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U.S. FOOD AID EXPORTS

The Role of Cargo Preference

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U.S. FOOD AID EXPORTS: THE ROLE OF CARGO PREFERENCE

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, DIRECTOR INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS GENERAL GOVERNMENT DIVISION

On April 3, 1993, the White House released a fact sheet announcing the availability of $700 million in agricultural credits to Russia under the Food for Progress Program (FPP). Since this announcement, there has been considerable discussion in the press about the portion of the $700 million necessary for financing the transportation of the FPP commodities to Russia. The discussion has focused on the additional cost of using U.S.-flagged vessels, rather than lower cost foreign-flagged vessels, to transport at least 75 percent of the commodities, as required by cargo preference laws. This discussion has renewed debate in the Congress on the effectiveness of U.S. cargo preference laws.

In June 1990, GAO reported on the impact of cargo preference requirements on U.S. food aid programs and the U.S. merchant marine. GAO stated that the additional cost of using U.S.-flagged vessels, rather than lower-cost foreign-flagged vessels, had decreased by more than 50 percent during the period 1979 to 1989. However, during the same period, the number of U.S.-flagged vessels and U.S. merchant marine personnel had also declined significantly.

In preparation for this hearing, GAO updated some of the information contained in its June 1990 report. GAO found that the additional cost of using U.S.-flagged vessels has started to increase since 1989. Also, the decline in the number of U.S.-flagged vessels is continuing, but the numbers of merchant marine personnel had increased slightly as of 1991; however, the increase may have been due, at least in part, to the activities associated with Desert Shield/Desert Storm.

One of the main objectives of cargo preference laws is to help maintain a viable and responsive merchant marine capability for use in time of national emergencies. Therefore, for this hearing, we obtained data concerning the U.S. experience in shipping cargo during the 1990-1991 Operation Desert Shield/Desert Storm to determine the extent to which U.S.-flagged ships were available and used. GAO found that due to the limited availability of U.S.-flagged vessels during the initial phase of Desert Shield, the Military Sealift Command (MSC) relied heavily on the services of foreign-flagged vessels. However, these vessels were used largely for onetime voyages and carried just one-fourth of the dry cargo transported during Desert Shield.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss issues related to U.S. cargo preference laws, including the impact that the laws will have on the recently announced food aid to Russia under the Food for Progress Program (FPP).[1] We last reported on cargo preference laws and their impact on food aid and the U.S. merchant marine in June 1990.[2] In addition, we have issued several other reports over the years that are related to cargo preference and U.S. shipping issues. My comments today are based primarily on the information we reported in our 1990 cargo preference report, information contained in other related GAO reports, and on more recent information we obtained for this hearing.

Our testimony today is an interim response to the Chairman's request that we update information reported in our 1990 cargo preference report.

BACKGROUND

Cargo preference laws, in one form or another, have existed practically since the formation of our nation. For example, the second law enacted by the Congress was the Tariff Act of 1789 which, in part, required an additional 10-percent duty on imports carried on non-U.S. vessels. Since then, numerous laws promoting the use of U.S. vessels have been passed.

Current cargo preference laws require that significant portions of government-owned or -financed cargo be shipped on U.S.-flagged vessels.[3] Such laws are meant to ensure that an adequate and viable U.S. merchant marine fleet is maintained both to carry

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[1]The Food for Progress Program refers to the Food for Progress Act of 1985, as amended by section 1516 of the Food, Agriculture, Conservation, and Trade Act of 1990. This is a food aid program aimed toward using food resources of the United States more effectively to support developing countries and countries that are emerging democracies and have made commitments to introduce or expand free enterprise elements in their agricultural economies.

[2]See Cargo Preference Requirements: Their Impact on U.S. Food Aid Programs and the U.S. Merchant Marine (GAO/NSIAD-90-174, June 19, 1990).

[3]The legal definition of "U.S.-flagged vessel" is in appendix I.

domestic waterborne commerce as well as to serve as a naval and military auxiliary in time of war.[4]

In general, cargo preference laws require that 100 percent of Department of Defense (DOD) cargo, 75 percent of food aid cargo, and at least 50 percent of other government-owned or -financed cargo be shipped on U.S.-flagged vessels.[5] However, some government programs are exempt from these shipping requirements; for programs that are not exempt, exceptions can be made for specific shipments.[6] The Department of Transportation's Maritime Administration (MARAD) monitors U.S. government agencies' compliance with cargo preference requirements and reports results to the Congress annually.

There are several different kinds of seagoing vessels, and they each generally specialize in the type of cargo they carry. For example, bulk carriers generally carry bulk commodities, such as corn or wheat, in the hold of the ship; intermodal carriers generally carry 20-foot or 40-foot containers (holding boxed or otherwise packaged goods) on the decks of the ship (the containers can be transferred between trains, trucks, and ships); tanker vessels have several individual tanks designed for carrying liquids such as petroleum; and general cargo ships generally carry "break-bulk" commodities such as bound lumber or other goods bound or stacked on pallets. Other specialized vessels include passenger ships, barges, and roll-on/roll-off (RORO) ships. ROROs generally carry vehicles such as tanks or trucks that can be driven on and driven off the ship.

Food aid provided by the United States is frequently shipped on bulk carriers, general cargo ships, or intermodal (container)

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[4]See Declaration of Policy, Merchant Marine Act of 1936, Public Law 74-858.

[5]Section 1142 of the Food Security Act of 1985 increased the cargo preference requirement for food aid cargo from 50 percent to 75 percent by 1988.

[6]The Department of Agriculture's (USDA) agricultural loan guarantee programs--the Export Credit and Intermediate Export Credit Guarantee Programs (known as General Sales Manager (GSM)-102 and -103)--are specifically exempted from the cargo preference requirements by section 1531 of the Food, Agriculture, Conservation, and Trade Act of 1990. Exceptions to the cargo preference requirements can be made when U.S.-flagged vessels are not available or the rates are excessive or otherwise unreasonable.

carriers, depending on the type of food commodities being shipped. However, at times, tankers may be used to transport bulk grains, such as feed wheat or corn, in order to meet cargo preference requirements. I will discuss this issue in more detail later.

In addition to the different kinds of vessels, there are also different kinds of shipping services provided by the vessel owners, i.e., charter, liner, and tramp services. Charter service involves the chartering of an entire ship (or ships, depending on the cargo tonnage) to transport commodities from point A to point B. Bulk carriers and tankers are frequently chartered. Liner service provides a regular route between several U.S. or overseas ports. Intermodal carriers and general cargo ships are frequently used in providing liner service. Tramp service refers to ships--usually general cargo ships--that transport cargo from port to port but are neither chartered nor provide a liner service. Rather, they establish their routes as they acquire customers, seeking to take advantage of whatever shipping opportunities they can capitalize upon.

It is generally more expensive to ship cargo on U.S.-flagged vessels than on foreign-flagged vessels because U.S.-flagged vessels have higher capital and operating costs. To the extent that U.S.-flagged vessels are used to meet cargo preference requirements, the government is, in effect, subsidizing the U.S. shipping companies.[7]

FOOD ASSISTANCE TO RUSSIA

In December 1990, the Bush administration decided to provide the former Soviet Union with $1 billion in credit guarantees so that the Soviet Union could buy U.S. agricultural commodities on credit terms. This assistance was provided under the Export Credit Guarantee Program (GSM-102).[8]

Since December 1990, approximately $6 billion in GSM-102 credit guarantees have been made available to the former Soviet Union and its successor states, including Russia. Following the dissolution

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[7]Government subsidies to the U.S. maritime industry have also included construction/reconstruction subsidies and operating cost subsidies. According to MARAD, these subsidies have amounted to almost $13 billion since fiscal year 1936.

[8]Under this program, financial institutions in the United States finance U.S. agricultural commodity sales to foreign countries for up to 3 years. If the foreign country defaults on the repayments, the U.S. government repays the financial institution.

of the Soviet Union, Russia assumed principal responsibility for repaying the former Soviet Union's debt. Beginning in late November 1992, Russia started to default on its GSM-102 repayments and has since been suspended from the program.

The new Secretary of Agriculture said in February 1993 that USDA considers Russia to be a very important market and indicated that the issue of how to continue grain sales was being examined by the administration. On April 4, 1993, the White House Press Secretary released a fact sheet announcing the availability of $700 million in agricultural credits to Russia under FPP.

Since this announcement, there has been considerable discussion in the press about the portion of the $700 million that will be necessary for financing the transportation of the commodities to Russia. On May 3, 1993, the Secretary of Agriculture announced the commodity and transportation details of the $700-million aid package. His announcement said that the commodity portion of the package totals $500 million, and the transportation portion is estimated at $200 million. The announcement also cited the Secretary as saying that the U.S. cargo preference requirements will apply and that the transportation costs will be shared between the United States and Russia.

Based on a review of USDA documents and discussions with USDA officials, we determined that the $700-million food aid package actually appears to be a $600-million aid package that breaks down as follows:

$428.5 million:	FPP credits for Russia to use in purchasing various U.S. agricultural commodities including corn, soybean meal, wheat, butter, vegetable oil, peanuts, poultry, rice, and sugar.[9]
$ 71.5 million:	U.S. agricultural commodity donations to Russia that will include butter and wheat provided under FPP and section 416 of the Agricultural Act of 1949.
$100.0 million:	To be used by the United States to pay the commodity transportation costs not being paid by Russia.

[9]The announced credit terms include a 15-year repayment period. Only interest payments, at 3 percent, are due the first 7 years; interest and principal payments are due the last 8 years, with interest raised to 4 percent.

According to a USDA official, when negotiating the details of the package, the Russians agreed to pay $100 million of the transportation costs up front. This amount represents the estimated cost of transporting the commodities provided under FPP at foreign-flagged-vessel rates. The remainder of the transportation costs, another estimated $100 million, will be paid by the United States and will cover the ocean freight differential costs (OFD), as well as the full transportation cost for shipments made under section 416 of the Agricultural Act of 1949. (OFD is the added cost of using U.S.-flagged vessels rather than lower-cost foreign-flagged vessels.)

SUMMARY OF GAO'S 1990 CARGO PREFERENCE REPORT AND UPDATED INFORMATION

In our 1990 report on cargo preference, we discussed the impact that cargo preference requirements were having on U.S. food aid programs. We determined, at that time, that the additional cost of using U.S.-flagged ships to carry food aid cargo was declining and represented about 10 percent of the food aid expenditures. There is some evidence that since then the additional cost of using U.S.-flagged ships has increased.

We reported that commodity transportation costs--including the additional cost of using U.S.-flagged vessels--were included in the amounts made available for food aid. We found that this situation still exists. We also reported that the increase in cargo preference requirements from 50 percent to 75 percent for shipments of food aid cargo may have resulted in poorer service by U.S.-flagged vessels.[10] In updating this information, we were told by government and private sector officials responsible for exporting official food aid that poor service is still generally provided by U.S.-flagged shipping companies, especially one of two major U.S.-flagged liner services.

Our report also discussed the impact that cargo preference requirements were having on the U.S. merchant marine. We reported that despite cargo preference requirements, between 1979 and 1989 the numbers of U.S.-flagged vessels and U.S. merchant marine

[10]Government and private sector officials responsible for exporting official food aid had told us that U.S.-flagged shipping companies, in general, provide poor service, e.g., arrive at the loading port later than promised. They attributed the poor service to shipping companies viewing preference cargo as "captured cargo," free of competition from foreign-flagged shipping companies, and available for loading at the U.S.-flagged shipping companies convenience. They believed that the increase to 75 percent exacerbated the problem.

personnel dropped. Also during that period, the cargo tonnage-carrying capacity of active U.S.-flagged vessels dropped.

While the cargo-carrying capacity of the active fleet dropped, the cargo-carrying capacity of the inactive fleet increased, due largely to the additional intermodal and tanker ships placed in inactive status between 1979 and 1989. When both the active and inactive fleet are considered, cargo tonnage-carrying capacity actually increased slightly during the 10-year period.

I would now like to provide some of the details of our 1990 report, as well as the updated information we have been able to obtain thus far.

Ocean Freight Differentials

In our 1990 report, we said that between 1981 and 1989 the average OFD for shipping food aid decreased by more than 50 percent. The decrease in OFD was from an average of about $56 per metric ton (mt) in calendar year 1981 to an average of almost $25/mt in cargo preference year (CPY) 1988/1989.[11]

There were two main reasons for the decrease in OFD. First, USDA changed the way in which it applied cargo preference requirements, thus providing more flexibility in determining when to use and when not to use U.S.-flagged vessels. For example, when the 50-percent cargo preference requirement existed, USDA would apply the requirement to each commodity purchase authorization associated with providing food aid to a specific country under the Public Law-480 title I program. After the cargo preference requirement was increased, USDA began applying the requirement on a nationwide and annual basis. This change in application permits USDA more flexibility in scheduling more cargo on U.S.-flagged vessels when the U.S. rates are low, and more cargo on foreign-flagged vessels when the U.S. rates are high. The second reason for the decrease in OFD was that the newer U.S.-flagged vessels became generally larger, more fuel efficient, and less labor intensive.

According to data reported by the Congressional Research Service, the average OFD for Public Law-480 title I/III cargo decreased further, to about $17/mt, in CPY 1989/1990 but rose to about $20/mt

[11]The cargo preference year became effective in 1986 and runs from April 1 of one year to March 31 of the next year. The average differential costs are based on shipments of food aid provided under titles I and III of the Agriculture Trade and Development Act of 1954, as amended.

in CPY 1990/1991.[12] According to a USDA official, OFD has since risen further. Data we obtained on shipments of fiscal year 1992 Public Law-480 title I cargo indicate that the average OFD was about $28/mt.

A USDA official told us that OFDs tend to fluctuate up or down depending, in part, upon the commodities destinations and the tonnage being shipped. The official gave two reasons that could explain the increase in average OFD:

--Higher OFDs per ton are associated with smaller shipments. Last year, a country that normally makes extensive purchases of wheat under the Public Law-480 title I program significantly reduced its purchases. As a result, the average size of commodity shipments were smaller, which resulted in higher OFDs.

--Some of the larger, more efficient U.S.-flagged vessels were taken out of service last year due to bankruptcies.

Identifying Cargo Preference Costs in Food Aid Budgets

Officials representing agricultural interests told us that the dollar amounts of food aid provided by the Congress are misleading because those amounts must cover transportation as well as commodity costs.[13] Therefore, they believe that the additional costs of shipping food aid on U.S.-flagged rather than foreign-flagged vessels result in less funding being made available for food. Officials representing maritime interests, on the other hand, believe that exempting food aid from the cargo preference requirements would not necessarily mean that savings in shipping costs would be used for acquiring additional food, but that food aid appropriations would be reduced accordingly.

A USDA official suggested replacing cargo preference requirements with an additional direct subsidy to compensate the maritime industry.[14] Another alternative would be to provide for the added

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[12]See Cargo Preference and Agriculture, Congressional Research Service, 92-64 ENR (Washington, D.C.: Jan. 10, 1992).

[13]The U.S. government pays the OFD portion of the transportation cost under title I of the Public Law-480 program. The government pays all of the transportation cost under titles II and III of the Public Law-480 program and under section 416 of the Agricultural Act of 1949.

[14]See footnote 7.

costs of cargo preference requirements by establishing a separate budget line item in the responsible agency's budget. We noted that OFD estimates for USDA were included in the President's fiscal year 1994 budget and that a schedule identifying cargo preference program costs for all relevant agencies was included in the President's fiscal years 1993 and 1994 budgets for MARAD. (See app. II.)

Timeliness Problems in Lifting Cargo

We reported in 1990 that private voluntary organizations (PVO), which help the U.S. Agency for International Development (AID) administer the Public Law-480 title II food aid program, believe that the increase in cargo preference requirements from 50 to 75 percent resulted in less timely "lifting" of commodities. Lifting of commodities refers to when a ship arrives at port and begins loading the commodities. Officials from the PVOs and USDA have different standards for measuring timely lifting. A ship that arrives within 30 days of schedule is not considered late by USDA. The standard applied by the PVOs is 14 days. Using either standard, the PVO officials believe that the percentage of late lifting had increased.

USDA officials responsible for administering the Public Law-480 title I commodities also complained about less timely lifting following the increase in cargo preference requirements for food aid. However, PVO officials voiced concern about lateness more often than the USDA officials. One explanation may be that Public Law-480 title II shipments are generally made on intermodal vessels providing liner service. Since liner service vessels follow preestablished routes, making stops at many ports, a delay experienced at any one port can have a ripple effect and delay arrivals/departures at other ports. On the other hand, Public Law-480 title I shipments are generally made on bulk-carrying vessels that are chartered to voyage from point A to point B, and, unlike the liner service vessels, are not susceptible to delays that can result from stopping in other ports en route.

Use of Tankers to Transport Public Law-480 Title I Food Aid

Earlier, I stated that tankers are sometimes used to transport food aid cargo. They are used to carry bulk grains, mostly corn and wheat. According to USDA officials, shipping corn on tankers leads to excessive kernel breakage. They also said that the grain loading/unloading processes are inefficient. The officials said that whenever oil shipments are down, U.S.-flagged carriers make their tankers available for carrying preference cargo under the Public Law-480 title I program. The officials told us that until recently, USDA felt compelled to allow the use of tankers when the rates were competitive and the need to meet cargo preference requirements dictated that a U.S.-flagged vessel be used.

Recently, however, USDA made a policy decision to permit the purchasing foreign country to exclude tankers from carrying the current 1992 crop of corn shipped under the U.S. food aid programs.[15] USDA's decision was based on the percentage of breakage resulting from the use of tankers. According to USDA officials, the normal breakage in transporting corn on bulk carriers is 2.5 percent to 3.5 percent. But when transporting corn on tankers, the percentage of breakage jumps to between 15 percent and 20 percent.

USDA officials explained that the configuration of tanker vessels is such that a very high percentage of kernel-to-steel contact occurs when loading and unloading, which results in the high percentage of breakage. The high percentage of breakage, in turn, leads to increased instances of insect infestation, mold, and other damage.

USDA officials also stated that the loading and unloading of grain to or from tankers is less efficient than loading/unloading bulk carriers. Furthermore, unloading a tanker at a developing country's port can be a problem because appropriate equipment for unloading the grain may not be readily available. Also, the tanker may be too large to enter the foreign port and may have to discharge its cargo to smaller vessels while at sea, further increasing the percentage of breakage. According to USDA officials, the use of tankers to transport food commodities would not be tolerated by the exporter or importer under normal trade circumstances.

Maritime interests disagree with USDA's views on this matter. In letters sent to MARAD, shipping companies claimed that their extensive experience in operating both bulk carriers and tankers shows USDA's technical analysis was incorrect. In our ongoing work we plan to further examine these conflicting views.

Unavailability of U.S.-flagged Shipping Service on the West Coast

A USDA official told us that U.S.-flagged shipping services from West Coast ports of the United States is virtually unavailable. The USDA official said that the absence of U.S.-flagged shipping services from West Coast ports presents a problem in the case of selling western white wheat under the Public Law-480 title I program. According to the official, when USDA solicits bids for providing wheat under Public Law-480 title I, USDA must consider

[15]According to USDA officials, the current 1992 corn crop is especially susceptible to breakage. It was subject to excessive rainfall and contained a higher-than-normal moisture level when harvested. The crop has been artificially dried at high temperatures and is very brittle.

the lowest landed cost in awarding the contract. Lowest landed cost is the combination of commodity cost and transportation cost that results in the lowest total cost incurred in purchasing and delivering the commodity to the foreign port. Furthermore, USDA cannot discriminate between specific types of wheat when considering bids. The USDA official indicated that the additional cost of transporting western white wheat to a non-West Coast port, in most cases, makes the bid non-competitive.

The official said that one of the objectives of the Public Law-480 title I program is to develop markets, but that it is difficult to develop a market when the commodity a customer wants cannot be supplied. He stated that when a customer tries to purchase western white wheat under the Public Law 480 title I program, USDA encourages the purchaser to accept other types of wheat instead--wheat that can be shipped from ports that are serviced by U.S.-flagged vessels.

Impact on the U.S. Merchant Marine

We reported that between 1980 and 1987, the amount of government cargo transported on U.S.-flagged vessels increased by 67 percent--from 12.6 million metric tons (mmt) to 21 mmts. (The food aid portion of that cargo doubled from 3 mmts in 1980 to 6 mmts in 1987.)

Despite the increase in government cargo transported on U.S.-flagged vessels, between 1979 and 1989 the number of U.S.-flagged vessels decreased by 24 percent, and the number of merchant marine personnel decreased by about 31 percent. Active U.S.-flag shipping capacity decreased 6.5 percent.

Part of the reason why the numbers of U.S.-flagged vessels and personnel decreased was because newer, larger ships were being constructed and flagged, and the required size of the crews necessary to operate the new ships was reduced. The new ships also required smaller numbers of support personnel to load and maintain them. The larger cargo capacities of the new ships help account for the limited decrease of active shipping capacity.

We obtained updated information from MARAD on the numbers of ships and personnel under U.S. flag and found that the decline in the numbers of U.S.-flagged vessels is continuing. In 1989, the number of active and inactive U.S.-flagged vessels totaled 661. As of the end of fiscal year 1991, the number of active and inactive U.S.-flagged vessels totaled 621, a 6-percent decrease from 1989.

Average monthly employment of U.S. merchant marine personnel, however, has increased slightly since 1989, from about 133,000 to about 137,000 in 1991. The increase may be explained partly by the maritime activity associated with Operation Desert Shield/Desert Storm.

MARAD does not yet have final 1992 data for the size of either the U.S.-flagged fleet or merchant marine personnel.

THE U.S. EXPERIENCE WITH THE U.S. MERCHANT MARINE DURING DESERT SHIELD/DESERT STORM

One of the main objectives of cargo preference laws is to help maintain a viable and responsive merchant marine capability for use in time of national emergencies. Therefore, for this hearing, we obtained data concerning the U.S. experience in shipping cargo during the 1990-1991 Operation Desert Shield/Desert Storm to determine the extent to which U.S.-flagged ships were available and used.

We reported in May 1991 that after the invasion of Kuwait by Iraq--in early August 1990--the U.S. Transportation Command notified the Military Sealift Command (MSC) of urgent shipping requirements.[16] The existing charter and liner service agreements that MSC had with U.S.-flagged carriers were insufficient to handle the urgent requirements, and MSC began chartering additional vessels that were largely foreign-flagged vessels. The newly chartered vessels transported military supplies, ammunition, and unit equipment to the Middle East from U.S. and European ports. These vessels were needed in the initial stages of Desert Shield.

Of the 206 vessels MSC chartered between August 10, 1990, and January 18, 1991 (the approximate dates of Desert Shield), 177 (or 86 percent) of them were foreign-flagged vessels. According to MARAD, the U.S. had near unanimous support overseas for what was a relatively popular effort, which meant that foreign-flagged vessels and crews were readily available.

The services of most of the available U.S.-flagged vessels were contracted with MSC during that period. According to a MSC official, those U.S.-flagged vessels that were not under contract with MSC were unavailable because the vessel owners were not willing to abandon their regular commercial trade for the temporary needs of the military. This situation was confirmed by one instance that we reported in our May 1991 report. We stated that in December 1990 there was a requirement to charter a U.S.-flagged ship for security reasons. MSC had identified three potential suppliers who had an acceptable ship available. However, two of the three suppliers expressed no interest in the proposed charter, and MSC negotiated the charter with the other supplier. According

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[16]See Navy Contracting: Military Sealift Command Contracts for Operation Desert Shield (GAO/NSIAD-91-198, May 14, 1991).

to a MSC official, the two suppliers who were not interested did not want to give up their regular trade service.

Cargo delivered by foreign-flagged vessels by January 16, 1991 (2 days before the official end of Desert Shield), accounted for approximately one-fourth, or 27 percent, of the total U.S. dry cargo shipped.[17] According to a MSC official, the relatively low percentage of cargo carried by foreign-flagged vessels was due to the fact that the foreign-flagged vessels were generally small-sized ones used for just one voyage, whereas the U.S.-flagged vessels were generally larger and used for multiple voyages.

One type of vessel for which a shortage was identified as a result of the Persian Gulf War is ROROs. During the war MSC chartered all ROROs that were available. According to MSC data, services of 55 ROROs were contracted. Forty-six of them were foreign-flagged, and 9 of them were U.S.-flagged. ROROs are not a type of vessel that would normally be used to transport food exports, and as a result, cargo preference requirements applied to food exports would not normally be expected to help meet this need.

In January 1992, DOD released a report outlining a plan to increase mobility capabilities over the next several years. The fast sealift portion of the plan calls for the acquisition of approximately 20 very large RORO ships. The plan also directs MARAD to purchase up to 19 more RORO ships for its ready reserve force. According to DOD, these acquisitions are necessary because available U.S. and foreign-flagged ROROs cannot meet all of the plan's proposed cargo and timeliness requirements.

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Mr. Chairman and Members of the Subcommittee, this completes my prepared statement. I would be happy to try to answer any questions you might have.

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[17]According to a MSC official, when examining cargo preference statistics for Desert Shield/Desert Storm, only dry cargo was considered. Most of the nondry cargoes, e.g., petroleum, oil, and lubricants, were supplied by U.S. allied countries in the Middle East.

DEFINITION OF U.S.-FLAGGED VESSEL

According to section 3 of title 1, United States Code, the word "vessel" includes every description of watercraft or other artificial contrivance used, or capable of being used, as a means of transportation on water. To become a U.S.-flagged vessel, the vessel must be measured, documented, and registered in the United States.

Vessels that have been measured in the United States, are of at least 5 net tons, and not registered under the laws of a foreign country are eligible for documentation if the vessel is owned by

1. an individual who is a citizen of the United States;

2. an association, trust, joint venture, or other entity

   a. all of whose members are citizens of the United States, and

   b. that is capable of holding title to a vessel under the laws of the United States or of a state;

3. a partnership whose general partners are citizens of the United States and the controlling interest in the partnership is owned by citizens of the United States;

4. a corporation established under the laws of the United States or of a state, whose president or other chief executive officer and chairman of its board of directors are citizens of the United States and no more of its directors are noncitizens than a minority of the number necessary to constitute a quorum;

5. the U.S. government, or

6. the government of a state.

Vessels eligible for documentation may be issued a certificate of documentation by the Secretary of Transportation. The certificate of documentation identifies and describes the vessel; identifies the owner of the vessel; and contains any additional information prescribed by the Secretary of Transportation.

Once documented, vessels can be registered with the Secretary of Transportation as U.S.-flagged vessels and may engage in foreign trade or trade with Guam, American Samoa, Wake Island, Midway Island, or Kingman Reef.

According to section 901(k) of the Merchant Marine Act of 1936, as amended, the definition of a U.S.-flagged vessel eligible to carry preference cargoes is as follows:

..a vessel, as defined in section 3 of title 1, United States Code, that is necessary for national security purposes and, if more than 25 years old, is within five years of having been substantially rebuilt and certified by the Secretary of Transportation as having a useful life of at least five years after that rebuilding.

If the vessel is privately owned and was either (1) built or rebuilt outside the United States, or (2) documented under any foreign registry, then it must be documented under the laws of the United States for a period of 3 years before it is eligible to carry preference cargo.[1]

[1]Exceptions to the 3-year documentation period for foreign-built or -rebuilt vessels have been allowed in the past by legislation.

U.S. AGENCIES' CARGO PREFERENCE PROGRAM COSTS, FISCAL YEARS 1991-94

Dollars in millions

Agency	1991	1992	1993 (est.)	1994 (est.)
Department of Defense	$919[a]	$343[b]	$367	$395
Department of Agriculture	111	117	135	106
Maritime Administration	34	51	51	50
U.S. Export-Import Bank	23	25	27	30
Agency for International Development	12	13	15	17
Department of State	[c]	[c]	[c]	[c]
Total	$1,099	$549	$595	$598

[a]This amount includes $588 million related to 1990-91 Gulf War shipments.

[b]This amount includes $30 million related to 1990-91 Gulf War shipments.

[c]Costs are estimated to be less than $5 million.

Source: Budget of the United States Government, Fiscal Year 1993, and Budget of the United States Government, Fiscal Year 1994, submitted to the Congress by the President.

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