

NMMA Position Paper Costs and Benefits of an Expanded Hull Identification Number

August 2008

ISSUE:

The U.S. Coast Guard (USCG) is again considering the costs and benefits associated with a proposal to expand the Hull Identification Number (HIN) by adding five characters. Four of the additional characters would indicate length, hull material, principal means of propulsion, and vessel type. The fifth additional character would be a check digit. The HIN is required on recreational boats sold in the United States in order to provide a unique identifier for each boat and to assist in boat recall programs. The HIN is used extensively in the marine industry as a unique identifier for boats in all manner of computer systems. States and the USCG use the HIN in boat registration, titling and documentation systems.

SUMMARY OF NMMA POSITION:

NMMA **strongly opposes an expanded HIN** information collection mandate because –

- An expanded HIN would impose **excessive costs** on boat builders, and the marine industry as a whole including marine bankers, dealers and distributors and **yield no improvement to boating safety**.
- An expanded HIN would **frustrate trade** because it would make the U.S. HIN format different than the format used by key trading partners - particularly the harmonized CIN format of the EU.
- The **data sought in an expanded HIN are already available** in other Coast Guard information collection systems.

DISCUSSION:

Recently, the U.S. Coast Guard again requested public comment on how to identify the costs and benefits of expanding the existing 12-character Hull Identification Number (HIN) in order to provide additional vessel specific information in the HIN. *Hull Identification Numbers for Recreational Vessels*, 73 Fed. Reg. 14193 (March 17, 2008) (Request for public comments on specific questions). The USCG has also requested comments on (1) The expected benefits of an expanded HIN with vessel-specific characters and a check digit; (2) the manner in which the Coast Guard should exempt small entities and the builders of high-volume, low-cost vessels, such as canoes, kayaks, and inflatables; and (3) the estimated burdens and costs to boat manufacturers if the HIN regulations were revised to require vessel-specific characters and a check digit. This proposal has been made to and rejected by the USCG on a number of occasions since 1983. This Position Paper explains what a HIN is, provides the history of the effort to expand the HIN, explains how the proposal does not meet the requirements of the

Paperwork Reduction Act and would impede trade, identifies the anticipated costs associated with a HIN change for boat manufacturers and other marine industry members, and explains how those costs outweigh any purported benefits.

I. What is a HIN?

The Hull Identification Number (HIN) is affixed by the manufacturer to a boat's hull in two places (the transom and a hidden location) and provides a unique identifier for each boat. The requirement for a HIN was originally established by the Coast Guard in 1972.¹ The Coast Guard established the HIN so that it could be used in notification campaigns for defects or failures to meet required recreational boating safety standards. *See, Identification, Boat Hull Numbers*, 48 Fed. Reg. 40716 (Sept. 9, 1983) (final rule amending the regulations for hull identification numbers to make HIN removal more difficult and to clarify certain ambiguities in the HIN regulations and declaring that “[t]hese changes will ensure that a manufacturer responsible for repairing a defective or noncomplying boat can be identified and that each boat remains uniquely identified with the number assigned by its manufacturer”); and 33 C.F.R. Subpart C § 181.21 - 35. The HIN allows the Coast Guard to identify the boat builder of a vessel and to ensure that the proper building standards are applied to a vessel – that is those that were in effect on the date of the boat builder makes its required USCG boat certification.

A boat manufacturer, in order to comply with the mandates of 46 U.S.C. § 4310 must exercise reasonable diligence by establishing and maintaining a list of the first purchasers (with their current addresses), subsequent purchasers, dealers and distributors its boats. These records are necessary so that a boat manufacturer can comply with the Federal Boat Safety Act notice mandate – that is if a boat that fails to comply with a USCG regulation or contains a safety defect then it must be recalled. For these reasons, boat manufacturers and the broader marine industry, including marine dealers, have established comprehensive computer databases to track completed, inventoried and sold boats. These systems are used for many additional business purposes including providing warranty service, identifying and locating inventory, and assisting with boat financing.

Subsequent to its adoption, the HIN has been used as a positive identifier for lost and stolen boats, for titling, registration, accident investigation and insurance. 48 Fed. Reg. 40,716. However, the Coast Guard has been clear that the “main purpose of the HIN is the identification of individual boats involved in recall campaigns. Any benefit to law enforcement is secondary.” 48 Fed. Reg. at 40,716. The Coast Guard receives this directive from the Federal Boat Safety Act which requires that the Coast Guard must, for recreational boat minimum standards, demonstrate “the need for and the extent to which the regulations will contribute to recreational vessel safety.” 46 U.S.C. § 4302(c)(1). The Coast Guard has on multiple occasions considered and rejected expanding the HIN to include these proposed five additional characters.

¹ See 37 Fed. Reg. 15,777 (Aug. 4, 1972) (final rule “to add a new Part 181, which contains manufacturer requirements for certification of compliance and assignment of hull identification numbers).

II. History of this Effort

The Coast Guard has repeatedly considered the benefits and feasibility of an extended HIN. This section includes a short summary of these previous efforts.

1983 – On September 9, 1983, the Coast Guard rejected one commenter’s request to add more characters to the twelve characters in the HIN which would show length, boat type, etc. *Identification, Boat Hull Numbers*, 48 Fed. Reg. 40,716 (Sept. 9, 1983) (Final Rule). The Coast Guard reasoned that this would not be compatible with current computer systems.

1994 – On May 6, 1994, the Coast Guard published a Notice of Proposed Rulemaking to expand the existing 12-character HIN to include certain vessel-specific information similar to the Vehicle Identification Number (VIN) on an automobile and a check digit. 59 Fed. Reg. 23,651 (May 6, 1994). Public Workshop held on December 8, 1994.

1997 – On February 21, 1997 the Coast Guard published a Supplemental Notice of Proposed Rulemaking, to align the present HIN numbering system with the newly-adopted international system to facilitate the sale of U.S. products abroad. USCG noted that as a result of the overwhelmingly negative comments received to the Notice of Proposed Rulemaking to expand the HIN to include five characters following the HIN to indicate overall length, hull material, means of propulsion, type of boat, and a check digit the Coast Guard proposed to add only the two-character prefix for country of origin and delete the last five proposed characters. The U.S. Coast Guard noted that “[b]y using the ISO format, it enables the U.S. manufacturers to market their products abroad without having to affix two different sets of numbers on each boat.” 62 Fed. Reg. at 7,971.

1998 – On November 16, 1998, the USCG asked for cost benefit information from the public. *Hull Identification Numbers for Recreational Boats*, 63 Fed. Reg. 63,638 (Nov. 16, 1998) (Request for Comments). This effort centered on a 19-character HIN proposal. The Coast Guard asked for information about adding characters to delineate a vessel’s length, hull material, means of propulsion and a check digit, in addition to a country code.

The Coast Guard cited in this notice that NMMA explained in its comments to it in a 1994 proposed rulemaking that “the International Standards Organization [ISO] had finalized a HIN standard consisting of the existing Coast Guard 12-character HIN format preceded by a 2-character country code and a hyphen. The comments indicated that manufacturers would be using the ISO HIN standard beginning with the 1996 model year. If the Coast Guard adopted a different HIN format, manufacturers would have to place two different HIN’s in the same location, creating worldwide documentation and importation problems for all involved.” 63 Fed. Reg. at 63638.

The Coast Guard explained that the HIN was an information collection activity covered by the Paperwork Reduction Act and that any information collection done by the agency must be “necessary and useful.” The Coast Guard noted that OMB had taken a specific interest in this effort and “[t]herefore, because of Coast Guard concerns about information-collection burdens and the OMB comments, the Coast Guard published a Supplemental Notice of Proposed

Rulemaking” on February 21, 1997, seeking additional information. *See* 63 Fed. Reg. 63,638 (citing 62 Fed. Reg. 7971). The Coast Guard also announced that it would align the HIN with the recently adopted ISO 14-character HIN standard. *Id.*

2001 – In a final rule to amend the regulations for the voluntary Vessel Identifying System (VIS), the Coast Guard responded to comments requesting the status of a 17-digit HIN effort by noting that the rulemaking project to establish that number has “dragged on since 1992.”² The Coast Guard explained that it recognized that the issues are related, but that the HIN was outside the scope of this project. The Coast Guard also noted that --

Because of controversy and conflict there is no consensus on the form for an expanded HIN and the Coast Guard lacks sufficient data to demonstrate that the benefits clearly outweigh the costs and burdens, particularly for small entities and builders of high volume, low cost boats. Therefore, the proposal to expand the HIN format was withdrawn on June 29, 2000 (65 FR 40069) and a study was begun to gather data on costs and benefits. [USCG] will review the results of the study and decide whether to issue a new regulatory project.

Vessel Identification System, 66 Fed. Register 15625, 15627 (Mar. 20, 2001) (Final Rule).

2004 -- Costs and benefits of an expanded HIN were analyzed in a 2004 report, “Cost Benefit Analysis of the 17-Character Hull Identification Number on New Recreational Boats” prepared by Potomac Management Group, Inc. for the U.S. Coast Guard. According to the Potomac Management Group, Inc. (PMG) Study, a HIN change will cost recreational boat manufacturers nearly \$13 million over a 10-year period.³ NMMA views this estimate as a substantial cost to our industry, but as discussed below finds that it does not adequately consider the full costs of compliance for the marine industry for an expanded HIN. In addition, the Report found that for the same period, state law enforcement and titling and registry offices would incur costs of \$4,877,033 and the federal government \$28,209. The total present value costs to both industry and the government would be \$17,875,352 for the 10-year period.

The PMG study found that the primary benefit of the 17-character HIN would be the increased recovery rate of stolen recreational boats. A secondary benefit would be the reduction of theft. The analysis shows that for the 17-character HIN to be cost-beneficial, it must yield a minimum stolen vessel recovery rate of 21 percent. The current recovery rate for the 12-character HIN is 10 percent. *See* PMG Study at iv. The PMG Study noted that approximately 0.1 percent of recreational boats are stolen in the United States each year. *See* PMG Study at 16. The PMG Study did not link the recovery of stolen vessels to an improvement in boating safety.

² The VIS is a nationwide system for collecting information on vessels and vessel ownership to help identify and recover stolen vessels, deter vessel theft, and assist in deterring and discovering security-interest and insurance fraud.

³ Potomac Management Group, Inc., *Cost-Benefit Analysis of the 17-Character Hull Identification Number on New Recreational Boats* (2004) (prepared for U.S. Coast Guard, Office of Boating Safety under Contract Number DTCG23-00-F-MM3A01). Although NMMA cites to the conclusions of this study, NMMA notes that this study represents an incomplete calculation of the costs of a 17-digit HIN proposal. Therefore, NMMA’s citations of the study should not be construed as an endorsement.

As in past efforts, the Coast Guard, in order to move forward, will need to determine the costs and benefits of an expanded HIN and must also carefully look at all of the impacts of a HIN change.

III. Information Collection Proposal Does Not Meet the Paperwork Reduction Act Standard Since the Data in the Additional Characters Are Already Available to the Coast Guard and Effort Would Frustrate Trade

The Coast Guard should not move forward with an expanded HIN proposal because this information collection proposal cannot meet the standard required under the Paperwork Reduction Act since the data are already available to the Coast Guard. In addition, this effort would frustrate international trade in boats since the current HIN standard has been adopted by key U.S. trading partners.

A. Paperwork Reduction Act Requires Data Collection to be Least Burdensome Necessary and Not Duplicative -- HIN is a Data Collection Effort

Before a Federal agency can collect information from the public the Paperwork Reduction Act requires that the agency must show that all reasonable steps have been taken to ensure that the collection of information is the least burdensome necessary, that it is not duplicative of information otherwise accessible to the agency and that the collection of information has practical utility. 5 C.F.R. § 1320.5(d)(1). As the Coast Guard explained in 1998, in an earlier effort to assess the cost and the benefits of an expanded HIN, the HIN was an information collection activity covered by the Paperwork Reduction Act and that any information collection done by the agency must be “necessary and useful.” The Coast Guard noted that OMB had taken a specific interest in this expanded HIN effort and “[t]herefore, because of Coast Guard concerns about information-collection burdens and the OMB comments, the Coast Guard published a Supplemental Notice of Proposed Rulemaking” on February 21, 1997 (62 FR 7971).” *See* 63 Fed. Reg. 63,638. The Coast Guard has repeatedly found that it cannot demonstrate than an expanded HIN, as proposed here, is in fact the least burdensome option, not duplicative of other information collection activities or worthy of pursuing.

B. Proposal to Add Five Characters to HIN is Not the Least Burdensome Necessary and Is Duplicative in Violation of the Paperwork Reduction Act

In the 1997 effort, the Coast Guard decided to abandon its plan to add the additional characters due to overwhelmingly negative comments and instead to act to only align the HIN with the recently adopted ISO 14-character HIN standard. *See Hull Identification Numbers for Recreational Boats*, 63 Fed. Reg. 63,638 (Nov. 16, 1998) (Seeking comments on costs and benefits of an expanded HIN format that would outweigh the paperwork burdens on boat manufacturers); and Supplemental Notice of Proposed Rulemaking, *Hull Identification Numbers for Recreational Boats*, 62 Fed. Reg. 7971 (Feb. 21, 1997) (“As a result of the overwhelmingly negative comments received to the NPRM, this supplemental notice of proposed rulemaking (SNPRM) proposes to add only the two-character prefix for country of origin and delete the last five proposed characters”).

It is NMMA’s strongly held view that this current effort to expand the HIN would, like the 1997 effort, not meet the requirements of the Paperwork Reduction Act. The data sought are already readily available to the Coast Guard and there are less burdensome methods to ensure that the data could be used by law enforcement. For example, as is discussed below, the states and the Coast Guard already request this data from boat owners at the time of a boating accident, and when a boat is given its certificate of number. The Coast Guard then collects and maintains this data from the states in its Boat Accident Report Database (BARD) and VIS databases.

1. Accident Data Recordkeeping Requirements Already Include Vessel Characteristics

Some have argued that the new characters will provide additional information that will aid in the analysis of boat accident reporting data. However, the Coast Guard is already collecting this information under 33 C.F.R. § 173.57(w) – *Vessel Numbering and Casualty and Accident Reporting; Contents of Report*. This regulation requires that each boat owner or officer report required by § 173.55 must include a host of information including the make, model, **type** (open, cabin, house or other), beam width at widest point, **length**, depth from transom to keel, horsepower, **propulsion** (outboard, inboard, inboard outdrive, sail, or other) fuel (gas, diesel, or other), **construction** (wood, steel, aluminum, plastic, fiberglass, or other), and year built (model year), of the reporting operator’s vessel (bold indicates proposed additional HIN data). Therefore, since the data are already collected and can be cross referenced with the state boat registration and numbering systems data, it is unnecessary to impose new duplicative information collection on the marine industry in the form of an extended HIN. Arguments that the data are self-reported and therefore inaccurate are unavailing since the data can already be cross checked via the current HIN with data entered in state numbering systems and also entered into the VIS system.

2. State Numbering and Casualty Reporting Systems Already Include Vessel Characteristics

The U.S. Coast Guard has established a standard numbering system for vessels and a uniform vessel casualty reporting system for vessels with specific requirements on the states. 33 C.F.R. Part 174. The Coast Guard requires that “each form for application for a certificate of number for a vessel” must contain a host of information including, the make of the vessel, model year, HIN, overall **length** of vessel, **type of vessel** (open, cabin, house, or other), **hull material** (wood, steel, aluminum, fiberglass, plastic, or other); the **propulsion** (inboard, outboard, inboard-outdrive, sail or other) and fuel type. See 33 C.F.R. § 174.17 (bold indicates proposed additional HIN data). In addition, states are authorized in 33 C.F.R. § 174.19 to include this information in the contents of a certificate of number for recreational vessels.⁴ Since the states already have this information at its disposal, it is unnecessary to impose duplicative information collection on the marine industry.

⁴ Note that 33 C.F.R. § 174.19(b) provides a state the option of including or omitting the make, year of manufacturer, length, type, hull material, propulsion, and fuel type if the HIN is plainly marked on the certificate. Rather than mandating a change to the HIN, the Coast Guard could make it mandatory that the States include this information on a vessel’s certificate. This would eliminate any cost to industry.

3. Vessel Information System Already Includes Vessel Characteristics

Recently, the Coast Guard has been executing agreements with the states to provide data on vessels for the Vessel Information System (VIS). This long overdue completion of the VIS system will enable the Coast Guard, federal officers and staff of participating states to look up any vessel in the system and find out key vessel and owner data. VIS was established to be a nationwide system for collecting information on vessels, vessel owners and other information to assist law enforcement officials in their investigations of stolen vessels or other crimes, such as fraud. The Coast Guard expects that the VIS system will decrease the probability of theft. *See* 66 Fed. Reg. 15,625. The Coast Guard is also completing arrangements to ensure that this data will be available to officers in the field in already existing systems. The VIS regulations require states to provide a host of vessel information including the data sought in this expanded HIN proposal. For example, 33 C.F.R. § 187.103 requires a participating state to collect the following information on a vessel it has numbered or titled and make it available to VIS: HIN, name of manufacturer, builder, or make, model year, manufacturer year, or year built, overall **length**, **vessel type**, **hull material**, **propulsion type**, engine drive type, and fuel type (bold indicates proposed additional HIN data).

NMMA understands that half of the states have signed agreements with the Coast Guard to participate in the VIS system. The Coast Guard asked in its March 17, 2008, notice if an alternative to a 17-character HIN should be to “[i]mplement the Vessel Identification System in lieu of implementing a 17-character HIN.” Because the Coast Guard, federal officers, and participating states already can access the vessel information sought in an expanded HIN this proposal would be duplicative and unnecessary. Therefore, NMMA supports the full implementation of the VIS system over any HIN modification.

The U.S. Coast Guard’s current project to make this information available to field officers via VIS negates the argument that an expanded HIN would enhance officer personal safety. In fact, a vessel’s registration number is the most visible data for an officer to use to assess vessel risk. Viewing of a HIN would occur only at very close quarters since it is quite small and placed on the transom of a vessel, whereas a vessel registration number must be visible from a distance. *See* 33 C.F.R. 174.26; 33 C.F.R. 173.27 (Vessel number must be permanently attached to each side of the forward half of the vessel, be in plain vertical block characters of not less than 3 inches in height, contrast with the color of the background and be distinctly visible and legible).

For the reasons cited above, it is NMMA’s view that the Coast Guard should not move forward with an expanded HIN proposal. This information collection proposal cannot meet the standard required under the Paperwork Reduction Act because the data are already available to the Coast Guard. In addition as discussed below, this effort would frustrate international trade in boats since the current HIN standard has been adopted by key U.S. trading partners.

C. Changing the Current HIN System will Adversely Impact on International Trade

Any U.S. Coast Guard proposal to change the HIN must consider the impacts on international trade since the current format is already accepted in key U.S.-built boat markets. Quite simply, a change to the U.S. HIN standard will have international implications because the ISO small craft identification coding system has adopted a Craft Identification Number (CIN) that is the same as the current U.S. HIN. See ISO/DIS 10087. In 1998, the Coast Guard aligned the HIN with the ISO 14-character HIN standard.⁵ This standard has also been adopted by Canada and Australia. If the U.S. adopted an expanded HIN, boat manufacturers would be required to have two separate HIN and CIN labeling and recordkeeping systems.

The trade implications of different U.S. and foreign HIN formats is not a new consideration. As the Coast Guard noted in its 1998 *Federal Register* notice, NMMA has consistently expressed its concerns with any HIN format that was not consistent with our key trading partners' formats. NMMA indicated in its comments to a 1994 USCG proposed rulemaking that "the International Standards Organization had finalized a HIN standard consisting of the existing Coast Guard 12-character HIN format preceded by a 2-character country code and a hyphen. The comments indicated that manufacturers would be using the ISO HIN standard beginning with the 1996 model year. If the Coast Guard adopted a different HIN format, manufacturers would have to place two different HINs in the same location, creating worldwide documentation and importation problems for all involved." 63 Fed. Reg. at 63638; *See also, Hull Identification Numbers for Recreational Boats*, 62 Fed. Reg. 7971 (Feb. 21, 1997) (The Coast Guard decided that it would propose using the shorter 14-character format consistent with ISO to "enable U.S. manufacturers to market their products abroad without having to affix two different sets of numbers on each boat"). The Coast Guard continued to ensure that the HIN is consistent with ISO standards when it on June 17, 2004, revised its regulations to allow U.S. manufacturers of recreational boats to display a 2-character country of origin code before the 12-character HIN without the need for a separate border or label so U.S. manufacturers could comply with International Organization for Standardization (ISO) HIN standard. *See, Country of Origin Codes and Revision of Regulations on Hull Identification Numbers*, 69 Fed. Reg. 33,858 (June 17, 2004) (Final Rule); 68 Fed. Reg. 36,957 (June 20, 2003) (Proposed Rule).

The need for harmony on international HIN standards remains true today especially in light of the fact that this very same format is currently in use by Canada, the European Union, and Australia -- all important markets for U.S. built boats. A change in the HIN would impact not only U.S. exports but also imports of foreign boats from these markets into the U.S. impeding trade.

⁵ *See Country of Origin Codes and Revision of Regulations on Hull Identification Numbers*, 69 Fed. Reg. 33,858 (June 17, 2004) (final rule modifying U.S. regulation so as to better conform to ISO standard); 68 Fed. Reg. 36,957, 36958 (June 20, 2003) (Notice of proposed rulemaking to conform HIN to ISO and noting that the National Boating Safety Advisory Committee which advises the Coast Guard unanimously passed a resolution requesting the Coast Guard to immediately pursue rulemaking for an exemption to current regulations to allow the USA HIN system to conform to the ISO HIN standard while still allowing the states to not require the "Country Code" in their registration process); and 63 Fed. Reg. 63,638 (Nov. 16, 1998) (Request for Comments).

Most recently, the Office of Management and Budget has been considering providing "further guidance" that would expressly require federal agencies to analyze the impact of proposed regulations on international trade and investment, according to a report released May 13, 2008 at a meeting of U.S. and European economic officials in Brussels. Office of Management and Budget and the Secretariat General of the European Commission "*Review of the Application of EU and US Regulatory Impact Assessment Guidelines on the Analysis of Impacts on International Trade and Investment; Final Report and Conclusions*" (May 2008) ("Regulation Trade Impact Report") found at http://www.whitehouse.gov/omb/inforeg/reports/sg-omb_final.pdf. The report, prepared jointly by OMB and Secretariat General of the European Commission, states that regulatory policy officials on both sides of the Atlantic "are considering whether our respective regulatory analysis approaches should be modified to better incorporate international trade impacts into the analysis of regulation." The OMB and Secretariat General report summarized why agencies should consider the international impact of their regulations in this way:

Just as a regulation may impose costs on private domestic markets, a regulation may have the effect of interfering with, and shrinking, the level of trade. Since this aspect of regulation is presumptively harmful to overall economic welfare in each nation, **the size of this harmful effect should be considered in regulatory analysis** and compared, along with other regulatory costs, to the benefits generated by the regulation to determine whether regulations maximize the net benefits to society. It is important to emphasize: this discussion is not meant to convey that a regulation with such a trade impact cannot have net benefits. It merely points to a cost that should be assessed and compared with the estimated benefits of a regulation.

See Regulation Trade Impact Report at 13-14 (emphasis added).

The U.S. boat industry is experiencing trying economic conditions in the United States market. The bright spot for the U.S. boat industry has been international sales and these sales have been trending up and taking on more and more importance for U.S. builders. This trade allows those builders to blunt the effects of a down U.S. market. For example, for the first time in more than a decade of NMMA data collection, the U.S. exported more boats than were imported in 2007. Total boat and engine exports reached \$2.9 billion while imports reached \$2.5 billion, resulting in a trade surplus of \$391 million, the first since NMMA began collecting data in 1996. Canada was the top trading partner for the U.S. in terms of value with 63 percent of the export market and 87 percent of the import market. In terms of just boat and engine exports, Western Europe was the top destination for U.S. boat and engine exports at 32% in 2007 (with 34% of the boat export market). Canada was the number two trading partner for boat and engine exports with a 29% share of the combined markets' value (34% share of the boat export market). Mexico ranked a distant third for boat and engine exports with 10% share of the combined markets' value (3% share of boat export market). U.S. boat and engine exports to Australia were nearly \$227 million in 2007, a 5% increase from the preceding year.

Maintaining the existing format will aid in the trade of boats with our key trading partners. In contrast, **any movement away from the current harmonized HIN system has the potential to**

degrade the current positive U.S. trade balance for boat and engine trade. Rather than seeking ways to frustrate trade simplification, the U.S. Coast Guard should put its efforts to finding ways to ease the trade burdens faced by boat manufacturers so that U.S. jobs could be preserved.

Some have suggested that there is an effort to amend the ISO standard to reflect a 17-digit HIN format, NMMA has investigated and could find no support for this statement. Therefore, NMMA understands that there is no serious effort underway to amend the ISO standard and in fact there is great reluctance among our key trading partners to make any change to the HIN.

IV. Costs and Concerns of Manufacturers and Marine Bankers of an Expanded HIN Outweigh any Purported Benefits

The expanded HIN should be rejected by USCG (as it has been before) because the proposal does not meet the test of under the Paperwork Reduction Act as being the least burdensome necessary, not duplicative of information otherwise accessible to the agency and having practical utility. In addition, the expanded HIN would have an adverse impact on recreational trade. Finally, as discussed below it is clear that the costs of an expanded HIN to the recreational marine industry far outweigh the purported benefits.

A. Costs of an Expanded HIN to Recreational Marine Industry

Any cost benefit analysis of a change to the HIN must include an analysis of the impacts on all the affected parts of the marine industry. That would include an analysis of boat manufacturers, distributors, brokers, dealers and lenders and their loan servicing companies. There were 1,136 active boat builders in the U.S. in 2007. *See NMMA, 2007 Recreational Boating Statistical Abstract* at v. There were 7,535 boat dealers in the U.S. in 2007. *Id.* In addition, there are over 50 banks and 40 marine finance service companies in the U.S. The vast majority of these companies are small businesses.

Marine industry costs of a change to an expanded HIN format are in two categories: (1) the costs associated with physically putting a new number on a vessel; and (2) the costs of tracking that new number in data systems. The Coast Guard has focused its previous analysis on simply the costs of affixing or calculating the HIN and inappropriately ignored the costs associated with changing data systems.

1. Vessel Numbering Costs

A change to the HIN format will require manufacturers to purchase new plates and in many cases new plate engraving or printing equipment. There will be staff time for training on the new format. In addition, the additional time to calculate the HIN and check digit will need to be factored in. This time is variable depending on the company and their staffing situation and production volume. Costs would need to factor in the number of new boat sales per year. For example total new boat unit sales reached 841,800 in 2007. These costs were studied in the PMG Study.

2. Costs to Change Vessel Tracking Systems

A HIN format change will have a direct impact on manufacturers' ability to comply with the requirements of the Federal Boat Safety Act that mandates a manufacturer to keep records to allow it to be able to contact first and subsequent boat owners in the case of a recall and to locate unsold product. In addition, the HIN has become the unique identifier used by the broader marine industry for boat service and repair (including warranty work) and marine lending and loan servicing. Boat manufacturers report to NMMA that the cost of updating these necessary systems would in some cases exceed several million dollars per company while others estimate costs in the thousands to tens of thousands. The HIN is used to track a boat through a boat manufacturer's production, inventory, tracking, logistics, and sales functions.

Boat manufacturers report to NMMA that a changed HIN format would require the updating of internal custom manufacturing resource planning systems or other off the rack resource planning systems. In addition, in many cases a core system can have interactions with over 200 ancillary programs that would need review, modification and testing to comply with the new format. Manufacturers have given NMMA rough estimates of the thousands to nearly \$3 million for this work depending on the company's size and the types and structure of systems they use.⁶ These changes will also impact distributors and dealers since they must track vessel location and service. NMMA has not attempted to discover the cost of an upgrade to systems for boat dealers and distributors. Since many boat dealers and distributors sell multiple product lines from multiple manufacturers they may have multiple systems to update. Nearly all boat dealers would qualify as small businesses.

Marine Lenders, which includes commercial banks, thrifts, credit unions, non-bank financial institutions, service companies and others, would have to change a number of different systems as a boat loan goes through the application (often at a dealer), approval, booking, servicing, and lien perfection processes. While some marine lenders may be able to add additional characters, a majority of others will need to make major system alternations. Testing of all systems would be necessary to ensure that inter-operative systems would still be able to function. These types of systems include:

- Upfront Underwriting System;
- Document Preparation System;
- Loan Servicing System
- Lien Perfection Tracking System

Systems change costs have been estimated by the National Marine Bankers Association to range from several hundred thousand dollars, if given several years to comply, to several million dollars, if compliance would have to come in under a year. These systems would also impact

⁶ For example, one boat builder estimated an addition of \$500,000 in fixed overhead costs for the estimated additional 30 minutes of HIN calculation, record keeping and application time and at least an additional \$500,000 in computer systems' change costs. Another boat builder estimated that changes to its marking control systems in the U.S. and abroad would coast \$565,000 and \$1.3 million respectively. In addition, this boat builder estimated warranty system changes would cost approximately \$550,000 for a total of \$2.415 million.

third-party origination firms and marine dealers who often provide boat financing services to customers. In addition to individual boat loans, also affected would be floor plan financing for boat dealers where a bank provides a loan to enable the boat dealer to buy inventory to sell. These systems must be able to have accurate inventory data and use HINs to track inventory. The National Marine Bankers Association estimates total marine banking costs would range from a low of \$9 million to a high of \$90 million.

Boat builders, marine lenders, dealers, distributors and brokers will have to inventory and update any forms or other documentation in which the HIN appears to ensure that the new data can be included. This will require staff time, production and printing costs. In addition, any outdated inventory of blank forms would have to be discarded. In addition, manufacturers who are engaged in foreign sales of their products will have to bear the cost of setting up separate systems so that boats are properly designated and tracked for the appropriate country of sale. There will also be costs on U.S. boat importers who must ensure that boats imported from abroad to the U.S. are compliant with the new HIN format and that their computer systems are updated in order to be able to track boats in the case of a recall (importers are treated the same as a manufacturer under the Federal Boat Safety Act and the U.S. Coast Guard regulations).

These costs are significant to the industry and will be coming during a severe economic downturn with no resulting improvement in boating safety to the public. Meanwhile, this information is already readily available to the Coast Guard, states and officers in existing programs.

B. Purported Benefits

Benefits cited for an expanded HIN are those typically associated with the creation of the original HIN as a unique identifier for boats and not those associated with expanded digits. For example, the Coast Guard cited in its notice that “[t]he expanded HIN with its check digit would reflect additional information... [and] provide a useful means of identifying vessels in the Vessel Identification System (VIS).” 73 Fed. Reg. at 13194. However, the Coast Guard’s own regulations already require this information to be collected and populated in multiple databases including VIS. So it is contradictory for the USCG to justify duplicative collection of the data and to frustrate the effort of the marine industry to maintain comprehensive and accurate records to allow boat builders to be able to aide in any potential defect or safety notification.

The Coast Guard noted in its notice that an expanded HIN could improve vessel safety by enabling an officer “prior to boarding a vessel, through the use of computer lookup of the vessel registration number, to get an accurate description of the vessel via the HIN and alert them to approach with caution if the description does not match the vessel they are planning to board.” 73 Fed. Reg. at 14,195. However, seeing that the Coast Guard already requires the collection of this data at the point of vessel registration and is now currently establishing VIS, a national computer network to allow federal and participating states officers to view this database in the field, there is no compelling need for an enhanced HIN. In addition, there is no reason that a state officer could not already look up this information in their current boat registration database, since they are already required by the Coast Guard to collect this data at the point of a boat’s registration. As explained earlier, a vessel’s registration number is the most visible data for an

officer to use to assess vessel risk. Viewing of a HIN would occur only at very close quarters since it is quite small and placed on the transom of a vessel, whereas a vessel registration number must be visible from a distance.

V. In Conclusion

For the reasons cited above, **it is NMMA's strongly held view that there is no possible justification for the USCG to move forward with an expanded HIN regulation.** The USCG should look to data systems already in place to identify ways to ensure data quality and availability for analysis and to officers in the field. The USCG should not impose an expanded HIN information collection effort on boat builders or the broader marine industry.

For further information on this issue please contact Cindy Squires, Esq., Chief Counsel for Public Affairs and Director of Regulatory Affairs (202-737-9766; csquires@nmma.org).

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The National Marine Manufacturers Association (NMMA) is the leading national recreational marine trade association, with nearly 1,700 members involved in every aspect of the boating industry. NMMA members manufacture over 80 percent of recreational boats, engines, trailers, accessories and gear used by boaters and anglers in the United States.