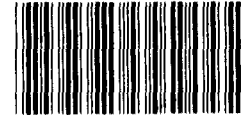


GAOUnited States General Accounting Office
Washington, DC 20548Logistics and
Communications
Division

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B-199587

JULY 24, 1980

The Honorable Bennett M. Stewart
House of Representatives

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Dear Mr. Stewart:

Subject: [Use of Great Lakes Ports and the St. Lawrence
Seaway for Government Export Shipments]
(LCD-80-87)

Your April 30, 1979, letter asked us to investigate maritime shipments by the Department of Defense (DOD) and the Department of Agriculture to determine whether the Government is shipping goods overseas by the most economical route. You also requested that we examine all Government shipments from all U.S. ports to determine whether the Government is shipping from the port closest to the point of origin of the shipment, and if not, why the Government agency is not using the closest port.

You referred to an article in the Chicago Tribune in which the general manager of the Chicago Regional Port District voiced his concern regarding the small amount of Government cargoes moving overseas via the port of Chicago. The article also addressed the problem of how to increase the use of our fourth seacoast (the Great Lakes).

You later agreed that we should defer our work until after the House Committee on Merchant Marine and Fisheries completed hearings which it had scheduled during the summer of 1979 on matters that might affect Great Lakes shipping. On September 28, 1979, we met with your office to discuss the results of the hearings and what work, if any, we should undertake. We agreed that an examination of all Government shipments would be nonproductive in view of existing cargo preference laws, seasonal disruption of Great Lakes shipping, and the infrequency of U.S.-flag service to Great Lakes ports. We also



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agreed to provide the background information we had developed and to explore the shipping plans of U.S.-flag carriers for providing service to Great Lakes ports during the 1980 shipping season.

SUMMARY OF FINDINGS

Applicable laws and regulations do not, in themselves, prevent the movement of Government cargoes through Great Lakes ports. Our research did identify several other factors, however, which negatively affect the selection of Great Lakes ports for overseas movement of commercial, as well as Government, cargoes. These factors include (1) prohibitions on use of foreign flag vessels for U.S. Government cargoes, (2) infrequent service by regularly scheduled U.S.-flag carriers, (3) the winter interruption of the shipping season, (4) the shallow channel which limits the loads of certain ships, (5) proportionally lower rates to coastal ports, and (6) decline in ocean liner service.

During the last year, a great deal of interest has been expressed into the problems of the U.S. merchant marine industry and Great Lakes ports. Many of the concerns voiced by the Chicago Regional Port District Manager were echoed by other speakers at the hearings held by the House Committee on Merchant Marine and Fisheries in Chicago during July 1979. Within the same month, no less than eight bills designed to improve the overall posture of our merchant marine were introduced in the Congress. To date, none have been enacted.

LAW RESTRICTS USE OF FOREIGN FLAG VESSELS

The movement of Government cargoes overseas by steamship is governed by "cargo preference" laws which date back to 1904. The basic purpose of these laws is to promote a strong American merchant marine and protect American shipping from foreign competition. The two primary cargo preference laws which have a direct effect on the movement of Government cargoes by sea are:

- Title 10, section 2631 of the United States Code. This act generally requires the use of vessels belonging to the United States or vessels of U.S. registry in the transportation by sea of DOD supplies.

--Title 46, section 1241(b) of the United States Code. This act was passed primarily to assure that at least 50 percent of Government-sponsored cargoes are moved on privately owned U.S.-flag commercial vessels.

The procedures and regulations developed by Government agencies to comply with these laws serve mainly to maximize the use of U.S.-flag vessels.

LACK OF U.S.-FLAG SERVICE RESTRICTS
USE OF GREAT LAKES PORTS FOR DOD CARGO

Movement of DOD cargoes overseas is accomplished through the coordinated efforts of the shipper, the Military Traffic Management Command, the Military Sealift Command, and steamship lines.

The Military Sealift Command endeavors to use U.S.-flag steamship lines exclusively, but on occasion--because of the nonavailability of U.S.-flag service, priority of movement, or other special requirements--will tender a shipment to a foreign-flag line.

Lykes Brothers Steamship Company informed us that it has tentatively scheduled seven sailings into the Great Lakes during the 1980 shipping season--the same as it made in 1979. Waterman Steamship Corporation does not currently serve the Great Lakes, but it has applied to the Federal Maritime Administration for an operating differential subsidy. The operating differential subsidy pays the difference between certain essential service costs of operating ships under the U.S. flag and foreign competitive flags. If granted, Waterman will be able to compete with foreign flag carriers for Great Lakes traffic.

Waterman recently informed us that it is awaiting a decision on its application and has not established a definite schedule of service into the Great Lakes for the 1980 shipping season. The Federal Maritime Administration informed us that (1) the subsidy commitment is for up to 20 years, (2) the approval process is quite lengthy, and (3) no definite time frame for consideration could be forecast.

Farrell Lines, Inc., occasionally sends a ship into the Great Lakes and we asked it which factors determine whether to schedule such service. A spokesman for Farrell Lines said that the type of ship it uses, when fully loaded, draws 30 feet of water and could not be fully loaded and

still negotiate the St. Lawrence Seaway's shallow 26-foot channel. To make a voyage profitable, its vessels have to visit east coast ports after leaving the Seaway to finish loading before departing for overseas destinations. For this reason, it rarely schedules service into the Great Lakes.

We also discussed these matters with Moore-McCormack Lines, Sea-Land Service, and United States Lines. Representatives for each company gave essentially the same reasons and problems concerning providing service to Great Lakes ports and using the St. Lawrence Seaway.

For DOD cargo, therefore, the decision to use one port over another is governed by cargo requirements and U.S.-flag vessel availability. Further, if regularly scheduled U.S.-flag sailings from Great Lakes ports are not available, DOD export shipments are moved via U.S.-flag carriers serving the east, west, and gulf coasts on regular schedules.

We did note from the Military Traffic Management Command's Worldwide Traffic Management Summary that 2,514 measurement tons of DOD cargo moved through Great Lakes ports during fiscal year 1979. In the absence of revising the law (10 U.S.C. 2631) or scheduling regular service into the Great Lakes by more than one U.S.-flag carrier, no change is likely to occur in DOD's future shipping pattern.

DEPARTMENT OF AGRICULTURE'S SHIPPING
PROCEDURES COMPLY WITH LAWS AND REGULATIONS

The movement of Government-sponsored cargoes overseas (principally agricultural commodities by the Department of Agriculture and the Agency for International Development) is accomplished through the combined efforts of Agriculture and ocean carriers. The policies, procedures, and requirements governing procurement, including allocation to U.S. ports, of agricultural commodities for donation under title II, Public Law 480, are published in the Code of Federal Regulations (7 C.F.R. 1496). They were revised effective May 3, 1979, and provide that contracts be awarded on the general principle that the lowest landed cost will prevail.

Regulations define the lowest landed cost as the cost of goods plus transportation to the port, loading, and ocean freight to the port of discharge. However, in awarding contracts, Agriculture considers availability of ocean

service, adequacy of service, port performance, and transit time. Prior to the revision it only considered the lowest landed cost.

After the determination of lowest landed cost is made, that information is furnished to an ad hoc committee which considers all of the above-mentioned factors. After the committee makes its review and it recommends that contracts be awarded based on the additional factors which override lowest landed cost, it presents these recommendations to the contracting officer for a final decision. In the final decision, the contracting officer should fully document and explain the reasons why the lowest landed cost was not selected.

The Department of Agriculture considers orders for shipment of commodities on a monthly basis. It either solicits services from U.S.-flag carriers or, after the 50 percent U.S.-flag requirement is met, from foreign flag carriers. If the solicitation generates responses from carriers (U.S. or foreign-flag) serving the Great Lakes and the lowest landed cost is produced by that route (and other factors do not override) the shipment is made from a Great Lakes port. Agriculture advised us that about 16.5 percent of the commodities exported last year moved from Great Lakes ports, 2.7 percent moved from east coast ports, 41.3 percent moved from gulf coast ports, 29.9 percent moved from west coast ports, and 9.6 percent moved from Mississippi River ports.

Agriculture explained that the majority of exported cargoes for the past several years was destined to India, which explains the high percentage of traffic off the west coast, and to Africa which explains the even higher percentage of traffic off the gulf coast. A small portion was destined for Europe and the Mideast where use of the St. Lawrence Seaway was more competitive in the lowest landed cost formula.

Although we did not test any of Agriculture's determinations, we believe Agriculture's current procedure for choosing carriers and ports for export of commodities, if properly implemented, is reasonable and fair.

OTHER FACTORS AFFECTING GREAT LAKES SHIPPING

As mentioned earlier, other factors affect U.S.-flag ocean carriers' decisions to offer service to and from the Great Lakes. Some of the problems identified in our

research and discussions with representatives of agencies and ocean carriers are outlined below.

Depth of channel

The St. Lawrence Seaway has a depth which will accommodate ships drawing no more than 26 feet and the configuration of some vessels (Farrell "fine-line" vessels for instance) is such that these ships draw more water than this and consequently cannot be fully loaded at Great Lakes ports. Other canals handling ocean vessels which exceed the 26-foot depth are the Panama Canal--41 feet--and the Suez Canal--38 feet. To make such a voyage profitable, the carrier must either find more cargo at downriver ports--unlikely because U.S. carriers' rates (unless subsidized) are usually higher than foreign flag carriers' rates--or run down the east coast to U.S. ports for cargo before heading overseas. Either would be less profitable for the carrier because of (1) greater turnaround time, (2) greater labor costs, and (3) greater fuel costs. Except for low-priority, nontime-sensitive cargo, this causes problems for the shipper because of the longer transit time and resultant later delivery.

Short shipping season

The St. Lawrence Seaway usually opens in late March or early April and closes in late November or early December for a shipping season of 265 to 270 days. Several carriers informed us that the interrupted shipping season hinders market development for the steamship line and the shipper.

Much effort and money has been expended studying the feasibility of extending the Seaway's shipping season and the ways to do it. There is great variation, however, in the time frame estimates within which this might be accomplished. An American representative for the Seaway Development Corporation stated that an 11-month shipping season could be programmed for as early as 1985. A Canadian counterpart, however, stated that a season approaching 11 months could not be realized until some time after the year 2000. For several years the U.S. Army, Corps of Engineers, has conducted studies and has given a demonstration program for extending the season for the entire Great Lakes system.

The greatest problem to extending the Seaway's season is improvement of winter navigational aids. Standard navigational aids are removed after the Seaway closes for the

winter because they would be lost or disrupted by heavy ice flows. The corps estimates that the system could be operational in about 15 years. Another problem relates to the advisability of extending the winter shipping season at all. The Department of the Interior and the State of New York are concerned that disruption of the winter ice will cause environmental damage to wildfowl, aquatic life, and shoreline and docks.

Disparity in rates

Several speakers at the hearings last July said that a detriment to using the Seaway more is the fact that export/import railroad rates applicable to and from east, west, and gulf coast ports are lower than the standard domestic rates applicable to and from the same ports. Since there are no export/import rates applicable to and from Great Lakes ports, the Interstate Commerce Commission has been criticized by officials of Great Lakes ports for authorizing the export/import rates to coastal ports.

Ironically, many export rates/tariffs were established years ago (long before the St. Lawrence Seaway was built) for the specific purpose of promoting foreign trade and markets for commodities and manufactured goods produced at interior U.S. points. The carriers and coastal ports have been very progressive during the intervening years in developing systems for handling cargo, such as unit train service, minibridge, and containerization.

Another deterrent to establishing lower export rates to Great Lakes ports is that the railroads will not find it financially advantageous to be shorthauling goods to Great Lakes ports and giving revenue to the steamship carriers in lieu of receiving the longer haul revenue to the east, west, or gulf coast.

Decline in ocean liner service

Another factor which has caused shippers to move their general cargo overland to coastal ports is the decline in the number of ocean liners serving the Great Lakes. During the waterways' early years, shippers could have selected from nearly 60 ocean liners; whereas, in recent years as few as 12 liners have seen fit to enter the Seaway.

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We trust the foregoing information will be of help to you and will provide you with further insight of why Great Lakes ports are used so infrequently for export of Government cargo. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

We will be glad to discuss this matter in detail with you or with members of your staff.

Sincerely yours,

A handwritten signature in black ink, appearing to read "R. W. Gutmann". The signature is written in a cursive, flowing style with a prominent initial "R" and "W".

R. W. Gutmann
Director