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October 29, 1996

MEMORANDUM

To: The Hon. Carl T.C. Gutierrez
Governor of Guam

From: Mary Eva Candon
John M. Binetti

Subj: **Background Information for Presentation Entitled
"A New Partnership In The Pacific"**

The following information is provided to you as background information supplementing the referenced presentation paper entitled "A New Partnership In The Pacific". We propose that you utilize these materials in the meeting with Gen. Walter Kross, Commander in Chief, U.S. Transportation Command, now scheduled for November 9, 1996, to discuss a proposed coordinated competitive procurement of ocean transportation services in the U.S. mainland/Guam domestic offshore trade. The material is organized so as to follow the presentation paper according to page and items addressed on each page.

The first part of this memorandum, directed towards explaining pages 1-5 of the presentation, is essentially a review of information concerning the Guam trade and DOD's presence in Guam with which you are already quite familiar. Accordingly, the new material presented in this memorandum, directed towards our conception of a plan for a coordinated competitive procurement of ocean transportation services in the Guam trade, is contained in pages 8-12 of this memorandum, and explains pages 6 and 7 of the presentation.

1. Page 1 - A New Partnership In The Pacific

The Government of Guam proposes that DOD, under the cognizance of the Commander in Chief, U.S. Transportation Command, join with it in a coordinated competitive procurement of

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transportation in the Guam trade. The Government of Guam maintains that shipping costs in the Guam trade are excessive, primarily due to the lack of competition among U.S. flag carriers serving the trade. This lack of competition is due to a combination of the restrictions of the Jones Act (and, for DOD, the Cargo Preference laws) which prohibit foreign flag carriers from serving the trade, and the common carrier tariff system which allows carriers to engage in noncompetitive "parallel pricing" of freight rates. The Government of Guam believes that DOD's competitive procurements have a proven track record of maximizing competition in this context and that a coordinated program with the Government of Guam will further enhance competition in the Guam trade, to the mutual benefit of DOD and the commercial shippers of Guam.

2. Page 2 - Costs To DOD For Shipping To Guam Are Excessive

The Government of Guam believes that there exists ample evidence that the shipping costs in the Guam trade are excessive and cannot be justified on the basis of costs of service.

"Military Cargo Costs Almost Three Times As Much To Ship To Guam Than To Japan/Korea"

The average revenue that carriers in the Guam trade obtain from DOD cargo is approximately \$4451 per 40' container (FEU). The same carriers carry DOD cargo to Japan/Korea aboard the same vessel at a rate of approximately \$1644 per FEU. This reflects a differential of almost three times the cost for a shorter voyage to Guam. It is difficult to imagine any economic justification for this cost differential. The real reason is obvious. The DOD cargo moving to Guam is shipped under noncompetitive common carrier tariffs while the DOD cargo moving to Japan/Korea is shipped under rates established in a competitive procurement of ocean transportation conducted by the Military Sealift Command (MSC).

"Military Cargo Costs Over 1 3/4 Times Underlying Carrier Costs"

The Government of Guam calculates the average cost to the carrier per FEU transported to Guam at \$2650. When compared to the average freight costs to military shippers, \$4451, it can be seen that the DOD pays the carrier over 1.75 times the costs to the carrier for transporting the cargo to Guam. The carrier cost figure is calculated utilizing the accounting and financial regulations published by the U.S. Maritime Administration (for financial reports by subsidized carriers) and the Federal Maritime Commission (for rate regulation in the domestic offshore trades) and includes an allocation for overhead and a reasonable profit. Thus, the additional revenues the carrier obtains from DOD, approximately \$1801 per FEU, can only be characterized as "monopoly profit". DOD is entitled to recover this excess revenue, if not by means of legal process (rate regulation), then at least by means of injecting meaningful competition into the domestic offshore trade to Guam.

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"DOD Is Worse Off Than Commercial Shippers"

When a similar comparison of shipping costs is made for commercial shippers in the Guam trade vis-a-vis commercial shippers in the Transpacific trades, it can be shown that DOD shipments to Guam are being exploited even more than those of the commercial shippers. The average revenue per FEU that the carriers obtain from commercial shippers in the Guam trade is approximately \$4046. When this figure is compared to the average revenue per FEU that the carriers obtain from commercial shippers in the Transpacific trade, \$2681, it can be shown that Guam shippers pay about 1.5 times the freight than Far East shippers for the same cargo on the same ships. While this is bad, it is not as bad as the differential DOD pays, 3 times as much. The larger differential for DOD is based primarily on two factors. First, DOD ships mostly military household goods which is the highest rate in the Guam trade. (Average revenue per FEU of household goods is approximately \$5500 which is down from an all time high of \$6294 per FEU in 1989!) Second, DOD obtains a much lower rate in its competitive Transpacific "Rate Guide" than commercial shippers due to the cost efficiencies the carriers enjoy resulting from the regularity and high volumes of cargo the carriers obtain from DOD. DOD is entitled to obtain the same benefits in the Guam trade.

Page 3. Common Interests of Guam and DOD In Reducing Shipping Costs

Aside from the obvious direct benefits to Guam shippers in obtaining reduced shipping costs, Guam will also benefit if DOD obtains reduced shipping costs in the Guam trade.

"Significant DOD Facilities and Operations Located at Guam"

There are a number of significant DOD facilities and operations located at Guam, including ship repair facilities, FISC and MSC operations and the many personnel required to support Navy operations at Guam. Many of these facilities and operations are subject to the process initiated by the Base Realignment and Closure Act (BRAC) resulting from the Congressionally mandated downsizing of military facilities and operations that is the necessary consequence of the end of the Cold War. The Government of Guam is in a delicate position with regard to this process. The people of Guam greatly desire that at least some of the land that is now controlled by the Federal Government to provide the physical plant necessary to support military operations be returned to the people of Guam. That return of land will allow for the economic development of Guam through the privatization of government property and the eventual promotion of commercial enterprises. However, at the present time the Guam economy is somewhat dependent upon the continued presence of military operations and the downsizing of military operations must proceed under a carefully measured incremental process in order to prevent economic dislocations in the Guam economy.

The delicate process of military downsizing on Guam requires a careful coordination between the military and the Government of Guam in order to ensure compliance with the

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requirements of the BRAC process while avoiding untoward economic consequences to the Guam economy. The Government of Guam has been quite active in monitoring this process and keeping in contact with those military commands that have cognizance over facilities and operations on Guam. The representatives of the Government of Guam have had an ongoing exchange of communications with the Commander in Chief of the Pacific Fleet, the support of which is one of the primary missions of the Guam based military presence. In those exchanges it has become clear that cost considerations play a major role in the decision making process under BRAC as well as other operations not directly subject to BRAC. Thus, the major cost factors involved in maintaining military facilities and operations on Guam have become a primary focus of both DOD and the Government of Guam. It is in this context that the Government of Guam determined that, in addition to direct communication with the Commander in Chief of the Pacific Fleet, it is critical that the Government of Guam develop a dialogue with the Commander in Chief of the U.S. Transportation Command.

"High Costs Of Maintaining Guam Facilities Results in Relocations"

The determination to open a dialogue between the Government of Guam and TRANSCOM is based upon experience and common sense. For example, recently MSC in coordination with the CinC of the Pacific Fleet determined to move the base of operations of the Diego Garcia shuttle service from Guam to Japan. That determination was made as a result of a comparative costs study that analyzed the cost of basing the service in Guam versus basing the service in Japan. It was determined that it was more expensive to base the operation in Guam than Japan by approximately \$2.8 million per year. Of this amount, approximately half of this excess cost in remaining on Guam results from the much higher shipping costs to the military involved in positioning supplies destined for Diego Garcia in Guam. Although the Government of Guam disagrees with the remaining cost differentials involved in moving the service to Japan, as the foregoing comparative shipping cost analysis indicates, it agrees with DOD that shipping costs to Guam are very much greater than to Japan.

Therefore, it can be seen that shipping costs to Guam are a major factor in the DOD decision making process that ultimately results in the relocation of facilities and operations to other sites.

"DOD Should Consider Reducing Shipping Costs To Guam"

The purpose of this discussion is rather obvious. The relocation of military operations from Guam to other places inevitably causes economic dislocations in the Guam economy, and, if based upon faulty assumptions, can cause serious dislocations in military operations. It is important for DOD to understand that the cost equation should include what is known by economists as "transaction costs", a fancy term for the common sense notion that it costs a lot of money to move a major military operation a great distance. DOD should not simply look at the

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costs of operations at site A as opposed to site B, but rather, should include a calculation of the "transaction costs" in a major facility move. Under such an analysis it is clear that in the short term it will cost DOD more to move a facility than leave it in place. It is only in the long term that the savings in a move can be realized by amortizing the "transaction costs" over time against the net savings realized at a new site. In this regard, cost saving measures undertaken at the original site of a military operation in the short term can, in fact, alter the overall cost assessment of such a move and result in a determination that leaving the operation at its original site while undertaking those cost saving measures can result in greater savings to DOD than the apparent savings of moving the operation with its attendant "transaction costs" and associated economic dislocations at the original site.

In the long run, it may be more beneficial to DOD to explore cost saving measures in Guam than to risk adverse financial and political consequences of moving major DOD operations to Japan. It is in this context that the Government of Guam urges TRANSCOM to consider a cooperative initiative aimed at reducing the overall shipping costs to Guam. It will not only benefit Guam in the short run, but will benefit DOD in both the short run and the long run, economically and politically.

Page 4 - Lack of Federal Regulatory Relief

If DOD decides to undertake efforts to reduce its shipping costs to Guam, it is clear that history teaches us that DOD should not place undue reliance on Federal regulatory programs to achieve that goal.

"FMC Rate Case Unlikely to Produce Meaningful Relief"

As TRANSCOM is undoubtedly aware, both the Government of Guam and MSC have been involved in a long standing legal dispute with the carriers serving Guam in a rate case now proceeding before the Federal Maritime Commission (FMC).

While Guam believes that it will ultimately win this legal contest, it has learned a hard lesson in this effort. The FMC has historically been clearly biased in favor of the carriers and hostile to Guam and MSC. Its failure to respect its obligations to Guam shippers has resulted in imposing costly and time consuming litigation on Guam and MSC. Furthermore, even if the case is ultimately won, meaningful long term prospective relief is impossible. Not only did the carriers cancel their FMC tariffs during the proceeding, filing phony intermodal tariffs with the ICC, but Congress has now taken jurisdiction over domestic offshore rates away from the FMC and given that jurisdiction to the ICC's successor agency, the Surface Transportation Board (STB). Thus, while some amount of retroactive reparations are possible in the case, long term relief must come from the STB.

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"STB Unlikely To Provide Relief Any Time Soon"

Unfortunately, prospects for long term relief from the STB for Guam shippers remains chancy at best. The ICC Termination Act, a product of the special interest influence of the carriers in the 104th Congress, contains the so-called "Zone of Reasonableness" (ZOR) provision in the law which allows carriers an automatic 7.5% rate increase each year that is immune from legal challenge.

Guam has learned that undue reliance should not be placed on the political and regulatory processes to protect shipper interests. Rather, shippers, both commercial and military, should undertake necessary steps to protect their interests through self-help programs based on the power of the American free market system. That is the only reliable method by which shippers can protect themselves from the abuse of the market power that is enjoyed by the carriers as a result of the seemingly invulnerable long-standing protectionist measures known as the Jones Act and the Cargo Preference laws. While Guam will continue to struggle to bring fairness and equity into the legal system relating to shipping practices in the domestic offshore trades, it has determined to take those steps available to it under the present status of the law to bring shipping rates down to reasonable levels through programs that will maximize the effects of competition among carriers. The Government of Guam urges DOD to join in this effort.

Page 5 - Competitive Procurement In The Guam Trade Is Necessary and Cost Effective

The Government of Guam has learned from MSC how to maximize the salutary effects of competition in a restricted market. The utilization of the method of requiring U.S. flag carriers to engage in periodic competition for DOD cargo has resulted in favorable rates being enjoyed by DOD in almost every ocean trade where it ships cargo. That competitive procurement system should likewise reap substantial benefits in the Guam trade.

"Military Cargo Is 20% of the Guam Trade - 6000 FEU's Per Year"

Military cargo in the Guam trade is not unsubstantial. Recent filings by the carriers serving the Guam trade with DOT have confirmed what the Government of Guam has known as a result of the record developed in the FMC Rate Case. The Guam trade from the mainland U.S. is approximately 30,000 FEUs per year. Of this amount, the military is the single largest shipper in the trade, with an annual volume of approximately 6000 FEUs per year. By any standard, this is a very significant amount of cargo for any single shipper in a trade to command. Most service contracts in the foreign commerce of the U.S. do not approach this amount of cargo. Few shippers in the world can command even 5000 FEUs per year in a single trade. DOD is in a unique position in the Guam trade to exert substantial bargaining power with the carriers over this amount of cargo.

Given the level of rates in the Guam trade, this amount of cargo represents a huge amount

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of freight revenue for the carriers. Simple arithmetic shows that 6000 FEUs per year times the military average freight per FEU of \$4451 results in almost \$27 million in freight costs paid by DOD to the carriers in the Guam trade each year. This represents a substantial opportunity for DOD to save money and reduce the costs of maintaining its presence in Guam.

"Cost/Revenue Comparisons Show Big Savings Possible"

Based upon the foregoing analysis of rate comparisons, DOD could conceivably pay 1/3 of the freight costs it now pays to carriers in the Guam trade, if it could achieve the same rate levels that it enjoys in the Transpacific trades. The carriers, however, have always maintained that Guam is more expensive to serve than Far East destinations. Even assuming, arguendo, that this is true, it would seem that DOD should not pay more than what FMC regulations say it costs the carriers to serve the Guam trade, approximately \$2650 per FEU.

Furthermore, if one accounts for DOD's volume of shipments and the relative efficiencies obtained by the carriers due to the predictability of DOD shipments, an average cost (including overhead and profit) of a little over \$2700 per FEU can be estimated as the economic maximum that DOD should pay to ship to Guam if a reasonable amount of competition is injected into the trade by means of DOD's competitive procurement system. This would represent a savings in excess of 30% of freight costs to DOD.

"Consistent With MSC AAFES Service Contracts Experience"

Guam has learned much from observing DOD's experiences with competitive procurements. An instructive example is the experience that MSC had with Service Contracts in the Atlantic trades for Army-Air Force Exchange Service (AAFES) department store merchandise. Those shipments were previously transported under MSC's Worldwide Agreement to Europe by two U.S. flag carriers, Sea-Land and Lykes. When MSC proposed to remove AAFES shipments from the Worldwide Agreement volumes and separately solicit bids for their carriage under annual "winner take all" Service Contracts, the carriers (primarily Sea-Land) mounted three consecutive protests with the GAO against the proposal. The reason for this opposition is clear, Service Contracts are a shipper's best friend because they maximize its bargaining leverage with the carrier. Of course GAO recognized this fact as well as the speciousness of the carriers' legal objections and approved the program.

The cargo was put up for competitive bidding under the limitation that MSC would not entertain offers that exceeded the otherwise applicable Worldwide Agreement rate. Sea-Land refused to submit a viable offer and Lykes offered rates that were literally one cent below the Worldwide rate, the so-called "penny discount" offer. After losing the legal battle with MSC and losing significant cargo and revenue to Lykes, Sea-Land finally decided it had to compete. As a result MSC obtained Service Contract rates 30% below the Worldwide rates, a savings of approximately \$500 per FEU. Unfortunately, due to the expiration of subsidies for many of Lykes vessels, it could no longer maintain the required weekly U.S. flag service to Europe that

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DOD (and the Cargo Preference laws) required. As soon as Lykes dropped out of the competition, it essentially became a sole-source contract for Sea-Land and to no one's surprise, Sea-Land raised its rates to the "penny discount" level.

While unfortunate for DOD, this experience gave Guam some important lessons. "Winner take all" Service Contract competitions can inject meaningful competition into a trade that is legally restricted to only two carriers and that substantial freight savings can result to the shipper that can command large blocks of cargo. It is this model that Guam hopes to copy in the Guam trade. DOD is in the unique position to repeat the success of the Service Contract program in the Guam trade. It only needs the will to do so.

"DOD Could Save Up To \$9 Million Per Year In Shipping Costs"

Based on the foregoing facts and evidence, the Government of Guam believes that if DOD implemented a "winner take all" Service Contract competition in the Guam trade in coordination with the Government of Guam, it could conceivably save as much as 1/3 of its shipping costs in the Guam trade. Simple arithmetic shows this to amount to as much as \$9 Million per year. Less volume or less demanding competition rules would obviously reduce this amount. However, there is no doubt that DOD could save a substantial amount of money it pays in shipping costs if it implements a competitive procurement system in the Guam trade.

Page 6 - Competitive Procurement In the Guam Trade Is Not Inconsistent With Preparedness

One of the most consistent arguments the U.S. flag carriers have made against DOD's practice of competitive procurements of ocean transportation services is that it is somehow inconsistent with military preparedness. The Government of Guam believes that this is a false argument that is designed only to provide a veneer of legitimacy for the carriers' practices of overcharging DOD and the American taxpayers.

"DOD Service Contracts Can Include Contingency Commitments"

As with MSC's Service Contract program, the Government of Guam has also carefully followed TRANSCOM's Voluntary Intermodal Sealift Agreement (VISA) program. The Government of Guam now understands that, as now contemplated, VISA uses a commercial Service Contract format to specify the peacetime service needs of DOD and incorporates a consultative process requirement between DOD and the carrier industry to respond to contingency needs. The Government of Guam believes that this fundamental concept underlying VISA is completely compatible with DOD's competitive procedures for establishing peacetime rates in the Guam trade. That is, utilizing Service Contracts in a competitive ratemaking environment will produce an ocean transportation procurement model that will both serve the

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nations need for military preparedness while at the same time conserve DOD's (and the American taxpayer's) precious economic resources.

An argument that has been advanced by the carrier industry in the Guam trade is the concept that competitive ratemaking is somehow inconsistent with military preparedness. Economics and modern history teach us that free market competition indeed produces the highest quality service and the most efficient allocation of scarce resources. This truism would seem to indicate that a peacetime competitive procurement of ocean transportation services using Service Contracts that include a requirement to also participate in the VISA consultative process would provide DOD with a readiness program that produces the most "bang for the buck". The Government of Guam submits that all available evidence suggests that abandoning a fundamental reliance on competition would produce a highly inefficient system that wastes valuable defense resources.

Another argument that has been advanced in support of a noncompetitive system is that a truly competitive procurement by DOD in the Guam trade would drive one of the two carriers out of the trade. The Government of Guam submits that awarding DOD cargo to one carrier would only result in a shift in market shares and would not drive a carrier out of the trade. Furthermore, as is detailed below, a competition-based system can be devised that incorporates sound planning, competitive ratemaking and "safety net" features that will ensure the continued utilization of all U.S. flag carriers in the VISA system. Indeed, the proposal outlined here could actually induce an additional carrier to enter the trade, thereby increasing capacity and defense readiness in the Guam trade.

Preparedness and free market competition can work hand-in-hand to produce a vastly improved and highly efficient contingency planning system. That system could also compliment and enhance a peacetime commercial shipping system that is likewise based on the premise of competition in a free market environment. The Government of Guam urges DOD to use the Guam trade as a laboratory to test this concept and will work with DOD to ensure its success.

"Guam Can Also Be A 'Partner' In Preparedness"

Another aspect of VISA that concerns the Government of Guam is the apparent lack of direct participation by public port authorities that are of strategic importance to DOD contingency needs. Nowhere in VISA are public port authorities even mentioned. It appears that DOD will rely exclusively upon the private arrangements between ocean carriers and port authorities to provide the particular port infrastructure requirements necessary to support a regional contingency operation. The Government of Guam is aware that DOD can provide some military operated port facilities and has had specific tests of transpacific contingency operations that have included working with municipal port authorities on the U.S. mainland. However, VISA lacks provisions that specify a formal inclusion of municipal port authorities in the VISA consultative process.

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If the VISA concept is deemed to be necessary to coordinate the commercial ocean carrier industry with the nation's defense needs, it should be self-evident that a similar approach should be taken with regard to the coordination of contingency operations with municipal port authorities. Municipal port authorities should be elevated to the status of fully tenured "program participants" in VISA.

It is clear that Guam will always remain a port of strategic importance to DOD. The loss of naval bases in the Philippines, the tenuous future of the U.S. military presence in Japan, and the unacceptable distance between Hawaii and the Far East theater of operations all combine to indicate an even greater role for Guam in the future of military preparedness for the United States. The Government of Guam is very much aware of these realities and would welcome a greater role in national defense planning based upon a relationship of mutual respect, equality and unity of purpose. A military defense planning system based upon voluntary cooperation between DOD and the Government of Guam is more likely to fully succeed than one based solely upon DOD property rights. That is the concept underlying DOD's relationship with the ocean carrier industry under VISA. There is no reason why that concept cannot be applied with equal force and effect to the relationship between DOD and the Government of Guam.

Indeed, the Government of Guam has much to offer DOD in this context. Port facilities and land-based material staging and transshipment facilities located on Guam would be of significant strategic value to DOD during times of contingency operations in the Far East. As with the ocean carrier industry, a national defense system based upon the seamless conversion of commercial peacetime facilities to contingency assets would greatly enhance the readiness of the U.S. military and the most efficient use of national defense resources. The Government of Guam urges DOD to consider the inclusion of The Port Authority of Guam in VISA as an adjunct to a test of a competitively based contingency planning system in the Pacific.

Page 7 - Competitive Procurement Design

"DOD Must Maximize Competition Between U.S. Flag Carriers"

As shown above, competition is the key to the efficient allocation of national defense resources. As is also shown above, the present commercial tariff system in the Guam trade lacks competition and results in the unnecessary loss of precious national defense tax dollars. A competitive procurement system must be implemented by DOD in the Guam ocean transportation trade. The model of DOD competitive procurements wherein the lowest offeror is awarded all of the cargo in a trade for a specified period of time has been proven to optimize competition in restricted markets, even when there are only two U.S. flag qualified competitors. Of course, the concept of "lowest offeror" does not necessarily mean simply the "low bidder" but can also encompass the concept of "best value" wherein price and quality of service can be accorded equal importance in the contract award decision criteria.

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To address the problem of maintaining additional carriers in the trade that are not awarded a Service Contract, several devices are available. Under the Maritime Security Act, subsidies are available to carriers that serve Guam directly from the U.S. mainland and go on the Far East destinations (the old APL service). A DOD Service Contract coupled with subsidies might induce a new carrier to enter the Guam trade and actually increase available U.S. flag ocean carrier capacity in the Guam trade. If a DOD competitive procurement is coupled with a commercial Service Contract procurement that covers a portion of the commercial trade volume, that combination of initiatives could provide multiple opportunities to ocean carriers and actually increase the "economic pie" sufficient to support three carriers.

DOD's traditional "Rate Guide" competition method, which includes a "cargo distribution" scheme would not result in the level of competition that the "winner take all" achieves, but would still be far better than a totally noncompetitive public tariff. Nevertheless, DOD acting alone could vastly improve upon present conditions in the Guam trade if it embraces the concept of competition to any degree.

"Coordination With The Government of Guam Enhances Competition"

If the options available to DOD acting alone in the Guam trades appear to be inadequate, other options that include a coordinated effort with the Government of Guam are available that would better serve the needs of DOD while protecting American taxpayer interests. DOD could divide its trade volume between two Service Contracts, one that covers a larger share (say 65%) of DOD cargo and one that covers a smaller share (say 35%) of DOD cargo in the Guam trade. This limited competitive system would ensure that two carriers in the Guam trade obtain DOD cargo at competitive rates. To compensate for the reduced level of competition that a "cargo distribution" system entails, coordination with the Government of Guam can inject additional competition into the trade that can achieve results virtually equal to a fully competitive system.

In this regard, the Government of Guam is proposing that it sponsor a Guam Shippers' Association that would combine the cargoes of major commercial shippers into one commercial Service Contract that is competitively awarded. Commercial realities and legal limitations would prevent all commercial cargo being combined into one Service Contract. A realistic estimate of cargo volume under control of a private shippers' association would be approximately 20% of total trade volumes, i.e. a private Service Contract equal to DOD's trade volume. Under that scenario 40% of total Guam trade cargo volumes would be awarded competitively under two or more Service Contracts. The balance of trade cargo volumes, approximately 60% of the trade, would continue to "free flow" under commercial tariffs. Such a "dual competition" system would add a major bidding variable for cargo in the trade and would effectively prevent the carriers from engaging in the noncompetitive practice of "parallel pricing" under the commercial tariff system. Market shares would not be determined by "tacit agreement" but would be the result of true price competition.

Adding multiple variables into the market for ocean transportation would result in freight

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rates based on the costs of service, as opposed to a system of supplier-determined rates that the carriers are "comfortable with". A highly competitive carrier that succeeds in obtaining an increased market share would certainly have the capacity to serve the needs of the trade. Recent filings by the carriers with DOT indicates that total trade volumes are approximately 600 FEUs per week, while total carrier capacity exceeds 1100 FEUs per week. The more competitive carrier would certainly not obtain 100% of trade volumes, allowing the less competitive carriers to have a sufficient market share at higher rates to still allow for a profitable service. If a new direct-service carrier enters the trade there would result an increase in capacity at the same time that increased revenues (due to subsidies under the Maritime Security Act) become available. This is truly a "win-win-win" scenario wherein DOD, the carriers, and commercial shippers can all benefit.

"The Concept Is Worthy of At Least A 'Test'"

Certainly, since none of this plan has actually been undertaken in the Guam trade, it is somewhat susceptible to the charge of being "speculative", as the ocean carriers will certainly tell TRANSCOM. However, the very same charge can be leveled against the present VISA plan. Any change in an established system must necessarily be based upon estimations of the benefits of change. The estimated benefits of adding competition to the Guam trade are certainly worth at least a one year "test" of the concept. After a one year procurement cycle test is conducted in both trades both DOD and the Government of Guam could evaluate the two systems on a comparative basis. Which system produces the most readiness at the lowest price, i.e. which system produces the "best value"? Only an actual test of the two systems will tell. It is certainly worth a try.

Accordingly, the Government of Guam proposes that TRANSCOM join it in an invaluable experiment that will determine whether a competitively based system can produce what both DOD and Guam shippers desire, an ocean carriage system that produces the best defense at the lowest possible price and that is compatible with a viable U.S. flag commercial merchant marine industry. Let us explore a better future for all Americans together and forge "A New Partnership In The Pacific".

RELATIVE TO ENCOURAGING THE GENERAL ASSEMBLY
OF THE UNITED NATIONS TO ADOPT AN OMNIBUS
RESOLUTION ON SMALL TERRITORIES ON THE 50TH
ANNIVERSARY OF THE ESTABLISHMENT OF THE LIST OF
NONO-SELF-GOVERNING TERRITORIES.

WHEREAS, in 1946, the United Nations General Assembly established a list of Non-Self-Governing Territories and charged Administering Powers with the sacred trust of overseeing the establishment of self-government through decolonization; and

WHEREAS, on December 13, 1946, Guam was inscribed on the list of Non-Self-Governing Territories by the United States as administering Power; and,

WHEREAS, Guam remains one (1) of seventeen (17) colonial territories on the list of Non-Self-Governing Territories, a testament to administering Power's lethargy in providing the people of the Non-Self-Governing Territory of Guam with self-determination in the process of decolonization and the attainment of self-government; and

WHEREAS, in 1987, the people of Guam approved a draft Guam Commonwealth Act which would have provided Guam with increased measures of internal self-government and created a framework for the Territory's decolonization through an indefinable process leading to an exercise of self-determination; and,

WHEREAS, since 1992, the administering Power has not cooperated with the Special Committee on Decolonization which is charged by the General Assembly with overseeing the affairs of decolonization; and,

WHEREAS, in 1996, the administering Power in its statement to the General Assembly's Fourth Committee (October 9), made a general statement on decolonization and small territories which misrepresented the relationship between the administering Power and the Territory of Guam, a misrepresentation documented by the Governor of Guam in communication to the Permanent Representative of the administering Power; and,

WHEREAS, the administering Power, when proposing specific amendments to the resolution on Small Territories under consideration by the General Assembly, made specific recommendations only on that language related to Guam and not to other territories under its administration; and,

WHEREAS, through informal consultations with Members of the Committee on Decolonization, the administering Power was unable to get support for those amendments it desired and subsequently supported a motion that no resolution on Small Territories be adopted in 1996 to provide for more cooperation with the Committee in 1997; and,

WHEREAS, the administering Power's support for no resolution on the Small Territories, including Guam, inevitably minimizes the contemporary commentary on the sacred responsibility of the administering Power to promote self-government through decolonization, a process in Guam's case which has stretched for half a century without any proposal by the administering Power to that end; and,

now therefore, be it

RESOLVED, that the 23rd Guam Legislature does hereby call on the United Nations General Assembly to adopt the omnibus resolution on Small Territories as proposed by the Committee on Decolonization and reviewed by the Fourth Committee of the General Assembly; and, be it further

RESOLVED, that the administering Power's sacred responsibility to the people's of the Non-Self-Governing Territories should be affirmed in certain terms and not left open to the faint promise future "cooperation"; particularly on the 50th anniversary of the inscription of those territories remaining on the list of Non-Self-Governing Territories; and,