

**REAUTHORIZATION OF THE MARITIME
SECURITY PROGRAM**

HEARING

BEFORE THE

SPECIAL OVERSIGHT PANEL ON THE MERCHANT
MARINE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

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**U.S. OWNERSHIP AND CONTROL OF VESSELS
OPERATING IN THE MARITIME SECURITY PROGRAM**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SPECIAL OVERSIGHT PANEL ON THE MERCHANT MARINE,
Washington, DC, Tuesday, July 16, 2002.

The panel met, pursuant to call, at 3:54 p.m., in room 2212, Rayburn House Office Building, Hon. Duncan Hunter (chairman of the panel) presiding.

OPENING STATEMENT OF HON. DUNCAN HUNTER, A REPRESENTATIVE FROM CALIFORNIA, CHAIRMAN, SPECIAL OVERSIGHT PANEL ON THE MERCHANT MARINE

Mr. HUNTER. Okay, folks, we apologize for the delay, here. That is the way the House works. When they are ready to vote, we vote. And hopefully we will have about an hour or so before we have to go back.

The special panel will come to order.

And I would first like to welcome the witnesses that are scheduled before us today. And, again, thanks. And thanks for your patience.

Although we have some time before the current Maritime Security Program (MSP) expires, the panel wanted to get started right now with the hope that we can get something enacted well before the current expiration date of 2005.

I understand that getting agreement among all the disparate interests will be difficult and I also understand that paying for a new program will be equally challenging. What I hope the panel will do is work through each of the difficult issues, with a goal of getting agreement on a consensus package that we can all unite behind. It is clear to me at this point that we will not be able to satisfy each and every desire.

This is the first of what I hope will be several additional hearings relating to the Maritime Security Program. The next hearing will address issues related to commercial shipbuilding and the MSP program. I hope that hearing will also address additional incentive programs, such as needed changes to our tax laws. We may also need to hear from other components, such as the bulk operators.

Before we proceed to markup, I believe the panel will need to hear from those within the government who set the requirements for commercial reserve sealift capability. Accordingly, I will invite the head of the Transportation Command, General Handy, to testify.

We all know that if we do not get his support for the key elements that reauthorization of MSP will be very difficult. And quite frankly, I think these two gentlemen recognize that we are not just getting access to ships in the Maritime Security Program, but also the infrastructure that goes with them. We need to hear the importance of that part of the package.

Finally, after we build the record, I want to get the administration before this panel to hear their view, get their support, and, most importantly, receive a commitment to include funding for a new program in their budget.

And I want to thank Mr. Allen and Mr. Taylor. And Mr. Allen is the ranking member. He has given us great support and guidance. And I understand he is not with us right now. But Mr. Taylor is here and I would like to let him make any comments that he might wish to make.

Mr. Taylor.

[The prepared statement of Mr. Hunter can be found in the Appendix on page 49.]

STATEMENT OF HON. GENE TAYLOR, A REPRESENTATIVE FROM MISSISSIPPI

Mr. TAYLOR. Thank you, Mr. Chairman. I was not expecting Mr. Allen not to be here. So, if you do not mind, whatever statement he had, we will just send it to the record.

Mr. HUNTER. Excellent.

And if any other members have any statement they would like to make, please feel free. Does anybody else have anything they would like to say before we get started with testimony?

In that case, why don't we just, for purposes of convenience right now, just start with Mr. Alario and let's just go right across the panel, left to right.

And Mr. Alario, the floor is yours, sir.

STATEMENT OF MR. ROBERT J. ALARIO, PRESIDENT, OFFSHORE MARINE OPERATORS' ASSOCIATION

Mr. ALARIO. Thank you, Mr. Chairman.

Good afternoon, members of the panel.

My name is Robert J. Alario. I am privileged to serve as president of the Offshore Marine Service Association (OMSA), which is based in New Orleans, Louisiana. My association represents approximately 250 companies that are engaged directly or in general support of offshore oil and gas exploration, drilling, or production, worldwide.

A list of our members has been attached, for the record. And our members and crews, it should be known, operate in excess of 1,200 vessels worldwide. These are special purpose, unique vessels. But, nevertheless, though we are often regarded as sort of second cousins to the merchant marine, we are part of the U.S. flag fleet and the largest participating marine interests that operate both domestically and in foreign theatres.

We wish to thank you, Mr. Chairman for this opportunity, first and foremost, to express our fundamental support for an effective reauthorization of the U.S. Maritime Security Program (MSP).

At the same time, however, we are compelled to express our opposition to proposals to repeal, relax, or modify Section 2 U.S. citizenship provisions of law that govern companies that would own and operate ships under the Maritime Security Program.

While OMSA companies do not operate ships in the Maritime Security Program, we are concerned that the proposed change to U.S. maritime law governing U.S. citizenship requirements, that is Section 2 requirements, for vessels that are operating under the U.S. flag poses, in our opinion, a more fundamental, potentially corrosive threat to the citizenship requirements for operation of U.S. flag vessels, not only in this area, but in others.

We feel that the proposed change would, inexorably and inevitably, erode our ability to truly control the ownership, loyalty, and reliability of access to vessels operating in our nation's domestic and, more particularly in our case, offshore maritime sectors that presently fall within the Jones Act, as well as within the MSP.

We have been assured that the proposals to modify ownership requirements from Section 2 to documentation citizenship to qualify for operation of U.S. flag vessels within this Maritime Security Program will not translate into an erosion of citizenship standards relative to Jones Act operations. We desperately want to believe this, but our experience, and particularly our experience since 1996, when several potential loopholes have been opened up in U.S. law, our experiences simply do not support this thesis, unfortunately.

The underlying pillars of our maritime laws have been and are, clearly, to foster American ownership, operation, construction, and crewing. These principles are embodied in our maritime laws in order to ensure that the United States has the industrial capability to build a fleet of vessels that are controlled by American companies and crewed by American citizens to meet our national security requirements, in particular.

A Section 2 U.S. citizen, if not protected in the implementation of the MSP program, would be placed in an unfair, uncompetitive position. As compared with a documentation citizen, the Section 2 company is subject to U.S. corporate taxes, significantly more stringent regulation and liability exposure.

To expand the program to include non-citizen participants would eventually force the American companies to go "foreign" in order to compete, or, more likely, relinquish the field entirely to foreign-controlled companies.

Now, we believe that a change to any one of the three underlying pillars or principles of historical U.S. maritime policy, in our opinion, will have a direct impact on the others.

And we perceive that changes to maritime laws governing the ownership of vessels operating in the U.S. to foreign trade will, prospectively, also probably impact the fleet serving our domestic trade, arguments notwithstanding. If we are right, it will, unfortunately, be too late to correct the problems that are created by the liberalization of the citizenship requirements.

The changes being proposed to this panel, we believe, would create a new, and, we further believe, a dangerous exception to the fundamentally sound Section 2 citizenship requirement by permitting, for extended periods foreign-owned and controlled companies to operate maritime security vessels, if it is a party to a special se-

curity agreement with the Department of Defense. The implication, which is arguable, is that a special security agreement is an adequate substitute for independent Section 2 citizenship.

We contend a foreign company with a special security agreement, or SSA, does not, in our opinion, necessarily ensure the U.S. Government reliable access to a vessel under all circumstances.

OMSA, though it does not participate in the Military Security Program is extremely sensitive to and supportive of the objectives that U.S. crews and their jobs within this program and beyond be protected. But we do not see that the promotion and retention of Section 2 U.S. citizenship requirements would adversely impact that objective. To the contrary, we believe that this approach, in the long-term, is more consistent with U.S. interests.

If the attempts to achieve reauthorization of the program, which we do support wholeheartedly, comes at the expense of compromising the Section 2 citizenship requirements currently in U.S. law, we respectfully maintain that this proposed compromise, offered to obtain a short-term solution, if you will, will, inevitably, undermine the Jones Act and, ultimately, although unintentionally, this proposal will have, we think, the opposite, adverse effect or impact on jobs for U.S. mariners; the economic viability of U.S. vessel owners and marine operators; and upon reliable U.S. control of marine assets engaged in routine commercial Jones Act trades; as well as more sensitive operations critical to our national security.

So we say that reauthorization under the purview of this panel and the committee must be, hopefully, obtained by other means, if at all possible.

In the final analysis, the proposal to give documentation citizen companies the right to operate vessels directly in the program concerns us greatly.

While we are anxious to expedite congressional reauthorization, Mr. Chairman, of this program, we are opposed to sacrificing the concept of Section 2 citizenship and the broader problems it prospectively creates for U.S. vessel owners, operators and mariners.

We believe, and respectfully request, that this committee does favorably receive and advocate those positions and actions, instead, as proposed by industry and the maritime unions that would, as all of us would want to see and that we can agree upon, enhance the economic and national security benefits of the United States; expand the program to authorize additional privately owned, under the provisions of Section 2 citizenship, we say, militarily useful United States flag commercial vessels; establish an MSP payment schedule that better reflects the cost of doing business under the U.S. flag operations by extending the term and increasing the level of payments under charter; and, in general, enact provisions that would provide reasonable flexibility in the administration of the program.

In all of these respects, we can and do support what our counterparts and other stakeholders who may have either a direct or indirect interest in the program, and an interest in the ramifications that might follow from the modifications to the program.

We clearly accept the fact that there are parties, beside ourselves, who will appear before this panel that feel very protective of the Jones Act and would guard it jealously. For example, I per-

sonally know Mr. Eric Johnsen, and have the highest respect for this gentleman. I am well aware of his personal commitment to maintain the integrity of the Jones Act, as I do the maritime unions.

Some of these people will not agree with us on the Section 2 citizenship issue. They may be in favor of allowing foreign-controlled documentation citizens with equivalency with Section 2 U.S. citizens under certain circumstances, within this subject program.

So, Mr. Chairman, we would, respectfully, ask the panel to include specific language, as this hearing proceeds, to make it clear that no matter what the outcome of these hearings may be, there should be no action taken or inference made available through the hearings which could have a precedential impact or influence with respect to weakening Jones Act operations.

And I believe that everybody in this room today, while we may have some disagreements, would agree and support that if the committee sees fit and finds it possible to do that.

We submit that our concerns are real and not theoretical. We are already seeing that since 1996 foreign companies have used several newly available loopholes in the law to proceed to infiltrate maritime services that have been traditionally protected by the Jones Act.

And we, therefore, urge Congress to move quickly, but cautiously, to reauthorize the MSP, but to reject, in this process, any effort or proposal that would weaken U.S. Maritime Law and the Jones Act, specifically.

Our nation, at this time and in the current circumstances, we feel needs a U.S. merchant marine that is truly, effectively controlled by Section 2 American citizens, dedicated to serving our domestic and international commerce. I do not feel—and many of us will agree—that this can be accomplished equally by foreign-controlled corporations who may be run by decent people. But under the circumstances today, that is not enough.

In conclusion, we wish to acknowledge the complexity of this matter, Mr. Chairman. And we feel compelled to reiterate that, while we strongly disagree with the proposition to repeal or modify the requirement for Section 2 citizenship to operate vessels within the Military Security Program, we are committed to keeping dialogue open, and look forward to working with you, and all concerned, to find common ground from which we can constructively advance the broad interests of the U.S. maritime industry.

And above all, we are committed to the proposition that this nation must be persuaded that its security and welfare is at risk and that our country will be exceptionally vulnerable until Congress acts to rebuild a healthy and versatile U.S. Merchant Marine, based on U.S. built bottoms, owned and operated by U.S. Section 2 citizens and crewed by well trained, loyal U.S. citizens.

I thank you, Mr. Chairman. We are grateful to you and the panel for your thoughtful attention to our views, and for your kind attention to our comments.

[The prepared statement of Mr. Alario can be found in the Appendix on page 52.]

Mr. HUNTER: Well, thank you very much, Mr. Alario.

Mr. ALARIO: Yes, sir.

Mr. HUNTER. I appreciate your very thoughtful statement. And I understand that you do not represent a Section 2 citizen, but that, nonetheless, you feel that the—

Mr. ALARIO. All of my members are Section 2 citizens, sir. I represent them, in essence.

Mr. HUNTER. Oh, okay. You do represent—

Mr. ALARIO. Yes, sir.

Mr. HUNTER [continuing]. Section 2 citizens.

Mr. ALARIO. Yes.

Mr. HUNTER. But you feel that this proposed change could start us on a slippery slope with respect to citizenship requirements embedded in the Jones Act.

Mr. ALARIO. We feel intensely that that could be the case. And we have evidence that that is already beginning to happen.

Mr. HUNTER. Okay. Thank you very much for your statement. We appreciate you being with us today.

Mr. Truchan.

**STATEMENT OF JORDAN M. TRUCHAN, CHAIRMAN AND CEO,
AMERICAN SHIP MANAGEMENT**

Mr. TRUCHAN. Mr. Chairman, members of the panel, my name is Jordan Truchan. I am the president and Chief Executive Officer (CEO) of Patriot Holdings, American Ship Management, ASM, and Patriot Contract Services (PCS) all based in Walnut Creek, California. It is an honor for me to appear before you today to speak about the Maritime Security Program and the role the United States Section 2 citizens fulfill in that program.

We believe the MSP program is working well. MSP is absolutely essential to the continuing existence of the American Merchant Marine and, therefore, the national defense and security of our nation.

I respectfully submit it as a statement to the record. And at this time, I would like to make some highlighted key comments.

Mr. HUNTER. And without objection, all written statements that have been prepared by the witnesses will be accepted into the record. But do not feel that you have to repeat your statement word-for-word. It will be accepted in and you are free to summarize in any way you wish.

Mr. TRUCHAN. Okay. It is fairly—bit of a summary.

Mr. HUNTER. Okay.

Mr. TRUCHAN. American Ship Management is a United States Section 2 citizen as defined by the Merchant Marine Act of 1916. It is wholly owned by myself and my two founding principals, all of whom are U.S. citizens.

ASM holds nine MSP slots with the Maritime Administration (MARAD) and is a member and an active participant in the Voluntary Intermodal Sealift Agreement.

Our affiliate, Patriot Contract Services, is a major contractor for the military sealift command, holding the contract for the operation and maintenance of 11 Large Medium Speed Roll On/Roll Offs (RO/ROs), or Large, Medium Speed Roll On/Roll Off (LMSRs).

Additionally, PCS employed in the United States Navy (USN) Military Sealift Command, MSC, surge program. Additionally, PCS manages six ships for the Maritime Administration's Ready Re-

serve Fleet. All together, our company currently manages 26 U.S. flag commercial and government vessels.

ASM employs over 1,500 U.S. citizen seafarers covering over 500 seagoing billets. In addition, we have 150 shore-based positions also filled by the maritime unions. We employ over 50 shore-based management personnel working in offices in the states of California, Louisiana and Virginia.

In 1997, ASM was formed by the three principals to be a completely independent U.S. citizen entity. This entity would operate U.S. flag vessels enrolled in MSP, in accordance with U.S. law.

ASM submitted applications with MARAD for MSP agreements to cover the nine containerhips American President Lines (APL) had committed to the U.S. Government for participation in MSP. Throughout a seven-month period, ASM underwent intense scrutiny by MARAD to confirm its independent status before finally being awarded these MSP agreements. ASM assumed operational control of the APL U.S. flag fleet in November of 1997, concurrent with the sale of all APL stock to Singapore-based Neptune Orient Lines.

ASM provides unique ship management services and wholly responsible for the safe navigation of the vessel; provides officers and crew; places all insurances for the vessels, crew, and cargo; outfits and provisions the vessels; maintains the vessels in a seaworthy condition at all times; ensures regulatory and statutory compliance; enforces crew discipline and compliance with collective bargaining agreements; and provides emergency response and contingency planning for the vessels operations.

As the responsible party in stage 3 of the Voluntary Intermodal Sealift Agreement (VISA), ASM enjoys close working relationships with the United States Transportation Command, MARAD, and MSC. ASM has participated in numerous Joint Planning Advisory Group exercises and all visa CEO meetings.

ASM maintains collective bargaining agreements with six maritime unions. As a concerned U.S. citizen company, ASM has worked diligently to develop opportunities for American seafarers and recruit new seafarers to augment the aging and diminishing American seafarer workforce.

ASM's business model is the prototype for the current MSP Section 2 citizen operator to operate U.S. flagships on behalf of non-U.S. citizen carriers in the U.S. flag trades. This business arrangement provides the carrier with the ability to carry U.S. Government impelled cargoes while providing strategic sealift capacity to the U.S. Government and jobs for U.S. seafarers and shore-based workers.

ASM is committed to its ongoing participation in the current MSP, and ASM is equally committed to working with all the parties to accomplish reauthorization and expansion of MSP.

In closing, I want to thank you for the opportunity to provide testimony before this panel on the subject of MSP. ASM is a wholly U.S. citizen-owned Section 2 company formed for the purpose of providing U.S. flag sealift capacity to the U.S. Government. In this effort ASM creates jobs for American seafarers and office workers while providing tax revenues for the U.S. Government.

ASM provides our country an industrial base for ship operation and management in the United States. And last, but most important, ASM, as a United States Section 2 company, is committed to the security and prosperity of the United States of America and its loyal citizens.

Thank you very much, sir.

[The prepared statement of Mr. Truchan can be found in the Appendix on page 61.]

Mr. HUNTER. Thank you, Mr. Truchan. Thank you very much for your statement.

Mr. Keegan.

STATEMENT OF JAY T. KEEGAN, PRESIDENT, U.S. SHIP MANAGEMENT

Mr. KEEGAN. Mr. Chairman and members of the panel, my name is Jay Keegan. I am president and CEO of U.S. Ship Management Incorporated (USSMI). And I am pleased to be here today.

Mr. Chairman, On April 26, 2001, you stated that U.S. ownership and U.S. control requirements are critical to the continued viability of the MSP program and must be preserved. It is gratifying that in a letter to you, dated June 18, 2001, all of the other members of this panel agreed with your position.

In light of the events since that time, I would submit that MSP American citizenship policy has become even more critical.

Mr. Chairman, I want to be clear that U.S. Ship Management supports the Maritime Security Program. We also support a properly designed reauthorization of MSP, but we must get it right.

Although we have been excluded from the process, we understand that Maersk, APL and others have drafted proposed legislation to reauthorize the MSP program three years before its current authorization expires, which contains provisions that truly strain credulity.

Their legislation would bind the U.S. Government to 20-year operating agreements while allowing the operators to opt out of the contracts and even transfer their vessels to foreign flag, simply upon giving notice to the secretary of transportation.

For example, just before their vessels are required and the contingency in the Taiwan Straits or Iraq, under their bill, they could give their notice and transfer their vessels, perhaps, to a Peoples Republic of China (PRC) flag or an Iraqi flag.

Their legislation equates a foreign-controlled documentation citizen with a U.S. citizen-owned and controlled company. This would put American companies like mine out of business. And most importantly, would have profound national security implications.

I understand that the seagoing unions feel pressured to support Maersk in these efforts because Maersk has threatened to transfer its American flag vessels to foreign flags if their legislation is not enacted. This is an idle threat. It is not logical for Maersk, a \$35 billion company, to abandon U.S. flag vessels and U.S. Government cargo in hope of saving, perhaps, a few million dollars.

But if they did, other companies would certainly step in to operate U.S. flag vessels.

Mr. Chairman, the focus of today's hearing is U.S. ownership and control of vessels operating in the Maritime Security Program. I do

not believe Maersk representatives have fully disclosed to Congress, or to this panel, information which will be critical to your consideration of this important issue.

Specifically, the secretary of state has designated Iran, Iraq, Libya, and Sudan as state sponsors of international terrorism, yet Maersk continues to do business in these countries. I ask that proof of this fact, including material owned from Maersk's own Web site, be included in the record, which I have with me.

According to Maersk, they began serving in Iran in 1950 and, quote, since then provide uninterrupted service to Iranian customers even during the revolution and Iran-Iraq war period, end quote. Therefore, Maersk provided continuous service to Iran while Americans were being held hostage there and throughout the entire period of U.S. economic sanctions against that country.

Let me be clear, I am not suggesting that Maersk has violated U.S. law, because, after all, Maersk is not a U.S. citizen. But Maersk is appearing before this panel and claiming they should be considered as the equivalent of a Section 2 citizen.

Mr. Chairman, it is not enough to be "like" a citizen. Contrary to Maersk's rhetoric, Section 2 companies like mine are not shams. We play a vital role and help to ensure U.S. national security. We also provide real jobs to real people and provide exactly the kind of check and balance intended by Section 2 for U.S. national security.

Let me give you a clear example of why American control of MSP enrolled ships is critical. On November 26, 2001, while news reports were indicating that Al Qaeda and Taliban fighters were being allowed to cross the border into Iran from Afghanistan, Maersk directed one of our ships, the Sealand Express, an American flag D9J class vessel, to proceed to the port of Bandar-e Abbas in Iran. The ship was not due by at the time. And Maersk began loading containers on board, destined for Iran, which could not accommodate on Maersk's own foreign-flagged vessel, which goes to Iran every week.

As an American citizen company, wholly owned by American citizens, our loyalty and obligations were clear. We would not allow the ship to go to Iran. The Maersk containers destined for Iran were removed from the Sealand Express and the vessel resumed its normal schedule.

As Eric Johnsen said, a commercially viable, U.S. flag fleet is also the way to ensure that foreign carriers do not exert control over the price of U.S. imports and exports. But is that the case if that U.S. flag fleet is owned and controlled from Beijing or Singapore or Denmark?

Mr. Chairman, some appearing before you today have tried to color their proposal regarding citizenship as one that tightens the requirements. That is pure sophistry. It has been, and remains, the stated policy of the United States to have a merchant marine, and I quote, owned and operated under the United States flag by citizens of the United States insofar as may be practical. Citizen of the United States is defined to mean a Section 2 citizen. To ensure that policy result, if the MSP program is changed at all, we should ensure that only Section 2 citizens can be MSP contractors.

In a time of national emergency, the United States needs to know that it can count on genuine U.S. citizens rather than the legal fiction of documentation citizens. Unfortunately, we can envision conflicts where foreign-controlled documentation citizens might decide to be neutral when our nation requires commitment.

If we permit a documentation citizen the same rights and privileges as a Section 2 citizen, we will hasten the demise of the citizen-owned U.S. Merchant Marine in the foreign trades. And, as importantly, it will eventually open up both the domestic and non-contiguous trades to foreign ownership and control.

Do we want this to happen? I think not. The Maritime Security Program and the Section 2 citizenship policy of the MSP have served our country well. And I would respectfully submit that the policy should not be modified.

Thank you for this opportunity to testify. And I look forward to answering any questions which you or your other panel members may have.

[The prepared statement of Mr. Keegan can be found in the Appendix on page 65.]

Mr. HUNTER. Thank you, Mr. Keegan.

Mr. Johnsen.

**STATEMENT OF ERIK F. JOHNSEN, PRESIDENT,
INTERNATIONAL SHIPHOLDING CORPORATION**

Mr. JOHNSEN. Thank you, Mr. Chairman, and members of the panel.

I am particularly pleased by the invitation to appear before you today to address the vital need of the reauthorization of the Maritime Security Program to ensure the continued viability and survival of the U.S. flag fleet.

I am Erik Johnsen and I am president of International Shipholding Corporation (ISC). ISC participates in the Maritime Security Program with its principal U.S. flag subsidiaries: Central Gulf Lines, Inc. and Waterman Steamship Corporation, both of which provide a wide range of oceangoing freight transportation through pure car-truck carrier services, Roll On/Roll Off, breakbulk, and domestic coastwise services.

I am speaking here today on behalf of Central Gulf, Waterman, and other U.S. flag participants in the Maritime Security Program, including American Roll On/Roll Off carriers, American President Lines and its sister company, American Automar, Maersk, Sealand, Overseas Shipholding Group and American Ship Management.

Though many of these U.S. flag carriers will submit separate written statements for the record, I wish to strongly emphasize to you that we all, collectively, support the continuing need of the Maritime Security Program and urge you to expeditiously enact legislation to reauthorize that program, which is so vital to the sea-lift capability of our nation and its armed forces.

Mr. Chairman, during the past year, Central Gulf and Waterman have been working closely with the U.S. transportation command, the maritime administration and other maritime security program participants and the maritime labor unions in an effort to develop a legislative proposal to reauthorize the Maritime Security Program that would preserve and enhance the Maritime Security

Fleet. And I am very pleased to report that we have reached a strong consensus on the statutory provisions that are required to ensure the viability of such a program.

To that end, we strongly support an extension of the Maritime Security Program for a period of 20 years. This extension would give investors and leading institutions more confidence to provide the funds necessary for the replacement of vessels and the expansion of the U.S. flag fleet.

Additionally, we urge the expansion of the Maritime Security Fleet to at least 60 militarily useful vessels, an increase of 13 vessels beyond the current authorization. This would bolster the U.S. sealift capacity, while providing a greater base of employment for American merchant mariners.

We further propose that each vessel in the Maritime Security Program would be eligible to receive \$3.5 million in the first year of the extended program, with annual inflationary adjustments thereafter, to keep these vessels under U.S. flag and to make them available to the military in times of national emergency.

Mr. Chairman, at this juncture, I would like to point out that Central Gulf and Waterman are United States owners and are Section 2 citizens, under the Shipping Act of 1916. We have participated in numerous discussions with the Department of Defense, the Maritime Administration, as well as U.S. maritime labor unions and the Maritime Security participants concerning proposals wherein documentation citizens, under Title 46 of the United States Code, and their owners would have to fully abide by the Department of Defense special security agreements in order to take part on a priority level in the Maritime Security Program.

As Section 2 citizens, Central Gulf and Waterman believe that the proposed consensus for reauthorization of the Maritime Security Program is an acceptable compromise in that it gives the necessary safeguards to justify the equal status of Section 2 and documentation owners in a very limited way for the 47 grandfathered Maritime Security Program vessels, while at the same time maintaining the Section 2 citizen priority for the 13 vessels that would be added to the program.

Furthermore, the Maritime Security Program and our proposed reauthorization provisions only concern the engagement of foreign trade with the United States and under no circumstances would they or are they intended to affect the Jones Act.

Mr. Chairman, this legislative compromise provides for the necessary U.S. citizenship involvement for participation in the Maritime Security Program and, further, ensures that at least 60 active, militarily useful, privately-owned vessels will be under the U.S. flag and readily available to the Department of Defense in time of emergency.

Mr. Chairman, I very much look forward to working with you and your panel on this matter of vital importance to our national and economic security. And thank you very much.

[The prepared statement of Mr. Johnsen can be found in the Appendix on page 68.]

Mr. HUNTER. Mr. Johnsen, thank you for your statement.
Mr. Bowman.

STATEMENT OF ROY G. BOWMAN, VICE PRESIDENT FOR GOVERNMENT AFFAIRS, AMERICAN PRESIDENT LINES, EXECUTIVE VICE PRESIDENT, AMERICAN AUTOMAR INC.

Mr. BOWMAN. Good afternoon, Mr. Chairman, and members of the committee.

I am here today on behalf of APL and American Automar. We concur in Mr. Johnsen's statement. And we have submitted a separate statement for the record. And I will not burden you with the details.

But a few words about APL. APL has operated U.S. flagships for over a century. It was a participant in the operating differential subsidy program before that program was replaced by the MSP program.

American Automar, which is a sister company, is a documentation citizen that has a special security agreement by reason of its contracts with the military sealift command.

Automar was, also, a Section 2 citizen that was an MSP participant just prior to its acquisition by the Neptune Orient Lines Limited (NOL) group. So the company has been on both sides of this question.

Our experience with a special security agreement, under which American Automar has operated since its acquisition in May of 2001, convinces us that documentation citizens with these types of agreements are every bit as reliable as Section 2 citizens.

Like Mr. Johnsen, we wish to see a reauthorization of the MSP program, with an adjustment to take into account the changed circumstances in the amount of the payment. And we urge the committee to work to that end as promptly as possible.

Thank you.

[The prepared statement of Mr. Bowman can be found in the Appendix on page 74.]

Mr. HUNTER. Thank you, Mr. Bowman. You get the prize for the most succinct and concise statement of the day.

Mr. BOWMAN. I try.

Mr. HUNTER. Mr. Clancey, sir?

STATEMENT OF JOHN P. CLANCEY, CHAIRMAN OF THE BOARD, MAERSK SEALAND

Mr. CLANCEY. Thank you, Mr. Chairman, and members of the panel.

I am chairman of Maersk, Inc., responsible for the operation of Maersk Line Limited (MLL), which today is the largest operator of American flagships, with 53 ships based out of Norfolk, Virginia.

We have been characterized in a few different ways today, but to set the record straight, we operate ships directly under MSP and also through a Section 2 company that was created because of regulations of MARAD. We also operate ships directly through the U.S. Government under a top-secret clearance on the oceans of the world. And those ships are out there today.

We have operated ships for over 20 years for the U.S. Government. And I think the record speaks for itself in terms of our reliability and our responsiveness.

The arrangement that we are dealing with today is an outgrowth of, actually, the acquisition of APL. And as structural as it estab-

lished it—was an exception at that time. Today the exception is the rule, with one exception, my good friend, Mr. Johnsen.

And that is just the result of globalization and the way the equity markets looked at maritime businesses for the last five or six years, making it very difficult to raise the capital necessary to replenish the fleet. And this is a capital-intensive business. And the costs are very, very high.

The question is asked, I mean, why do you want the change? Probably the biggest reason is we have significant investment decisions to make. Our ship is aging, as are my—other people sitting at the panel. And we are talking about, you know, numbers of \$60 million, \$80 million, \$90 million a copy. You need a number of them. You need ancillary equipment to support them.

And we find it very difficult to go to our board and say, “We need X dollars, \$400 million or \$500 million, to buy, to build, buy and build assets,” and be in a position where we are not allowed to operate them, particularly when the board is cognizant of the fact that we have been operating ships for over 20 years for the U.S. Government. We have participated in Desert Storm, and today, in Afghanistan, playing a significant role.

It is also important to understand what we provide to the Department of Transportation and U.S. Transportation Command (TRANSCOM) because it certainly just is not vessels. Vessels are an important component, but during Desert Storm, there was an enormous rush of cargo to Saudi Arabia. Unfortunately, a lot of it was sequenced incorrectly.

And what we did is used our network around the world to bring the cargo back to places like Algiers, which is right outside the Rock of Gibraltar, re-sequence it so that we ensure that you got the guns before you got the bullets.

And we have these terminals throughout the world. We have trucking and intermodal assets that are used in support of the transportation command. And the investment in these facilities is, again, in the billions of dollars, and that is all for the access of the U.S. Government when they call.

Today, moving cargo into Afghanistan is a real struggle because there is no port. So we are using our system across northern Europe, through Russia and through other areas, to deliver merchandise to the theatre, as requested or commanded by the government.

You have heard today all—

Mr. HUNTER. Just one second, Mr. Clancey. How are you moving that into the base camps in the theatre in Afghanistan?

Mr. CLANCEY. We are moving it to—

Mr. HUNTER. What is the last leg?

Mr. CLANCEY. The last leg is through the “stans”.

Mr. HUNTER. Is through where?

Mr. CLANCEY. Through the “stans”.

Mr. HUNTER. Well, but once you get through the “stans” and you actually get to the Afghanistan border, how do you get it over?

Mr. CLANCEY. The containers are unloaded and put in military vehicles and taken to the camps.

Mr. HUNTER. But you do not move it across Afghanistan itself?

Mr. CLANCEY. Into Afghanistan? No, just to the border.

Mr. HUNTER. Okay. Go ahead.

Mr. CLANCEY. There has also been comment today about, you know, what we do and what we do not do. But today, as I sit here, we have 11,500 Americans, direct and contract employees, working for us in the United States running this infrastructure. We have like numbers in Europe and in Asia that allow us to respond to the commands and the desires of the military.

And that just cannot be overlooked. That network is far beyond the vessels. But we are looking at an enormous investment. And we think because of what we have done and what we represent, that we have the right to operate our own vessels.

There has been concern raised about the Jones Act. We never have and we do not intend to enter the Jones Act. It is very similar to saying, "I think my neighbor might rob a bank and he did not do it last month, he might do it next month," and on and on and on. It is a threat not made by us. It has been created.

And, as people have said, we would be willing to entertain language that would prohibit companies, such as ourselves, documented citizens with a special security agreement, participating in MSP to enter into the Jones Act.

I think history has demonstrated, you know, that we can be quote, unquote, trusted. I think if you ask the Marine Corps, they would give you an affirmative response. I think the Department of Defense would give you an affirmative response.

As all the members of the panel, we think MSP is terribly important. What we are able to provide is what the military believes would cost them \$9 billion a year and \$1 billion to manage.

And we have committed to it. We are committed to making the investment. And that is a very critical issue. Someone has to come forward and build new ships and build the containers in the terminals. And it will be the owners of the vessels that will do that.

I thank you for your time.

[The prepared statement of Mr. Clancey can be found in the Appendix on page 81.]

Mr. HUNTER. Thank you very much, Mr. Clancey.

And thank you all, gentlemen, for your testimony. I think together you have put together a pretty good composite that lays out the issue for us very effectively.

Mr. Clancey, is Iran one of your customers?

Mr. CLANCEY. We have a small fleet of ships that serves Iran.

Mr. HUNTER. Okay.

Mr. CLANCEY. With no U.S. citizens involved at all. And there are no U.S. citizens in Iran.

Mr. HUNTER. I understand. So the United States is one of your customers, in fact, a very major customer.

Mr. CLANCEY. Correct.

Mr. HUNTER. Iran is also a customer and a smaller customer. And you give good service to your customers.

Mr. CLANCEY. Correct.

Mr. HUNTER. And so your customers can trust you.

Mr. CLANCEY. Yes.

Mr. HUNTER. Right? That, I mean, I presume that means if we were in a hearing in Iran right now and you were explaining to the Iranian government why you can be trusted not to disserve them with respect to the United States, you could very truthfully say,

"Attorney-client privilege, you are our customer and we give good service to our customers. And you cannot show any situation in which we have given information to the United States or in any way disserved Iran, even though you and the United States may, at some times, have disparate interests."

Mr. CLANCEY. Yes. But it is also true, Mr. Chairman, that we do not do business with the Iranian government. It is also true that we are looked at as a foreigner in the country of Iran and our presence is very, very small.

As a global company, we are involved in South Africa, West Africa, East Africa and it is a global enterprise.

Mr. HUNTER. I understand.

Mr. CLANCEY. And so we—

Mr. HUNTER. And Iraq is also a customer.

Mr. CLANCEY. We do not service Iraq.

Mr. HUNTER. Oh, you don't service Iraq?

Mr. CLANCEY. We do only from the Food For Oil—

Mr. HUNTER. Okay.

Mr. CLANCEY [continuing]. Approved by NATO and some of the vessels have carried food out in return for oil.

Mr. HUNTER. Okay. Libya?

Mr. CLANCEY. A feeder that goes into Libya, yes.

Mr. HUNTER. Okay. Sudan?

Mr. CLANCEY. I do not believe so.

Mr. HUNTER. Okay.

Mr. CLANCEY. We may, on a spot basis, serve the Sudan.

Mr. HUNTER. Well, let me ask you this question: The example that Mr. Keegan raised where he said that at one point your feeder service was, in some way, not able to deliver a service to Iran, and the American citizen was asked to handle that particular run. And they refused to do it.

Is that the essence of what you said, Mr. Keegan?

Mr. KEEGAN. That is correct, sir.

Mr. HUNTER. Is that accurate?

Mr. CLANCEY. Well, what happens—you have a network—

Mr. HUNTER. I understand.

Mr. CLANCEY [continuing]. Of 400 ships—

Mr. HUNTER. It sounds very, I mean, it sounds very realistic.

Mr. CLANCEY. You have a 27 to 28 year old person looking at the network at two o'clock in the morning, and he finds that he does not have an asset that has a mechanical problem or does not have the ability to lift—it does not have empty equipment—and he substituted a vessel in the network that is close by.

But it is also true the minute the issue was raised it did not happen. The vessel was unloaded and it went on its way.

Mr. HUNTER. Okay. Well, now, Mr. Keegan said that the American citizen refused to do it. Is that—which came first, the chicken or the egg, here?

Mr. CLANCEY. No, I think what happened is the operator—it might have been the captain—said, "We are not going to do this." And the 27-year-old who, I do not know where he is or what he is, but I know how we run the network, he said, "Well, I am sorry. Unload the vessel and go on your way," not knowing that he was not forcing them to do it.

Mr. HUNTER. I understand. He was not looking at it—at the political aspect or the sensitivity of this. He simply said—

Mr. CLANCEY. He probably said—

Mr. HUNTER [continuing]. Cab number three is close to Oak Street.

Mr. CLANCEY. Exactly.

Mr. HUNTER. I am going to send cab number three to take cab number two's place.

But Mr. Keegan, is—just on this point, because this is an important point—is that your understanding that basically this was a consensual thing by the parent company? Or was there a refusal by the American citizen to do it first and then an acquiescence to that decision by the parent company? How was it?

Mr. KEEGAN. We have a communication log of it, and the captain came to the home office in Charlotte, asked if he could—what was the procedure. We said, "You cannot serve Iran. It is a U.S. flag vessel."

Mr. HUNTER. So he went back to the American citizen, if you will.

Mr. KEEGAN. Correct. Yes.

Mr. HUNTER. Okay. Now, I guess my question is, then, if the American citizen had not been there, would you have then sent the ship to Iran?

Mr. CLANCEY. Since then, we have put in policy and procedures to prevent this. But I will not deny that, with 10,000 or 11,000 employees, someone does not make a mistake once in a while.

Mr. HUNTER. Well, I am not talking about a mistake. I am talking about policy.

Mr. CLANCEY. Policy is we would never do that.

Mr. HUNTER. As a matter of policy you would not use an American ship that is dedicated in the MSP program to this line?

Mr. CLANCEY. Absolutely not. And this is the only incident that I have ever heard of that in my entire career.

Mr. HUNTER. Okay.

Well, you know, I mean, these things happen. I mean, I can remember in Vietnam, what I thought was a tragic situation of the American soldiers dying in Vietnam and our closest ally, Great Britain, was shipping supplies into Haiphong harbor. They did not, as Mohammad Ali say, they did not have any quarrel with those Vietcong.

And so those things happen. And the second similar tragedy, I thought, was when we had the attack at the Gulf of Seedra with Mr. Kadafi and France would not let us over-fly their territory, our great ally, France, with Lafayette's picture adorning our House of Representatives chambers—our closest ally, at one time.

And I remember being on British Broadcasting Corporation (BBC) television and thanking the British people for letting us fly out of Heathrow to make the strike. And the commentator informing me that they had just taken a poll and the majority of the British people were against it and it was Maggie Thatcher, on her own, who let us fly out of Heathrow.

So sometimes well-meaning people, who are strong allies, find themselves placed in positions where they cannot accommodate two friends. And so my point was, simply, that you have—you are a

business with a number of clients, some of whom have divergent interests. That is a difficult position to be in.

You have compartmentalized those interests, I think, fairly effectively. At least that is the essence of your testimony. And I do not think there has been any, except for this one mistake that has been pointed out, I have not seen a lot of evidence that those compartments have been pierced.

On the other hand, there is a pretty strong reason, and philosophical reason and policy reason, for having this American ownership requirement. I think you would agree with that. And if you look at the history of America's conflict and engagements and the interests that serve as a backdrop to those engagements, like the example I gave you with Vietnam with our close allies delivering war supplies to our enemies to kill Americans on the battlefield—there was a reason for having a loyalty requirement, if you will—citizenship requirement with the ships that attend American interests in these theatres.

So my next question to you would simply be this—and that is this: you are dealing with a lot of money here. You have mentioned that you go before your board with a request to build ships that cost—

Mr. CLANCEY. Oh, I will.

Mr. HUNTER [continuing]. Sixty million dollars, \$80 million, \$100 million. The amount of money that you are paying, the expense of so-called middlemen—right?—the American company—I am trying to get a fix on that. And I see it at somewhere around \$8 million to \$10 million a year. Now, is that in the ballpark for America?

Mr. CLANCEY. It is probably a bit higher, but I do not have the exact number. But a couple of points: One, the Department of Defense knows we serve those countries. And if they asked us to stop, we would.

Two, it is the money, one, but also the ability to run an efficient system. And you have just heard USSMI, Mr. Keegan, you know, have some fairly harsh statements about us. We are their customer, their only customer. All of the funds into their company are ours and all the funds out. And it is the ability to build brand new vessels, Mr. Chairman, and be able to operate them themselves.

Mr. HUNTER. But that is the point I am getting at. If you are dealing with \$60 million, \$80 million, to operate the vessels—

Mr. CLANCEY. To build a vessel.

Mr. HUNTER [continuing]. To build a vessel, you are talking about an annual expenditure, or burden, if you will, on Maersk in terms of maintaining the contractual relationship with an American citizen, so-called "middleman company," of around \$10 million a year.

Now, it has been held out that that \$10 million makes this a very, very difficult thing to do. And one reflects that that is not a lot of money. If you look at the totality of the MSP program, which is \$98 million, and if we increase it, it would be well above \$200 million.

And so I would ask myself the question—maybe, I would ask you—would you take yes for an answer? That is, if it could be proven to you that the entire cost of maintaining an American citizen

in direct charge of this program—let's say it was \$8 million to \$10 million was passed through—would you accept that?

And my intuition is it goes beyond that. The money is not that—because that is not an inordinate amount of money when you are looking at the cost of the ships and the enormity of the operation.

Mr. CLANCEY. Well, Mr. Chairman, today—

Mr. HUNTER. It does not look like this is a back-breaker, I guess, is what I am telling you.

Mr. CLANCEY. Today, for an example, in the Atlantic, our American flag fleet loses money for the corporation. It is a sign of the times, but it is also the cost of the operation.

And so \$10 million is a lot to us because we do need to pay for the ships. And I need to demonstrate to the people, the shareholders, that their investment, over the course of 15 or 16 years, will return something above the cost of capital or we will simply just go out of existence.

Mr. HUNTER. Well, now, let me ask you this, further, then you have, if you are paying \$10 million a year, is it your position that all of that is, basically, monies that you would not have to spend?

You would not agree to the proposition that no matter who did it, whether you, even if you had it back in-house, the American citizens are providing some service, doing some training, doing some administration that you are going to have to pay, whether you pay it or they pay it. So are you maintaining to your shareholders that you could actually retrieve the entire \$10 million a year?

Mr. CLANCEY. No.

Mr. HUNTER. How much of that do you think you could retrieve in terms of dollars, bottom line?

Mr. CLANCEY. Maybe 75 to 80 percent—

Mr. HUNTER. Okay. So, maybe—

Mr. CLANCEY [continuing]. Or more.

Mr. HUNTER [continuing]. Seven point five million dollars or so—if it is \$10 million?

Mr. CLANCEY. Ballpark.

Mr. HUNTER. But you do not know how much it is?

Mr. CLANCEY. I think that, you know, that is, as a ballpark, that is pretty close. I do not have the exact number.

Mr. HUNTER. Well, it is kind of unusual that if this burden is such a difficult thing that you are testifying here today and you do not know exactly what it is. I mean, it—

Mr. CLANCEY. Well, we know what the information we have been provided. In fact, there is a court case we have won and we are waiting for the documents so we know exactly how much waste is involved. It could be significantly above \$10 million.

Mr. HUNTER. Why did you negotiate that?

Mr. CLANCEY. I did not. But I inherited it.

Mr. HUNTER. Well, but I guess my question is if you think 75 percent of it is not justified by the labors involved—

Mr. CLANCEY. Because of the synergies we could bring to the table.

Mr. HUNTER. Well, the question is why did you agree to pay somebody—what?—four times as much as you think the service is worth? You could—I was mentioning—I am sure you have a lot of ex-congressmen out there would be, you know, want to—

Mr. CLANCEY. They certainly would—

Mr. HUNTER [continuing]. And they would take half the profit.
[Laughter.]

Mr. CLANCEY. Every day we negotiate contracts with our large customers, Wal-Mart, Toyota and General Electric.

Mr. HUNTER. Yes.

Mr. CLANCEY. When it is not right, we sit down and renegotiate.

Mr. HUNTER. Yes.

Mr. CLANCEY. And they are still our customers.

Mr. HUNTER. Well, have you sat down to renegotiate here?

Mr. CLANCEY. We have been totally unsuccessful, Mr. Chairman.

Mr. HUNTER. Okay. But at some point, somebody in your shop, without a gun to their head, sat down and negotiated these contracts.

Mr. CLANCEY. The contract was negotiated, correct. I do not deny that.

Mr. HUNTER. Well, you see, that is another problem that I would have, as chairman of the committee, if you think the real cost of this is around \$2.5 million, or the real substantiated costs, and that anything above that should be credited as profit, if you will.

So you are talking about maybe a \$4 million or \$4.5 million program, but it is a \$10 million program because your negotiators paid too much. The question becomes should we, in this panel, change the U.S. law with respect to the citizenship requirements, which have a philosophical and policy substantive base, because you folks made a terrible deal and we need to unfasten you from it?

Mr. CLANCEY. My response would be put yourself in my position in front of my board. We are the largest operator of U.S. flagships. We have 43 percent of the lift of MSP.

Mr. HUNTER. I hear you.

Mr. CLANCEY. We have a top-secret clearance. The Department of Transportation, the Department of Defense and TRANSCOM have told us they like what we are doing; they support the change. And, by the way, I want to recapitalize that business, but they do not trust us.

Mr. HUNTER. Well, I do not think that is the essence of American requirements, American ownership requirements. I mean, I do not think when we ask for American crews we are saying to all other citizens of the world, "We do not trust you."

I think we are simply saying that we know that we are going to put—that nations are placed, as the examples I gave you with Great Britain supplying our enemies during a conflict because they did not have a quarrel with them—that foreign policy issues sometimes put nations and their policies in conflict with each other. And that is not something people should be blamed for. But it is a fact of life.

And so, to maintain a consistency with American purpose and American foreign policy, we have requested American ownership.

So I do not think we are calling you a name. And you know something else is the fact that you are—

Mr. CLANCEY. No, you are not.

Mr. HUNTER [continuing]. And I got my note that Mr. Taylor is next. I bet he even wants to say something.

So, Gene, I apologize for monologuing here.

But one reason we have had these requirements in is because we have always been afraid of being at the point where we are held hostage—where we have to do something—where an interest that is not owned by Americans, basically, has us in a tight spot.

As you go down the litany of reliances that we have now on your foreign corporation—I mean, what is not so subtly whispered in our ear is, “Maersk is the only game in town.”

And suddenly you realize that this position—that we always told ourselves we would never be in, where we had no options, where we had no alternatives—is almost here. So maybe we are not doing ourselves a service by further promoting that where we get in deeper and deeper because we cannot afford to live without you. And at some point we do not have the options that I think a free foreign policy would require.

Mr. CLANCEY. If I may, just—

Mr. HUNTER. Sure.

Mr. CLANCEY [continuing]. Mr. Chairman, MLL, which is the governing company of these assets, is chaired by a retired three-star admiral.

Mr. HUNTER. Okay.

Mr. CLANCEY. On the board is another three-star officer, a retired chairman of IBM and an ex-ambassador of the United States and myself and employees of the company. They would do nothing, at any time, that would be not in the interest of this country.

Mr. HUNTER. Well, let me just answer you. And then I have got to move on to Mr. Taylor.

When Americans were being killed on the battlefield in Vietnam and British shipping companies were moving supplies to our adversaries—the North Vietnamese communists, who were killing those Americans on the battlefield—there were, undoubtedly, in those corporate memberships retired admirals and generals who had fought side-by-side with GIs in World War II, who, nonetheless, found themselves bound by circumstance in what I am sure, for them, was a very uncomfortable situation.

Nonetheless, Mr. Clancey, they executed.

Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman.

And, you know, I used to joke that Neil Abercrombie and I were twins, separated at birth, but maybe we were triplets. [Laughter.]

We would be honored to have you in that number.

Well, I enjoyed listening to what all of you gentlemen had to say.

But, Mr. Alario, a couple of things you said got my attention. One of them, particularly in light of the recent move by Stanley Tool Corporation and several other companies, highly publicized, their home offices twice.

I heard you say that you felt like the tax laws favored foreign ownership. Could you be a bit more specific in that?

Mr. ALARIO. Yes, sir.

And this might reflect a little bit on Mr. Clancey's statement about the reliability of people who would, typically, be considered allies or expected to promote the U.S. national interests. We have an example, right now, that one of the largest drilling companies have decided, like Stanley, to do inversion which would cause this

American company to reregister in Bermuda and become a foreign corporation, if you will, a documented foreign citizen.

That corporation owns a fleet of U.S. flag Jones Act vessels that are presently engaged in the offshore out of continental shelf, mineral and oil support services. Typically, by going to Bermuda and becoming a foreign corporation, that company would have been obliged to sell that service or that line or that fleet to U.S. Section 2 citizens.

But by use of the loopholes that have been developing since 1996, either through lax writing in the legislative and regulatory areas, that company, instead, now will have a favored tax position, which is very clear under the inversion rules, because Congress is investigating that type of thing.

But, in the meantime, to add insult to injury, as I have in my formal notes that I have submitted, we will be, ironically, in a position of helping this company to erode the Jones Act by allowing them, through manipulation of some of the regulations—for instance, forming what I call an artificial leasing company under the leasing provision act of the Coast Guard Authorization Bill of 1996, they are going to do all of the technical, mechanical things that qualify them on paper as a documented citizen.

And we can say that, well, this does not relate to that, but that, in 1996, was not an option either. But it has become, now, a door through which foreign-controlled corporations are finding ways to compete with other Section 2 citizens. And they do not pay the taxes. And they do not have to meet the same rules.

So I do not know whether I have answered your question, Mr. Taylor, but the fact is that this company will be a Bermudan corporation, free of a lot of—unless Congress does something, obviously, through the inversion—and will have a tax advantage over the U.S. companies that are competing with them.

Mr. TAYLOR. Mr. Alario, if you would, I would be very interested in you documenting that.

Mr. ALARIO. Yes, sir, I would be happy to.

Mr. TAYLOR. In particular, if you give me several examples of folks who have chosen to keep their corporate headquarters in America and the additional costs incurred of them staying in America. Or to put it another way, the relative advantage that someone—that the company who is trying to invert would gain, versus the ones who stay here.

Mr. ALARIO. I will be happy to try to do that. I am sure that my one-man staff will be delighted when I get back—

[Laughter.]

And tell him, I am delegating. No, I will be happy to do that.

Mr. TAYLOR. Those companies that—

Mr. ALARIO. We have done this.

Mr. TAYLOR [continuing]. Choose to stay in the states who would be more than happy to provide some—

Mr. ALARIO. Oh, yes.

Mr. TAYLOR [continuing]. Of the information for you.

Mr. ALARIO. No question. And we have done some work on this.

[The information referred to can be found in the Appendix beginning on page 109.]

Mr. HUNTER. And Mr. Taylor, Rusty informs me that is a Coast Guard regulation. And he is going to get a little work up for you—

Mr. TAYLOR. Okay.

Mr. HUNTER [continuing]. And for me on that background.

Mr. TAYLOR. I am curious to open this up to the panel. Of those ships that we are paying this subsidy to, how many of them remain Section 2 ships? Any of them?

Mr. JOHNSEN. Me—I am the lone fellow up here with a Section 2. We have seven.

Mr. TAYLOR. So the other 38 or so—

Mr. JOHNSEN. No, sir—they are all Section 2 operated ships.

Mr. TAYLOR. Well, that is true because you are—

Mr. JOHNSEN. The ownership of the ships and the operation of Waterman and Central Gulf are one. We are Section 2. This gentleman here has a Section 2 because he has them bareboated—

Mr. KEEGAN. I am—

Mr. JOHNSEN. Yes. They are boated in that are owned by Sealand. And then the other one—

Mr. TAYLOR. But in reality, Mr. Keegan—

Mr. KEEGAN. Yes, sir?

Mr. TAYLOR. In reality, you are owned by Sealand, which is documented, correct?

Mr. KEEGAN. The ships are owned by financial institutions, mostly, Mr. Taylor.

Mr. TAYLOR. I am trying to get back to my original question. If there are any pure—

Mr. HUNTER. Mr. Taylor, Mr. Clancey is shaking his head. So you may want to find out what has happened here. Mr. Clancey does not agree with that.

Mr. CLANCEY. Can I just speak for a moment to the APL situation? In that situation, all of the ships are owned by APL entity and—

Mr. TAYLOR. Who owns APL entities?

Mr. CLANCEY. APL is part of the NOL group, which is a publicly listed company on the Singapore Exchange. So it is a big company. The APL operations are, by and large, in California.

Mr. TAYLOR. Getting back to my question, I guess we have a little shell game going on here. Is there anything left that is a pure Section 2 American-owned ship where the corporation that owns them, and if there is a corporation that owns, that corporation is also American?

Mr. JOHNSEN. Well, our company is headquartered in New Orleans, U.S., citizen-owned 100 percent. And Central Gulf and Waterman are the two companies. And we operate outside of the MSP. We also have other ships; we have a total of 17 U.S. flagships that are U.S. owned, U.S. operated.

Mr. TAYLOR. So, of the approximately 45 that we say belong to the program, only seven—

Mr. JOHNSEN. Well, there are 47 ships in the current program. We have seven of those 47, so there are 40 ships. And Overseas Shipholding Group (OSG) is a U.S. citizen company. It has one, so that is eight. The First American Bulk Carrier Corporation (FABC) has two, so that is 10.

So if my memory is correct, that puts you at around 30 that would be—and I do not know whether that accurate, but 30 would be through the intermediary of the APL and the Sealand bareboating their ships to these two Section 2 companies.

Mr. TAYLOR. What disadvantages, if any, does that put you in?

Mr. JOHNSEN. What disadvantage does that—

Mr. TAYLOR. I mean financial-wise, regulation-wise, is there anything that your board of directors—what are their arguments, if any, that they come to you with and say, "You know, we need to do like those other guys. We need to just become documented citizens"?

Mr. JOHNSEN. In the first instance, my family is the major shareholders. So my board is my brother and my two sons.

Mr. TAYLOR. Okay. So at Thanksgiving—

Mr. JOHNSEN. So if they give me hell, it is because of them. But I would tell you that what we need, as a U.S. Section 2 company—we need the Maritime Security Program to continue. And when we saw the existence of what has been approved by our government and we found that we had an existence—and, by the way, in the current law, the documentary citizen is already in the current law—when we saw what was already committed, we compromised and said, "Let's hold it to that and go back to Section 2." And that is in this proposal.

In other words, I am suggesting, as a Section 2 citizen, in order to compromise where we are, let us go forward with the ships that APL and Sealand have in their—let's grandfather those, but just do not expand it.

Mr. TAYLOR. Mr. Johnsen, with all due respect, I do not feel like you answered my question.

What are the pressures, within your four family member board of directors, to become a documented citizen?

Mr. JOHNSEN. We have no pressure.

Mr. TAYLOR. You do not feel like you have any?

Mr. JOHNSEN. No, sir.

Mr. TAYLOR. There are no advantages for your family to do that?

Mr. JOHNSEN. No.

Mr. TAYLOR. I very much follow Mr. Alario's argument, and and I have watched this, and there was stuff that happened before I even got here. But I do feel like there has been a seduction, by degrees—

Mr. JOHNSEN. Well, let me—

Mr. TAYLOR [continuing]. A little exemption here, another one over there, one over there. And you wake up and suddenly, it is no longer—

Mr. JOHNSEN. But let me—

Mr. TAYLOR [continuing]. To your advantage to be an American citizen and own these ships. And I do not want to see that happen anymore.

Mr. JOHNSEN. I agree with you.

But let me make this observation, one of the things, as a Section 2 citizen, that we find is, unfortunately, the forgetfulness of our government in respect to our companies. Because we are faced with various costs, taxes, seamen are that go with our ships, our own

corporate taxes. And we do not have accelerated depreciation anymore because that was changed.

Yet, our foreign competition has all of that. And, as a result of that, if I were pressured by just some third party shareholder, I might have pressure. But I am an American citizen and I want to have our ships Section 2.

Mr. TAYLOR. Okay. Mr. Johnsen, thank goodness this is a hearing and not a markup for a bill. Would you document those additional costs?

Mr. JOHNSEN. Sure.

Mr. TAYLOR. Because, just like I asked Mr. Alario, I am trying to educate my—I know my end game. My end game is I want to see a strong Jones Act. I know my end game is I would much prefer to see it as pure Section 2.

We also see what the other end game is and that is to, at some point, make the whole program available to documented citizens. Somebody is pushing this. So I need your help and Mr. Alario's help in making the committee aware of what are the unintended consequences, not only in your industry, but in the entire Jones Act industry for American shipbuilding, for our inland waterways; we need to know what are the unintended consequences if we let that happen.

Mr. JOHNSEN. I would be glad to.

Mr. TAYLOR. That is what I am going for, and that is why I would like your information to help me make that case.

Mr. JOHNSEN. Glad to do it.

Mr. TAYLOR. Okay.

[The information referred to can be found in the Appendix beginning on page 109.]

Mr. Chairman, I yield back.

Mr. HUNTER. Well, thank you, Mr. Taylor. And you have taken your time and Mr. Abercrombie's time, if he comes in. [Laughter.]

Mr. Saxton.

Mr. SAXTON. Mr. Clancey, yesterday, in my office in a very short meeting, you indicated that General Handy favors your position relative to Section 2. And you indicated that again today. And I do not doubt that he does.

But let me ask—and I have not had a chance to talk to him: I told you I would—

Mr. CLANCEY. Okay.

Mr. SAXTON. And I have not had a chance to do that, yet. But tell the committee members, I mean, why it is that General Handy favors your position.

Mr. CLANCEY. He looks out on the world, a troubled world, today, and he needs lift support. And he knows, because he has been staffed by his people, that in order to get it from point A to point B, you need terminals, you need information technology, you need thousands of people spread all over the globe.

I mean, if it happens to be in Southeast Asia or in the Middle East at the same time, you need to have a company that can respond by just breaking its system up, working with someone like APL and working it so we can be there in 12 to 24 hours. We have the ability to deliver it through difficult geographies.

We certainly would enter the theatre of war, if there was a place we could put a ship in. And we have worked very closely with him with planning what we would do in contingencies and responding to their needs wherever they are on the globe. And, you know, he has just spent a lot of time looking at it, and so have his predecessors.

Mr. SAXTON. So it gives you a level of flexibility that you feel you do not currently have?

Mr. CLANCEY. No, we have the flexibility and we are willing to offer it to the government; but what we have said is that on one hand, we can operate MSP vessels under the existing law. We can operate top secret ships. We would like to be able to operate the balance of our fleet as one company. And we think that it is the most efficient. And I think that history has demonstrated—albeit, we make one mistake and I will take the blame for it—that we have been responsive and we have been loyal.

Mr. SAXTON. Okay. I am trying to—so you have ships that you cannot currently use in this—

Mr. CLANCEY. We can use them, but we are getting to the point in time we have to reinvest.

We also feel that it is inefficient for someone that is operating ships for the government on one hand and the other makes a telephone call and says turn left or turn right. We think it would be much more efficient if we could just operate the ships ourselves.

I mean, it is our capital, it is our equipment, it is our terminals and we feel it is more efficient and more responsive if we could operate it.

It is similar to anyone building something and saying, "By the way, I am not allowed to operate that, so I will let my neighbor buy the truck and when I want to use it, I will tell them which way to go." A lot simpler to buy the truck yourself and drive it down the street.

Mr. SAXTON. Mr. Keegan, what is your take on—

Mr. KEEGAN. Well, you know, the MSP program is there for control during national emergencies with U.S. citizens. And as I stated in my statement, it is there.

But the company Mr. Clancey represents, Maersk Line, he talks about control and control over his ships, but in their fleet, they have 307 vessels. And 200 are under charter and 107 are owned. So they have 200 vessels which they do not directly control, just like the 19 that we operate.

So for their foreign flag fleet, you know, they own and charter in, and the American flag fleet, they charter in. So it is not something, you know, totally out of their day-to-day way that they do business.

But I think we are missing the point here, in some degree, in some of the testimony that MSP is a law that was passed for a reason. And it is worked very well. And it has to do with control during national—during contingencies. And those decisions on where the ships go and when made by the Department of Defense to the Section 2 operator, those decisions are made in the U.S.

I do not know where the decisions are made in APL in Singapore or Maersk in Copenhagen. But I know where the decisions for our

ships are. They are made right here in the U.S. and the ships will go when they are asked.

Mr. CLANCEY. Congressman?

Mr. SAXTON. What kind of decisions—we will get right back to you, Mr. Clancey.

What kind of decisions are you concerned that might occur if the decisions are not made here in the U.S.?

Mr. KEEGAN. Well, you know, let's say there is a conflict in China and we are involved. And the U.S. Government says, "Okay, gentlemen, you American companies withdraw from China." Maersk is the largest builder of ships in China, next to the Chinese. They have tremendous investments. As they said before, they are a global company. If they were asked to move from China, I do not know what the answer would be, as a Danish corporation.

And that is, I think, why the MSP program was limited to U.S. citizens and U.S. control. There is no doubt contingency; you know, if the flare goes up, we go.

Mr. SAXTON. And you would make the decision to make them move out of China?

Mr. KEEGAN. No, sir. I would make the decision to deploy my ships where the Department of Defense wanted them deployed. To our captain, we would say, "Hey, Afghanistan direct."

Mr. SAXTON. Mr. Clancey, you wanted to say something a minute ago.

Mr. CLANCEY. Yes. I just happen to have been given TRANSCOM's position on this; somewhat concerned as to whether such an expanded waiver would impair U.S. TRANSCOM's access to the vessels in the time of crisis. In fact, our review of the appropriate statutes suggest that the United States would retain significant powers to obtain access to the vessels during a contingency, even if the Maritime Security Act was amended to permit more MLL vessels, or vessels operated by all documented citizens, to be eligible at the top tier of vessels competing for MSP payments.

Mr. SAXTON. Now, I am sorry—what are you reading from?

Mr. CLANCEY. TRANSCOM's position.

Mr. SAXTON. And what gives TRANSCOM—why does TRANSCOM feel that way?

Mr. CLANCEY. Because they have worked with us for 15 to 20 years. They visited our corporate headquarters. They visited Norfolk. They visit us, we visit them. Over five succeeding Commanders in Chief (CINC) at TRANSCOM have been supportive of what we are trying to do. They know that we bring a lot more to the table than just the ships, and it is the infrastructure that allows them to respond.

Desert Storm was a perfect example, and what might happen in the future will demonstrate that once again.

And by the way, we are not the largest builder of ships in China. Last year we built 20 ships; Germany, Denmark, Taiwan, and several in China—five to be exact.

Mr. SAXTON. Mr. Bowman.

Mr. BOWMAN. I would just like to add to the concept of the network and the infrastructure. I have a letter here from the general, the Military Traffic Management Command, to APL. It is dated June 26, 2002. And I will submit this letter for the record. But,

among other things, it says, "The success of our operations," meaning the military operations, "in the Afghanistan area would not be possible without the level of performance you showed" APL and Automar, "in moving this shipment and others into the theatre of operations."

Now, you asked earlier, Mr. Chairman, how did we get into the theatre of operations. Our operation is a little bit different in that we went the other way. We went to Karachi, then our truckers took the cargo up through the internal of Pakistan, across the mountains and into the delivery zone. It was the infrastructure of the ports that we controlled in Karachi—the trucking system that we used all the time in the Pakistan area in peace time that enabled this movement.

And, if Mr. Keegan says, "Well, you can count on my sailing my ship to Karachi," that is only half the job. And, in fact, the easiest part of the job.

[The information referred to can be found in the Appendix on page 103.]

Mr. SAXTON. Thank you, Mr. Chairman.

Mr. HUNTER. Yes. Thank you, Mr. Saxton.

Actually, Mr. Johnsen has been sitting here next to me making this same point, that the infrastructure and the terminals and all of that, companies, the throughput, if you will, of the goods is part and parcel to that.

And just one question before I go to Mr. Allen. Who controls your terminals? You—

Mr. BOWMAN. Terminals throughout the world are controlled in different mixes. Some we own, some we have long-term contracts on. And I have heard others say, "Well, we can always rent a terminal." Not in the middle of an Afghanistan strike, you cannot.

The infrastructure is there—the people are there—they are on the ground, ready to serve. They know the locality. That is the difference.

Mr. HUNTER. Okay.

Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman.

There is a second panel with members of various maritime unions coming up to testify. But, before you go, I would like to ask both groups what your sense is what the impact would be on the unions that are represented in the second panel if we go one way or another with this.

For example, what is the impact if you have the kind of legislative compromise proposal that is laid out here? I mean, how would you analyze the impact on your workforce? Just for the moment, leave aside the reliability issues. But if I could ask that of anyone that wants to comment.

Mr. JOHNSEN. I will take a crack at that, Mr. Allen. I think that the compromise that we are proposing or the greatest consensus here was an effort to preserve and build on jobs. We understand the—we, particularly, are the Section 2 company—had to be convinced, ourselves, that this would be beneficial for the entire industry.

And we have come to the conclusion that the compromise of limiting the amount of documentary citizens to the existing ones that

are there and then going back to Section 2 is the best method because we need investment in new ships.

All of us are in a situation where our ships—we at Waterman and Central Gulf are in the process, now, of looking for new ships. And with that, in order for us to move forward with that, as John Clancey said, each of these pieces are \$60 million, \$65 million.

If we are going to go forward, we need this program. We need to be realistic that what we have now and what the DOD has accepted, and we think this, for the point of the unions and for the general well being of the industry, is the best way to go.

Mr. ALLEN. Okay. Thank you.

Others?

Mr. Alario.

And then we will come back to Mr. Clancey.

Mr. ALARIO. I would just like to attempt, again, to segregate the fact that we are talking on the one hand, appropriately here, about a particular program which involves a handful of U.S. built, U.S. owned ships, despite the fact that they may be U.S. flagged.

We are also interested, in this program, in protecting jobs that are under the mantle of the maritime unions that are involved in this hearing.

I call the attention of the panel, again, to the fact that our industry represents over 1,200 vessels, not one, five, 10 or 12, that conceivably could be impacted by legislation which is not careful to segregate what happens in this program and what will happen or fall over into the other areas of maritime operations.

And none of those jobs aboard those 1,200 ships come under the mantle of maritime unions. It is a non-union, privately owned—many privately, small-owned corporations, which are in a militarily strategic and a national security zone of outer continental shelf (OCS) operations in—where over 20 percent of this nation's oil and gas is produced.

It is not something that we take lightly, although we have no direct participation in the program, we remind the committee and the panel that this is something that we have to proceed with very cautiously. Because it is not accident that our U.S. Merchant Marine is now redressed to approximately 180 ships, and waning, and that the Jones Act is under attack from all angles.

And I know that this panel or this committee is not unaware of that. But it is time, since 1996 and since September the 11th, despite the fact that there may be a good record of participation and cooperation between companies that are presently in this program, this is a different world—a different time—and we have to look at it with a different—in a different light.

Mr. ALLEN. Thank you.

Mr. Clancey.

Mr. CLANCEY. Not only just, you know, your question in terms of labor—probably approximately 90 percent of the owners of the assets in the MSP program support the compromise. And the compromise, as we see it, would enhance opportunity for labor. And we have committed that to them.

Mr. ALLEN. I am sorry, I did not catch that last part. What did you say?

Mr. CLANCEY. That the compromise, as we have presented, by 90 percent of the ownership of the MSP fleet, would enhance the opportunities for labor.

Mr. ALLEN. Okay.

Mr. Keegan, I am looking for a note I made on something that you said. And I am trying to—I cannot seem to find it. I know I made the note. It is here somewhere.

But I guess what I wanted to ask you was what is your reaction to the proposal laid out here that would establish an equal priority for Section 2 companies and documentation companies, provided the documentation company had a special security agreement with the Department of Defense?

Can you speak to that?

Mr. KEEGAN. Yes, I can, sir.

I think I said in my testimony and I said before that the existing MSP program was well thought out, enacted and I think works very, very well. I do not see a need for change. I think, you know, the reasons the MSP program was enacted and why it is running and how it is structured works. It maintains the Section 2 citizenship. It maintains the integrity of the defense call up. And I think the system, the law—you designed the law; you implemented it. I think it works well. And I say, "Why change it?"

Mr. ALLEN. Well, let me ask you, then—

Mr. KEEGAN. Sure.

Mr. ALLEN [continuing]. Why would that system be—why would the vessel owners in a system like that be less reliable than Section 2 citizens? I mean, I heard what you were saying about, you know, U.S. citizens making a decision and there is no—I am really probing for—

Mr. KEEGAN. Okay.

Mr. ALLEN [continuing]. What else you can add to that particular answer.

Mr. KEEGAN. It is my opinion that a foreign corporation is just that, a foreign corporation. The interests of that corporation are governed by the state it is located in or the country it is located in and its global reach and how that affects its economics. Not true of the Section 2 citizen. We are based here. Our decisions are made based on U.S. law. We operate on the U.S. law.

And, you know, I cannot predict the future, but I think the chairman said it best. Fighting in Vietnam and our allies, the British, you know, providing service to Haiphong. I mean, we have seen it in the Gulf War. We have seen it in the recent Afghanistan conflict.

I mean was Germany truly on our side? Did we get the overflight rights from Saudi Arabia like we needed?

And, let's face it, some of these companies, one for example, Denmark, is in the European Economic Community (EEC). That has to be guided by the EEC policy now. And does that match with U.S. priorities and U.S. statutes?

I am just saying that it is clear to operate this fleet, you need U.S. citizens to operate it. And I think it works well.

Mr. ALLEN. Mr. Bowman, do you want to respond to that?

Mr. BOWMAN. Yes. I would just like to respond to something Mr. Keegan said when he said that nothing changed since the MSP enactment. Seems to me that is absolutely incorrect. Everything

changed. When MSP was enacted, all of these companies were American citizen-owned companies. Sealand was one of the biggest, strongest American companies.

APL, again, completely American owned—all of these companies—and what else? We all worked for the same companies. These Section 2 companies were part of the operating entities that were these strong American companies.

In the interim, both APL and Sealand have been sold and, in addition to a number of others, leaving only my friend, Mr. Johnsen, here as the true American citizen.

So everything has changed of late. And we have to address a modern world and make some compromises that will protect both the security of the United States and induce continued availability of the kind of networks that these two companies run.

Mr. ALLEN. And let me make sure, if I could—I will come to you in just a moment, Mr. Johnsen—for Mr. Bowman and Mr. Clancey, as I understand the heart of your argument, you are saying you have these middlemen that you are paying X number of million dollars per year. And you ought to, I think in your words, Mr. Clancey, you would like to operate the ships yourselves so you would have more money to invest in new ships. And that is, as I understand it, the heart of your argument.

I want to prioritize this and make sure I understand where you are coming from.

Go ahead.

Mr. CLANCEY. It is money; it is synergies; it is control. And it is the focus on our strategic planning as we go forward. If we are going to re-capitalize the fleet and build new technology, we would like to be able to control it.

Mr. ALLEN. Mr. Bowman.

Mr. BOWMAN. I would hate for this to be only about money. It is not only about money. It is about the question of, as Mr. Clancey said, controlling your own ships. After all, the way the structure now works, APL and Sealand and the other companies in their position have to invest in the ships, give them to the Section 2 citizens and then get them back.

What sense does that make when at the same time these same companies are entrusted by the Department of Defense in their pre-positioning forces, where both our ships are, where we carry military equipment ready to go, completely at the disposal of the Defense Department and they trust us. It just does not make any sense.

Mr. ALLEN. Mr. Johnsen.

Mr. JOHNSEN. Mr. Allen, I just wanted to say that we should look at the existing legislation because we, as Section 2 citizens, saw that way back in 1996 when there are already documentation citizens that are eligible. They just put a priority system. Priority one is Assistant Section 2 and if there are no Section 2s, then you go to documentation.

So, from a practical point of view, what we are talking about, from my point of view, as a Section 2 citizen, I wanted to try to, quite frankly, narrow it. And I wanted to say, "Okay. We have got these 28 or 30 ships. Let's grandfather those, but let's go back to Section 2."

That has been my theory here, because I do not back away from the hesitancy factor because I do not mind telling you about a year ago I had the hesitancy. But all of these people know about it. But I said, "Okay. I have to look at reality and where we are. And the U.S. Government has to look at reality as to what has been done."

So what is the practical solution? Confine it to where we are and then grandfather what we have, but then go back to Section 2 citizens.

Mr. ALLEN. Okay. All right.

One more question for Mr. Truchan and Mr. Keegan.

Mr. Bowman and Mr. Clancey were making the argument that our companies are so large that we have an infrastructure in other parts of the world that we count on to deliver materials that, you know, where the delivery does not finish, you know, right in the port. They have transportation terminals.

Do you have any response to that argument? That is just an open-ended—

Mr. TRUCHAN. Well, under the present arrangements in the TRANSCOM—the VISA program, in stage one and two, we use the infrastructure of, in my case, APL to deliver the products to the various countries. In stage three, we become the servant of the United States government; if the United States government has another destination for the ship, it is our responsibility to go ahead and take over that responsibility.

Mr. ALLEN. Anything to add, Mr. Keegan?

Mr. KEEGAN. Yes. I think, while some of the larger carriers, the global carriers, have some of their own facilities and lease facilities, there are many terminals around the world that are common-user facilities. Companies like ours could go there with a contract, sign up to use those terminals.

The intermodal system in the U.S., which they claim is very important, is not owned by them, it is owned by the U.S. railroads. And it is operated by the railroads. And it is available to, you know, one on—come one, come all, as long as you can pay.

The computer systems that are needed in the systems, you know, those systems are available in place today to monitor and track. And, frankly, our systems would be based in the U.S. where any of the global carriers, their computer systems are based on offshore overseas locations, whether it be China or India or wherever. I still think you have more control there.

And I think containers, themselves—people talk about where are you going to get the containers. They are available on a spot basis anywhere in the world from leasing companies. So it is a system where, you know, you can put that together, if necessary, in a very, very short time if needed.

Mr. ALLEN. All right.

Any response, Mr. Clancey, Mr. Bowman? I will give you the last word.

Mr. BOWMAN. If something happened in the Middle East, we own the terminal at Algiers. We own the terminal in Oman. Our own people there, we have U.S. citizens there.

Going out on a 24-hour notice and getting a terminal is preposterous. Any terminal in the world—let's say Kwai Chung in Hong Kong—I guess there is no room. All of the priority on all of the

berths is taken. Going out and leasing 50,000 pieces of equipment and putting it into—a tracking system in—you would need 5,000 people to track the equipment. You need dispatchers. You need gate people. You need truck drivers. You need train drivers.

And certainly, the American railroads own the network. But, you know, it is our flat cars and our intermodal people that dispatch the trains and pull them back and forth in the United States. They just make the highway available to us.

Mr. ALLEN. That is fine.

Thank you all very much—appreciate it.

Yield back, Mr. Chairman.

Mr. HUNTER. Thank you, Mr. Allen.

Just one question here, but it is a \$64,000 question for everybody. Embedded in this so-called compromise is a \$2.1 million to \$3.5 million increase per ship. Why do you get—that is a pretty substantial increase.

What is your best one-sentence justification for that increase—other than we all agreed it would be good? [Laughter.]

Mr. JOHNSEN. We are, Mr. Chairman, we are, all of us, competing day in and day out with foreign competition that have costs that are materially below the level. They do not have income taxes to the sailors. They do not have corporate taxes, et cetera.

And I can tell you that the difference, and we do not try to make it just. The difference is one thing and another, but the difference between our operating in an American environment and operating against a competitor is more than that; there is more than \$3.5 million.

Mr. HUNTER. Okay. So you think it is—one thing Rusty suggested is tax breaks for the crews might help to some degree.

Mr. JOHNSEN. That will help somewhat, yes. A tax break for the crew will help somewhat, a tax break for the corporations. The British, for instance, have just enacted a tonnage tax, which has helped get flags on the stern of the ship with the union jack, you know.

Mr. HUNTER. Okay.

Well, gentlemen, thank you so much.

Oh, Mr. Taylor has another question.

Mr. TAYLOR. Mr. Clancey, I have a question.

Mr. CLANCEY. Yes, sir?

Mr. TAYLOR. Is Maersk a corporation?

Mr. CLANCEY. Maersk, Inc. Is a corporation. And—

Mr. TAYLOR. Publicly traded?

Mr. CLANCEY [continuing]. AP Moller is a publicly traded company. It is two separate companies. In Denmark it is publicly traded. There is a thin float, about 10 percent.

Mr. TAYLOR. Okay. What would happen if the guys from Hutchinson showed up and offered substantially more money per share than the present owners?

Mr. CLANCEY. The owner, who owns 90 percent, would say, "How much do you want for your company?"

Mr. TAYLOR. The reason I ask that, Mr. Clancey, I am aware of at least—I was very much impressed in a dinner with some Norwegian container ship owners when they talked about, when they saw the rise of the fiddler, the fall of Norway that they shipped, they basically told all the ships to head for America.

But I am also aware, that around 1936, when Franco revolted against the Spanish Republic, that American oil tankers in route to Spain delivered their cargo to North Africa to help him instead of the Spanish government that paid for the—so there is historical precedence for guys you are counting on to switch sides on you, depending on who they think is going to win and where the money is.

I would hate to have our country as vulnerable as the Republic of Spain was in 1936.

I will just leave it at that.

Mr. CLANCEY. I am not familiar with that. I just know where—

Mr. TAYLOR. It is in the history books.

Mr. CLANCEY [continuing]. The sentiment of this company is, and also that Maersk Line, Limited is controlled by Americans. And the people from Denmark cannot tell that three-star admiral what to do.

Mr. BOWMAN. That is the problem. The devil is in the detail.

The company that runs the ships are American companies, in our case, headquartered in Delaware and right here in Washington. The boards are controlled by these independent American citizens. And even if the ultimate parent took the view that you suggest, it could not be done, with respect to the American flagships.

Mr. HUNTER. How about if the—stockholders, though, have the ultimate vote on this.

Mr. BOWMAN. No, the board. In a corporate entity, the board controls the corporation. And the board, these independent directors cannot be replaced without the consent of the Department of Defense.

Mr. HUNTER. Well, now wait a second.

Mr. BOWMAN. That is what—

Mr. HUNTER. Wait a second, though. In the corporation, if a majority of your stockholders want to replace the board, can they replace them?

Mr. BOWMAN. No, because the Department of Defense says you may not replace the independent directors without the consent of the Department of Defense. There are other directors that are representative of the foreign owner. They can be replaced.

Mr. HUNTER. Well, they can if they want to jettison the program.

Mr. CLANCEY. What do you mean?

Mr. HUNTER. If you have got a foreign owned corporation, that corporation has not for here, for now and forever vested its power irretrievably in the United States Department of Defense.

Mr. BOWMAN. As long as it is a defense contract, I guess.

Mr. HUNTER. Well, precisely.

Mr. BOWMAN. Yes.

Mr. HUNTER. Obviously, if you have decided to go with the enemy, I think we can presume you have probably broken the contract at that point, right? [Laughter.]

Mr. BOWMAN. But my point is that it would take a long time to get that done.

Mr. HUNTER. Okay. We will concur it would take a while to do that.

Mr. BOWMAN. Right.

Mr. HUNTER. We have got to go to this other panel.

Mr. BOWMAN. Yes, sir.

Mr. HUNTER. But just one last—one real fast one here.

Mr. Keegan, do you agree with this idea that there is a lot of margin in this \$10 million, or so, contract with Maersk?

Mr. KEEGAN. No sir, I do not think—

Mr. HUNTER. Do you think most of it is cost and there is a small profit, but not a lot?

Mr. KEEGAN. There is a very—there is a small profit. And I can tell you what the profit is, if you would like that.

Mr. HUNTER. Go ahead.

Mr. KEEGAN. But Mr. Clancey would have to waive confidentiality for me to do that. We have a contract. That is okay?

Mr. CLANCEY. Well, we are waiting for the courts to give us—

Mr. HUNTER. We have got lots of congressmen that want to pick this contract up—extraordinary-congressmen. [Laughter.]

They are waiting anxiously to hear this.

Mr. KEEGAN. It is not—it is \$216 per day, per ship. We are paid to manage those ships, the management fee.

Mr. HUNTER. Okay. So how much of that is—how much of the fee, roughly, in percentage, is profit?

Mr. KEEGAN. That is the profit, \$1.5 million if you keep all the profit. The rest of it is for operation.

Mr. HUNTER. Okay.

Mr. KEEGAN. The rest of the money, \$7 million, is—85 percent of that, sir, is for salaries.

Mr. HUNTER. So that must be, basically, those facts must have been put out when the initial negotiation took place—

Mr. KEEGAN. Sure.

Mr. HUNTER [continuing]. That ended up, that resulted in this agreement.

I take it, if we reauthorize MSP a new agreement, that that point, by the contracts own terms, has to be struck. Is that right?

Mr. CLANCEY. Yes.

Mr. HUNTER. If an MSP is—are you folks prepared to see that happen, Mr. Keegan?

Mr. KEEGAN. No, our company would be out of business, sir.

Mr. HUNTER. Well why is that?

Mr. KEEGAN. Well, there is a contract clause that says if a law changes, our company no longer exists. They can operate these ships.

Mr. HUNTER. Well, but what they would have to—but if we kept the requirement that you have got to have the American citizen, they would have to—

Mr. KEEGAN. That is correct, sir.

Mr. HUNTER. They would have to maintain an American citizen.

Mr. CLANCEY. It could be a congressman.

Mr. HUNTER. You could tell Mr. Clancey all those mean things you said about him do not count. [Laughter.]

I am just kidding, Mr. Keegan. We have got to have a little humor in this business.

Mr. Clancey, what is your—

Mr. CLANCEY. No, I just said that if that was the case, it could be an ex-congressman.

Mr. HUNTER. Yes. We have a lot of them waiting for this job. It is crazy. [Laughter.]

Well, just one last question, Mr. Clancey.

Mr. CLANCEY. Yes, sir.

Mr. HUNTER. Just a historic note. Was Maersk one of the suppliers of North Vietnam during the Vietnam War?

Mr. CLANCEY. No.

Mr. HUNTER. Are you sure of that?

Mr. CLANCEY. I was in Vietnam.

Mr. HUNTER. Okay.

Mr. CLANCEY. They were not there.

Mr. HUNTER. Well, I was in Vietnam, too, and I have no idea if they were or not. [Laughter.]

But who was—because I know Britain was supplying a lot of materiel at that time to the North, who was moving that stuff for them? Do you have any idea?

Mr. JOHNSEN. I can only tell you that we were there, but we were there with the American flag on the sterns, supplying you guys over there. And I was in two of the wars. I was supplying the third one.

Mr. HUNTER. Okay.

Mr. CLANCEY. I do not know. I just know that they did not—all I was concerned about was keeping my head down and making sure I ate every two or three days.

Mr. HUNTER. Okay. But you were supplying the American side, Maersk was?

Mr. CLANCEY. Sealand was.

Mr. HUNTER. Oh, Sealand?

Mr. CLANCEY. Yes.

Mr. HUNTER. Okay.

Mr. CLANCEY. We were very heavily involved.

Mr. HUNTER. What was Maersk—do you know, for a fact, whether Maersk was or was not involved in supplying North Vietnam—Maersk, not Sealand?

Mr. CLANCEY. I do not believe—I could not swear to it—

Mr. HUNTER. Well, we will find out.

Mr. CLANCEY. But no, they were not. It is just something that the company would not do. But if I find something to the contrary, I will certainly let you know.

Mr. HUNTER. Okay. Thank you.

Well, gentlemen, thank you for letting us have a good candid exchange. That is the way we are able to get information and that is the American way. And it is great to have you all in this panel and have a good back and forth. We appreciate it.

We are now going to get our labor leaders up here, and we will have them contradict you.

Gentlemen, thank you for being with us, and we are going to continue with our hearing.

And Mr. Sacco, I understand you have been—I hope you have been well briefed by Mr. Turner to prepare you for this harsh panel here. We appreciate you being with us, sir.

Mr. Davis, Captain Rodriguez, Mr. McKay, and we look forward to hearing your perspective on MSP.

So Mr. Sacco, the floor is yours, sir.

STATEMENT OF MR. MICHAEL SACCO, PRESIDENT, SEAFARERS' INTERNATIONAL UNION; MR. RON DAVIS, PRESIDENT, MARINE ENGINEERS' BENEFICIAL ASSOCIATION; MR. MIKE RODRIGUEZ, INTERNATIONAL ORGANIZATION OF MASTERS, MATES AND PILOTS AND MR. MICHAEL R. MCKAY, NATIONAL PRESIDENT, AMERICAN MARITIME OFFICERS.

Mr. SACCO. Thank you, Mr. Chairman and members of the panel.

My name is Michael Sacco and I am president of the Seafarers International Union (SIU). And I am pleased to submit this statement on behalf of the American Maritime Officers, the International Organization of Master, Mates, & Pilots (MMP), the Marine Engineers' Benevolent Association and my union, the Seafarers International Union of North America.

Our unions represent the American maritime workers employed aboard U.S. flag commercial vessels, including all the vessels, including all the vessels participating today in the Maritime Security Program.

On the outset, I want to express my appreciation to you, Mr. Chairman, and to the members of the panel, for holding this hearing on the Maritime Security Program. This program is critically important to the workers we represent, and also to our ability to be able recruit, retain, qualified American mariners.

Without this program, U.S. flag vessels will leave the American registry and seafaring personnel will be forced to seek employment outside the industry. And when that happens, our country will face a shortage of seafaring personnel, posing a serious risk for the nation.

Our unions believe that the best long-term solution in guaranteeing that the United States will have American seafaring personnel it needs is to develop a larger, more active and competitive commercial U.S. flag merchant marine.

We are convinced that this program could, with appropriate and practical changes, serve as an even greater source of employment for American mariners. Support to a greater degree, American military operations overseas and better protect U.S. economic interests from total domination from foreign-flag vessels and crews.

Thus we believe the Maritime Security Program should be extended for an additional period of at least 20 years.

This change would help create greater stability within the American maritime industry; provide an enormous boost to our outgoing efforts to recruit and retain men and women for service in the merchant Marine; and will give investors and lending institutions more confidence to provide funds necessary for the replacement of vessels and the expansion of the U.S. flag fleet.

In addition, the Congress and the administration should capitalize on the initial successes of the maritime program by expanding the size of the MSP fleet. Not only will a larger militarily-useful fleet ensure that the Department of Defense will have an even greater commercial sealift capability at its disposal to meet the sealift manpower and sustain the needs of our armed forces, but it would also provide a greater, much needed base for peace-time commercial employment for American mariners.

Furthermore, we believe the annual payment should be increased and should be subject to annual adjustments to reflect future infla-

tion. And we believe that the Maritime Security Program should be amended to reflect the current ownership of U.S. flag vessels consistent with, to the fullest extent practical, the existing priority system for awarding operating agreements and the overall interests of the Department of Defense.

We want to emphasize, Mr. Chairman, that under the proposed changes in citizenship ownership rules that we suggest, the MSP fleet will continue to be comprised entirely of American-flag ships with American crews, operated by companies controlled by Americans and contractually bound to provide national defense sealift shipping for the U.S. military worldwide.

These proposed changes would strengthen the Maritime Security Program and help ensure its long-term viability. We note that representatives of the Department of Defense have repeatedly indicated their support for such changes.

In fact, they, too, have indicated that not only are they necessary to the future program, but that these arrangements have been, and are, used by the military to provide the operation of vessels performing a wide range of defense missions.

The unions sitting at this table, look forward to working with you to develop an expanded and updated maritime program which will create a more competitive and cost-effective U.S. flag commercial fleet.

Thank you, Mr. Chairman. And we will answer any questions that you may have. And I think Ron—

[The prepared statement of Mr. Sacco, Mr. Davis, Mr. Rodriguez, and Mr. McKay can be found in the Appendix on page 91.]

Mr. HUNTER. Thank you very much, Mr. Sacco, for a very fine statement.

Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman, and members of this panel.

Thank you for holding this hearing. I welcome the opportunity to appear before you today on behalf of the men and the women of the Marine Engineers Beneficial Association.

Our members serve aboard 40 of the 47 MSP vessels supplying international waters today and are an integral part of our armed forces national defense sealift capability.

The authorization of extended MSP, increase in size to 60 ships, is of vital interest to my unit and to our nation's economic and military security.

In addition to the points raised in the joint statement for this hearing, I want to emphasize at the outset in my remarks an important principal in any such program must be that U.S. mariner jobs, and more specifically, licensed officers' jobs, can not be disenfranchised.

By this, I mean the relationship between unions and the ratio of vessels must be preserved so that no future program jeopardizes already proven, highly trained and ready personnel available to our nation.

As the president of the nation's oldest maritime unit, founded in 1875, I am deeply troubled that, since January of this year, I have seen 12 vessels leave the American flag either to be re-flagged foreign or scrapped.

The Marine Engineer's Beneficial Association (MEBA) officers served aboard all 12 of these vessels. No doubt my fellow brothers on this panel have also witnessed the continuing loss of ships to foreign flags or to the scrap yard.

Such a loss of maritime capability is unacceptable for a nation faced with global challenges and responsibilities. Even more so in light of September 11 and the ongoing war on terrorism.

Importantly, three of these 12 vessels that once flew the American flag participated in the MSP program. We are confident that, with an extended and expanded program to MSP, replacement tonnage for these vessels will be brought on line soon, together with jobs for sailing members.

The other nine vessels no longer sailing under the U.S. flag represent a deplorable loss that will, most likely, not be met with replacement ships, unless a new, expanded program is authorized. In addition to losing an essential asset in time of national emergency, ships lost to our flag also represent lost jobs.

The nation's dwindling pool of highly-trained professional mariners represents not only a threat to the well being of my union and the U.S. maritime industry, but the lack of U.S. maritime manpower is a direct threat to our national security. These loyal, ready-to-serve merchant mariners provide reliable crews for our MSP ships and other merchant marine vessels in a time of feral coalitions and global uncertainty. Moreover, the same crew base is expected to fully man the Defense Department's reserve sealift fleet.

The panel is familiar, I am sure, of the role played by the merchant marines serving this nation throughout its history. We have seen heroic efforts ranging from the Murmansk Run in World War II to Korea and Vietnam and to recent emergencies in the Persian Gulf, the Balkans and at home at the shore side evacuation of lower Manhattan on September 11.

The Staten Island ferries and New York City fireboats rescuing victims of that tragedy were crewed by MEBA members, eager to lend a hand at a moment's notice.

Just as the merchant marine is the cornerstone of the U.S. military's ability to project power globally, MSP is the cornerstone of our nation's maritime policy. Together with the Jones Act and cargo preference laws, MSP makes up the absolutely essential triad of maritime policies and programs supporting the U.S. merchant marine.

Without action to create an expanded program to MSP, MEBA risks losing 40 contracted vessels participating in MSP. Without action, these vessels will leave the U.S. flag. Without action, the maritime loses more mariners. Without action, America will lose a key element of military and economic power at a time when there is no substitute for American leadership. Without action, the day may come when U.S. troops engaged in combat halfway around the world are left vulnerable due to lack of ammunition and supplies because there are not enough U.S. ships to service them.

Thank you.

Mr. HUNTER. Okay. Thank you, Mr. Davis, appreciate it.

Captain Rodriguez.

Mr. RODRIGUEZ. Thank you, Mr. Chairman, members of the panel.

I am Captain Mike Rodriguez, executive assistant to Captain Tim Brown, president of the International Organization of Masters, Mates & Pilots.

Were it not for the fact that our union is presently holding its 79th convention, Captain Brown would be here, personally, to express our union's support for the Maritime Security Program and for the changes we believe are necessary to make it work even better for the United States.

On behalf of Captain Brown and the membership of the MMP, I am grateful that this hearing is being held—we are grateful that this hearing is being held so that Congress can gather the information it needs to properly consider Maritime Security Program reauthorization legislation.

At the outset, I want to emphasize that the reauthorization of the Maritime Security Program is extremely important for the masters and licensed deck officers represented by the MMP. We represent licensed officers working aboard 37 of the 47 United States flag vessels enrolled in the program. As such, the Maritime Security Program represents the most significant component of our U.S. flag foreign trades commercial fleet.

Let me state that the Masters, Mates, & Pilots strongly endorses the statement submitted to this panel by the four seagoing organizations represented here, today. Rather than simply repeat what my colleagues have already said, I would like to make and emphasize two points.

First, we believe that if we have learned anything from the attacks on our nation of September 11, it is that we must be even more vigilant about the threats we face through the carriers of cargo from overseas locations. To us, the only real security is the security that comes with the operation of United States flag vessels, crewed by United States citizens, as guaranteed by the Maritime Security Program.

The best way to ensure that our country has the information it needs regarding the ownership, operation, and crews of commercial vessels is if they are American flagged. We believe that a larger, more realistic Maritime Security Program, resulting in more vessels operating under the U.S. flag, with American crews, further enhances America's security by giving our country a greater measure of control over the loading and transportation of cargo destined for the United States ports, as more of America's foreign trade is carried on vessels owned and operated by American companies flying the American flag and crewed by our mariners.

Second, if Congress considers the issues relating to the U.S. citizenship ownership of vessels operating in the Maritime Security Program, it is important to understand exactly what we are suggesting and how maritime labor's proposal fits under current law.

Neither the Masters, Mates & Pilots union nor the other seafaring unions are asking Congress to abandon the United States citizen ownership requirements that apply to United States flagged foreign-trade vessels, in general, or to vessels in the Maritime Security Program. In fact, today, there are a significant number of United States flagged vessels that carry commercial and military cargoes that are operated by documentation citizens, as allowed by the existing law.

In addition, Congress, in 1996, when it enacted the Maritime Security Program, specifically allowed documentation U.S. citizens to participate directly in the Maritime Security Program. In other words, a maritime labors proposal is needed and an unprecedented attempt to allow documentation United States citizens to operate U.S. flagged vessels commercially or for the military or an unprecedented attempt to open the Maritime Security Program to documentation United States citizens.

As I said, Congress has already enacted laws that authorize those operations.

On the other hand, maritime labors proposal is an attempt to reflect the current ownership structure of the American maritime industry and to incorporate these changes into the law, as already enacted by the Congress. We suggest that for only existing Maritime Security Program vessels the distinction between certain documentation United States citizens companies and Section 2 United States citizen companies be eliminated. In all other circumstances under the Maritime Security Act, our proposal would retain the system as enacted by Congress in 1996.

I appreciate the opportunity to appear before this panel on behalf of the Masters, Mates, & Pilots, and I will try to answer whatever questions you may have for us.

Mr. HUNTER. Thank you.

Mr. RODRIGUEZ. Thank you, sir.

Mr. HUNTER. Captain Rodriguez.

Mr. McKay.

Mr. MCKAY. I do not have a prepared statement. I agree with everything this panel has just said. We do believe—

Mr. HUNTER. You know, that is some of the finest testimony I have ever heard. [Laughter.]

Mr. MCKAY. You like that, huh?

Mr. HUNTER. Yes. Was that Gordon Spencer's idea? [Laughter.]

Mr. MCKAY. No. [Laughter.]

Mr. MCKAY. Though I will give him credit for it, no. I think it is a long overdue need for this new maritime program. Like anything, it can always be improved. And I think this is a step in the right direction.

Mr. HUNTER. Okay.

Well, let me kind of summarize what I have heard. Gentlemen, it is this, that you see the American crewing and the American flagging as the paramount goal here. And that if we had some type of a—as long as we had an American directorship, from your perspective, an American directorship of these companies, the need to have the class 2 citizen, the so-called middleman that we have, is in the present structure, would not be necessary.

You could live with the proposal that has been endorsed, I believe, by Maersk and the other owners that would have an American directorship in the companies, but not necessarily an American ownership.

Is that right?

You could live with it? Let me ask you one other question. The one difference there, though, major difference—we have talked about maintaining the American interest and control—is that ultimately the stockholders, as I pointed out to one of the gentlemen

who was here in front of us, ultimately the stockholders could make a decision.

And if you do not own the stock in the company that maintains control, you do not really have control. But it is true the directors can, they can go against the stockholders until the next meeting is held. And that is about as long as they can do it. And at that point, the stockholders control the company.

So you would still have a company which would be controlled by the stockholders. And, therefore, perhaps, not meeting all of the goals in terms of having an American interest being served, maybe, in time of conflict.

The one thing that was just going through my mind as the testimony was going on, and I was thinking about the situation in Taiwan with China, with the other shipping companies, all the global shipping companies having major stakes and major interests, because of the massive China trade and shipbuilding and other economic interests.

And if it came time for them to choose up between Taiwan and China, well that is almost a choice that we cannot make, as an American government. And if you watch us tap dance on these issues, now, that becomes very apparent.

So it would be, maybe, a bridge too far for a global shipping company to make that choice in terms of going with the United States interests over those of China and seeing a wealth of investments in China and strategic and economic relationships evaporate.

So this is, I mean, this is a difficult choice that this panel is going to have to make if we, in fact, change this. And I would hope you can appreciate that. And I just wondered if you had any comments on that.

Yes, sir?

Mr. DAVIS. Mr. Chairman, it was not that long ago when the United States had American merchant mariner companies, liner companies, that had around-the-world services. Back in the 1980s, I worked for U.S. Lines. U.S. Lines went around the world. We had infrastructure around the world.

Recently, there was APL, a wholly-owned American company, and Sealand, a wholly-owned American company. But it is gone; those are gone.

What we also realize is that in the interest of national defense and what we are hearing from the other government agencies is that it is very important to have infrastructure.

Mr. HUNTER. You know, that is true. And, incidentally, Mr. Taylor and I and Mr. Saxton have been worried about China Ocean Shipping Corporation, COSCO, having infrastructure around the world and not only trying to get the Navy base at Long Beach, which we were successful at stopping, but now having terminals on both ends of the Panama Canal.

And, in light of the testimony that has gone before, there is a great deal of wisdom in their strategy, because it has now been pointed out very clearly that simply having controls of the ships is not even half the ballgame. You have got to have control of the infrastructure and the intermodal capability to move cargo once it gets to the shore.

And so the China Ocean Shipping Corporation is, for practical purposes, totally owned by the Politburo in China—in Beijing. They are looking at this thing in terms of a total package. And that is why they go out and buy terminals and/or rent them or control them. And why Hutchinson Whampoa now has facilities at both ends of the Panama Canal. They are not simply moving to control bottoms or ships, but to control systems.

And so that points out, I think, for us, as Americans who want to guarantee the ability to move cargo from point A to point B, whether it is in Afghanistan or some other theatre, is that even controlling the ships, we are halfway home, but not all the way home.

And so you have posed this really major problem to us. Because I presume that the American President Lines and Sealand, in the old days, had the total system, did they not?

Mr. DAVIS. If it is that even controlling the ships, we are halfway home, but not all the way home.

And so you have posed this really major problem to us. Because I presume that the American President Lines and Sealand, in the old days, had the total system, did they not?

Mr. DAVIS. Yes.

Mr. HUNTER. And today we do not have it.

Mr. DAVIS. That is correct.

Mr. HUNTER. And so, to some degree, we are at the mercy of the world—the community that now controls it and has the pink slip to those operations.

Mr. DAVIS. You are absolutely right, Mr. Chairman. American used to have economic control of the seas, of the world's oceans, economic control and control of moving the cargo around the world. We do not anymore. And we have to realize that. We have a wonderful Navy out there that can, through force, do things. But as far as the economic control, as far as passenger, carrying cargo from port to port around the world, carrying military cargo when it is needed, we no longer have, we no longer control the seas.

Mr. HUNTER. Okay.

Mr. DAVIS. And we all know that a nation that controls the seas is always in much better shape than one who does not.

Mr. HUNTER. Mr. Taylor.

Mr. TAYLOR. No questions, Mr. Chairman.

Mr. HUNTER. Mr. Saxton.

Mr. SAXTON. Mr. Chairman, I think I will follow Mr. Taylor's example. We have a meeting with the chairman of the full committee here in less than 10 minutes.

Mr. HUNTER. Okay.

Well, thank you, gentlemen, for being with us.

Well, gentlemen, you have laid out very clearly the position, I think, very precisely the position of your organizations on this proposed compromise language.

What I would ask you to do and also have—do we have anything for the record, here?

Okay, we got a letter from the American Shipbuilding Association that we will, without objection, we will take into the record.

[The information referred to can be found in the Appendix on page 104.]

Gentlemen, what I would like to ask you to do is, if you have any additional comments or recommendations—and we will try to stay in contact with you as we try to see if we cannot put together a package that solves this problem, while maintaining America's interests—so if you have any, we will try to be in contact with you and have the staff working with you.

If you have any additional thoughts or reflections on these things, we will keep the record open and get them to Mr. Johnston.

But, thank you so much for being with us today.

Mr. TAYLOR. Mr. Chairman.

Mr. HUNTER. You have laid a very difficult—we have a very difficult policy decision here at our feet.

Mr. TAYLOR. Mr. Chairman, real—

Mr. HUNTER. Yes, sir, Mr. Taylor.

Mr. TAYLOR. One of you gentlemen talked about 12 vessels being taken out of the fleet in the past couple of years.

Mr. DAVIS. I did.

Mr. TAYLOR. You said some were scrapped, some were reflagged.

Mr. DAVIS. Yes.

Mr. TAYLOR. What was the ratio?

Mr. DAVIS. The ratio of those 12 vessels, between scrapping and reflagging? I do not know what—I would say 50-50, but I do not know the exact numbers.

Mr. TAYLOR. Could you get that number for me, please?

Mr. DAVIS. We could get that for you, yes.

Mr. TAYLOR. That is the only question.

[The information referred to can be found in the Appendix beginning on page 109.]

Mr. HUNTER. Okay.

Thank you very much for your testimony. And maintain some contact with Mr. Johnston. Flood him with information so that he has little time to do anything else.

All right. Thanks.

[Whereupon, at 3:54 p.m., the panel was adjourned.]