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Two Ways To Revitalize US Shipbuilding

Government incentives have jump-started new technologies, and fostered the revitalization and retooling of entire U.S. industries. Recent examples include substantial Federal rebates for electric cars, credits for LEED certified building systems, Renewable Energy Credits (REC) for Green Energy generation, loan guarantees for solar and wind turbines farms, the development of greener engines, and, most dramatically, Federal support for the auto industry and the Wall Street bank bail-outs.

Billions of dollars of new investment capital has been attracted by government supported start-ups and recapitalized industries whose products and services benefit society as a whole while sustaining and creating thousands of new jobs. Although Federal and State treasuries might defer taxes at the start of a program as an inducement to invest new capital into a venture, the pay-back from wage earners paying taxes often is multiples of upfront tax deferrals.

We believe that a vibrant U.S. shipbuilding sector is mission critical to America's transportation and manufacturing future. It certainly is essential to the future of U.S.-flag shipping. For these reasons we strongly support efforts to revitalize the industry.

American Feeder Lines and all the Unions who share a vision of a re-energized domestic maritime sector think that government incentive programs can revitalize American shipbuilding. The following two proposals, in particular, could be initiated at the State and/or Federal levels. A State with a commercial shipyard sector would have particular interest in an incentive that would directly benefit its economy and citizens.

1. Amend the U.S. Tonnage Tax Regime to include Profits from Domestic Trade.

To understand how this change in tax policy can have real effect consider the *German Kommandet Geilschaft System*. In 1969, the German legislature amended the tax code to provide extraordinary tax incentives for private investment in the waning German shipbuilding sector. Thus, the unique German KG System was born. The results were startling.

Over the more than 30 years that followed, German citizens invested more than \$20.0 billion in tax-driven "Shipping Funds," primarily for new container ships. The German KGs underwrote the new building of more than 2,000 German-built and -crewed container ships. The new ships continue to be the backbone of the feeder fleet that trades Northern Europe and the Mediterranean.

The benefits to investors in shipbuilding are straightforward: substantial write-offs in early years with tax free cash dividends for the life of the investment. At the end of the cycle, the ship is sold, taxes are paid, and excess proceeds, if any, are distributed to the investor. The incentive could be limited to certain vessel types, such as container and ro/ro ships, that are not in sufficient supply.

Shielding profits from current taxes for new fully compliant Jones Act tonnage employed in the domestic trade and crewed by American seamen will attract the needed investment capital and debt to build a new a new container fleet for the U.S. domestic trades. And in so doing our shipyards and seamen will be employed for years to come.

2. Shipper Incentives and Sustainable Transportation Credits

Quite a different approach is the creation of credits for the customers of greener and highly efficient shipping. The greater use of shipping services will stimulate demand for new vessels. Tax incentives for shippers, including Sustainable Transportation Credits (STCs), could apply to containerized domestic and import/export cargo shifted to greener transportation logistics solutions. Incentives can be targeted to domestic marine transportation (marine highways) or could apply to low-impact domestic intermodal transportation regardless of the mode (trucking, railroads, and marine transportation). The EU's Marco Polo I and II policies including programs, such as Motorways of the Sea, which are incentive models that could be adapted here.

The jobs creation tax multiplier and benefits to society as measured by the Marco Polo administrators is instructive. For every Euro invested in Marco Polo II's initiatives that shifted cargo to greener transportation, the return on the investment was 15 Euros.

In conclusion, the nation needs a vibrant commercial American shipbuilding industry to maintain a modern Jones Act fleet and build green ships for the U.S. Marine Highway. A revitalized marine highway is essential to the nation's transportation and trading future and the reversing of a long decline in part of the American maritime industry. Federal and State incentives can accomplish this. In so doing we will re-invent the mode of transportation on which this country was built, attract new industry, and create tens of thousands of new jobs. Importantly, the increased use of our inland and coastal waterways will relieve the growing pressure on our overburdened landside transportation systems and help address the country-wide infrastructure crisis.

How can we lose?