



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 13, 2003

Ms. Rosalind A. Knapp
Deputy General Counsel
Department of Transportation
400 Seventh Street, S.W.
Washington, D.C. 20590

Dear Ms. Knapp:

On March 18, 2003, the Department of Transportation (DOT) submitted a Maritime Administration (MARAD) draft proposed rule titled "Regulations To Be Followed by All Departments, Agencies, and Shippers Having Responsibility to Provide a Preference for U.S.-Flag Vessels in the Shipment of Cargoes on Ocean Vessels" to the Office of Management and Budget (OMB) for review under Executive Order No. 12866. Currently, 75 percent of cargoes generated by the U.S. Government are statutorily required to be shipped on U.S.-flag vessels. This proposed rule would revise how U.S. shipper agencies comply with this requirement.

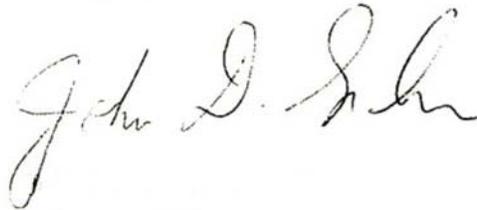
Over the past month, the U.S. Agency for International Development (USAID) and the Department of Agriculture (USDA) have raised concerns that MARAD's proposed rule would, as drafted, establish requirements inconsistent with Congressional intent, divert millions of food dollars to transportation costs, and undermine humanitarian and foreign policy objectives. In addition, both USDA and USAID disagree with MARAD that the economic impact resulting from this rule is negligible. They assert that many of the provisions in the proposed rule effectively raise the minimum compliance percentage above 75 percent, the minimum level intended by Congress. Since the use of U.S.-flag vessels is more expensive, they believe the rule will impose substantial costs. In fact, USAID asserts that the rule's annual economic impact is at or near \$100 million.

We believe these concerns may have merit. Unfortunately, the quality of MARAD's supporting regulatory analysis for this rule does not permit adequate analysis of these issues. MARAD should further analyze the costs and benefits of the various provisions of this rule and provide insight regarding the assertions of USDA and USAID.

To provide additional time to address these unresolved concerns, I am returning the draft proposed rule on cargo preference to the Department for your reconsideration.

Our staff is available for further discussion with you on the concerns that have been raised. We look forward to working with DOT, USDA, and USAID to improve this important rulemaking.

Sincerely,

A handwritten signature in black ink, appearing to read "John D. Graham". The signature is written in a cursive style with a large, looped initial "J".

John D. Graham, Ph.D.
Administrator