

# MARITIME CABOTAGE



June 27, 2006

The Honorable Don Young  
Chairman  
Transportation and Infrastructure Committee  
U.S. House of Representatives  
2163 Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Young:

The recently introduced Fiscal Year 2007 Coast Guard Authorization bill, H.R. 5681, contains a provision (Section 306) re-opening a carefully negotiated compromise relating to lease financing that was enacted August 9, 2004, as part of the Coast Guard and Maritime Transportation Act of 2004. Specifically, Section 306 would eliminate a three-year sunset provision that was included in the law for certain offshore supply vessels being operated by Nabors Industries ("Nabors"). The MCTF strongly objects to the inclusion of this provision in the bill, and urge that it be removed from the bill.

The Maritime Cabotage Task Force ("MCTF") is comprised of more than 400 American companies, associations, shipyards, labor organizations, defense groups, and others that are interested in maintaining America's strong domestic maritime industry. The MCTF was substantially involved in the public debate over the new lease financing law enacted in 2004, which was developed following a carefully negotiated compromise between Members of Congress and the maritime community. That compromise eliminated a loophole in the lease financing law that had the unintended consequence of permitting foreign shipping companies to engage in our domestic Jones Act trades.

Nabors Industries ("Nabors") gave up its status as a U.S. company in 2001, and moved its headquarters to Bermuda primarily to avoid U.S. taxes. Because foreign shipping companies are not permitted to operate vessels in the Jones Act trades, Nabors utilized the lease financing provisions in place at the time to circumvent the Jones Act and continue operating its ships in the Jones Act trades. In 2004, when the loophole was closed, Nabors negotiated a temporary grandfather in order to allow the company sufficient time to restructure its operation to become compliant with the Jones Act. Nabors is now seeking to make permanent its limited grandfather rights under the lease financing provision.

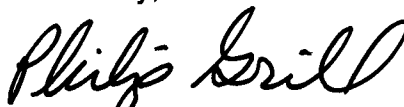
The attached *New York Times* article published on June 22, 2006 outlines many of the concerns MCTF has with making Nabors' grandfather permanent, including specifically

the unfair economic and tax benefits to Nabors over other companies complying with the Jones Act. For example, the article states that Nabors reported \$428.4 million in profits in the United States in 2005, for which it would have paid \$86 million in taxes based on the average tax rate paid by large American companies (Nabors paid more than \$60 million in U.S. taxes in 2001, the last year it was an American company). However, the company reported paying less than \$6 million in U.S. taxes in 2005. Such tax advantages create significant economic disparities with and competitive disadvantages for American companies.

MCTF continues to support the lease finance legislation passed by Congress and believes that it would be a mistake to re-open the law less than two years after passage of that carefully crafted compromise, particularly for a company that negotiated and received substantial time from Congress to reorganize under the new lease financing law.

Again, we strongly urge you to remove Section 306 from H.R. 5681.

Sincerely,

A handwritten signature in black ink that reads "Philip Grill". The signature is written in a cursive style with a large, prominent "P" and "G".

Philip Grill  
Chairman