

**TESTIMONY OF MR. ALLEN WALKER
PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA
ON**

**S. 1510, THE UNITED STATES CRUISE SHIP DEVELOPMENT ACT OF 1999
SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
OCTOBER 6, 1999**

Mr. Chairman and members of the Committee, thank you for the opportunity to testify this morning on the United States Cruise Ship Development Act of 1999.

My name is Allen Walker and I am the President of the Shipbuilders Council of America (SCA). SCA is the national trade association representing the domestic shipyard industry that builds and repairs commercial and government vessels. SCA represents 50 shipyard companies that own and operate over 100 shipyards in 20 states. Our members employ approximately 35,000 workers, more than 70 percent of the total domestic shipyard workers primarily engaged in non-Navy shipbuilding. SCA also represents 30 affiliate companies that provide goods and services to the shipyard industry.

SCA member companies build, repair and service passenger vessels including cruise ships, ferries, tugboats, towboats, barges of all kinds, vessels and rigs for the offshore oil industry, fishing vessels, large yachts, Coast Guard and other government craft and any other type of workboat you can name. The owners and operators of these companies are true entrepreneurs in every sense of the word. They operate in an extremely competitive environment without government subsidies and they are good at what they do.

The Passenger Vessel Services Act (PVSA) is important to the continued success of a large number of SCA shipyards and to the U.S. shipyard industry in general. Many of our shipyards are building, have built or have the capability to build small and mid-sized cruise ships. Companies like Atlantic Marine, Gladding Hearn, Blount Industries and Chesapeake Shipbuilding on the East Coast; the Halter Marine Group, Bollinger Shipyards, Bender Shipbuilding & Repair, First Wave Marine and Leevac Shipyards on the Gulf Coast; Nichols Brothers Boat Builders, MARCO Seattle and Todd Shipyards in the Pacific Northwest; Marinette Marine and Bay Shipbuilding on the Great Lakes; and, Jeffboat in the nation's heartland have the know-how, experience and capacity to build passenger vessels. Let me assure you that the U.S. shipyard industry is ready, willing and able to meet the shipbuilding needs of anyone interested in operating cruise ships in our domestic coastwise trades.

Mr. Chairman, thank you for holding this hearing and for your interest in expanding the cruise ship industry in the United States. This morning I would like to make some general comments about the shipyard industry and how the legislation under consideration today would affect it. As I understand this legislation, the bill would basically create a number of incentives aimed at encouraging foreign-flag cruise ships to enter the U.S. market with the eventual goal of creating an expanded, U.S.-flag cruise ship industry.

Certainly, SCA shares your goal of expanding our coastwise cruise ship industry. A U.S.-flag cruise ship industry offering wide consumer choice and providing shipbuilding and ship repair opportunities for American shipyards would be a win/win situation for everyone. We also agree that the speculative and untested nature of much of the U.S. market requires that incentives of some kind be offered to speed growth in our domestic cruise ship industry. No one can question the fact that the U.S.-flag cruise ship industry has not kept pace with the dramatic growth of the industry worldwide.

SCA supports efforts to encourage growth in this industry and, in the past, has worked with other interested groups to craft legislation with this goal in mind. In fact, during the last Congress we worked with Senator Breaux' office and several of the parties testifying this morning on legislation that would encourage growth in the domestic cruise ship industry and protect U.S. shipyards against further harm from the infusion into our domestic market of heavily subsidized, foreign-built cruise ships.

However, SCA believes strongly that any initiative aimed at cruise ship industry growth in the U.S. must address the reasons why our domestic cruise ship industry lags behind its foreign competition and encourage U.S.-flag cruise ship growth. We believe that failure to address these issues will result in, at best, a temporary fix at the expense of current U.S.-flag cruise ship operators, operators with plans to enter the market and our domestic shipbuilders.

SCA believes that efforts to promote growth in this industry should be focussed on easing entry into the marketplace for U.S. companies that are committed to operating U.S.-built and U.S.-flag vessels, not on encouraging further growth on the foreign side. U.S.-flag cruise ship operations have been disadvantaged for too long by foreign-flag cruise ship companies operating with considerable competitive advantages. Foreign-flag cruise ships today operate virtually tax exempt, while U.S.-flag operators pay U.S. corporate income taxes; foreign-flag operators employ third world crews at a fraction of the cost of U.S.-flag vessel crew costs; they operate outside U.S. environmental laws, and last, but not least, they have long had and continue to have the ability to purchase heavily subsidized vessels in foreign shipyards. U.S. consumers, through lack of domestic cruising options, and U.S. shipyards, through lack of shipbuilding opportunities, have paid a high price for these market inequities.

SCA members are committed to working with Congress to find ways to accelerate the growth in the U.S.-flag cruise ship industry. For example, we have found that one of the biggest obstacles for new U.S.-flag operators wishing to enter our market today is the difficulty of finding adequate financing to build vessels and establish their operations. Right now, more than one potential cruise ship operation is on hold waiting for adequate financing to construct a vessel. At this point, cruises between U.S. ports are speculative operations and credit requirements for loan applications are difficult to meet for start-up companies. Congressional action aimed at alleviating this problem would go a long way towards meeting our goal of building more cruise ships in the U.S. and expanding cruising

opportunities for U.S. consumers.

One way to ease the financing difficulties of U.S. operators wishing to enter this market under the American flag would be for Congress to enact legislation allowing companies building new cruise ships in the U.S. to depreciate vessels over a much shorter period of time than is currently allowed. This would significantly ease financing requirements at no cost to the American taxpayer. This is just one example of the kind of measure that we believe would accomplish the same goal as S. 1510, without putting U.S. companies at a competitive disadvantage in the U.S. marketplace and jeopardizing U.S. shipbuilding opportunities.

I will focus the remainder of my remarks this morning on how changes to the PVSA contained in S. 1510 would affect the segment of the U.S. shipbuilding industry that I represent. Mr. Chairman, any legislation that encourages the use of used, foreign-built vessels in the U.S. marketplace, without a strong and enforceable requirement that these vessels be replaced in a timely manner with U.S.-built tonnage, will harm our domestic shipbuilding industry.

As all of you are aware, in many areas the U.S. shipbuilding industry has been crippled in the international marketplace by foreign governments that subsidize the cost of vessel construction in their shipyards. No segment of the industry has been more affected by foreign subsidies than the cruise ship industry. In fact, the cost of construction of every foreign-built cruise ship that would be eligible to enter the U.S. market under the terms of this legislation was subsidized by a foreign government, some as much as 33 percent in direct subsidies plus incalculable indirect subsidies.

It should come as no surprise given the magnitude of foreign shipbuilding subsidies that their effect on U.S. shipyards has been devastating. Our shipyards have been denied any real opportunity to participate in the boom in cruise ship construction. Now, allowing these heavily subsidized, foreign-built vessels to operate in our coastwise trades at a competitive advantage over U.S. operators would compound the problems caused by foreign shipbuilding subsidies and stop the momentum that has finally begun to build in the U.S.-flag cruise ship industry.

Yes, it is true that no large, U.S.-flag cruise ships are currently operating between coastal ports in the continental U.S.; however, it is not true that no U.S.-flag cruise ship industry exists. In fact, small and mid-sized cruise ships are operating between U.S. ports and the industry is growing. Two 300-foot, 226 passenger cruise ships that will serve the domestic coastal market are currently under construction at Atlantic Marine in Jacksonville, Florida and the same company has an option to build another identical vessel. The operator has also announced its intentions to continue its building program. Nichols Brothers Boat Builders in Freeland, Washington is converting an unfinished casino vessel into a state-of-the-art, 218-foot, 161-passenger overnight cruise ship and America West Steamboat Company is in serious discussions with several yards to add an additional cruise ship to its U.S.-flag fleet. In addition, two other cruise ship operators are in serious

discussions with U.S. shipyards about building two more U.S.-flag cruise ships – one for the East and Gulf Coast market and another for the West Coast market. These are real shipbuilding opportunities and the operators involved have already hired naval architects, at considerable costs, to design these 375-foot long vessels.

Mr. Chairman, we fear that the changes proposed in S. 1510 would have a negative impact on the current growth of the U.S.-flag cruise ship fleet and the shipbuilding opportunities that come with that growth. Without a doubt, operators would be forced to reevaluate each of these building projects in light of added foreign-flag competition that would come as a result of S. 1510.

There are those that argue that the provisions in S. 1510 will not slow the growth of the small and mid-sized, U.S.-flag cruise ship industry, because the vessels eligible to enter the U.S. market under the terms of this bill are different or much larger than the vessels under construction today in SCA member shipyards - even that the larger, foreign-flag vessels will complement, not compete against, our domestic fleet. We could agree with that assertion except for the fact that the foreign-flag vessels will operate with considerable tax, labor and capital asses cost advantages, allowing them to charge significantly less for cruises in the same markets. Mr. Chairman, U.S.-flag cruise ship operations, both big and small, will be hurt by foreign-flag operations charging significantly less for a cruise in the same market.

Having expressed our concerns about the direction of the legislation, we also believe that there are provisions in the legislation that could benefit American shipyards. SCA is pleased that this bill includes a provision requiring foreign-flag vessels obtaining a waiver to participate in the U.S. trades to have all necessary repair work to enter the U.S. market and subsequent repair work performed in a U.S. shipyard. We are concerned; however, about how this provision would be enforced, especially in light of the fact that these foreign-flag vessels can move in and out of the U.S. trades at will. Moreover, there is no requirement that any upgrades performed after entry must be in a U.S. shipyard.

Mr. Chairman, in the final analysis Congress must make a decision: whether to encourage growth in the cruise ship industry in the U.S. by offering incentives to foreign-flag vessels to enter our trades or by looking for ways to promote U.S.-flag operations. We respectfully urge the Committee to adopt the latter option. It may be the more difficult option, but it is the right option to choose. Our economic and national security depend on a strong and vibrant shipbuilding industry. We must not allow this vital industry to be further harmed by an international marketplace where successful shipyards are determined by how much of the construction cost of a vessel their government is willing to underwrite. Mr. Chairman, I would like to take this opportunity thank you, Senators Lott and Breaux and others for your unwavering support for the OECD Shipbuilding Agreement, which we believe would have gone a long way towards eliminating the international shipbuilding subsidies that are wreaking havoc in the world shipbuilding market.

In closing, I want to again emphasize that SCA greatly appreciates your efforts to expand the cruise ship industry and express our willingness to work with you and other interested parties to accomplish that goal. We understand that this will not be easy and that our goals will not always coincide with those of other interested parties, but we believe that the benefits are worth the effort. A vibrant U.S.-flag cruise ship industry will mean more American shipbuilding and merchant marine jobs, enhanced national security, more tax revenue for federal, state and local governments and more cruising options for our citizens – a win/win situation for all concerned.

Again, thank you for the opportunity to testify. I will be happy to answer any questions.