. In each instance, reference was made to the repeal of the Jones Act as a priority of the state. Discussion of this item with the respective staffs produced a consensus that the climate in Congress was not favorable for major modification or repeal of the Jones Act, but that we would be alert to any possibilities for making minor amendments to, or any waivers of, the Act that might benefit Alaskan commerce. Consensus was also evident in meetings with delegation members that the mood of the Congress had not changed and that any meaningful modification to the Jones Act was very unlikely. These conclusions were corroborated in discussions and meetings with other Congressional staff and with knowledgeable outside observers.

In other actions involving the Jones Act, Senator Stevens introduced S.1935 in December, 1985, to direct the Secretary of Transportation to document certain foreign built vessels as vessels of the United States so as to be entitled to engage in domestic coastwise trade. This bill, as amended by the House, would have authorized an unlimited number of vessels to operate in the coastwise trade. The intention was to allow these vessels to function as cruise ships in the tourist industry. The bill would have constituted a waiver of the Jones Act. Governor Sheffield submitted testimony in support of this measure. However, differences in the Senate and House versions were never resolved, so this legislation was not enacted. A commentary on S. 1935 which discusses Alaska's interests is attached as Appendix A.

Another bill, S.2662, was introduced by Senators Stevens and Inouye to develop and deregulate the United States flag liner fleet. This bill would have provided operating differential subsidy contracts to qualified vessels (using U.S. crewmen) entering into international trade. The Washington Office monitored the bill's Congressional hearing, discussed its possible Alaska implications with Commerce Committee staff, and discussed the legislation with private counsel representing the Alaska Railroad. The opinion of all parties was that the bill would have little or no impact on Alaska. Primarily because of the Administration's objection to the cost of implementing the bill, it was never brought before the full Senate for a vote.

Finally, it should be noted that ADOT&PF has notified the Washington Office that at least one private carrier has contacted Senator Stevens about using the threat of eliminating the third proviso of the Jones Act as leverage in trade discussions with Canada. The third proviso allows American goods shipped between two U.S. ports to travel by Canadian rail as part of their routing. The carrier wants the government to use the threat of ending the third proviso in order to receive similar, but not identical concessions from Canada.

ADOT&PF staff has indicated its concern that this proposal would have a negative impact on the Alaska Railroad's current barge service. Also, the elimination of the third proviso runs against the purpose of the initiative which is to eliminate the Jones Act. The Washington Office contacted Senator Stevens' staff about those concerns and was told that no effort would be made by the Senator in this area without state participation. Furthermore, any strategy involving the third proviso does not seem very promising in view of the prior history of Congressional consideration of this subsection -- a matter dealt with in past communications from the Washington Office.

Even though Congress is presently reluctant to consider changes to the Jones Act, significant elements of national transportation, national defense and national economy interests recognize the need for changes from the status quo. In recent years and months there have been numerous articles by qualified experts and statements by affected organizations which recognize that:

- (1) The Jones Act and related statutes have been unsuccessful in preserving, maintaining and protecting U.S. Merchant Marine and shipbuilding capabilities;
- (2) The present and projected situation is technologically, economically, politically and socially different from that which existed when the present maritime statutes were enacted; and,
- (3) The present deficiencies in merchant marine and shipbuilding capacities have reached critical levels in regard to the several legitimate interests of the United States and the various states.

A July 1985 Special Report to the President and the Congress by the National Advisory Committee on Oceans and Atmosphere concludes that:

- (1) National efforts should emphasize development of a viable commercial fleet during peacetime in order to satisfy potential defense needs;
- (2) Requirements for U.S. build have contributed to the decline of the U.S. merchant fleet and have not created substantial work for U.S. shipyards.

The report recommends:

- (1) Eliminate all requirements for U.S. operators who receive government subsidies to build vessels in U.S. shipyards;
- (2) Amendment of current maritime statutes that impair the competitiveness of U.S. vessels in foreign trade;
- (3) Amendment of the Jones Act to allow foreign building of new vessels for the Jones Act domestic trade.

A copy of the executive summary of this report is attached as Appendix B.

A recent article by L. Edgar Prina made the following significant points:

- (1) In 1950, the U.S. ranked first in the world in numbers of merchant ships and carrying capacity (dwt). Today it is 10th in ships and 8th in dwt.
- (2) In 1950, U.S. flag vessels carried 21 percent of U.S. foreign trade tonnage. In 1983 they carried only 5.8 percent.
- (3) As of August 1985, only 8 U.S. flag merchant vessels were under construction or on order in U.S. shipyards.

The article goes on to identify the national defense implications of these facts and to indicate that the present maritime statutes are clearly not accomplishing their intended purposes. A copy of this article is attached as Appendix C.

The Standing Committee on Water Transportation (SCOWT) of the American Association of State Highway and Transportation Officials (AASHTO), chaired by Richard J. Knapp, then Alaska's Commissioner of Transportation and Public Facilities, developed a policy position statement on National Maritime Policy. The statement recognizes the same kinds of deficiencies in the present situation and calls for the creation of a presidential task force to review present national maritime policy and to recommend changes. A copy of the AASHTO policy position statement and its transmittal to President Reagan are attached as Appendix D.

The heart of Alaska's concerns over Jones Act restrictions, oil export limitations and related federal laws is clearly identified in a September 10, 1986 memorandum from Gregg Erickson, Division of Strategic Planning, to State Senator Frank Ferguson. The memo indicates that the state treasury suffers approximately \$433 million per year in reduced oil revenues alone because of the effects of these laws. A copy of this memo is attached as Appendix E.

To date, we have essentially "tinkered" with the Jones Act and related laws to eliminate or mitigate those restrictions most onerous to Alaskans. Clearly, these laws are not achieving their originally intended purposes and are no longer relevant to the present situation. We feel it will be more effective and will more effectively serve Alaska's interests if a broader perspective is adopted. National interests which coincide with or complement Alaskan interests should be identified and pursued. This approach would offer an alternative program which would better serve the U.S. and Alaskan interests.

Such an alternative program might contain the following kinds of provisions:

- (1) Construction of vessels anywhere in the world, but to U.S. standards, would be allowed for U.S. registered vessels, provided other requirements are met.
- (2) To be U.S. registered, a vessel would have to be:
 - (a) Built to U.S. standards;
 - (b) At least 51 percent U.S. owned;
 - (c) Manned by U.S. crews;
 - (d) Have all major repairs performed in U.S. shipyards.

The beneficial effects of such a program would:

- (1) Eliminate the need for vessel construction subsidies;
- (2) Offset higher operating costs due to U.S. crews and standards with lower amortization costs;
- (3) Create a basis to reestablish and maintain U.S. shipyard capabilities with vessel repairs;
- (4) Provide and maintain the sealift capabilities necessary for national defense purposes and favorable balance of trade.

As indicated, recognition of the need for and value of such a program is growing nationally. The state of Alaska should take advantage of this situation to spearhead an effort to consolidate the interests of other states. All sympathetic states should coordinate their actions to concentrate attention at the national level on reviewing and changing national maritime policy to reflect today's needs rather than outmoded and obsolete impressions of such needs.

In conclusion, various political constraints, particularly the opposition of the maritime industry, blunted the effort to obtain repeal or significant modification of the Jones Act during the 99th Congress. In the absence of major allocations of state resources -- allocations which are far beyond the capacity of existing state agencies -- there is little likelihood that the Jones Act can be significantly modified in the 100th Congress. Even a major dedication of resources does not assure Jones Act repeal given the strength of the forces arrayed against the state on this issue. In these circumstances, the result which is most likely of achievement is the piecemeal modification or waiver of the Jones Act in well-defined factual contexts, such as the cruise ship example described above, according to the Washington Office.

APPENDICES

MEMORANDUM

APPENDIX A
State of Alaska
Department of Transportation & Public Facilities

TO: John Katz
Special Counsel
State/Federal Relations
Office of the Governor

DATE: June 23, 1986

FILE NO:

TELEPHONE NO: 465-3900

FROM: R. J. Knapp
Commissioner

SUBJECT: S. 1935

The Alaska Department of Transportation and Public Facilities has the following comments on S. 1935, a bill directing the Secretary of Transportation to document up to five foreign-built passenger vessels. The effect of documentation would be to allow these five vessels to carry passengers between U. S. ports, in spite of the restrictions of the Jones Act and similar type legislation. S. 1935 is sponsored by Senator Stevens; Senator Murkowski is a co-sponsor.

The provisions of S. 1935 would apply only if -

- (1) Transportation is limited solely to passengers and their personal luggage.
- (2) The vessel was originally delivered for passenger cruise service.
- (3) The vessel is less than twelve years old but at least two years old.
- (4) The vessel has a minimum of 400 passenger cabins with modern facilities and can be converted to a troop ship.
- (5) Current and future improvements to each vessel will be done in U. S. shipyards.

S. 1935 proposes an exception to the prohibitions of Jones Act type legislation for the purposes of developing a domestic cruise ship industry, according to a recent article in the Alaska Journal of Commerce. The Governor's approach to the prohibitions of the Jones Act is similar in approach, although much broader in application. Under the Governor's approach foreign-built ships could enter all segments of the coastwise trade, as long as are were staffed by U. S. crews and meet U. S. safety and environmental requirements. Both the Governor's position and S. 1935 are in response to a domestic shipbuilding industry that is seen as a high-cost producer. Increasingly, domestic shipyards are losing the ability to produce certain types of vessels at any cost.

The provisions of S. 1935 could be broadened to provide more benefits to the State of Alaska, although most such changes would eliminate any chances of passage that the current proposal may have. For example, the exceptions proposed in S. 1935 do not apply to the Alaska Marine Highway System (AMHS). Among the differences between large cruise ships and AMHS vessels are the smaller number of cabins and the dedication of a full deck to the transportation of private vehicles and some cargo-carrying vans. The State of Alaska should consider some way to broaden the provisions of S. 1935 so it applies to more types and sizes of vessels.

Attachments

cc: Joe Camp, Deputy Commissioner, Alaska Marine Highways
✓ Warren Sparks, Deputy Commissioner, Headquarters
Pete Spivey, Special Staff Assistant, Office of the Governor

99TH CONGRESS
1ST SESSION

S. 1935

To direct the secretary of the department in which the Coast Guard is operating to cause certain vessels to be documented as vessels of the United States so as to be entitled to engage in the domestic coastwise trade, and for other purposes.

IN THE SENATE OF THE UNITED STATES

DECEMBER 12 (legislative day, DECEMBER 9), 1985

Mr. STEVENS (for himself, Mr. GOLDWATER, Mr. PRESSLER, and Mr. MURKOWSKI) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

A BILL

To direct the secretary of the department in which the Coast Guard is operating to cause certain vessels to be documented as vessels of the United States so as to be entitled to engage in the domestic coastwise trade, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) notwithstanding section 12106 or 12107 of title 46,
4 United States Code, section 27 of the Merchant Marine Act,
5 1920 (46 App. U.S.C. 883), or any other provision of law,
6 the Secretary of the department in which the Coast Guard is
7 operating shall cause, upon application made in accordance

1 with this Act, not more than five vessels under foreign own-
2 ership, registry and flag on the date of enactment of this Act
3 to be documented permanently as vessels of the United
4 States with the privilege of engaging in the coastwise trade,
5 if—

6 (1) each such vessel is in compliance with all
7 other requirements of law applicable to vessels engag-
8 ing in the coastwise trade;

9 (2) any alterations, repairs, or rebuilding of each
10 such vessel that is necessary to bring the vessel into
11 compliance with the requirements of part B of subtitle
12 II of title 46, United States Code (relating to inspec-
13 tion and regulation of vessels) and regulations issued
14 under that part, or any conversion to eliminate cargo
15 space necessary to bring the vessel into compliance
16 with paragraph (5) of this subsection, are done in the
17 United States.

18 (3) all future nonemergency alterations, repairs, or
19 rebuilding of each such vessel after it is documented
20 under this subsection are effected in the United States
21 pursuant to the then applicable laws, so long as the
22 vessel remains documented as a United States vessel;

23 (4) on the date of such documentation, each such
24 vessel is owned by a citizen or citizens of the United
25 States, as defined in the applicable laws prescribing the

1 qualifications for vessels to engage in the coastwise
2 trade;

3 (5) transportation in each such vessel is limited
4 solely to passengers and their personal luggage; and

5 (6) each such vessel also—

6 (A) has a minimum of four hundred passen-
7 ger cabins with modern facilities;

8 (B) is capable of being converted to a troop-
9 ship; and

10 (C) has been originally delivered solely for
11 passenger cruise service within twelve years
12 before the date of enactment of this Act, except
13 that any vessel constructed in a foreign shipyard
14 and delivered solely for passenger cruise service
15 within two years before the date of enactment of
16 this Act shall be deemed constructed solely for
17 the purpose of entering the coastwise trade pursu-
18 ant to this Act, and such vessel shall not be eligi-
19 ble for documentation pursuant to this Act.

20 (b) For purposes of this Act, the Secretary of the depart-
21 ment in which the Coast Guard is operating shall, with re-
22 spect to vessels subject to this Act, determine the eligibility
23 of each vessel to engage in the coastwise trade in chronologi-
24 cal order of application, made after the date of enactment of
25 this Act, to the Secretary for documentation as a United

1 States vessel under this Act. Any such application shall be
2 filed not later than twelve months after the date of enactment
3 of this Act. Any rebuilding of a vessel or repair work neces-
4 sary to bring each such vessel into compliance with the re-
5 quirements of part B of subtitle II of title 46, United States
6 Code (relating to inspection and regulation of vessels) and the
7 regulations issued under that part shall be completed within
8 twenty-four months after the date of enactment of this Act.

○

State News



Cruise ship promotion bill is introduced

A bill which would promote the development of a domestic cruise ship industry has been introduced in the Senate by Sen. Ted Stevens.

The measure, which would permit five foreign-built passenger ships to be documented under U.S. law, would require American crews, and would also require that all repairs and modifications to meet Coast Guard inspection standards would be done in U.S. shipyards.

"Our domestic cruise ship industry is non-existent," Stevens said in a statement on the Senate floor, "and it will remain so without the utilization of foreign-built vessels."

Noting the development of a domestic cruise ship industry could benefit many U.S. ports which might not be included in the routes traveled by foreign cruise ships, Stevens said, "My

state is a prime example of the impact a cruise industry can have on ports. Foreign cruises make periodic stops in towns in Southeast Alaska, and the tourism generated through these cruises is rapidly becoming a mainstay of Southeast Alaska's economy."

Any U.S. citizen would be allowed to file an application for documentation under the measure, Stevens said. The bill contains three criteria designed to bring modern and militarily useful vessels into the cruise ship trade.

The first criterion would require that each vessel have a minimum of 400 passenger cabins with modern facilities. This would ensure that in times of emergency the vessel would be large enough to make a significant contribution to the Navy's ability to move people, or could be used as a hospital

ship.

The second criterion would require that each vessel would be capable of being converted into a troop ship.

The third requirement would

be an age limitation on each vessel to ensure modernity. It would also prohibit potential applicants from contracting for the construction of new passenger vessels in foreign ship-

yards.

"The purpose behind the bill is to revitalize a U.S. industry," Stevens said, "not to encourage the growth of foreign industries."

Kodiak Fish Tech Center wins Board of Regents OK

The University of Alaska Board of Regents has given the go-ahead on planning a facility for the Kodiak-based Fishery Industrial Technology Center (FITC).

"Forty-four of the 50 states," President Donald O'Dowd said, "and Alaska is not one of those 44, have universities with technology development centers. We are fishing in Alaska's name,

processing and new products development.

The staff of the center has been sharing research facilities with other Kodiak fisheries related agencies and providing about 40 workshops each year in fishing communities throughout the state.

The new facility will provide about 18,000 square feet of cryogenic laboratories, con-



Golden Nugget Motel

Fairbanks, Alaska

"Friendliest Hotel in Fairbanks"

SUPER LOW OFF SEASON RATES

\$49 single

\$54 double

OFFERING:

- Food & Beverage Service
- Cable/Color TV's in All Rooms
- Large Newly Refurbished Rooms
- We Reimburse for Airport Limo
- Happy Hour Weekdays 5-6 PM
Most Drinks \$1
- Right Downtown

GOLDEN NUGGET MOTEL

900 NOBLE ST.

FAIRBANKS, AK 99701

452-5141

A Special Report to
The President and
The Congress

Shipping, Shipyards and Sealift:

Issues of National Security
and Federal Support 1985

National
Advisory
Committee on
Oceans and
Atmosphere

July 1985



**NATIONAL ADVISORY COMMITTEE
ON
OCEANS AND ATMOSPHERE**
3300 Whitehaven Street, N W
Washington, DC 20235

SEP 09 1986

To the President and the Members of the Congress:

As Chairman of the National Advisory Committee on Oceans and Atmosphere (NACOA), I am pleased to forward to you a copy of our report, "Shipping, Shipyards and Sealift: Issues of National Security and Federal Support." The conclusions reached and the recommendations made support current trends unlinking shipping from shipbuilding and advance several approaches for strengthening our Nation's sealift capability in the interests of national security.

Respectfully,

John E. Flipse
Chairman

EXECUTIVE SUMMARY

Defining the Problem

The Nation's maritime policy, embodied in the Merchant Marine Acts of 1920 and 1936, as amended, has for over half a century provided Federal supports to the maritime industries to preserve in peacetime sufficient capacity to respond to a national defense emergency. It is increasingly clear that our maritime policy, and the package of protections derived from it—tax credits, loan guarantees, ship construction and operating subsidies, limited cargo preference, protected domestic trade (cabotage) and build-U.S. requirements—have had limited success in preserving a viable U.S.-flag fleet and merchant marine. The decline in the shipping and shipbuilding industries despite substantial government supports suggests the need to examine and define the national security requirements for each.

The United States has for some time been the world's largest trading nation with a dramatic increase from 130 million long tons of foreign trade in 1950 to 630 million in 1983. Carriage of foreign trade in U.S.-flag vessels has fallen from over half (by weight) at the end of World War II to less than 6 percent in 1983, but the declining role of U.S. shipping has not impeded the overall growth of the U.S. economy or our foreign trade. Indeed it can be argued that the decline of the high-cost, U.S.-flag fleet, and its supporting shipbuilding base, has had a net beneficial effect on the overall national economy. The economic arguments for Federal support of the maritime industries are thus less than conclusive, and the arguments have focussed increasingly on the national defense needs for U.S. shipping and shipyards.

The primary national requirements for the U.S. maritime industries are the national defense needs, during a conflict, for naval combatant ships to wage war at sea; adequate merchant sealift capacity to project military equipment and supplies overseas and concurrently provide critical shipping to support our economy; and sufficient shipyard capacity to support both. Sealift needs fall into three categories: floating prepositioned storage of supplies; rapid initial overseas deployment of forces, their equipment and supplies (surge sealift); and long-term resupply of overseas forces (sustaining sealift). In addition, shipping assets would be needed for import of critical materials and some ordinary trade and for domestic waterborne

transport of critical materials, such as transport of strategic petroleum reserve oil to refineries.

Many experts are concerned that, in time of conflict, the Nation will need many more ships for combat and sealift—and more shipyards to activate, repair and replace them—than present natural economic forces will maintain in peacetime. NACOA has therefore defined the issues, for the purposes of this study on shipbuilding and sealift in the national defense context, as follows:

- What is the most effective and least costly way to ensure that adequate sealift capacity will be available in the timeframe required for a major modern conflict?
- What level of shipbuilding capacity would ensure an adequate base for mobilization and new ship construction and repair in a major conflict?
- To the extent that shipping and shipbuilding capacity is required, what level and type of Federal support are needed or appropriate?

The Scenario

Until recently, national sealift requirements were based on the scenario of a NATO/Warsaw Pact conflict requiring movement of U.S. troops and supplies across the North Atlantic to Europe. The changing balance of world economic and political forces resulting from the late 1960s discovery of massive oil reserves in the Middle East prompted U.S. military planners to begin focussing more attention on the Indian Ocean and the Southwest Asia region (the Middle East and Persian Gulf area). The current defense planning scenario, established by the Joint Chiefs of Staff, assumes that a major global conflict could begin in Southwest Asia, and spread to Europe, Northeast Asia (especially Korea) and three oceans. It is a worst-case scenario in terms of the requirements it generates—a prolonged (3-year), non-nuclear, global conflict, waged in three theatres, with two major periods of sea battle.

Military strategists conclude that a modern global conflict would have to be fought with Naval and sealift vessels already built during peacetime; NACOA concurs with this conclusion. Unlike the beginnings of World War II, where the United Kingdom held off the aggressor for several years while the United States prepared for war, a modern global conflict would almost

certainly mean immediate U.S. involvement, and the increased distance required for seallift of supplies adds severe time constraints. These considerations have prompted serious reappraisal of the status of, and requirements for, the Nation's seallift assets.

Maritime Industry Status

The continued decline in both the shipping and shipbuilding industries in this country has raised increasing national defense concerns.

Although the United States has one of the largest shipbuilding industries in the world, devoted almost solely to naval programs at this time, it ranks only 10th among commercial shipbuilding nations worldwide with less than two percent of the world's commercial ship orderbook. Largely because of differences in national standards of living, the world shipbuilding market, as with other heavy industry, is moving generally from the United States and Europe to the Orient, and from developed to developing nations. The U.S. shipbuilding industry has long been unable to compete with foreign yards. Virtually all of the merchant vessels built in U.S. yards in the past decade have been built either with Federal subsidy or for protected domestic trades, but recent changes in Federal maritime support programs and depressed economic conditions have all but halted this commercial ship construction. Three major shipyards have closed since 1982, and General Dynamics Corporation recently announced that its Quincy Shipbuilding Division, a major shipyard that has been in business for 101 years, will close in the spring or summer of 1986.

There are currently only 6 major U.S. shipping lines, carrying container cargo, down from 19 in 1970, and they are heavily dependent on government cargo reserved for U.S. ships. Almost all U.S.-flag bulk vessels operate in the domestic trades that are reserved for U.S. ships. In the domestic trades, however, trucks, railroads, pipelines, and tug/barges are replacing oceangoing, self-propelled cargo vessels. These developments threaten the viability of the domestic fleet, an important source of militarily useful tonnage and trained U.S. crews for meeting seallift demands in a national emergency.

There are currently less than 500 oceangoing vessels greater than 1,000 gross tons in the U.S.-flag fleet, and 105 U.S. shipyards capable of building or repairing vessels of this size. Except for the tremendous World War II peak, the U.S. shipyard employment base has risen fairly steadily over six decades despite the continued decline in the U.S.-flag fleet. Our longstanding national maritime policy appears to have done a better job of preserving our shipyard base than our U.S.-flag fleet.

Defense Requirements for Ships

The primary national defense requirement for the U.S. shipping and shipbuilding industries, beyond the peacetime carriage of government cargoes and peacetime building and repair of military vessels, is to provide increased seallift and Naval combatant capacity in case of national emergency. Seallift requirements would be similar for a global conflict and for a major U.S. action in Southwest Asia, because lift requirements for other areas would be provided by our allies. Seallift and shipyard requirements to support a major deployment to Southwest Asia have thus received great attention in recent years.

Since 1981, the Department of Defense has completed a comprehensive series of studies quantifying requirements for: prepositioning of supplies, airlift and seallift, delivery of liquid products, shipping needs at home during a global conflict, shipyard capacity for early mobilization (e.g., activating reserve ships) and shipyard capacity for wartime shipbuilding. These studies are all classified either "Secret" or "For Official Use Only;" NACOA has reviewed the entire series.

The 1981 "Congressionally Mandated Mobility Study" (CMMS) concludes that the United States requires an additional airlift capacity of about 20 million ton-miles per day, and recommends that this be supplemented by additional prepositioned supplies and more and faster seallift. The "DOD Seallift Study," completed in March 1984, concludes that the seallift capacity necessary to meet dry-bulk lift requirements for Southwest Asia is about 4.6 million deadweight tons of shipping capacity during the initial surge and about 3.3 million deadweight tons for sustaining resupply. Every militarily useful U.S.-flag private cargo vessel would be needed for seallift in a major overseas deployment, and projections of the future size of the fleet indicate a growing shortfall in U.S.-flag, dry-bulk seallift tonnage. Most of the U.S.-owned vessels under foreign flag are not now considered militarily useful. A companion study, called the "DOD Seallift Tanker Study," now nearing completion, will document a shortfall in militarily useful wet-bulk tonnage for seallift under U.S. ownership (U.S. and foreign flag).

The "Economic Security Shipping Study," recently completed by the Maritime Administration, addresses the shipping requirements for import and domestic transport of critical materials during wartime. The study concludes that there is no shortfall in container or breakbulk ship capacity, because most scheduled general cargo is nonessential in wartime. No shortfall in dry-bulk capacity is expected, since most critical bulk materials are required in small enough quantities to be taken from strategic stockpiles or imported by air. A shortfall is projected, however, in tanker capacity for domestic carriage of refined petroleum prod-

ucts, because the U.S.-flag tanker fleet would be required to support U.S. forces overseas.

Responding to the rapid decline of the U.S.-flag fleet, and increased readiness requirements imposed by the long-distance sealift routes in the new scenario, the Navy is rapidly improving the Nation's sealift capacity. More than \$1 billion a year for 5 years is planned for strategic sealift expenditures, more each year than was spent during all the years since World War II combined. The shortfall in dry cargo sealift is being addressed by increases in government-owned sealift vessels and increased funding for modifying commercial cargo vessels. The shortfall in wet-bulk sealift will probably be addressed by purchase of tankers for the Ready Reserve Force and further examination of alternatives such as foreign petroleum supply. The only projected shortfall in domestic shipping needs during a conflict is in tanker capacity for domestic petroleum carriage, but this could be alleviated by allowing foreign tank vessels (owned by U.S. citizens) to enter the protected Jones Act trade during a conflict. The cumulative effect of these approaches is greatly enhanced sealift capacity that is substantially more "ready."

Defense Requirements for Shipyards

The U.S. shipbuilding base must have sufficient "surge capacity" during early mobilization to activate the reserve combatant and sealift vessels and to convert active merchant vessels for sealift, and must expand quickly for battle damage repair of merchant and combatant ships and for new construction to replace vessels lost during a prolonged conflict.

Two joint studies by the Department of Defense and the Maritime Administration examine the shipyard capacity requirements. The "Shipyard Mobilization Base Study" (SYMBA) reviews the adequacy of the October 1982 shipbuilding base for a 3-year global conflict. The "National Defense Shipyard Study" (NADES) examines the adequacy, for the early mobilization stage of a conflict, of a much smaller shipyard base that is expected to survive the current decline and remain available in 1988-1990. The SYMBA Study concludes that an absolute minimum of facilities needed for the first year of conflict is 51 building positions, 41 graving docks and 56 floating drydocks; that shipyard facilities existing in October 1982 were more than adequate for a major mobilization; and that there might be temporary shortfalls in the number of skilled shipyard workers during early mobilization and later during wartime ship construction. The NADES Study uses different, and NACOA believes more realistic, assumptions about early mobilization and reflects the increased sealift readiness now planned by the Department of Defense. The NADES Study found that early mobilization would require initial availability of 142,000 skilled shipyard workers, peaking to 157,000

in the eighth month. The Department of the Navy concludes that peacetime employment, even in the smaller shipyard base projected for 1990, would be roughly adequate for early mobilization and facilities would be more than adequate for mobilization tasks.

An independent NACOA survey of shipyard surge capacity in the major defense contract yards suggests they are currently operating at only about half their full peacetime capacity in workers and steel fabrication, and only about a third of their capacity to finish new vessels. Our estimate of their wartime maximum capacity suggests a possible increase in ship production of 4 to 6 times greater than in today's underutilized shipbuilding base, without expansion of facilities.

Surge requirements for U.S. shipyards for a major mobilization have been lowered through several government initiatives: by increasing the amount of prepositioned military supplies, thus reducing the number of sealift ships needed; by building and converting a number of vessels under government control for sealift; by increasing the readiness of our reserve fleets, and thus reducing the shipyard work needed for activation; by relying more on conversion of existing commercial vessels than on wartime newbuilding of sealift vessels; and by planning more pre-mobilization work on commercial vessels in the active U.S.-flag fleet. NACOA concurs with the Department of Defense that a substantially reduced private U.S. shipbuilding base would be adequate to meet early mobilization needs required by the present scenario.

Alternatives

The range of solutions offered by public and private interests for solving the Nation's sealift problems fall into three broad categories:

- Preserving excess shipbuilding capacity through increased support for U.S. shipyards in peacetime, so that warships and sealift vessels can be activated, repaired and built during a major conflict.
- Increasing the government-controlled merchant fleet to have immediate and direct control of needed sealift assets during a major mobilization.
- Increasing the number and military readiness of privately owned sealift assets through measures to aid U.S. ship operators.

Our positions on several major proposals are as follows. We oppose a Federal shipbuilding program for new merchant vessels to be chartered or laid up in reserve fleets. We oppose a cargo preference scheme that would reserve a percentage of commercial cargos in U.S. foreign trade to U.S.-flag, U.S.-built vessels. We oppose a federally supported "Maritime Redevelopment Bank," that would use Federal funds to encourage financing for ship construction. We oppose any increased Federal supports to the U.S. shipbuilding industry, because the industry has overcapacity for the commercial market it serves, and the present

shipyard base is substantially in excess of the capacity needed for defense mobilization. We support more concerted efforts to increase the military usefulness of private merchant vessels and to increase the shipping tonnage in the active commercial U.S.-flag fleet. We favor increased use of private vessels as sealift assets rather than preserving excess shipbuilding capacity or increasing government control of sealift assets.

For the most part, NACOA opposes the range of proposals initiated largely in the Congress to preserve excess shipbuilding capacity; opposes further growth in the government-controlled active and reserve sealift fleets without fully exploring other alternatives; and supports a range of proposals from various sources, including our own deliberations, to increase the number and military usefulness of private vessels under U.S. control.

Conclusions and Recommendations

NACOA concludes the following:

- Sealift requirements for the initial stages of a modern major conflict depend more on the sufficiency of existing U.S.-controlled shipping and trained U.S. crews than on shipbuilding capacity. National efforts should therefore emphasize developing a viable Federal and commercial sealift fleet in peacetime.
- The United States now has a very large shipbuilding capacity, and the yards expected to survive the current decline will still have sufficient surge capacity to satisfy wartime needs as defined by current defense scenarios.
- Requirements to build in U.S. shipyards have impaired the competitiveness of U.S. operators of oceangoing, self-propelled cargo vessels, have contributed to the decline in the U.S.-flag fleet, and have failed in recent years to create substantial commercial work in U.S. shipyards.
- Most recent proposals to aid the U.S. shipbuilding industry—such as a federally funded merchant shipbuilding program, renewed construction subsidies, a federally backed maritime bank, and expanded cargo preference—are too small in scope to be of significant impact or would create larger problems.

NACOA recommends the following:

1. OPPOSITION TO PROPOSALS FOR A FEDERAL SHIPBUILDING PROGRAM FOR COMMERCIAL SEALIFT VESSELS—OR ANY OTHER PROGRAM REQUIRING MAJOR FEDERAL FUNDING—DESIGNED TO PRESERVE THE PRESENT EXCESS CAPACITY IN THE SHIPBUILDING BASE.

NACOA believes that all additional surge capacity required for mobilization currently exists within the yards doing Navy peacetime construction, and Navy and commercial repair work, and that this work will preserve an "irreducible minimum" shipbuilding base that will be adequate in future mobilization. This smaller shipbuilding base might initially be inadequate for wartime construction, but shipyard expansion would begin immediately and would continue as needed throughout the conflict. The Department of Defense studies allow virtually no geographic movement of skilled shipyard workers during mobilization, and we believe this is an unrealistic constraint. The major constraint on expansion of wartime shipbuilding would not be shipyard capacity, but delayed availability of major components, e.g., propulsion plants for Navy and merchant vessels, and complex weapons systems for combatant vessels; increases or decreases in the shipbuilding base would not affect this problem.

2. DECREASED DEPENDENCE ON A GOVERNMENT-OWNED AND MAINTAINED READY RESERVE FORCE, AND REDUCED SIZE AND INCREASED READINESS OF THE RESERVE SEALIFT FLEETS.

NACOA supports the approach of adapting modern, active commercial vessels to military purposes, because maintenance costs are borne by the operator in trade, the vessel provides training for U.S. crew, and the ship would have a ready crew if it were called up for service. In the long run, we believe this is a more efficient and less costly alternative than Federal building, acquiring or serving of an outmoded reserve fleet.

3. CONTINUED EMPHASIS ON METHODS OF ADAPTING COMMERCIALY EFFICIENT VESSELS FOR MILITARY PURPOSES.

Continued research is needed to develop cost-effective ways of adapting modern commercial vessels to military sealift needs. In addition, funding should be provided to do such conversion and activation work on U.S.-flag commercial ships during peacetime to enhance their readiness, reduce the shipyard conversion time required at mobilization, decrease the shipyard base required and decrease the need for expanded government-controlled sealift fleets.

4. INCREASED EMPHASIS ON ENSURING THE AVAILABILITY, TRAINING AND READINESS OF U.S. CREWS NEEDED FOR MOBILIZATION OF RESERVE AND FOREIGN-FLAG SEALIFT VESSELS.

Requirements for increased numbers of ready crews are being generated by the expanding size of the Ready Reserve Force, and increased reliance on U.S.-owned, foreign-flagged vessels. In addition, the greater readiness requirements for sealift vessels require better training and more rapid availability of crews to staff them.

to
ar
de
at
or
in

n
tt
ir
s
k
t
f
f
f

ity
he
vy
ill
se
er
or
d
d
e
if
a
r
d
f

5. CONTINUED UNLINKING OF NATIONAL SHIPPING AND SHIPBUILDING POLICIES BY ELIMINATING ALL REQUIREMENTS FOR U.S.-FLAG OPERATORS RECEIVING GOVERNMENT SUPPORTS TO BUILD VESSELS IN U.S. SHIPYARDS.

Specifically, we recommend that operators be allowed to use foreign-built vessels in the U.S. foreign trades and still be eligible for Capital Construction Fund tax deferral, Title XI Federal Ship Loan Guarantees, immediate access to government-impelled cargos and operating subsidy, preferably a new form of operating incentives we propose. (See recommendation #6.)

We believe the half century of requirements to build new vessels in high-cost U.S. shipyards has increased the capital and operating costs of the U.S. shipping industry; has discouraged modernization and expansion of the U.S.-flag fleet; and has contributed to the long-term decline of domestic and foreign waterborne trading opportunities for the U.S. fleet. We support permanent authority for U.S. shipowners to operate foreign-built vessels in the foreign trades while receiving Federal supports, to improve the competitive position, and thus the size and sealift capacity, of the U.S.-flag fleet.

6. AMENDMENT OF CURRENT MARITIME STATUTES THAT IMPAIR THE COMPETITIVENESS OF U.S. VESSELS IN FOREIGN TRADE.

Specifically, we recommend establishment of a new form of operating incentives linked to reductions in crew size and related operating costs; amendment of shipboard manning laws and regulations that prevent reductions in U.S. vessel crew size; and exemption of oceangoing cargo ships from paying duty on foreign

shipyard repairs. Federal supports must be designed to encourage decreases in U.S. operating costs. Crew size and other operating costs must be reduced if the U.S. fleet is to become competitive in the world market and grow to provide increased sealift assets under private control.

7. INCREASED EMPHASIS ON INCENTIVES TO ATTRACT FOREIGN-REGISTERED VESSELS—UNDER U.S. OR FOREIGN OWNERSHIP—TO THE U.S. FLAG.

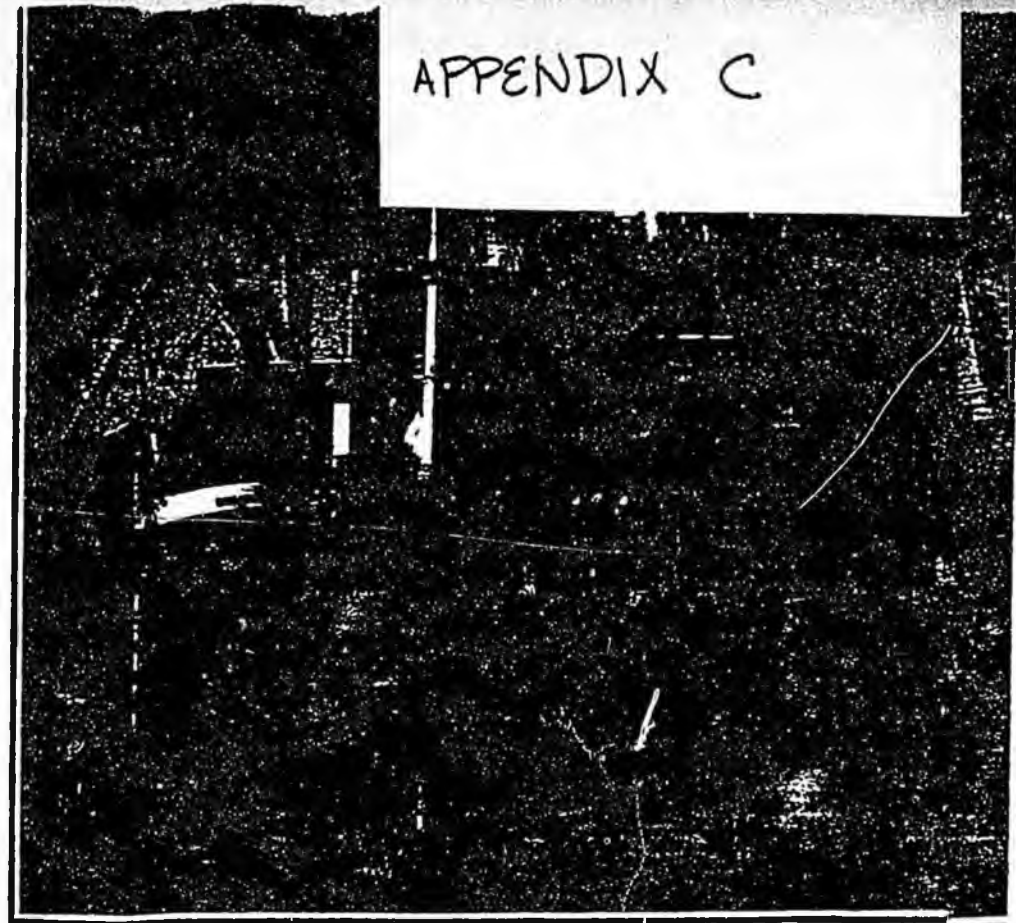
We propose a number of measures to encourage reflagging to the U.S. registry of vessels now under foreign registry. Even a small-scale reflagging would be desirable from a national defense standpoint, because these ships would provide work and training for U.S. crews, would be available for pre-mobilization installation of Sealift Enhancement Features, and would thus increase the sealift readiness of the U.S.-flag fleet.

8. AMENDMENT OF THE JONES ACT TO ALLOW SOME FOREIGN BUILDING OF NEW COMMERCIAL CARGO SHIPS FOR THE JONES ACT DOMESTIC TRADE.

We recommend a 10-year "coproduction" period, requiring building in U.S. shipyards in order to earn transferable credits for building in foreign yards. We suggest that these provisions be applicable only to large, oceangoing self-propelled, cargo-carrying ships that are capable of contributing to the Nation's sealift needs in case of a national emergency. This approach might stimulate a limited increase in commercial shipbuilding orders in U.S. yards, without Federal funding, and would expand and modernize the U.S.-flag, sealift capable cargo fleet.



CONTROL OF THE SEAS IS VITAL DURING WARTIME, BUT CAN OUR U.S. MERCHANT FLEET STILL MEET ITS COMMITMENTS?



OUR AILING MARITIME INDUSTRY

By L. Edgar Prina

NAVAL experts from Mahan to Gorshkov have agreed unanimously that a nation's sea power is made up not of warships alone, but also of its blue-water commercial fleet and shipbuilding assets.

The current administration has done an outstanding job of strengthening the combat potential and readiness of the U.S. Navy in the last four years. It has done little, however, to halt the increasing deterioration of the maritime industry. The 1980 campaign

L. Edgar Prina, a Washington editor and author, is a retired Navy Reserve captain who specializes in naval affairs.

promises to revitalize the merchant marine, which President Eisenhower called "our fourth arm of defense," remain unfulfilled.

America's maritime industry has been ailing for a number of years. It is sicker today than it was yesterday and it will be sicker tomorrow than it is today.

The Pentagon is deeply concerned that in the event of war it will not have sufficient shipping available to support and sustain U.S. ground and air forces overseas, to say nothing of simultaneously meeting the needs of the economy at home.

The dramatic decline of the U.S. maritime industrial base is told in these stark statistics:

- In 1950, the U.S. ranked first in the world in numbers of ships and in carrying capacity or deadweight tonnage (dwt). Today, it stands 10th in ships and eighth in dwt.

The Soviet Union, which was virtually off the charts in 1950, ranked 26th in ships in 1960 and is now number two. It ranks seventh in carrying capacity.

- As of Aug. 15, 1985, only eight U.S.-flag commercial vessels were under construction or on order in American yards.

- U.S.-flag ships carried only 5.8 percent of the total tonnage of our foreign trade—the world's largest—in 1983. It carried 21 percent in 1950.

That's not all the bad news. Thirty private U.S. shipyards have gone out of business in the past eight years. Currently, 24 major and 85 smaller yards remain in operation.

With the global glut of commercial ships not expected to ease before 1992, and non-subsidized U.S. yards unable to compete with the lower labor costs enjoyed by foreign builders, some experts believe that as many as seven

A SHRINKING FLEET—American ports such as Seattle always seem busy, but the ships are mostly foreign.

ters, as well as for shipyard workers.

There also is the Kremlin factor. The Soviet Union began expanding its merchant marine by cutting rates far below the profit line. It was thus able to penetrate and then dominate a number of trade routes. This had led to shrinking Western merchant fleets, bankruptcies and disinvestment in the shipping industry.

Extremely close coordination exists between the Soviet merchant marine and the Soviet navy. Acting as a naval auxiliary, the merchant marine exercises regularly with the fleet. Naval officers command and staff the merchantmen, most of which are readily adaptable for military use.

The Soviet Union, in short, knows the importance of a large and versatile merchant marine. It has learned well the lessons of Admiral Alfred Thayer Mahan, even if the United States appears to have forgotten them.

The decline of the U.S. merchant marine has had a grave impact upon our capability for reinforcing and supporting American military units overseas. Many officials have been reluctant to concede this. The true situation is masked by optimistic calculations of potential losses to enemy attack or to the number of bottoms that would be available from allies and the fleet of American-owned ships that sail under Liberian, Honduran, Panamanian and other flags.

Admiral James D. Watkins, Chief of Naval Operations, was one who did speak out. In a little-noticed speech last April, he said:

"Can we allow this vital arm of sea power (merchant marine) to atrophy by

default any further? I say, no. If we do, our nation could easily be crippled by determined foes and they know it."

Pointing out that the British barely prevailed in the Falklands War with a merchant fleet twice as large as ours, the admiral said:

"Today, our sealift studies show that it would essentially take every single U.S.-flag merchant ship and most of those of our allies just to support our forward deployed forces in a large-scale conflict. And that doesn't even include any additional ships for attrition."

Losses very likely would be staggering, particularly in the early weeks, given the large and powerful fleet of Soviet nuclear submarines armed with missiles and torpedoes.

IT HAS been widely assumed that great numbers of allied merchant ships would be made available to the United States in the event of a NATO war. But allied commercial fleets have been shrinking for years and the end is not in sight. The British merchant navy numbered 1,592 ships in 1975. It is now down to 685. Norway, France and Italy have 600 fewer ships today than they had 10 years ago.

Despite the atmosphere of gloom and doom that pervades much of the maritime industry today, the situation is not hopeless. If the American people and their representatives in Congress could be alerted, a number of reasonable, logical and legal actions could be taken to protect and preserve the maritime base.

First, the President could order the strict enforcement of the cargo preference laws already on the books. A new report by the Congressional Office of Technology Assessment quoted liner operators who said that the requirement for 50 percent of U.S. government

Continued on page 52

other major and 35 smaller yards could be forced to shut down by 1990.

Ship operators have done somewhat better than the builders. Construction differential subsidies (CDS) were halted by the administration in 1981, but operating differential subsidies (ODS) are still being paid. The subsidies were designed to help operators and builders meet foreign competition.

With a few exceptions, however, things have not been rosy for the operators either. Of 19 American liner companies in business in 1965, only seven remain and one of them has filed for bankruptcy.

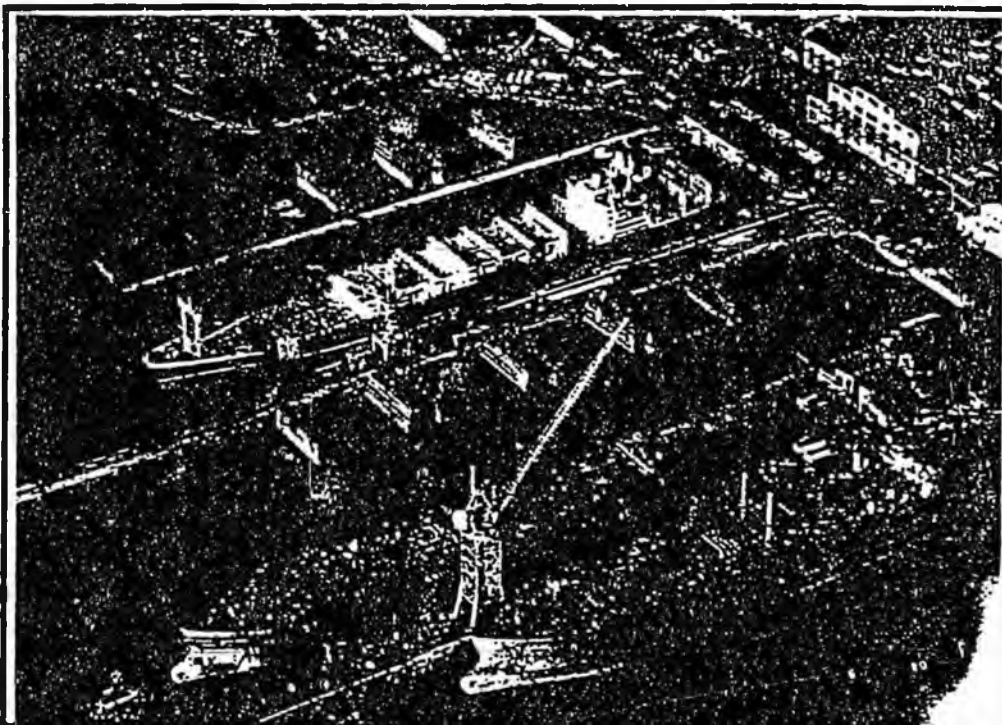
The number of U.S.-flag ships in the active, privately owned ocean-going commercial fleet today totals 383. It could easily drop to 300 or fewer by 1990, if no remedial action is taken by the government.

Several major factors have caused this erosion of the U.S. maritime industry.

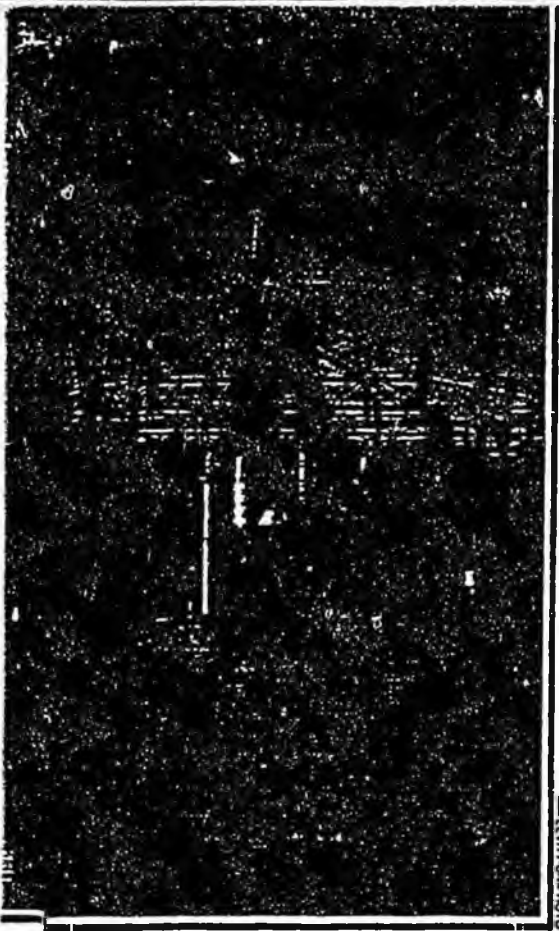
More and more countries have adopted cargo preference programs to aid their commercial fleets, something the United States has declined to do because it would violate the principle of free trade.

U.S. competitiveness was limited by the high salary structure labor unions negotiated for seamen, mates and mas-

SHAKY TIMES—Unable to compete with the cheap labor of foreign shipbuilders, U.S. shipyards face an uncertain future.



ALLAN SEEDER/UNIPHOTO



"GIMME A LIGHT!"

"AND MAKE IT RIGHT WITH MY NEW BUD LIGHT DRINKING STEIN!"

It's the drinking stein that brings the famous Bud Light commercial to life! Now toast your favorite plays — or share a few with your poker buddies. Heavy duty flint glass stein holds a hefty 15 ounces. Just flip open the gold-tone, screw bottom lid, (metal covered with durable melamine), and enjoy! Buy one for the whole crew — and keep one as a collectible, cool Satisfaction guaranteed. Made in U.S.A.

Lid easily flips open, and screws open, as you hold the handle and lever!



\$14.95 (plus \$2.50 S&H each)

Call 1-800-431-9003
24 hours a day, 7 days a week

Amex, Visa and MasterCard honored.
N.Y. residents, add applicable sales tax

Send \$1.00 for Spring '86 four color catalog or free with order!

To order, please call number above, or send check, indicating item #AL14 to:

Dare To Be Different™
Box 548, Dept. AL-14, Armonk, New York 10504

An authorized licensee of Anheuser-Busch, Inc.

MARITIME INDUSTRY

Continued from page 25

cargoes to be shipped in American-flag bottoms is "not being met in a single U.S. preference program."

Indeed, of 55 Postal Service contracts issued in fiscal year 1984 to carry U.S. mail overseas by ship, 43 were awarded to foreign-owned, foreign-flag vessels. Four of the contracts went to Poland's state-controlled line and one to communist Yugoslavia.

Senator Daniel K. Inouye of Hawaii and Rep. Helen Delich Bentley of Maryland introduced bills earlier this year to require the Postal Service to use American ships.

Another popular assumption is that the Navy, in time of war, could draft U.S.-owned ships flying foreign flags and crewed by non-Americans. Unfortunately, many of the 400 vessels in this fleet are huge tankers having little military usefulness.

Given these circumstances, the U.S. Navy recognized it had to do something to guarantee that at least a minimum number of merchant ships would be immediately available if war should come. Accordingly, it has been buying surplus commercial ships for its Ready Reserve force. Current plans are for a total of 116 ships to be ready for sea within five, 10 and 20 days of the outbreak of a national emergency.

The Navy's new construction and ship repair programs have been a godsend to the U.S. shipbuilding industry, accounting for more than 80 percent of its current workforce. Since 1981, the number of yards involved in Navy work has increased from nine to 21. But as large as these programs are—the Navy has obligated more than \$50 billion for them over the past five years—they cannot, by themselves, sustain the present maritime industrial base.

Outraged by what she asserted was a violation of the Merchant Marine Act of 1936, Bentley made this point on the House floor in July:

"It is bad enough that foreign-flag ships of friendly nations are allowed to carry U.S. mail, but I think it is a national disgrace that the privilege to carry this important cargo is now enjoyed by Soviet-bloc vessels."

The current administration, with an assist from Congress, could restore construction subsidies to encourage the building of 20 merchant ships a year in U.S. yards, as suggested in a recent

Continued on page 54

THERE IS MONEY TO BE MADE SELLING KNAPP SHOES

Start earning extra cash instantly... Plus receive a 30% discount on a pair of cushion comfort Knapp shoes for yourself from the largest direct selling shoe company in the entire country. Over 20,000 sales people like yourself are making money every day selling from our full color catalog featuring over 750 attractive styles for men and women including dress, casual, work, safety and outdoors. Knapp will send you a complete FREE SELLER KIT, including everything you need to get started earning extra money immediately. There is no risk when you sell Knapp shoes. We support our sales people with free training and back our shoes with an unconditional money back guarantee. No cost. No obligation. Send coupon today!!

Thomas McCaffrey, KNAPP SHOES, One Knapp Centre
Dept. 5582, Brockton, MA 02401

Name _____
Address _____
City _____ State _____ Zip _____

KNAPP America Works in Knapp Shoes

MAN'S WIG \$9.95

Stretch Wig Completely Covers All Your Hair



Slide in place on all size heads—easy to put on. Thinned and razor cut—handsome tapered look and full sideburns. Cool and lightweight. Made of modacrylic fiber—looks and feels like real hair—has luster, rich body and bounce of human hair. Can be washed and shampooed—never loses its shape—can be combed, trimmed and restyled if you wish. Mention style number and color desired: Black, Off Black, Chestnut, Dark, Medium or Light Brown, Dark Blonde, Grey and Black mixed, Grey and Brown mixed. Send \$9.95 plus \$1.98 for shipping and handling. Money back guarantee if not satisfied.

FRANKLIN FASHIONS, Dept. M-612,
102 E. Hawthorne Ave., Valley Stream, NY 11580

END READING STRAIN



Read Clearly—Save Money

Modern one-piece frameless reading glasses for better looks, easier reading. Ideal for fine print in phone books, Bible, catalogs. Perfect for sewing, hobbies. Not Rx or for astigmatism. Sold elsewhere for up to \$20, our price only 98 98 plus \$1 25 postage and handling. Save even more, order two pair for only \$16 98 plus \$1 75 shipping. State age and sex when ordering. Check or MO to:

Burton Taylor
Room 104 Box 269 Millwood, NY 10546

Florida's best retirement addresses

Send now for your big 100-page guide to Florida's finest manufactured home communities. This handsome color volume spotlights over 75 top parks and is just chock full of information about locations, facilities and prices.

Plus, you'll see how Florida's best selling home — the EnerGmiser — is manufactured. This special bonus section tells the EnerGmiser story with genuine factory photos, revealing why they are the best selling...and showing how solid and beautiful your retirement home can be.

Complete the coupon and return it with your check or money order. We'll rush you FLORIDA'S BEST RETIREMENT ADDRESSES right away.

THE GUIDE TO FLORIDA'S FINEST MOBILE HOME RETIREMENT COMMUNITIES

BONUS
100 FACTORY PHOTOS
OF THE BEST SELLING
MOBILE HOMES

Mail coupon with check for \$9.95 payable to:
Palm Harbor Homes, Inc.
605 S. Frontage Rd., Plant City, FL 33566

Name _____
Address _____
City _____ State _____
Zip _____ Phone (____) _____

EARN A CASH COMMISSION with every order for Mason Shoes

No Investment Required. That's right. A part time business that pays you instant cash without any investment. Sell quality Mason Shoes to your friends, neighbors and relatives and earn \$100-\$300, or more per month. Just take orders from your Mason full-color catalog with over 400 shoes for work and leisure. They're America's finest shoes at reasonable prices. All you do is make the sale, take a cash deposit which you keep for your instant commission. Write for details.

Mason Shoe Mfg. Co.
Chippewa Falls, WI 54774

SEND FOR FREE SALES KIT



Mason Shoe Mfg. Co.
Dept. F-743
Chippewa Falls, WI 54774
Please rush giant
FREE catalog & starting kit to:



Name _____
Address _____
City _____
State _____ Zip _____

5 Wheat Pennies



.10¢

LAST OF THE WHEAT PENNIES. (1909 to 1958). FREE price list of U.S. coins and some coins to examine for purchase. No obligation to buy. LIMIT 1 SET. ADULTS ONLY. Satisfaction guaranteed.

Village Coin Shop, Inc., Dept. A
Plaistow, NH 03865

AWARD CASES
Hardwood, walnut finish. Full 1" between glass and velvet mounting board.
5 1/2" x 11 1/2", 8 1/2" x 12 1/2", 11" x 14" - 128.65 includes U75
R. Andrew Fallat Co
Box 2071-L, Pawt, RI 02861
Brochure \$1.00 (refundable)

HERNIA APPLIANCES FOR COMFORT!

You can enjoy heavenly comfort night and day at work or at play! Send for FREE illustrated booklet.



BROOKS APPLIANCE COMPANY
822 Michigan Ave., Marshall, Mich. 48068

MARITIME INDUSTRY

Continued from page 52

Congressional Budget Office report. This would be enough, the CBO said, along with projected naval programs, to maintain the current industrial base.

The Navy could provide additional help if it withdrew its objections to the building of foreign warships in American yards.

Commercial shipping and shipbuilding depend upon cargo availability. The administration could aid both by entering into bilateral agreements with its allies to share the carriage between their countries.

U.S.-flag ships would benefit also if the United States would approve the U.N. Conference on Trade and Development Code of Conduct for Liner Conferences, as many West European countries and Japan have done.

Some students of maritime affairs, such as Dr. Harlan K. Ullman of the Georgetown Center for Strategic and International Studies, believe the present industrial base could be preserved at an annual cost of \$2 billion.

The United States needs to develop a comprehensive, coordinated maritime policy at the earliest moment. Critical to this policy is a determination of the minimum number of commercial ships and shipyards needed for the mobilization base.

As Vice Admiral William H. Rowden, then-commander of the Military Sealift Command, said last May:

"The U.S.-flag merchant marine and shipbuilding industry is the cornerstone of our wartime sealift capability. It's clearly in the best interests of the United States that the American maritime industry survive and prosper."

THE LEGION'S POSITION

The American Legion has long been aware of the urgency to rebuild and modernize the U.S. Merchant Marine Fleet. The resolving clause of Res. 302 reads:

RESOLVED, by The American Legion in National Convention assembled in Salt Lake City, Utah, Sept. 3, 4, and 5, 1984, that we urge the U.S. Government, in cooperation with labor and management, to revitalize the U.S. Merchant Marine to its former position as second to none in the world, under the Merchant Marine Act of 1970."

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

RICHARD P. BRAUN, President
Commissioner
Minnesota Department
of Transportation



FRANCIS B. FRANCOIS
Executive Director

October 10, 1985

President Ronald Reagan
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear President Reagan:

We are writing to you to express our concerns about the maritime industry in the United States, and the importance of establishing a cohesive and comprehensive national maritime policy.

Founded in 1914, the American Association of State Highway and Transportation Officials (AASHTO) represents the departments concerned with highways and transportation in the fifty states, the District of Columbia, and Puerto Rico, to foster the development, operation and maintenance of an integrated national transportation system. The active members of AASHTO are the duly constituted heads and other chief directing officials of the member highway and transportation agencies. As state officials involved with all modes of transportation, we have become increasingly concerned over the problems facing the maritime industry in our country.

As evidenced by trends observed in a number of reports published in recent years, the United States imports and exports significant levels of tonnage every year, but the percentage of foreign trade which is transported in U.S. flag ships has steadily declined. Additionally, the number of vessels in the U.S. overseas fleet has declined from 1,100 ships in 1950 to fewer than 400 today, while construction of ships in U.S. shipyards has virtually ceased. At the same time, the U.S.S.R. has over 2,500 vessels in its merchant fleet. It appears that our defense posture and our ability to respond to overseas conflicts may well be diminished by the lack of a merchant marine fleet to call into military service. The import and export industries are also important to the U.S. in other ways. For example, millions of people are employed in manufacturing, agricultural, mining and other jobs related to exports, alone.

President Ronald Reagan
October 10, 1985
Page two

AASHTO believes that the significant changes taking place in this most important industry are occurring, to the detriment of our country, without the benefit of the clear direction that a comprehensive national-level policy could provide.

In the past, several programs have been initiated or proposed to promote our exports and development of the U.S. merchant marine. These have included the following:

- o A proposed promotional program to allow for overseas construction of U.S. vessels without loss of operating subsidies, authorize U.S. vessel operators to use certain tax-deferred funds to purchase foreign built ships, make vessels newly transferred from foreign to U.S. registry immediately eligible to carry government preference cargoes, and allow an increase in the percent foreign investment in U.S. flag vessels.
- o Streamlining of the operating differential subsidy program.
- o Proposed reduction in regulations to minimize government intervention in the shipping industry.
- o A proposal to reorganize U.S. trade policy by the creation of a Department of International Trade and Industry.

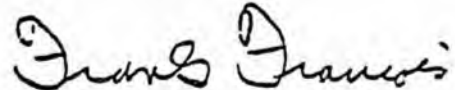
While these programs to stimulate exports and to restructure our maritime assistance programs might be helpful to the maritime industry, they do not constitute a national maritime policy, even when taken collectively. For example, they do not address such critical policy issues as the desired size and composition of the U.S. flag merchant marine fleet; the need for federal subsidies for construction and operation of U.S. flag vessels; whether U.S. cargoes should be reserved for U.S. flag vessels; the role of the merchant marine in national defense and military mobilizations; and the need for domestic shipyard capability.

A recent study by the U.S. Office of Technology Assessment, An Assessment of Maritime Trade and Technology, states that "Existing Maritime policies are a patchwork of measures adopted at various times to address specific needs. They do not add up to a comprehensive and coherent policy with clearly defined purposes," and "it is clear that major new or revised Federal policies are needed if the U.S. maritime industries are to remain healthy in the decades to come". We agree with these findings.

President Ronald Reagan
October 10, 1985
Page three

AASHTO believes that a Presidential directive creating a special maritime task force could be the right catalyst for developing a comprehensive national maritime policy. We thus recently adopted, by a vote of our member departments of 50 affirmative, none opposed, a "Policy Position Statement on Development of National Maritime Policy." A copy of this position statement is enclosed. In that statement we urge that you "create a special task force to study the problems facing our maritime industry, both the government and the private sector, and prepare a final report which recommends a national maritime policy. The composition of this task force should include representatives of all levels of government and the maritime and port industries, both coastal and inland." We would greatly appreciate your giving this recommendation your serious consideration.

Very truly yours,



Francis B. Francois
Executive Director

FBF:djt
enclosure

AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

POLICY POSITION STATEMENT
ON DEVELOPMENT OF
NATIONAL MARITIME POLICY

The presence of a strong U.S. merchant marine fleet is vital to the economy and national defense, to our domestic and international transportation systems and to maintaining the shipment of exports from and imports to all states -- those located inland as well as those having ports on the oceans and Great Lakes. Despite the vitality of the national economy and the growth of exports and imports since 1950, the U.S. merchant marine fleet has been declining in size and capacity, which is threatening our capability to maintain a competitive fleet of vessels for waterborne commerce and defense purposes. The health of the American maritime/port industry is dependent upon the resolution of a wide range of complex issues. These issues encompass diverse areas such as the huge task of maintaining and improving the inland and deep water port complexes, user charges, intermodalism and related issues, shipbuilding and repair, subsidy for construction and operation of the U.S. merchant fleet, cargo reservation policies, federal regulation of oceanborne commerce, commercial trading relationships with other countries, implementation of international trade agreements, the UNCTAD Code, and cross-border movements.

Contributing to the decline of the U.S. position in world trade has been the lack of a comprehensive and consistent national maritime policy.

AASHTO urges the Administration to direct immediate attention to the development of a national maritime policy. The President has addressed other critical national issues by creating special task forces to define the problems and recommend solutions. Because of the acceptance of this approach, AASHTO recommends that the President create a special task force to study the problems facing our maritime industry, both the government and the private sector, and prepare a final report which recommends a national maritime policy. The composition of this task force should include representatives of all levels of government and the maritime and port industries, both coastal and inland.

Adopted by mail ballot by the
AASHTO Policy Committee,
August 8, 1985

MEMORANDUM

State of Alaska

TO: Senator Frank Ferguson
Co-chair, Joint Special Committee

DATE: September 10, 1986

THROUGH: Gordon S. Harrison, Associate Director
Office of Management and Budget

FILE NO: 87-592

TELEPHONE NO: 465-3568

FROM: Gregg Erickson, Senior Economist
Division of Strategic Planning
Office of Management and Budget

SUBJECT: The Jones Act and the
Price of Alaska Oil

GE

Introduction

At the July 21 meeting of the Joint Special Committee on Tax Policy you requested that OMB provide you with background information and material regarding the Jones Act and the price of Alaska oil.

Background

Shipyard inefficiencies, lack of competition, and high labor costs, make American ships two to three times as expensive to build and operate as their foreign counterparts. Despite these higher costs, virtually all waterborne commerce between Alaska and the rest of the United States moves in U.S. rather than foreign ships. The reason is the Jones Act (Sec. 27 of the federal Merchant Marine Act of 1920), which requires that maritime trade between U.S. ports be carried in ships built in the U.S., documented under U.S. law, owned by U.S. citizens, and crewed by Americans.

Trade goods shipped between the Alaska and American ports must bear this burden, either as lower return to the seller or a higher price to the buyer. As a practical matter, Alaska usually bears the burden regardless of which way the commerce moves. In the case of Alaska crude oil, the burden is reflected in reduced wellhead values; over \$100 million per year may be lost to the State treasury due to lower severance taxes and royalties.

A related burden on the value of Alaska oil comes from the Export Administration Act of 1979 and other U.S. laws that prohibit the foreign export of Alaska oil. The prohibitions deny Alaska oil its most profitable markets in the Far East, and thus make the oil less valuable at the wellhead. A recent study by the federal Department of Commerce estimated the loss to the State treasury at \$333 million per year.

Some oil companies have opposed any relaxation of the export limitations, noting that much of their investment in U.S. flag tankers could be lost if exports were allowed. Oil companies'

production revenues would be enhanced if exports were allowed, however, and this would marginally encourage additional development of existing fields and further exploration.

Recent Studies

Several recent studies have addressed these issues. An annotated listing of those that appear most interesting in terms of the State revenue implications is attached. Copies of the studies themselves are attached with the original of this memorandum.

GKE/dmc

Attachments

cc: Committee Members

**Annotated Listing of Selected Studies
On The Jones Act, Oil Export Limitations,
and Alaska Oil Revenue**

U.S. Department of Commerce, *Report To Congress on Alaskan Oil*, June 1986. In 1985 Alaska made an unsuccessful effort in Congress to amend the Export Administration Act to allow some exports of Alaska oil. As a consolation prize for Alaska, Congress authorized and directed the administration to conduct the study that led to this Report. According to the study, the export limitations will cost Alaska \$1,330 million in the 1987-90 period (\$333 million per year), \$1,510 million in 1991-95, and \$1,116 million in 1996-2000. The study's findings generally support Alaska's position, though the authors make some factual errors and incorporate a number of unusual assumptions. For example, the federal study's "low" oil production scenario shows about twice as much annual production as the state's current "mean" production forecast.

Samuel A. Van Vactor and Arlon Tussing, "The Export of Alaska Crude Oil: Its Significance for Pacific Basin petroleum Trade," prepared for the International Association of Energy Economists annual meeting, June 1986. The authors believe that "[o]ver the coming year...the distortions and waste entailed by [the export limitations] will become more apparent, and as they come to light, the policy is likely to change. Once the inhibition on exports of Alaska oil is removed, there will likely be a cascade of reactions that will substantially increase crude-oil and petroleum product trade throughout the Pacific Basin."

State of Alaska, *Report to the Legislature on Implementation of Initiative 83-02*, January 1986. The initiative was adopted by the voters in 1982. It directs the governor to work for repeal of the Jones Act, and to annually report on those efforts. This was the first of these annual reports, and was largely prepared by John Katz and his staff in the governor's Washington, D.C. office. The report uses data from the Alaska Statehood Commission studies (cited below) to estimate that the Jones Act costs Alaska consumers \$40 million per year, and the state treasury \$225 million. The report is not optimistic about the prospects for near-term fundamental change in the trade restrictions.

National Advisory Committee on Oceans and Atmosphere, *Shipping, Shipyards and Sealift*, July 1985. The report focus on the national security implications of the Jones Act. It concludes that the nation's defense capabilities would be improved if foreign built ships were allowed to be used in the domestic maritime trade. The authors say they had access to "secret" and "official use only" Department of Defense materials on sealift capacity, etc.

Alaska Department of Revenue, "The Export of Oil to Japan - State Revenue Impacts," by Dr. Charles Logsdon in *Petroleum Production Revenue Forecast Quarterly Report, March 1983*. "Under a wide range of assumptions the State of Alaska would enjoy revenue increases should the current ban on exports [of Alaska North Slope crude oil] be removed. Though the impact illustrated ranges between \$10 and \$500 million per year..., the best guess revenue impact would probably be about \$50-\$100 million per year."

Simat, Hellieson, & Eichner, Inc., for The Alaska Statehood Commission, *The Jones Act and Its Impact on the State of Alaska*, July 1982; and Arlon R. Tussing and Associates, Inc., for The Alaska Statehood Commission, *Alaska's Economy and the Merchant Marine Act of 1920 (the Jones Act)*, September 1982. Though now somewhat out of date, these two studies still remain the best starting point for anyone wishing a good understanding of the effects of the Jones Act (and the export limitations) on Alaska.

Original sponsors: Coghill, Kerttula,
Faiks and Jones

1 IN THE SENATE BY THE FINANCE COMMITTEE
2 CS FOR SENATE JOINT RESOLUTION NO. 11 (Finance)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - SECOND SESSION
5 Urging the repeal of certain portions of
6 the Merchant Marine Act of 1920.
7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:
8 WHEREAS the Merchant Marine Act of 1920, commonly known as the Jones
9 Act, requires that vessels carrying goods between United States ports be
10 built and registered in the United States and owned and crewed by United
11 States nationals; and
12 WHEREAS the Act gives domestic-built vessels protection from free
13 market competition by foreign ships that have much lower construction and
14 crew costs; and
15 WHEREAS, as is typical of protected markets, higher freight rates may
16 follow in the United States coastwise trade; and
17 WHEREAS the Act was originally passed to build a sheltered environment
18 for United States vessels to create domestic prosperity and wartime secur-
19 ity, yet the United States merchant fleet has dropped by half since World
20 War II while the world tonnage has gone up sixfold; and
21 WHEREAS Alaska, Hawaii, and the noncontiguous territories of the
22 United States bear the cost of that sheltered environment even though it
23 was created to benefit all Americans; and
24 WHEREAS the Alaska trade now supports nearly one-third of the entire
25 Jones Act fleet; and
26 WHEREAS the effect of the Act is to reduce Alaska's state oil revenue,
27 to raise the cost of all domestic freight coming to Alaska, and to discour-
28 age the development of new oil fields and mineral deposits in Alaska; and
29 WHEREAS the direct cost to Alaska's treasury due to the Act has been

1 estimated at \$63 - \$176 million yearly and the direct cost to the federal
2 treasury has been estimated at \$135 - \$378 million yearly;

3 BE IT RESOLVED by the Alaska State Legislature that the United States
4 Congress is urged in the national interest to repeal those portions of
5 46 U.S.C. 883 that adversely affect the coastwise trade by prohibiting the
6 use of foreign-built vessels; and be it

7 FURTHER RESOLVED that until the Act is so amended, the United States
8 Congress is urged to allow foreign-built ships into the Jones Act trade if
9 they meet American safety standards, are registered in the United States,
10 and are owned and crewed by United States nationals.

11 COPIES of this resolution shall be sent to the Honorable Ronald .
12 Reagan, President of the United States; the Honorable James H. Burnley IV,
13 Secretary of Transportation; the Honorable Ted Stevens and the Honorable
14 Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Repre-
15 sentative, members of the Alaska delegation in Congress.

1 IN THE SENATE

BY COGHILL, KERTTULA,
FAIKS AND JONES

2

SENATE JOINT RESOLUTION NO. 11

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

Urging the repeal of certain portions of

6

the Merchant Marine Act of 1920.

7

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8

WHEREAS the Merchant Marine Act of 1920, commonly known as the Jones

9

Act, requires that vessels carrying goods between United States ports be

10

built and registered in the United States and owned and crewed by United

11

States nationals; and

12

WHEREAS the Act gives domestic-built vessels protection from free

13

market competition by foreign ships that have much lower construction and

14

crew costs; and

15

WHEREAS, as is typical of protected markets, higher freight rates may

16

follow in the United States coastwise trade; and

17

WHEREAS the Act was originally passed to build a sheltered environment

18

for United States vessels to create domestic prosperity and wartime secur-

19

ity, yet the United States merchant fleet has dropped by half since World

20

War II while the world tonnage has gone up sixfold; and

21

WHEREAS Alaska, Hawaii, and the noncontiguous territories of the

22

United States bear the cost of that sheltered environment even though it

23

was created to benefit all Americans; and

24

WHEREAS the Alaska trade now supports nearly one-third of the entire

25

Jones Act fleet; and

26

WHEREAS the effect of the Act is to reduce Alaska's state oil revenue,

27

to raise the cost of all domestic freight coming to Alaska, and to discour-

28

age the development of new oil fields and mineral deposits in Alaska; and

29

WHEREAS the direct cost to Alaska's treasury due to the Act has been

1 estimated at \$63 - \$176 million yearly and the direct cost to the federal
2 treasury has been estimated at \$135 - \$378 million yearly;

3 BE IT RESOLVED by the Alaska State Legislature that the United States
4 Congress is urged in the national interest to repeal those portions of
5 46 U.S.C. 883 that adversely affect the coastwise trade by prohibiting the
6 use of foreign-built vessels; and be it

7 FURTHER RESOLVED that until the Act is so amended, the United States
8 Congress is urged to allow foreign-built ships into the Jones Act trade if
9 they meet American safety standards, are registered in the United States,
10 and are owned and crewed by United States nationals.

11 COPIES of this resolution shall be sent to the Honorable Ronald
12 Reagan, President of the United States; the Honorable Elizabeth Dole,
13 Secretary of Transportation; the Honorable Ted Stevens and the Honorable
14 Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Repre-
15 sentative, members of the Alaska delegation in Congress.

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of Month 5-DAY NOTICE
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: Amended

**FISCAL NOTE(S) ATTACHED ✓ **
IN ACCORDANCE WITH AS 24.08.035
(see below)
2/5/87

DATE TURNED INTO OFFICE 3/12/87

Mr. President:

RESOURCES _____ Committee considered _____ SJR 11

Urging repeal of certain portions of the Merchant Marine Act of 1920.

and recommended:

[] replace with CS _____ [] same title
[] attached amendment(s) and [] new title

[✓] do pass

[] do not pass

[] no recommendation

[] individual recommendations

[] further referral to _____

[] letter of intent adopted and attached

** Committee [✓] attached or [] adopted fiscal note(s)
[✓] zero [] fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]

[Signature]
Chairman signature and recommendation

[] Committee Backup Attached