MARITIME POLICY POSITION PAPERS

MARITIME POLICY POSITION PAPERS

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V. Public Interest Program 1968

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H

FEDERAL TRANSPORTATION POLICY AND PROGRAM

U.S. DEPARTMENT OF COMMERCE

March 1960

Section 7.—Special Merchant Marine Problems

PROBLEM

How can the United States have a merchant marine adequate to handle wartime requirements, and peacetime commercial and strategic needs, at reasonable cost to the Government?

FEDERAL ROLE

A merchant marine and shipbuilding industry are essential to national defense and peacetime commerce. However, their long-term minimum size cannot be known until there is (1) a review of defense needs under clearly stated assumptions as to types and probabilities of wars and the continued use of ships of friendly powers; (2) a realistic estimate of the size which is necessary to the foreign commerce of the United States and can be economically sustained; (3) a calculation of long-range costs and benefits of operating and construction subsidies; and (4) a determination of the proportion of the national budget which is reasonable for this program.

The "parity" principle of equalizing competitive operating and shipbuilding costs is sound and the Government should continue to support the merchant marine through subsidy to the degree necessary to maintain parity. It should also make such changes in the subsidy system as may be required to assure the development of an aggressive and progressive merchant marine. The amount of subsidy in the future depends largely upon determinations as to the size required.

In the long run the program recommended should narrow cost differentials, and the merchant marine should more nearly approach self-sufficiency. This should be stimulated primarily through a research and development program led by the Government with full participation by sea-going, shipyard and longshore labor, ship operators, and shipbuilders. The objective of a joint Government-industry research and development program should be to make the U.S. merchant marine and shipbuilding industry more nearly competitive by mechanization for long-term increase in labor productivity, and to keep its technology continually advancing to retain a technical margin into the future. Such a program should be paralleled by measures for labor so that individuals do not suffer personal hardship from the technological advances.

RECOMMENDATIONS

51. The major technical research and development program should be continued and expanded to (Maritime Administrator):

a. Incorporate techniques for low-cost materials handling equipment to be installed on ships so that the advantages would accrue to American ships in both U.S. and foreign ports.

b. Develop techniques for mechanization of shipboard functions to reduce operating crew costs.

c. Perfect long-range techniques and equipment to keep similar technical progress and improved shipbuilding methods going so that the United States can keep in the forefront of maritime efficiency and economic competition at minimum cost in Federal subsidy.

d. The Maritime Cargo Transportation Conference, now engaged in intensive research on longshore activities, should be encouraged to extend their field of operations to the subject of this recommendation.

52. Existing law should be used more effectively to counter discriminatory practices controlling the routing of commercial cargo and passengers. Government policy should be based on the concept of reciprocity, with U.S. measures matching foreign measures both favorable and unfavorable. This policy should be applied in steps over a period of a few years with some latitude for discretion, to give the foreign countries time to reconsider their policies and make them nondiscriminatory against U.S. shipping. (Maritime Administrator.)

53. The Department of Agriculture should ship the great bulk of surplus U.S. commodities via U.S.-flag ships, at reasonable cost-related rates. (Secretary of Agriculture.)

54. U.S. industry should use more American-flag vessels in carrying its own materials and products. The Government should examine closely practical means to accomplish this, such as stepping up its long-range information program for exporters and importers. (Secretary of Commerce.)

55. Government representatives should keep in continual touch with U.S. industry, so that its shipping needs can be met more closely by the merchant marine and Government. (Secretary of Commerce.)

56. The replacement program should be kept, but the criterion of 20-year life should be modified and extended to allow for competitive position, physical condition, and other realistic considerations. (Maritime Administrator.)

57. The advisability of superliners should be studied. The military should reexamine the advantages and disadvantages in shipping troops by superliner in wartime and of alternatives. (Secretary of Commerce, Secretary of Defense.)

58. The United States should examine the necessity for placing wartime reliance on vessels under the Panamanian, Liberian, and Honduran flags. (Secretary of Defense, Secretary of State.) It

should keep close watch on transfers to other flags which would lose us assurance of control. (Maritime Administrator.)

59. The essential trade route concept is sound. However, determination of the volume and character of service required in the national interest over each designated route appears to require more searching review. Such review should insure that the essential trade route concept is administered so as to encourage efficient services to shippers, contribute to reduction of subsidy requirements consistent with service requirements and contribute to the development of the American merchant marine and meet foreign-flag competition. (Maritime Administrator.)

60. The importance of the merchant marine as a favorable factor in the international balance of payments should be evaluated in the light of long-range national considerations. (Secretary of Treasury, Secretary of Commerce.)

Section 8.—Special Motor Carrier Problems

RECOMMENDATION

RATIONALE OF FEDERAL TRANSPORTATION POLICY

U.S. DEPARTMENT OF COMMERCE

April 1960

MERCHANT MARINE PROBLEMS

Review of national policy on the U.S. merchant marine brings up several serious problems. The first is an authoritative determination of the total size and quality of the essential fleet necessary to meet both the defense and peacetime requirements of the commerce of the United States, including the associated aspects of the registry of U.S.-owned ships under the flags of Panama, Liberia, and Honduras. The second is the size and trend of the merchant marine subsidy, including possible means of increasing revenues, decreasing costs of operation, and decreasing costs of construction.

SIZE OF ESSENTIAL FLEET

A primary factor in setting the minimum size of the essential merchant marine fleet is defense requirements. This still requires clarification. In particular, a reappraisal of requirements is needed, without regard to present capabilities, to determine the extent to which reliance upon air and sea transport is most appropriate to strategic plans and a development of ship requirements attuned to the military contingencies which are considered most possible.

Merchant marine requirements in the past have been estimated on the assumption of a World War II type of emergency. It seems likely that events corresponding to such assumptions will not in fact eventuate, and that revised requirements must be estimated on the basis of various types of limited and all-out emergencies, as discussed in Chapter 6 on Defense Readiness. It is understood that a general reappraisal of defense requirements, in this field as well as in other fields, is now going on.

As respects some types of limited war, it appears that the merchant marine may be reasonably adequate in terms of total quantity. However, there appear to be deficiencies qualitatively as respects ship age, speed, heavy lift capability, and ability to load and unload under conditions more primitive than those existing at major commercial seaports.

The fulfillment of this spectrum of requirements is obviously a long-term task. It can best be taken care of by way of the vessel replacement program over a period of years. These replacement vessels should, therefore, give account to speed and cargo-handling requirements of a direct military nature so far as is compatible with the economics of peacetime commercial requirements.

The possible construction of superliners also requires re-examination. This would involve primarily military policy as to the concentrated risk to thousands of troops in one vessel in an all-out war, as well as to capacity and speed of delivery in limited emergencies. A military decision is necessary as to whether or not desirable results could be secured by a larger number of smaller vessels which, although inherently slower, might be more maneuverable and useful in undeveloped areas. It is also possible that under a variety of conditions, passenger airlift would be readily available and useful.

A problem also arises as to the extent to which the United States places dependence on NATO shipping. In any all-out war, or in a more limited emergency in which the NATO powers would be committed, the U.S. and its NATO allies would place in effect their arrangements for a shipping pool. This is, of course, eminently desirable. However, it would probably be three months before such a pool became effective. It is also possible that in a limited emergency, the NATO powers might not be directly involved, and it might be contrary to the policy of some NATO countries to become involved in any direct military action by the United States. Again, this is a problem primarily for military solution.

A closely associated problem is the reliance currently placed upon vessels under the flags of Panama, Liberia and Honduras. Vessels under these flags of convenience represent a vital segment of our ocean-going capability, including about one-half of our tanker and three-fourths of our bulk carrier tonnages. In time of war, it is presumed that these vessels would be under the practical control of the United States, since they are American-owned and since their countries of registry have no navies by which they could enforce physical control. However, these ships are manned by foreign nationals, and U.S. control over them is not as effective as if they carried the American flag and American crews.

Everything possible should be done to maintain and improve U.S. control over these vessels. Efforts should be made to have all friendly maritime nations sign agreements for the immediate return of these ships to U.S. control in the event of an emergency involving the U.S. It seems unlikely that the economics of the situation would in peacetime return these ships to U.S. registry, since foreign flag operation allows a much lower labor rate and construction cost. On the other hand, possible maritime labor action might force the transfer of registry of these vessels from the present flags of convenience to foreign maritime nations that now have large merchant fleets and effective naval control, which would involve the complete loss of any control by the United States other than through NATO arrangements.

With the increase in our reliance upon imports of ore and petroleum, this problem of flags of convenience for tankers and bulk carriers becomes more serious. If there is any substantial attrition of these registries, and if military and other requirements call for more vessels than remain under effective U.S. control, this country would be faced with immediate policy determinations and actions. If it is assumed that additional U.S. flag vessels would be essential for national defense and other national objectives, the problem would become one of financing their acquisition and operation. The alternatives would seem to lie in a limited increase in the subsidy program to include independent dry cargo and tanker vessels, or in an increase in the responsibility of industry to pay for at least a share of the increased sealift in American flag vessels when for consumption within their own plants in this country, or possibly in some form of general import tax. None of these alternatives appear at this time to be desirable, and active consideration for specific action would only be forced by further losses from the flags of convenience combined with a clear statement of military and civilian essential requirements.

Concurrent with a determination of military needs there must be a determination of civilian needs under emergency conditions, for the same sets of assumptions as underlie the new military determinations. These civilian requirements would be those necessary to continue the essential civilian and war-supporting economy of the United States.

When it comes to essential requirements for the present and future peacetime economy, the determination is even more difficult. If it were absolutely certain that the United States would never again be involved in any military action of any kind, it would of course be difficult to establish a purely economic criterion for any particular size of merchant marine. Under economic theory, and the assumption of completely free world trade, each country should specialize in those industries and those products in which it has an inherent cost advantage. Obviously, such a policy applied wholesale would considerably alter the entire economy of the U.S., and among other things would probably wipe out our merchant marine and shipbuilding industries.

However, the assumption of eternal peace appears to be in direct contradiction of fact. It seems likely that the U.S. will be exposed to possible involvement in military actions from time to time. Even if it were not, other seafaring nations very well could be, and their shipping would not be available to us. It therefore seems to be opposed to our long-term national interest to place dependence upon the shipping of other countries which under normal economic circumstances would be available and highly competitive for such a large shipping market as is offered by United States industry.

Fairly closely related to national defense, and looking ahead to the future, are considerations of national prestige involved in showing the American flag in foreign ports. Also somewhat less closely related is the promotion of U.S. export industries whereby a U.S. merchant marine is available to carry U.S. products to foreign countries and to assist in the promotion of U.S. export trade.

The qualitative requirements of normal peacetime ships are somewhat different from those for possible military use. A peacetime merchant marine has as its primary criterion the economy of the fleet, including age and obsolescence of the vessels, nature of the service for which it is to be used, speeds at which it is to be operated, general conditions obtaining in the trade, the costs of the operating mechanism and the basic structure, costs of the loading and unloading arrangements, methods of maintenance and repair, etc. All these factors have to be considered in competition with the fleets of foreign nations, the conditions of world trade economy, and the financial arrangements required and available. These are quite distinct from military needs for undeveloped areas with inadequate or non-existent ports—over-the-beach capability, ability to handle wheeled vehicles rapidly, speed and maneuverability to minimize submarine attack, armaments, etc.

SUBSIDY PROBLEM

Under existing conditions, for any given level of the merchant marine, a sizable subsidy is necessary. For the subsidized fleet operating on regular trade routes, the estimated current operating subsidy is $150 million for 1800 voyages with 310 ships. In addition, for replacement of these vessels in the next 20 years at presently planned levels, there will be involved a capital investment of some $4 billion.

Obviously, a continuing and increasing subsidy is undesirable. On the other hand, if a merchant marine is to be maintained in the face of the hard fact of the tremendous differential between American and foreign labor rates for ship operation and construction, a subsidy continues to be necessary. In view of this, both Government and private industry policy should be oriented toward making the merchant marine as self-sufficient as possible.

On the expense side, decreasing subsidy cost has its best hope in an expanding and active research and development program for the design of vessels. Since approximately three-fourths of the operating subsidy is going into labor expense, it is obvious that major long-term effort should be designed toward a research and development program emphasizing labor saving. This has a number of components.

One component is shipboard labor. To accomplish reduction in this cost factor, research and development efforts should be directed toward more automation. For example, it would appear logical that signals from the bridge need not be transmitted to a crew below, but direct control could be instituted actuating switches directly to the engine controls. On the other hand, there is a limit of labor saving due to the fact that a ship at sea must have 24-hour-a-day watches requiring multiple manning of each position.

One of the most fertile fields for research and development effort lies in the cargo-handling field. If this were to be done on the fixed installations at American ports, it would obviously be of as much help to foreign ships as it is to American ships, and would in addition be of no help at the foreign end of the voyage. By contrast, it seems logical that development should be aimed at better shipboard cargo-handling capabilities, which would tend to assist U.S. ships in all ports as compared to foreign ships. This effort could reduce loading and unloading labor costs, the extremely important factor of turnaround time with all its associated costs, and contribute toward interchangeability of containers with land transport modes, etc.

It might be objected that this would be, at best, only a temporary measure. However, this argument is true of all specific and limited portions of research and development programs—that they must be maintained in order to keep a constantly moving differential of benefits over competitors. By the time a competitor adopts some of the more advanced methods developed, the program should have moved ahead and should have in turn made somewhat more economically obsolete the previous advances of our own and our competitors' ships. In addition, many foreign ships are only part way through their total economic life, and a number of possible developments could not be economically adapted to their ships, so that many of their current vessels would necessarily be outclassed by the more recently developed American ships. Moreover, the incentives are far greater where labor costs are high and what may be economical in diminishing a high labor differential may not be equally appropriate where labor cost is low. A long-range replacement program such as 20 or 25 years is ideal for continual adaptation to technical progress of new construction or of modifications of existing ships on an economical basis.

Since the greatest savings of a research and development program would be aimed at labor costs, it would appear to be desirable and practical that labor organizations be brought into the planning at an early stage. The logic of the long-term program should appeal to labor organizations—if the United States does not keep in the forefront of developing more economical shipping, the total volume of U.S. shipping will inevitably drop and with it the number of American seafaring labor.

On the other hand, labor has a short-term interest that is in some conflict with this long-term trend. Whenever any labor-saving device is adopted, the immediate effect is usually to eliminate jobs. Workers thereby suffer immediate unemployment, and they tend to pay individually for the advance of the industry as a whole. However, in any long-term program, allowance should be made for special measures to take care of these individuals. Probably most of the solution lies in the time phasing. If the timing of the advances is geared closely to normal turnover, workers who retire from over-age or a desire to switch to a different industry need not be wholly replaced, and the changeover can be relatively painless. In addition, a ship replacement program involving some billions of dollars might well justify some spending for retraining and relocation of labor if necessary, for earlier retirement in certain cases, unemployment benefits, etc.

Ship construction likewise merits reexamination, since it is one of the major costs of the U.S. merchant marine. A research and development program is necessary in this area, including a comparison of U.S. and foreign methods and techniques in ship construction and repair. A stable long-term replacement program is necessary, embodying the newer research findings, to produce economies by ironing out the peaks and valleys of shipyard construction, and also thereby retaining skilled personnel who help efficient operations and who are difficult to bring back to the industry once they are lost.

The other attack on the subsidy problem comes on the side of increasing revenues. This solution should come primarily from encouraging American shippers to use the U.S. merchant marine, discouraging discrimination from foreign nationals in favor of their own flag ships, and sending more of U.S. Government surplus commodities by U.S. vessels.

The first important set of actions, and the one which is most difficult to solve, is that of encouraging American industry to send more of its products via U.S. shipping. The basic difficulties are that the unsubsidized portion of the American merchant marine costs more than does foreign shipping and American industry will not choose to pay more than the lowest price, and that for the subsidized portion with the same rates as foreign shipping because of conference agreements, there is no economic benefit to the American shipper to use U.S. ships.

An effort should be made by U.S. ship operators to devote more time and attention to developing constructive suggestions as to how to increase U.S. industry use of American flag ships. Even from their own self-interest point of view, the subsidized ship companies will benefit in terms of earning their full 10 percent on invested capital and in addition share with the Government in any return above 10 percent.

Government efforts should also be devoted to this same end. Here, the emphasis should be on a continuing long-term canvass of all industry on their export-import shipping problems, which can be analyzed and presented to the ship operators for appropriate action. Since the Government in the long run pays a great deal of the differential between revenues and cost, it would benefit the Government to increase the shipping revenues from U.S. industry. In many cases, some additional or revised services might be performed by U.S. ship operators which would make their services more convenient or more economical for U.S. industry use. Then too, if other factors are equal, American businessmen should prefer American shipping since it furthers larger national objectives. The Government should examine closely all possible practical means to accomplish this, including a stepping-up of a well planned long-range information program for exporters, importers, freight forwarders, and industries bringing into this country both raw materials and finished products. It might well be that the Government can act as a catalyst, and bring together both the customers and the providers of shipping services who do not now coordinate their efforts or make known their needs and requirements to the other on an organized basis.

In this connection, it might also be well to ask the commercial attaches of our Embassies abroad as to their opinions and suggestions from the overseas point of view.

Another set of measures which might be taken is to try to prevent foreign flag discrimination from spreading, and to cut back its present extent. Although this would not necessarily increase the amount of American flag shipping, it would tend to slow down or halt the diversion from American flag shipping due to this cause.

There are in existence laws and regulations necessary to exercise retaliatory action against such discriminatory acts. The action must be initiated by the Maritime Administration and brought to the attention of the Department of State.

There are in existence a number of bilateral and unilateral trade agreements embodying such discrimination. By 1956, thirty-five bilateral agreements had been entered into involving twenty nations. In addition, certain countries having national monopolies on commodities specify carriage in vessels of their own flag only, including items such as tobacco, petroleum, cotton seed oil, etc.

The third area where action might be taken by this Government is in the routing of aid shipments to foreign countries under Title I of Public Law 480 and Public Law 664. This has been the subject of criticism from abroad in that it sets a minimum of 50 percent of U.S. relief surplus commodities to move via American flag carriers, and criticism domestically since no more than 50 percent is normally sent. The domestic criticism comes because the Department of Agriculture has interpreted in Public Law 664 that "at least 50 percent" of Government-financed cargoes to be moved on U.S. flag carriers normally means only this figure, and not that this is a floor and should usually be much higher.

It is therefore recommended that the great bulk of surplus relief commodities be shipped by U.S. flag vessel, well in excess of the 50 percent minimum, particularly because of the precarious position of the U.S. flag tramp fleet and its dependence for existence upon these cargoes, as well as to help reduce the subsidies now being paid to the subsidized portion of the fleet.

The Government and the industry should proceed in three time phases: (1) "shoring-up" the present situation with palliative actions designed to stop further deterioration in the position of the U.S. merchant marine, (2) immediately adopting the most effective of technical advances already developed, and (3) engaging in a vigorous research and development program for continuing long-term leadership in the ship operation and construction fields.

4/21/67
DYC

Marec Report (Jan 63)
Program and Policy Items

10. Research and Development

MarAd should encourage industry to establish a central cooperative R & D body managed and financed by industry (all segments). R & D work to be accomplished on items approved for matching funds from Government.

12. R & D program should include origin to destination (systems analysis and economic study).

13. Fund non-nuclear R & D at a higher level ($10 to $12 million annually).

16. Operating Subsidy

Pay cost differentials on parity principle - increase incentives to reduce costs - change basis of ODS to provide operators' participation in savings.

Compute "fair and reasonable" cost of subsidizable items and pay lump sum subsidy

Recomputation would limit net increase or decrease in subsidy payment to 10% of that applicable during preceding 3 years (by vessel type)

Encourage automation by giving automated ships with same basic lift characteristics the same subsidy as the non-automated.

18. Standardization and simplification of construction designs - subsidize only safety and performance costs.

19. Update Section 509 to make available Federal Credit to assure low interest capital for ship construction in U. S.

20. Provide tax deferment construction reserve funds for all U. S. flag operators.

21. Permit coastwise trading privileges to vessels built in foreign yards.

23. Continue cargo preference at existing ratios (50% reservation)

31. Convert AP5 at rate of 10 per year - consider making available to tramp fleet for purchase, lease, charter or GAA.

32. Retain 400 Libertys and all more modern ships in NDRF in good preservation as a residual emergency reserve

34. Assist passenger liner services in finding and developing economically justified operations.

4/21/67
DYG

Marec Report (Jan 63)
Not Considered Program Items

1. Revision of Taft Hartley

2. Encourage labor and management to agree to cooperate on mechanization

3. Ensure concept of Effective U. S. Control

4. Training program should provide more engineers and radio men

5. Compulsory arbitration for jurisdictional disputes in labor

6. Create Presidential Maritime labor-management commission

7. Build prototype of automated ship

8. Require automation on replacement ships

9. Government with industry maintain continuing program to design and build nuclear ships

11. Establish Government-industry R & D Committee

14. R & D should encourage new design concepts

15. Streamline cargo paperwork

17. Provide incentives for reduction in construction costs (and subsidies) by permitting owners to participate savings from economic design

22. MSB requirement for general conformance with conference rate system should be revoked.

24. Government should authorize sufficient staff for FMC for regulatory program.

25. Vigorous policing of rate-making by FMC

26. FMC should be authorized to participate on joint boards (inter-carrier services)

27. Adopt a Federal policy for integration of domestic carriers (coastwise and inter-coastal with rail and highway)

28. FMC should study and encourage technical advances in cargo handling

29. Undersecretary for Transportation should have regulatory limitations on private shipping under continuous review and analysis - and recommend regulatory modification and relaxation when deemed appropriate.

30. OET should develop definitive emergency shipping requirements.

33. Periodically review emergency requirements for high speed tankers to assure that military needs can be met.

35. President should establish by Executive Order cabinet rank "Maritime Coordinating Committee" provide Federal leadership to maintain programs.

36. Establish small full time Maritime Task Force under UST.

37. Presidential Maritime message to Congress.

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

(12/8/64)

JUN 28 1965

MEMORANDUM FOR MR. ALAN S. BOYD
Under Secretary for Transportation
Department of Commerce

Subject: Outline of maritime program agreed upon at the White House meeting of December 8, 1964

In response to your request the following is an outline of the maritime program agreed upon at the White House meeting of December 8, 1964, according to our understanding.

General agreement was reached on Federal maritime program recommendations. As outlined by Mike Feldman, then Special Counsel to the President, specific program commitments were only for five years. Although no program commitment beyond five years was to be announced the analysis of the program and its effects was set in a 20-year framework. This approach would permit a reassessment after the first five years of the need for further program adjustments.

Decisions reached on major program recommendations were as follows:

A. Operating subsidy programs

1. Present operating subsidy is to be restructured to reward efficiency. The essential trade route concept will be replaced by broader trading areas to permit greater operating flexibility. MarAd will continue to study alternative methods for calculation and payment of subsidy. Among these is a scheme based upon domestic/foreign industry differentials in a trading area computed on the basis of costs and paid in relationship to performance (revenue). MarAd will continue to explore ways to prevent the Federal Government from subsidizing "above pattern" maritime wage increases. Alternative techniques might be specific budget ceilings, limitations on the ratio of subsidy to revenue, bid subsidy, or a formula geared to increases in average American wages compared to average increases in foreign wages.

2. Restructured operating subsidy is to be extended to 30 or 40 presently unsubsidized liners at a maximum rate of about 20 vessels per year. The specific number is to be determined on basis of further study of trade-off savings. Study elements are as follows:

a. Commerce and Defense to investigate potential reductions which can be achieved through tighter negotiation of MSTS cargo rates.

b. Savings derived from abolition of cargo preference (P.L. 480 and P.R. 17) accruing to subsidized and unsubsidized liner companies.

c. Savings achieved by eliminating requirement that repair and maintenance by subsidized liners be performed in U.S. yards (eliminated unless business needed to meet shipyard mobilization requirements).

d. Unsubsidized liner operators shall be encouraged to rationalize crew levels and incorporate maximum automation under their modernization program as they are brought under subsidy. (Plans for replacement by new vessels should be taken into consideration.)

e. Evaluation of Defense Department and Office of Emergency Planning war plan needs including flags of convenience vessels.

3. Restructured operating subsidy shall be extended with modifications to new program of promoting a modern bulk carrier fleet under U.S. flag. Subsidy ceiling will be based on a maximum of five additional vessels per year for five years. Later increments are to be approved only after program re-evaluation at end of five-year period.

4. U.S. flag passenger and major combination passenger-freight ships are to be phased out of operating subsidy as rapidly as possible.

B. Construction subsidy programs

1. Subsidy support for construction in U.S. yards to be at the level required to support national defense (security) mobilization requirements. Defense and Commerce to complete study of private shipyard capacity requirement as rapidly as possible. Pending completion of the study, the level is assumed to be about 17 ships per year. Bulk carriers may be substituted for liners within this level.

2. The construction subsidy rates to be progressively reduced to 50% or below and operators will be permitted to purchase new vessels on world market if yards cannot meet the differential ceiling.

3. A modern bulk carrier construction program under Government account is approved with a ceiling of five ships per year for five years. The purchaser of vessels must be committed to a program (including financial commitment) before the Government will contract for construction. The purchaser will be required to buy new bulk carriers at world market price from the Government. Techniques for Government account construction will continue to be explored with MarAd.

4. After national security shipyard requirements have been satisfied any operator can build any type of ship in a foreign yard and place such vessel under U.S. registry with all privileges enjoyed at present by American flag operators.

5. The plan is to be projected only for a five-year period thus limiting the extent of Federal commitment at this time.

6. Repair and maintenance requirements in U.S. yards will be eliminated except insofar as such work is required under defense mobilization requirement levels.

C. Cargo preference

Agreement reached that cargo preference under P.L. 480 (P.L. 664) and P.R. 17, will be phased out at rate commensurate with tonnage replacement level provided under bulk carrier construction program and with granting of operating subsidy to additional liners. Subsidized operators are to be excluded from cargo preference privileges.

D. Transitional aids for displaced labor

Retraining and other transitional aids under existing Federal programs will be used to ease impact on labor force of increased automation and other economic rationalizations.

E. Domestic shipping program

Domestic operators will be permitted to construct ships abroad at discretion of Secretary of Commerce, such vessels to be exempt from cabotage restrictions. Any vessel operating under U.S. flag, whether U.S. or foreign built, will have similar exemption. Subsidized vessels will not receive subsidy for domestic cargo as in the present situation.

William M. Capron

A Summary Of

THE MERCHANT MARINE IN NATIONAL DEFENSE AND TRADE: A POLICY AND PROGRAM

The Interagency Maritime Task Force

October 4, 1965

Note: Copies of the full text of the Interagency Maritime Task Force Report are available upon request to: Honorable Alan S. Boyd, Under Secretary of Commerce for Transportation, Department of Commerce, Washington, D. C. 20230

The policy proposed by the Interagency Maritime Task Force would directly relate the amounts of Merchant Marine subsidies to the national emergency needs for shipping (military and urgent civilian). Adequate government aid would be provided to insure that these needs could be met, but aid systems would be restructured and funds reprogrammed to obtain the maximum capability per dollar input.

The program to implement this policy would substitute direct, visible aids for most present indirect subsidies. It would streamline the aid systems to reduce or eliminate detailed government supervision of the maritime industry, providing more operating freedom and more opportunity for competitive action.

Federal aid would be directed to expand capability in needed areas:

About 40 additional cargo liners would be brought under subsidy to meet future requirements.

New, modern specialized bulk ships would be built and subsidized at the rate of five per year, allowing U. S. operators to compete for commercial bulk cargoes and charters. As direct subsidies are provided most cargo preference would be reduced and finally eliminated.

Operators would be given the opportunity to substitute some additional profitable freight services for unprofitable passenger operations.

Subsidy for shipyard support would be related to the national emergency need for shipyard capability. Merchant ship construction over this level could be done in foreign yards and the ships placed under U. S. registry with full privileges.

The proposed program would create as much or more job opportunity than would the continuation of present policies --- job opportunity in a healthy and growing industry. Nevertheless, there will probably be less jobs than at present (through automation and through substitution of freight services for passenger operations). Under the Task Force proposal the government would consider participating in realistic labor-management discussions aimed at an equitable settlement of employment and manning problems. Given fruitful results of these discussions, the government would be willing to share in the financial arrangements required for a final settlement.

The membership of subsidized operators in shipping conferences would be subject to the Maritime Subsidy Board's authority to determine whether the operator's participation was compatible with the purposes for which the merchant marine is subsidized.

The Task Force program recommends heavier and better coordinated use of research and development appropriations throughout the maritime industry. It also recommends retention of the National Defense Reserve Fleet.

Legislative changes to the Merchant Marine Act of 1936 and the Shipping Act of 1920 would be required to implement the proposed policy.

A fuller summary of the Task Force program is contained on pages 1 through 1 f the Task Force Paper

This table projects effects of implementing the proposed program compared to the projected effect of continuing existing policies:

Comparative Results
Current Policies Versus the Proposed Program

Selected Years	Total Annual Federal Funds ($ Millions)		Total Fleet Size (No. of Ships)		U.S.-Flag Carriage of Exports & Imports (Millions of long tons)		Total Ship-board Employment 1/ (No. of Jobs)	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
1966	416	402	975	975	28.8	28.8	47000	47000
1975	482	364	719	789	20.9	38.9	31000	31000
1985	594	377	690	790	22.6	51.9	25000	27000

1/ Shipboard employment in the domestic fleet is included

Interagency Maritime Task Force
Member Departments and Agencies

Alan S. Boyd, Chairman
Under Secretary of Commerce for Transportation

Bureau of the Budget
Council of Economic Advisers
Department of State
Department of Defense
Department of Agriculture
Department of Labor
Department of Commerce
Federal Maritime Commission
Maritime Administration

MARITIME PROGRAM
AS
RECOMMENDED BY THE
MARITIME TASK FORCE

There are 10 major points:

1. Phase Out Cargo Preference - This is requirement that at least 50% of our government agricultural exports be shipped in U.S. flag vessels. The cost is over $80 million in excess freight charges. Law must be amended to remove preference.

Opposition - Unions will oppose bitterly. Senator Brewster has said the 50% should be raised to 75%. Move will be to extend preference to other areas, possibly oil imports.

2. Build U.S. Merchant Ships Abroad - Under current law, the 15 general cargo companies must have their vessels built and repaired at U.S. shipyards. This costs $100 million extra annually. Task force says to permit foreign shipyards to build our merchant ships, reduce U.S. construction to a level consistent with "national security needs," and grant foreign built ships full U.S. registry provisions.

Opposition - Construction unions will fight. Biggest yard is in New Orleans (Long and Boggs). 7000 workers directly invovled but can count on sympathy of 100,000 shipworkers across country.

3. Eliminate Exclusive Trade Routes - This would break up "monopoly" routes now granted to shipowners and inject competition.

Opposition -- shipping companies will balk

4. Reduce Crew Sizes on our Modern Vessels - This would eliminate featherbedding, reduce costs (U.S. crew costs are 3-5 times higher than those on foreign ships) and encourage automation.

Opposition - Seafarers Union (Hall) and NMU (Curran).

5. Stop Passenger Liner Subsidies - Net effect is to eliminate U.S. passenger fleet. Today government subsidizes to extent of $250 for each passenger carried. 13 liners (like U.S. and Constitution) absorb 25% ($47 million yearly) of total government operating subsidies. Most crew jobs can be shifted to land (bartenders, waiters, stewards). Liners not required for national defense.

Opposition - NMU (Curran) would fight bitterly. He has 5000 crewmen on the 13 liners. (Companies involved have freight operations, and would be happy to get out of passenger business).

6. Revamp Operating Subsidies - Change the method of awarding operating subsidies from a labor wage differential (the cost difference between labor rates on U.S. and foreign ships) to gross revenues or profits, thus providing greater incentives to productivity.

Opposition - The ship operators and labor unions would vigorously object.

7. Overhaul Labor Relations Framework - Report says that unless management and labor learn to live with each other, all government subsidies should be eliminated. This would place government in labor-management discussions to guarantee labor stability, apply maximum automation, develop rational work rules and eventually financial settlements to cushion the impact of displaced maritime workers.

Opposition - "The Government will be clubbing us into submission."

8. Construct Five Dry Bulk Ships a Year - These are the modern ships needed to haul U.S. cargoes which are in bulk to match our growing bulk trade. Some would be built in U.S. shipyards; the others overseas. Operating subsidies would be granted.

Opposition - To the building in foreign yards (industry would like to see more bulk ships built, say 10-40 a year.)

9. Retain the National Defense Reserve Fleet - Retain the 1000 ships we now have, use modern "mothballing" techniques and methods to reactivate quickly in case of need.

Oppostion - None likely.

10. Increase Research and Development - Put more money into maritime research (we are spending \$2.5 million annually exclusive of the nuclear powered Savannah) and have the National Academy of Sciences develop a coordinated plan.

Opposition - None likely.

Comments

Pro

. There is strong editorial support for the report. Boyd, Nick Johnson and Schultze say that adopting the Task Force recommendations will result in a less costly, larger, more modern fleet, an increase in the share of U. S. freight carried on U. S. ships and more future jobs than under the present program.

. Here's how they analyze it:

COMPARISON OF EXISTING AND PROPOSED
MARITIME PROGRAMS

	Budget Costs (Million $)		U. S. Trade Carried (Millions of Tons)		Total Employment	
	Proposed	Existing	Proposed	Existing	Proposed	Existing
1967	$402	$416	29	29	61,920	61,920
1969	395	434	31	28	57,250	58,540
1975	365	492	39	21	46,020	46,690
1985	387	604	53	23	40,500	40,100

Con

. Putting this program across is going to be very rough. There is much emotion tied to this in view of the war in Viet Nam. It takes on much of the flavor of the reserve merger battle. The shippers and unions have attacked the report's statistics as false and misleading. There is disagreement within the Cabinet on the program (Wirtz). Most of the recommendations need changes to the law which mean carrying this through the Committees. No one on Committees (House Merchant Marine; Senate Commerce) will really push it. Labor will never be reconciled to the report (Wayne Lane Kirkland, who is close to Meany has been opposed, as has Hall and Curran).

Alternative Possibilities

. Go with report.

. Withhold any sweeping changes in view of Viet Nam unless agreement with labor can be worked out in advance.

. Propose a counter-program as follows:

1. Stress importance of research and development in new "surface effect" ships (which can go at 250 mph); in nuclear propulsion, in ports and docks. We are spending less for maritime research than any other form of transportation. We are getting an SST and high speed trains. Let's focus our space age talents on ships, and in improving cargo handling facilities in ports.

2. Support building of more dry bulk carriers.

3. Do what we can administratively (without involving you) to place incentives in our subsidies to penalize inefficiency and reward efficiency and to eliminate monopoly trade routes so that competition will be spurred.

4. Do something for the Great Lakes (replace old vessels, bring more trade to region).

5. A maritime promotion program involving Presidential declarations of the value of shipping on American flag ships, meeting with shippers, and awards to those who use US flag ships.

6. Wait for a Department of Transportation to be organized before we move out further.

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MAC Report (11/25/65)

Program and Policy Items

A. United States Subsidized Liner Cargo Service

(1) Cost-equalization parity concept of operating subsidy payments should be continued.

(2) Essential trade route concept be continued as part of our nationnal maritime policy.

(3) Continue present basic arrangements for participation in Conferences.

B. Unsubsidized Liner Cargo Service

(1) Replacement of the total deadweight and cubic capacity within 5 to 8 years.

(2) Government would develop special financial arrangements to meet the problem of transition.

(3) Operating subsidy should be granted to these operators immediately.

(4) These operators subject to all regulations applicable to presently subsidized operators.

C. Dry Bulk Carriers

(1) Government program to attain a dry bulk fleet capacity to handle 30% of import-export commerce.

(2) Built in United States with provision for CDS.

(3) Standardized design as much as possible in keeping with lowest cost and maximum efficiency.

(4) Agreement on manning prior to construction, any changes subject to binding arbitration on all parties.

(5) Extend the cost-parity principle of operating subsidy.

(6) Program open to proprietary cargo carriers.

(7) Provide for 20-year contracts with replacement provisions and world-wide trading privileges.

(8) Continue cargo preference but phase out rate differentials as new vessels enter service.

(9) Mar Ad to administer cargo preference laws.

D. Liquid Bulk Carriers

Government should adopt one or more of the following alternative measures to insure the carriage of at least 30% of our liquid bulk import cargo in United States ships:

(1) Voluntary action by proprietary cargo companies.

(2) Imposition of a minimum import quota.

(3) Extension of the program recommended for dry bulk carriers.

E. Passenger Ships

(1) Comprehensive investigation of passenger services, of the type proposed in 1963 by MAREC, with a view to improving the competitive and economic position of the United States flag passenger lines.

(2) United States Travel Service and private industry should accelerate travel promotion on United States flag ships.

(3) Special committee to determine if any regulations should be adopted to control foreign flag cruise ships from United States ports.

F. Ship Construction

(1) CDS be continued, ODS only for ships constructed in United States--expansion of our merchant marine be through construction in United States shipyards.

(2) Construction subsidy payments made on the basis of direct support to the shipbuilding industry.

(3) Government establish a National Maritime Research Foundation--goal will be the exploration of new technology for improvement of our merchant fleet.

(4) Adopt recommendations of the Guerin Subcommittee on the subject of shipboard automation, crew reduction and labor displacement.

G. Labor Relations

(1) Establishment of a permanent Labor-Management Council in the Department of Labor.

H. Flags of Convenience

(1) Owners be permitted to obtain bulkers built with CDS and operate with ODS provided equivalent tonnage eliminated from flag of convenience.

(2) Amend Oil Import Program to provide that not less than 30% of all petroleum imported into United States be carried by United States flag tankers when available at fair and reasonable rates for United States flag ships.

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ALTERNATIVE PROPOSALS FOR REVISED MARITIME POLICY

The Interagency Maritime Task Force (IMTF) report and the Maritime Advisory Committee (MAC) report have been completed and are before the Administration for consideration:

-- The MAC report reaffirms policies of the Merchant Marine Act of 1936, and justifies program expansion to meet defense needs, commercial promotion of U.S. flag operations, and maintenance of relatively steady employment level for shipyard and shipbuilding. Program would eventually cost approximately $800 million annually. Federal expenditures would rise by $200 million during FY 1967. The program would attempt to solve maritime problems independent of other national policy considerations.

-- The IMTF report questions basic assumptions of Merchant Marine Act with respect to the need for guaranteeing commercial carriage of our foreign trade under U.S. flag and would limit subsidy to national defense requirements. In permitting a substantial reduction in maritime labor force, assumes expanding economy with alternative jobs available for those displaced. It adopts classical approach of free enterprise economy and is consistent with Administration international trade policies. It assumes that maritime policies are not to promote full employment since other means are better able to meet this objective. Program costs would decline from 1966 expenditure levels by $42 million to a level of $377 million by 1985. This program would substantially restructure the U.S. maritime industry which creates strong uncertainty on the part of industry and labor.

Areas of Agreement -- Both programs would increase the number of cargo liners under subsidy and develop a dry bulk carrier fleet. Both emphasize research and development needs to improve the economic position of the U.S. merchant marine.

Points of Issue -- The major issues are as follows:

-- The Task Force report permits American ship owners to build abroad after U.S. shipyards have been subsidized at level necessary to maintain mobilization base. Program now costs $100 million annually and supports 7,000 out of a total of 100,000 shipyard workers. The unions and shipbuilders oppose this proposal, based on fear that it will eventually eliminate commercial work in U.S. shipyards. Subsidized operators are neutral but would accept since it reduces the onus of a heavily subsidized industry.

-- Eliminate passenger line subsidy -- result in eventual elimination of U.S. passenger fleets, (such liners as the U.S. and the Constitution). Approximately $47 million is expended yearly on passenger operating subsidy and primarily supports crew jobs as bartenders, waiters and stewards, etc., which can easily shift to landside employment. Defense states liners are not required for national defense. Principal opposition from NMU which would lose 5,000 jobs on 13 liners. There is strong emphasis on national prestige factors by supporters of this program.

-- Revise operating subsidy system and eliminate essential trade route concepts -- IMTF report opposed by ship operators since it increases competitive forces in ocean shipping and de-emphasizes necessity of common carrier operation. Operators claim trade route concept and conferences assure availability of U.S. flag service to small ports and stabilizes rates. Proponents believe U.S. flag fleet provides limited service and low-cost foreign operators have done a better job in serving and promoting rade. The concept behind recommendations is that national interests are better served if entrepreneurs act freely in competitive market to follow trade and maximize profits. Rather than adversely affecting service to our foreign commerce it would improve trade service to U.S. shippers. The point that U.S. merchant marine protects our commercial and economic interests is questionable under present conditions since "stability" in the trade is the major objective of U.S. operators. Stability means inflexibility in rate structures not geared to costs or competition. Protects operators but not necessarily in overall public interest since it maintains artificial ocean freight rate structure.

-- Elimination of cargo preference -- IMTF concludes that cargo preference fails to promote modern tonnage in U.S. flag fleet, creates adverse international repercussions and errodes competitive position of U.S. merchant marine. Maintains ________ obsolete tramp vessels and ________ nonsubsidized liners at a total cost of $__________. Proposal substitutes direct for indirect subsidy. Proponents believe Government should retain preferential routing but are willing to eliminate rate differential. While questionable that two are separable it is possible to establish a system which brings cargo rates more nearly in line with world shipping rates.

Support for Programs --

-- The MAC report is supported by such special interest groups as shipping lines, shipbuilding industry, affected labor groups and some port groups. The recommendations of the MAC report would be opposed by farm groups, economy-minded interests, and those concerned over any move towards protection.

-- The IMTF report conversely would be opposed by special interest groups whose benefits are reduced. Constructive support is expected from unsubsidized shipping groups, farm groups, majoroil companies. All Government agencies, except Labor, and newspaper editorials discussing programs in the context of broader public interest support the approach of this report.

Alternative Program Approaches -- In view of violent opposition some tactical compromise is possible.

-- Adopt IMTF program -- As contrasted to present program or MAC report, would reduce Government costs and double fleet carrying capacity but accepts employment decline. Impossible to sell to special interests and Congressional sponsors.

-- Adopt MAC report -- Accept principle of program expansion irregardless of costs or economic consequences. Would raise 1967 budget costs by $180 million and over future double present cost levels. Employment would decline but not as much as Task Force proposal. Would gain support of industry and labor groups.

-- Adapt IMTF report to MAC employment and ship program levels -- Compromise could be achieved through increased Federal resources while maintaining policy principles on foreign construction, elimination cargo rate preferential, and keeping incentive/parity concept of IMTF but restudy to find more acceptable method of application. Would find substantial industry support among nonsubsidized shipping interest and SIU (Hall). Cost would vary from $50 - $300 million greater than for minimum program found necessary under IMTF study and would depend upon how much sweetening is required.

-- Continue present policy -- Costs would gradually rise to about $600 million annually while fleet size and employment would decline. Maintenance of present policy while acceptable to subsidized industry would continue present drift in policy and would weaken U.S. maritime programs. Would not meet commitment made in last State of Union Message. Over the long term the economic position of the industry would decline and question of policy would remain unanswered.

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Maritime Policy Consideration

Maritime promotional program issues now before the Administration are an accumulation of vexing problems for which solutions have been sought over the past ten years. The issue is whether continuation of maritime policies in the Merchant Marine Act of 1936 is justified from the standpoint of broad public and national interest considerations. Specifically, this includes questions of (1) what are defense and civilian requirements for a merchant marine; (2) the size fleet to be supported; and (3) how can these objectives best be met.

This evaluation must be made in the light of the following factors:

-- Growing obsolescence of the U.S. merchant marine.

-- Continuing decline in competitive position of U.S. flag fleet in ocean commercial shipping, and increasing direct and indirect costs of subsidy to the U.S. economy.

-- The changing characteristics of U.S. foreign trade represented by increased impacts of bulk raw materials, growth in use of specialized carriers, prospective increase of air competition in passenger and selected air cargo movements has weakened the key role formally played by traditional liner service (the only segment of the U.S. merchant marine benefiting from direct subsidy).

-- Decreasing defense requirements for shipping and growing concern in DOD that subsidized liner operators have not been responsive to emergency needs during Viet Nam. DOD primarily depend upon MSTS nucleus, tramp and non-subsidized liner operators and reserve fleet.

-- Failure to find an economic rationalization for subsidy in answer to cost effectiveness evaluation and economic analysis of maritime promotional programs.

-- Growing dependence of U.S. flag fleet upon Government preferred cargo and resulting reduction in competitive role played in our foreign commerce.

-- Program inconsistency with U.S. international trade policies.

-- Growing quality and reliability of total world shipping servicing U.S. exporter needs.

-- Growing realization that U.S. flag fleet under present arrangements exercises little trade leverage and recognition that foreign flag often service public interest better than U.S. flag.

A number of studies over the past ten years have evaluated U.S. maritime promotional policy, the principal ones being the following:

1. National Academy of Science Report in 1960 Impact WARROS

2. Report of the Business Advisory Council in 1963

3. Interagency Maritime Task Force Report in 1965

4. Maritime Advisory Committee Report in 1965

5. Report of the Rand Corporation on Military Value of U.S. Merchant Marine (unreleased)

In addition, there are other lesser studies. In part, the economic issue was first seriously raised in an analytical study published in 1961 on the question of economic value of U.S. merchant marine (initially sponsored by CASL). This book called the "NorthwesternStudy," raised serious doubt as to whether any economic rationale could be found for subsidizing shipping, particularly under present economic institutional constraints.

Each of these studies is unacceptable for varying reasons. Either, they lacked in depth analysis of the problems, program recommendations cost too much, status quo is perpetuated, or a departure from the status quo is too radical.

Composition of Present Subsidies to U.S. Merchant Marine -- Today the U.S. merchant marine receives a wide range of direct and indirect subsidies. The Bureau of the Budget estimates these costs at about $5.8 billion for the period 1966-75 (this is conservative). Direct subsidies include operating and construction differential subsidies paid to place U.S. flag carriers on a parity with foreign competitors, and cargo preference (P.L. 480, AID, and Defense Cargoes). Indirect subsidies include mortgage guarantees for construction, tax privileges exercised through capital reserve funds, cabotage laws, and certain Federal support provided in the field of education and health.

What are the Issues in Question?

The major issues and the range of positions are best represented by comparison of the conflicting position of the Interagency Maritime Task Force Report and the Report of the Maritime Advisory Committee.

The Interagency Maritime Task Force Report is based upon the philosophy that the Government should buy no more of subsidy activities than is required to meet non-economic needs, i.e., national emergency requirements. The assumption is that other applications of the same dollar resources and labor skills would provide greater return to the economy through increased employment and higher returns on investments. The Task Force also concluded that primary national interest justification is meeting military and parallel civil requirements under emergency conditions. Secondarily, the availability of a U.S. fleet geared to these objectives also would provide an added benefit if it could influence the terms and conditions under which our trade moves during non-emergency periods -- an instrument of trade leverage to offset any forseeable foreign discriminatory practices and improve a competitive environment in our foreign trade. It is premised upon continued liberal trade policies, represents a break from the status quo (preference to present subsidized liners), and emphasizes the value of competition and our free enterprise system.

The Maritime Advisory Committee Report reaffirms (without adequate analysis) the policy of the 1936 Act that security of U.S. and development of our commerce is ultimately tied to a healthy expanding shipping industry under the U.S. flag. The term "health" does not refer to economic considerations. In other words, we should maintain a fleet of a certain size to move a certain percentage (aspire to 40 or 50%) of U.S. foreign commerce and to be available in times of emergencies for defense needs. The underlying assumption is that the U.S. cannot compete economically with foreigners in our commerce without subsidy. The Maritime Advisory Committee Report is based upon a philosophy of restrictive trade practices, supports continued and heavy involvement of Government in this industry, and accepts the inability of this industry to substantially improve its economic position. Subsidies are also justified to support employment in the industry and balance of payments requirements -- at most a rather novel diversion in a free enterprise system.

Status of Present Policy Considerations -- The Interagency Maritime Task Force Report was supported by a concensus of its Government staff participants. The Maritime Advisory Committee Report is the position of large segments of the maritime industry and maritime labor groups. The differences are quite clear and distinct -- free trade vs. protectionism -- special interest vs. public interest considerations, etc. However, from a pragmatic evaluation of the experience of the last year, the Interagency Maritime Task Force Report is clearly unacceptable to the interested parties for the following reasons:

- -- Labor union officials desire to maintain the present strength of their unions and are fearful that revised policies will erode away job positions. (This in spite of the fact that the number of jobs decline with continuation of present policies.)

- -- Shipyards desire to continue the protectionist policies which bar construction of subsidized vessels in foreign yards.

- -- The subsidized industry would maintain the status quo which protects their position as the preferred instrument of U.S. policy.

These varying objectives have united these groups into a powerful political alliance against substantial breakthrough towards revised programs. A break in this united front or a compromise to meet their demands half way appears to be the only solution.

We must assume that with respect to any subsidy program the Government's willingness to distort economic forces at work in our free competitive market should be based upon some overriding national and public interest considerations. Justification for maritime subsidies is based on the following national interest requirements:

-- Defense Requirements -- DOD has a military requirement for shipping services to meet emergency requirements. These are normally stated in terms of ships afloat, a ship building capability and manpower reserves (trained crews). Today's emergency requirements for ships afloat can be adequately met by the existing U.S. flag fleet, the reserve fleet and flags of convenience. The growing deterioration of our flag fleet and no acceleration of present construction programs makes it questionable that defense needs can be met at some point in the future. DOD has proposed several alternatives for meeting this need including stockpiling and providing its own capability. The magnitude of defense needs also will decline over the long term as military requirements change. Shipyard and manpower needs are relevant to this consideration but the short time involved prevents an exposition on these points. The question of available trained reserves has never been fully explored. Under critical conditions Navy could man the fleet from the uniformed service.

-- Commercial Requirements -- The question of commercial requirements for a U.S. merchant marine are subjects of judgment and not of facts. In general the commercial requirements are questionable for a number of reasons:

- -- The existence of a large U.S. fleet carrying our oceanborne commerce does not in itself constitute a net economic gain since inherent in the subsidy is the assumption that the market value of the service produced is less than the value of resources used.

- -- The argument of balance of payments and employment are important political issues of a short term nature but have little long term economic justification since their solution must be sought through improved efficiency of the industry.

- -- Present maritime policies contribute very little to direct trade promotion since no one can state that cargoes which are available to be moved in our foreign commerce have not found a means to be moved. Foreign lines promote trade as much as U.S. flag lines -- this is good business.

- -- Under present conditions the U.S. merchant marine has little impact on ocean freight rate structures and it should not be argued that it plays a role in protecting the U.S. shipper against potential foreign flag discrimination. The competitive commercial characteristics of the U.S. liner fleet are weak because:

(a) Over 50 percent of U.S. liner exported cargo is Government reserved cargoes thus radically reducing available tonnage space to compete in the commercial carriage of our foreign trade.

(b) By operating in shipping conference and where possible pooling agreements, the competitive impact and trade leverage of U.S. flag operation is made nil.

-- Civil Emergency Requirements -- A third alleged justification of subsidies is that civil emergency requirements during times of war makes it essential to have a U.S. fleet to carry goods and raw materials in our international trade -- assumes limited reliance upon foreign flag avilability (NATO shipping allies and flags of convenience) to support U.S. shipping needs. On the other hand, this does not answer the following questions:

-- How will NSTO ships be employed during times of war if not engaged in U.S. foreign commerce?

-- Is there any prohibition against seizure of all ships in our territorial waters or ports at the time the emergency began?

-- Are alleged emergency needs for imported raw materials based upon economic shortage or physical shortage?

Pragmatic Approach to a Solution

In spite of the conclusion that there is very little economic or defense justification for continuation of the subsidy program it is clear that the interest groups affected by radical changes in maritime policy have been sufficiently strong to block any changes from the status quo. The Administration's alternative has been to restrict budget ceilings on new ships constructed until broad policy issues are resolved. Clearly this course of action is not in our best interest particularly over the long term. A constructive solution is to seek a compromose whereby some of the special interest demands are accepted in exchange for other concessions which would permit over the long term a better rationalization of our maritime support programs.

The following list provides a brief description of where we stand today:

-- Support for passenger vessels is clearly unjustified and finds little support except for maintenance of jobs aboard ship. Even foreign shipping companies are finding it difficult to make a go of passenger service in the face of competition by aviation.

-- Containerization and integrated systems are having a substantial impact on the character of our liner trade and under certain conditions it appears that U.S. operators may be able to operate with a minimum of subsidy. We are already in the position of extending subsidy to some container vessels, whereas others (e.g., Sea-Land and Matson) are undertaking ventures without subsidy.

-- More and more higher valued cargo can move by air freight in the future with the introduction of such aircraft as the C-5a or the B-747.

-- Specialized bulk carriers can further shrink cargoes available at the other end of liner grade. (The area of low valued bulk movements used for top-off byliners.)

-- DOD is placing greater reliance upon its nucleus MSTS fleet capability, new FDL ships, and future pre-positioning of supplies. This combined with increased air movements will lessen dependence upon U.S. flag shipping in emergencies.

-- Present subsidy structure distorts the character of U.S. liner operation by emphasizing factors of labor rather than capital -- clearly to advantage of foreign competition.

-- Essential trade route concepts are less meaningful today.

-- Non-subsidized segments of the industry will wither away without some meaningful support role by the Government.

On the other hand the U.S. has certain long term commitments to its subsidized operators. Subsidy contracts run for periods up to 20 years (these vary by operator) and include regular vessel replacement programs. Many of the vessels now in operation are inefficient, old and obsolete. This situation increases the cost of subsidy, and replacement of these vessels under existing contracts would clearly improve the return in shipping capability per dollar of subsidy invested thus improving the potential for better competition by U.S. flag operators in the foreign trade. It would appear to be to the Government's advantage to operate and pay subsidy only on the newest and mostproductive ships possible.

What are compromise alternatives?

The dilemma faced by the U.S. Government is as follows. New tools of cost effectiveness and economic analysis, first applied in DOD, are being used in other sectors of the Government. The impact of this analysis is observable in DOD's attitude on its own shipping requirements which now emphasize greater reliance on pre-positioning of supplies, FDL, air movement and the reserve fleet. DOD's experience with the subsidized operators in Viet Nam clearly points to its disillusionment with the present subsidy program.

Support for an economic rationalization of U.S. maritime policy comes primarily from the Council of Economic Advisors and the Bureau of the Budget who have sustained the pressure for re-evaluation of maritime programs. In terms of securing a resolution of maritime issues, it is clear that the justification for continuation of the subsidy program must at least give recognition to economic policy guidelines. Also the final program recommended should be comprehensive and not presented as a patchwork problem-by-problem solution. On the optimistic side, our experience of the last year finally has brought realization to the hardnosed economists that some pragmatic compromise (involving uneconomic resource allocation) provides the only hope for a long term economic solution to maritime programs. Thus the major objective of the Secretary's present task force should be to derive from all the considerations which have gone before, a meeting ground for divergent attitudes and viewpoints. Little can be gained by searching for economic benefits from the present subsidy program.

It will be very difficult to find a soundly-conceived economic justification for present programs for the following reasons:

-- Promotion of our commerce and economic growth cannot be claimed as a virtue of present programs.

-- Balance of payments considerations are a secondary and short term justification. In fact if the subsidy program works against economic efficiency, it can be stated as having an adverse long term impact on balance of payments.

-- The subsidized U.S. fleet in most respects cannot be said to represent public interest requirements (i.e., shippers' needs) any more than foreign operators. This is true because most U.S. flag lines operate under the conference systems and naturally share common objectives with foreign operators -- maximization of income and profit. Without improved competition, public interest considerations cannot result.

-- Foreign tramp operations (Greek and Norweigan), air cargo expansion, and growing use of containerization hold the greatest hope for reduced shipping costs and more efficient movement in our foreign commerce.

-- Under most comparative trade-off, a dollar invested in subsidized shipping today returns less to the U.S. economy than alternative investments of dollars if employment and balance of payments are the measuring criteria.

-- The present status quo under which the industry operates is incompatible with the economic and dynamic growth pattern of U.S. industry. It protects the subsidized operators and disadvantages other segments of the fleet which appear to be responding more vigorously to national needs.

-- Present institutional structures in ocean shipping bars the use of the subsidized U.S. flag fleet as an instrument of national policy for insuring more efficient and economic movement of goods and people in our foreign commerce.

Conclusion

The mere fact that a subsidy to commercial shipping has no economic justification (and it probably has more) is no reason for not paying it. We pay many subsidies for both conscious and unconscious reasons. I believe thre is a compromise program which over the long term would provide economic improvemtn in the movement of our foreign commerce and would meet labor demands for longer term stability of job levels in the shipping industry. This program is as follows:

1. A construction subsidy level to support the construction of an acceptable annual level of ships in US. yards and simultaneously permit U.S. operators not covered by this level to construct comparable vessels abroad. (Matson Steamship Co. is promoting such an approach.) At the same time build an incentive into the CDS structure directed towards improvement in the productivity and efficiency of domestic shipyards.

2. Initiate bulk carrier program of 5 ships per year tying the rationale to civil emergency requirements and the changing character of our foreign trade. This is a labor buy-off.

3. Propose an incentive system for payment of operating-differential subsidy which would be worked out in cooperation with industry.

4. Continue cargo preference but eliminaterate differentials. No economic justification but primarily response to political realities.

5. Substantially increase U.S. Government research program on new ship types (permit nuclear ship development program presently before the President to go forward) and on other program elements to improve the economic posture of themaritime industry.

6. Increase Federal efforts to upgrade reserve fleet.

These proposals are not new and have been proposed in varying forms by various studies. It would seem to me that the key task is to sift through these proposals and find the best combination which will receive the support of key elements in labor, management and government. It is a very easy task to price out these proposals once the basic principles have been established. It is also important that whatever program is proposed it should include a precise schedule of the minimum level of ship construction and to which components the Government is willing to support.

7. Assure emergency utilization of subsidized ships under conditions of less than national emergency.

MarAd may propose a modified build-now, pay-later program which has many desirable features from the standpoint of budgetary considerations. However, since DOD evidently is prepared to take a hardnosed position on existing maritime promotional programs, the BOB and probably the White House staff will not be happy with this limited piece-meal approach which meets the desires of existing ship operators for more ships but does not direct itself to the vexing economic issues which have beset this program over the past ten years. Under this approach the government gains nothing but spends more money.

Whatever program the Administration accepts, it would be good strategy to permit industry and labor to feel that they have had a part in these basic considerations. I mean by this that if there are industry and labor proposals within the ball park of acceptability, we should allow the proponents to feel their proposals have been adopted. This is part of the strategy of dividing the enemy and allowing industry to fight our battle.

115378

BRIEFING PAPER ON MARITIME MATTERS

PROBLEMS:

The maritime industry has had serious problems for over a century. These problems became critical in the 1930's resulting in the Merchant Marine Act of 1936 and the present policy. A similar crisis has been developing over the past several years. The major problem areas are:

. Labor Relations: The maritime industry, with about 1/2 percent of the nation's labor force has required the use of 9 out of the 23 Taft-Hartley injunctions. The labor force is fragmented into 9 seagoing unions and 2 longshore unions, and there is intense competition between unions on benefits and jurisdictional matters. Uncertainty as to future national maritime policy increases union resistance to automation and other increases in labor productivity.

. Increased Federal Costs: Since 1950, Federal costs have gone from \$65 million to about \$400 million with substantially no increase in cargo carrying capacity.

. Old Ships: 700 out of 975 privately-owned ships are of World War II age, are nearly worn out and will be scrapped in the next several years. Replacement in U.S. yards would require about \$4.5 billion in Federal shipyard subsidy and the availability of a similar amount of private capital.

. Fleet Imbalance: Our trade and the emergency needs of the economy are more and more for dry bulk materials, but we have no modern bulk carrying capability.

. Dependence on Government Cargo: The foreign trade fleet, even in "normal" times receives a high proportion of its income (roughly 50%, about \$650 million in 1964) from government cargoes obtained under cargo preference and largely carried at preferred rates. With the Viet Nam War at current levels, this is even higher. This situation is costly to the government, reduces such influence as we have over carriage of our commercial trade and, under most conditions, has an adverse net effect on our Balance of Payments position.

. Basic Problem: Underlying all of the above is a basic economic problem — the American Merchant Marine has a cost disadvantage with respect to its foreign competition which has not been offset by any productivity advantage or advantage of qualitative superiority. Other industries, such as U.S. international airlines, the Airframe and machine tool industries have developed such offsets and are able to compete.

VIEWS ON ACTIONS NEEDED:

All interested parties (administration, Congress, Industry and Labor) agree that action is needed. There are two divergent views on what to do:

. Keep present policy, but spend more money on implementing it. This view is held by Rep. Garmatz and most of the House Merchant Marine and Fisheries Committee. It is also held by Senator Magnuson, but with somewhat more flexibility. There is apparently some support for this view in the Republican House leadership as evidenced by statements of Rep. Ford. Maritime labor and most of the subsidized industry hold this view. This view is expressed in the Maritime Advisory Committee report.

. Make major revisions to the policy to make the industry more economically competitive and to decrease government involvement in the industry. This view is held by most government departments, some economists in Congress, most of the unsubsidized maritime industry. It is expressed in the Interagency Maritime Task Force report.

PROGRAMS:

The following table provides projected comparisons of:

1. The current policy and program
2. The Task Force program
3. The MAC program
4. A program being considered by MarAd and Department of Commerce

	Present	1975	1985
New Construction (Gen. Cargo/Bulk)			
Present Program	13/-	-/-	10/-
Task Force	19/5	22/5	17/-
MAC	17/20	17/13	17/13
MA/DOC 1/	13/-	20/5	20/-
Capacity (Millions of Long Tons in Foreign Trade)			
Present Program	27.4	21.8	23.1
Task Force	28.8	38.9	51.9
MAC 2/	28.8	119.9	203.8
MA/DOC	27.4	35.3]	57.0
Federal Costs (Millions $)			
Present Program	$420	$357	$636
Task Force	402	364	377
MAC	584	606	772
MA/DOC 3/	420	562	729
Shipboard Jobs			
Present Program	47,000	34,000	27,000
Task Force	47,000	31,000	27,000
MAC	47,000	40,000	38,000
MA/DOC	47,000	36,000	30,000

(See footnotes at top of following page.)

1/ This program also provides for a revitalized reserve fleet containing about 250 dry cargo ships.
2/ Greatly increased carryings due to quota of oil cargo directed to U.S. ships; no added Federal costs—costs passed along to consumers.
3/ Price escalation for ships at 3.2%, all other forecasts at 2%.

DEFENSE DEMANDS FOR SHIPPING:

At the present time there is no actual shortage of shipping to meet either the current or projected Defense Department needs. DOD is utilizing the services of about 376 dry cargo ships:

122 Unsubsidized Charters
32 Subsidized Charters
50 Ship Equivalents in Berthline Services
172 GAA Ships

This leaves roughly 300 dry cargo ships in non-defense service, of which about 200 are subsidized ships on normal trade routes. Ships were activated from the NDRF for DOD service rather than using equivalent active private shipping in order to maintain the maximum of commercial services.

CONFERENCES AND REGULATION:

The activities of liner operators in international steamship conferences and the regulation of these activities by the FMC bears a resemblance to domestic common carrier operations, but there are important differences:

. Conferences are international groups and their actions and even information concerning them are not under complete control of the U.S.

. Regulation of conference activities by the FMC is directed at preventing discrimination by carriers against shippers and between carriers. It is not directed at setting cost-related "fair and reasonable" rates in the public interest, although it determines when rates are "detrimental" to U.S. foreign commerce.

. Entry and exit of individual liner operators into service and into conferences is not subject to U.S. control, i.e., there is no analogy to "certification" of a carrier.

RELATIONSHIP TO OVERALL TRANSPORTATION:

Although air cargo operations may make significant inroads into high-value liner cargoes in future years, Maritime transportation will continue to move an overwhelming percentage of trans-ocean cargoes for the foreseeable future. Thus shipping is an indispensable link in the business of moving goods from source to destination. One of the most promising developments to potentially increase transportation productivity and reduce costs to shippers is the integration of land systems and interchange points with maritime systems through use of unitized cargo handling, simplified documentation, coordinated management of the overall system and removal of institutional barriers (customs and labor practices, for example).

UNITED STATES GOVERNMENT

Memorandum

U.S. DEPARTMENT OF COMMERCE
MARITIME ADMINISTRATION

TO : David Baldwin, Robert Giles, Joseph Goldberg, James Maloney, Lawrence McQuade, Frederick Simpich, /Paul Sitton

DATE: January 18, 1967

In reply refer to:

FROM : Acting Maritime Administrator

SUBJECT: Maritime Policy and Program Alternatives

Attached is a brief outline of policy and program differences--between Program Set I and Program Set II.

J. W. Gulick

J. W. Gulick

Attachment

Brief Outline of Program
and Policy Differences

General

Main difference is that Program Set I (all options) require new policy and legislation whereas Program Set II is conceived within existing legislative policy.

Specifics

1. Program Set II (Commerce)

   a. Expansion of aided freighter fleet from 285 to 340 -- replace at 20 per year.

   b. Develop modern bulk fleet of 60 ships.

   c. Retention of cargo preference as means of operating aid at reduced rates to bulkers.

   d. ODS for bulkers beyond availability of preference cargo.

   e. All construction U.S. yards with CDS.

   f. Reduced CDS through block procurement.

   g. Revised ODS contract with cost reduction inducements and productivity gains.

   h. Retain cabotage principles.

   i. Revitalize and sustain NDRF freighter capability.

   j. Meet 100% military freighter requirements; 100% urgent civilian freighter requirements; excess capability for 20% general cargo foreign trade requirements; 45% dry bulk civilian requirements, with U.S.-flag.

2. Program Set I (BOB-DOD)

   Option 1.

   Differences from Set II

a. Reduction from 285 to 277 of aided freighter fleet -- replace at 12 per year.

b. No U.S. construction or CDS.

c. Eliminate "fair U.S. rate" provisions of cargo preference

d. ODS to all bulkers -- total, 50.

e. Performance-incentive basis for ODS in lieu of cost/parity.

f. Retain U.S.-flag features of cabotage but permit use of foreign-built ships.

g. No NDRF program or funds.

h. Meet only 50% of urgent civilian freighter requirements. No excess capacity for foreign trade.

Option 2a

Differences from Option 1

a. Reduced rate of bulker construction to achieve 29 by 10th year -- 50 by 15th year.

b. All construction in U.S. with CDS.

c. CDS payments recalculated on "inducement basis" with block procurement (See attachment).

d. Some reliance on NDRF for bulker capability only.

Option 2b

Differences from Option 2a

a. Moratorium on freighter replacement construction for 10 years.

b. Meet requirements with combination of active aided fleet and NDRF. (Effect reduces aided freighters to 156 in 10th year)

c. Deny renewal of expiring ODS contracts to achieve b. above, then renew as required to maintain reduced active fleet.

Option 3

Differences from Set II

a. Expand aided freighter fleet from 285 to 322 -- build at 17 per year.

b. Bulk fleet to level of 50 by 10th year.

c. Total construction program of 24 per year; 13 in U.S. yards with CDS, 11 in foreign yards.

d. Eliminate "fair U.S. rate" provisions of cargo preference.

e. ODS for bulkers.

f. Performance-incentive basis for ODS.

g. CDS payments recalculated on "inducement basis" with block procurement (See attachment).

h. No reliance on NDRF.

i. Produces a bulk fleet of approximately 100 by 20th year.

j. Meets 100% military freighter requirement and less than 50% civilian requirement with U.S.-flag by 10th year; states it will meet 100% all freighter requirements by 20th year with 20% ____ capacity for commercial trade (not demonstrated.)

k. Retain cabotage provision of U.S. operation but extend privilege to foreign-built ships.

ATTACHMENT

Program Set I

CDS Reduction

Program Set I calculations of CDS under options 2a and 3 are predicated on an effective subsidy rate of 45%. This is achieved by requiring CDS recipients to pay for each ship as if it were purchased foreign in a block of three awards at a "learning curve" savings of 12% each. Having thus established the "allowable foreign cost" to build a new ship, the system determines construction costs in U.S. yards when procured in blocks of 10 at a "learning curve" savings of 22%. From this "adjusted" U.S. cost per ship the allowable foreign cost is deducted and the difference is the government obligation for CDS. In the example given above, the ratio of government cost to total U.S. cost for each of ten ships is 45%.

The basic difference between the CDS systems of Program Set I and Set II is that the fomer passes virtually all advantage of block procurement to the government while the latter distributes it equally between the operator and the government.

. . . .

Sample Calculation

I.	Cost to operator in foreign yard		
	per ship cost (each of 1)	=	\$20 M
	per ship cost (each of 3)	=	.88 (\$20 M) = \$17.6 M
	Allowable Foreign Cost	=	.48 1/ (\$17.6) = \$8.5M
II.	Cost in U.S. yard		
	Per ship cost (each of 1)	=	\$20 M
	Per ship cost (each of 10)	=	.78 (20M) = 15.6
III.	Calculation of CDS		
	Per Ship cost in U.S. (1 of 10)	=	\$15.6 M
	Allowable Foreign Cost	=	8.5
	CDS	=	\$ 7.1 M
IV.	Effective CDS Rate		

$$\frac{\text{CDS}}{\text{Cost in US}} = \frac{7.1}{15.6} = 45\%$$

1/ MarAd assumption based on block procurement in groups of 10.

~~CONFIDENTIAL~~ has been released

BACKGROUND AND GUIDE:

PROPOSED PROGRAM

AND

MARITIME ISSUES

Superseded to a great extent by Program paper of 3/28/67

February 7, 1967

~~CONFIDENTIAL~~ has been released

BACKGROUND AND GUIDE ON MARITIME ISSUES AND THE PROPOSED PROGRAM

PURPOSE & CONTENT

This paper provides you with a summary of maritime issues, a description of our proposed program (with comparisons to current program and "Option 3"), plus a precis of the most likely views of some of the industry groups and principals.

DESCRIPTION OF PROPOSED PROGRAM

- Program Imperatives:

  The following five items should be considered as points that must be obtained in the process of selling the final program:

  1. Foreign construction

  2. An incentive operating subsidy system

  3. Rationalization of cargo preferences to get costs down to world rates

  4. Incremental availability of shipping for DoD use in situations where requisitioning is not desirable

  5. Removal of resistance to MarAd moving into DoT

- Salable Items: Points to be Made in Discussions

  1. Fleet renewal and expansion, and this means job opportunity as well, will be up to the industry: Government will aid operations of as many ships as they can find the money to buy at world prices. This point should sell well to all maritime industry and labor except shipyards.

  2. The shipbuilding and conversion program in U.S. yards will be larger than anything the industry has seen since the Mariner Program. This point can be used to convince seagoing labor that the program won't damage the job opportunities of shipyard workers.

PROGRAM FEATURES:

- Ship Construction, U.S. Yards:

  Increase funding by about $20 million annually for next three years to increase number of ships to about 16-17 per year, to consist of a mix of liners and bulk carriers as decided by Administration. Permit DoT/DoD to arrive at a defensible level of shipyard subsidies for merchant ship construction within three years and brief industry, labor and Congressional Merchant Marine Committees as part of selling job.

- Further Ship Construction and Fleet Expansion Without Restrictions:

  Additional and unlimited shipbuilding without construction subsidy would be allowed in foreign yards, for U.S. registry and manning with all U.S. privileges. Operating aids (see below) would be available to allow fleet expansion limited only by private capital availability (administrative budget controls would be used to hold a reasonable lid on operating subsidy costs). Domestic operators (with no subsidy) would need to obtain DoT permission prior to construction. Foreign trade operators desiring operating aid would obtain design approval from MarAd.

- Operating Aid (Liners):

  Extend aid to presently unsubsidized or new liner operators up to about 70-80 of present ships initially, and to a number of new ships to replace and subsequently expand limited only by the capacity for private investment. (Also includes expansion by current subsidized operators after replacement of old ships.) Use an incentive subsidy contract on an experimental basis with new operators and for expansion-beyond-replacement of present operators, for first 3-4 years, then evaluate whether to use the new incentive system, existing cost parity or something else. Present contracts unaffected until expiration date. Consideration will also be given to a cargo guarantee of 20% of DoD cargo at reasonably competitive rates as an operating aid to part of the fleet.

- Operating Aid (Bulkers):

  Direct operating aid would be provided to new bulkers.

- Cargo Preference Would be Retained:

Subsidized bulkers would have a first refusal of government-sponsored cargoes on competitive basis if within 5% of world rate. Present tramps and tankers who are unsubsidized continue on present basis. A central chartering agency would book most government cargoes.

- Research and Development:

Increased R&D would be funded, aimed at facilitating interchange of cargo between modes (the port interface) and increasing ship system productivity. Program to be recommended by MarAd's new advisory committee.

- Nuclear Ships:

The Magnuson Report would be forwarded to Congress.

- Passenger Ships:

Passenger ships would be considered on a case-by-case basis at time of contract expiration, or earlier at owner's request.

- Reserve Fleet Revitalization:

The 100 AP-5 troopers would be converted to jumboized cargo ships at rate of 20 per year (about $60 million a year). Returning GAA Victories would receive extensive refurbishing. All retained ships would be dehumidified.

- Ship Availability for Defense:

Arrange for availability of about 150 dry cargo ships from the active fleet on an incremental basis without requisitioning, as agreed by industry and DoD during work on the current study being done by CASL.

PROGRAM EFFECTS

- Fleet Size:

Fleet size would depend on private investment by industry -- the government would be willing to provide incentive operating aid for any reasonable number of ships. A rough estimate is that U.S.-flag deadweight tonnage would increase from 14 to 19 million over about a ten-year period. Due to trend to increased ship sizes, number of ships would decrease from about 970 to 870. There would be almost no "war-builts" in the 870 -- there are over 700 in the 970.

- Shipboard Employment:

Job opportunities in the renewed fleet would be around 39,000 to 40,000, or maybe more -- depending again on private capital available for ship investment. However, more men per job would be needed in work force than today, due to fast turnaround and high productivity of the ships and probable consequent need for more crew changeover.

- Productivity:

The tonnage productivity of the fleet would increase from the present figure of roughly 27 million long tons per year to about 49 million long tons per year.

- Costs:

At the levels of fleet expansion used to get the foregoing fleet size, employment and productivity numbers, the Federal costs would be up about $90 million in the second to fifth years of the program to about $490 million and should thereafter level out at roughly present levels -- $380 to $410 million per year.

- Detailed Comparison:

See attached table for detailed comparison between current, BoB "Option 3" and the DoT proposed program.

ISSUES AND PROBLEMS

LEGISLATIVE ISSUES: Two issues are already up for action by Congress:

- Location of the Maritime Administration, i.e., the "Independent Agency" Issue:

Maritime labor plus some industry groups still want to see MarAd as an independent agency, feeling that they would have more control of policies and program size. Since the DoT Bill actions, however, most industry groups (and some labor spokesmen in private) have come to feel that size and content of a maritime program is more important than location of the agency. Many industry people were surprised that more effort wasn't made last fall to trade program for Agency placement in DoT and our estimate is that there is receptivity to a trade now. This receptivity should not be overestimated, however: The Industry, particularly Paul Hall, realizes that they have a strong position in Congress -- Forty-six bills have been introduced in the House to create an independent Maritime Administration (by Rooney and Celler, among others.) 90+

Points to stress are: 1) Times have changed, and budgets are much more closely analyzed and controlled than was the case just a few years back; 2) Maritime programs, long undernourished, would gain rather than lose if under the same tent with other transportation; 3) DoT means more emphasis on all transportation including maritime and they need to be formally at the table with us to have their views adequately considered; 4) That you are the one who can get them a program -- albeit a realistic one -- and that MarAd must be in DoT to allow effective implementation of this program.

- Appropriations Oversight by Merchant Marine Committee:

The issue is whether or not the House Merchant Marine Committee should have authorizing authority on detailed maritime appropriations. Although we oppose this, it is an internal matter for the Congress to decide, with the Merchant Marine Committee in favor of it (5 bills introduced, all by MM&F Committee members), and Congressman Rooney, the Appropriations Committee and the Government Operations Committee against it. If passed, it would seriously interfere with our flexibility to deal with Maritime programs. You might emphasize that long-range program continuity is particularly important in the maritime area -- difficult to achieve with detailed Congressional oversight.

AN ADMINISTRATION ISSUE: One issue is particularly an internal problem of the Administration:

- Promise of a Merchant Marine Policy in the 1966 State of the Union Message:

At the time of the 1966 Message, it was expected that internal Administration views would be resolved in time to send a maritime program to Congress in that session. This was not possible and as time passed, the matter became the subject of occasional, relatively low-key criticism from the maritime press, and therefore some minor embarrassment to the Administration.

Achievement of a successful program will resolve this issue.

ISSUES RELATED TO SUBSTANTIVE MARITIME PROBLEMS: These issues will be raised during your discussions with industry and Congressional people:

- Labor Relations:

  This industry has 0.5% of the national labor force, but has required the use of 9 of the 23 Taft-Hartley injunctions. Maritime labor is fragmented into 9 seagoing and 2 longshore unions, all competing intensely with each other on benefits and jurisdictional matters. The major union heads have said that the price for automation and increased labor productivity in a program that gives the merchant marine a future with a stable or expanding labor force and keeps job opportunities up to at least about 40,000 -- compared to 47,000 now and 29,000 projected current program -- more if more private money for ship investment can be found. Note that the labor force is old, with a "bloc obsolescence" problem -- like the fleet itself. Under any circumstances more training and new union members will be needed. With the trend toward larger, faster, more productive ships, carrying the same or smaller crews, no realistic maritime program can produce an overall expanding labor force. Our program expands the labor force (over current program projected levels) in the areas it deals with.

- Foreign Construction and Fleet Renewal:

  The ships are old -- over 700 out of 975 privately-owned ships are of World War II age -- and will be scrapped over the next few years. Replacement (let alone expansion) in U.S. yards as required under present laws would need about $4.5 billion in Federal shipyard subsidies, plus similar private capital. Allowing American ship operators to purchase ships on the world market would:

  1. Put the merchant marine on a par with other U.S. transportation modes that can now buy foreign equipment.

  2. Allow fleet expansion at option of shipowners without need for appropriations -- and our program proposal would provide operating aid (on incentive terms) to any ships that private capital could be found to construct abroad.

  3. Follow the universal practice of maritime nations including the USSR, who buy merchant ships on world market.

  4. Not seriously affect balance of payments, as ships would gain back the outflow in about 5 years. Further, much foreign shipping is financed through the New York money market -- which has the same net effect on balance of payments as foreign construction by U.S. owners.

The shipyard industry and its unions oppose foreign construction in any form. However, they are all full of work at present (some with a two-year backlog), and our proposed program gives them a lot of immediate work -- about $80 million (+) per year for 5 years. Further, in real terms, subsidized maritime work counts for less than 10% of total government-supported shipyard work and provides employment for about 7,000 of about 210,000 shipyard employees. Thus any reasonable expansion of maritime programs will have little overall effect in the yards.

- Cargo Preference:

The foreign trade fleet, even in "normal" times receives a high proportion of its income (roughly 50%, about $650 million in 1964) from government cargoes obtained under cargo preference and largely carried at preferred rates. With the Vietnam War at current levels, this is even higher. This situation is costly to the government reduces such influence as we have over carriage of our commercial trade and, under most conditions has an adverse net effect on our Balance of Payments position.

Our program supports the principle of cargo preference (which is politically impossible to remove in any event but after providing direct operating aid to bulkers and additional unsubsidized liners requires them to move the cargoes at world rates plus 5%, if they wish to carry them. Present tramps and tankers would be unaffected at present. At about 4 to 6 years in the future, the older tramp tonnage (expected to fall out anyway from inability to meet standards) would begin to be squeezed out by the competition of the new ships, however, the newer tankers would continue to be protected under "fair and reasonable" rates.

- Operating Subsidy Systems:

The subsidized fleet, about 300 out of the total of about 975 privately-owned ships, receive direct operating subsidy to place them in cost parity with their foreign competitors on certain strictly defined trade routes. Any change in either U.S. or foreign costs for labor, maintenance and certain insurances, changes the subsidy. All increases in the difference between U.S. and foreign costs increase the subsidy and are borne 100% by the taxpayer. The effect of the present cost parity subsidy system is to make the U.S. operator view his costs as though he were a foreign operator -- he pays low foreign prices for labor, etc. Thus there is little real pressure on him to do what other U.S. businessmen have had to do to meet U.S. costs and institutional conditions. There is, further, a whole gamut of administrative restraints surrounding the subsidy.

Our program wants to get the government out of the details of industry management. We recognize the need for operating aid but feel that:

1. It must leave the operator free to make his management decisions under market pressures and within the American economy.

2. It should reward the effective and efficient and not unduly reward the inefficient.

We propose that the new operators that are given subsidy should be brought in under experimental incentive contracts for a three to five year period. At the end of that time the results would be reviewed and a determination made on whether to continue the incentive system, try some new system or return to parity. Existing subsidized operators would not be affected until their contracts came due, except by the additional competitors brought in with more flexibility on trade routes.

We would submit our performance incentive system to the Congress who could go over it thoroughly before even making the legislative changes needed to introduce it experimentally.

- NDRF Revitalization:

One of our most valuable maritime assets in the Korean and Vietnam Wars and the commercial shipping crisis caused by the European coal shortage in 1953-1954 has been our immense reserve of capacity in the NDRF. The existence of the fleet has given us a "surge capacity" to meet peak military needs without extensive disruption of commercial movements and to keep market conditions within bounds.

Unless action is taken, age and wear will remove this valuable capability during the next 3-5 years.

Our program calls for converting 100 little-used Victory troopships (not needed by DoD as troopers) to jumboized general cargo ships at cost of about $2.8 million each and representing them under dehumidified conditions. Also we would do perhaps $400,000 worth of repair and refurbishment on each of about 150 Victory cargo ships when they are no longer needed for Vietnam, also placing them under dehumidified preservation.

This provides about $340 million of private shipyard work over about a 5-year period, will keep several NDRF sites active in a number of states -- instead of closing them and will provide local employment at these fleet sites. (Note: DoD will support NDRF revitalization, although BoB would rather not).

- Passenger Ships:

Thirteen passenger ships provide about 6,000 job opportunities for NMU (Joe Curran's men). About 1,800 of these are sea-going skills billets (Master, Seamen, Engineers). The balance are waiters, beauty operators, bartenders, etc. -- but the union feels just as strongly about them as they do the others.

There is no realistic chance that more U.S.-flag passenger ships will be built, especially if construction is restricted to U.S. yards. Of course, with foreign construction, a proposal like that of Sea-Coach Lines might work if it could find private capital backing and could operate with no or with very low operating aid.

All of the present passenger ships would be deep in the red without subsidy and about five are in the red after subsidy and therefore a net drag on their owners. Current passenger ship contracts expire at various dates between 1969 and 1978. Our program proposes to let them run to the end of their contracts and then to re-evaluate whether to replace them with passenger ships or freighters.

The SS UNITED STATES could be kept operating on a year-to-year basis as long as we want to maintain an entry in the transatlantic race. She will probably hold the Blue Ribbon until her demise: Nothing is in the works anywhere that is as big or as fast as she is. She costs about $8 million per year in subsidy.

- Bulk Carriers:

As a maritime issue, bulk carriers are like motherhood. Everyone is in favor of a program for them. Our program provides them with direct operating aid (the detailed system remains to be worked out) thereby opening up the vast competitive commercial bulk market to American operators. If they want to carry cargo preference grain, they can have first refusal of cargoes at world rates plus up to 5%, i.e., if he is within 5% of the low bidder for a particular cargo (the 5% is to provide a means of differentiation, while of measuring when the U.S. operator is satisfactorily close to the competitive world rate.

Our program would allow the availability of private capital to set a reasonable limit on the bulk carrier fleet. We propose to provide incentive aid for any that would be built (subject to our design review). We expect on the order of 5 per year each with about 30-35 jobs.

- Research and Development:

The maritime industry has always complained of being short-changed on government research. The answer to this is that under the DoT maritime research would get much more emphasis than it has ever had before. Advice on how to deal with the problem and what to research on would be solicited from the industry. The new MarAd Research Advisory Panel could be a vehicle. The aim would be to put America in the lead in technology and in systems management.

- Nuclear Ships:

The NS SAVANNAH's problems do not indicate that we are dropping nuclear merchant ships. She was never designed to be an economically competitive vessel, but rather to provide a mobile peaceful demonstration of nuclear power. She has done this and has also developed the terms on which nuclear merchant ships will be accepted in most major world ports and the liability formulas and costs involved.

The next generation of nuclear ships will be more nearly economically viable.

Our program proposes to send the "Magnuson Study" to Congress for consideration. It would build 2-4 ships at cost of about $100 million spread over 3 years.

- Flags of Convenience and "Effective Control":

This is one of the most controversial of all maritime issues. About 450 ships, owned by Americans (mostly by large corporations) are registered under Liberian and Panamanian flags. About 285 are tankers and 82 are bulk carriers. There also are 60-plus old freighters, principally Liberties mostly owned by shoestring Greek-American companies. Under Honduran flag are about 15 United Fruit Company refrigerated ships.

These ships bring in about 26% of our dry bulk imports, 35% of petroleum imports, and handle about 15% of our bulk exports (coal and grain). The companies involved used them to avoid the high cost of American-flag construction and operation and to gain a certain tax saving (profits are not taxed until repatriated).

Flags of convenience countries differ from the normal maritime countries such as Norway in that they don't exercise the normal sovereignity over the ships: For example, the owners can transfer the ships to another flag without permission by just notifying the Flag of Convenience country, the ships rarely if ever touch the mother country and there is no (or only minor) requirements for crewing by nationals of the flag.

The Defense Department (with State, BoB, and MarAd agreements) consider these ships under "Effective Control," that is, through the U.S. owners there is a reasonable assurance that the ships are available for use by the United States as at present, even under emergency conditions. The use contemplated is to have them continue to move U.S. bulk imports and exports, as they are now doing. They are not viewed by DoD or MarAd as being used to carry materials to a war zone: They are not configured for this, but rather for industrial bulk movements. However, you should note that much of the petroleum delivered in South Vietnam for DoD use is delivered in Flag of Convenience tankers (with Chinese crews) and there has been no trouble at all (see section on "Vietnam" for another foreign-flag availability issue).

Most Flag of Convenience ships are manned with European or West Indian crews. Some are manned with Hong Kong Chinese. Almost all are officered by Europeans. Most are well-screened for security -- often they have as good or better a check from U.S. authorities as American crewmen.

All U.S. maritime unions are strongly opposed to the Flag of Convenience idea apparently on the theory that U.S.-owned ships in U.S. trade should be under U.S.-flag and manned by American union seamen. They claim that "Effective Control" is a myth. They press to "return these runaway ships to U.S.-flag." However, due to costs, the alternative is not between use of Flag of Convenience and U.S.-flag for the cargoes that these ships carry, but rather between Flag of Convenience and foreign-owned foreign-flag (like British). That is, if these ships were subjected to sufficient pressure they would not be transferred to U.S.-flag but rather would be sold to some completely foreign subsidiary of the owners (as to U.K - Gulf Oil, Ltd). The Flag of Convenience concept is, of course, supported strongly by major oil and metals companies, among others. In government, BoB, DoD, and State support it.

You should stay away from the Flag of Convenience issue if possible - even though our program would help solve the problem. The issue is too tangled and emotional. Our program, by allowing foreign construction would cause at least some of the people (principally the oil companies) who now build Flag of Convenience ships to handle their imports to, in the future, build foreign and register under U.S.-flag, in order to utilize them alternatively in the coastwise and import trades. Joe Andreae confirms this.

- Vietnam Shipping Problems:

The implication in press and industry statements that there is a shortage of U.S.-flag shipping to meet Vietnam needs is simply untrue. About 170 dry cargo ships have been reactivated from the NDRF for DoD use in order to avoid removing large numbers of subsidized liners from their "essential" trade routes. Of course, if we don't have an inactive fleet in reserve, any military requirement like Vietnam is going to disrupt the commercial services of the active merchant fleet, no matter how big the active fleet is. Only by adding more "surge level" shipping capacity such as from a reserve fleet can peak requirements be met without commercial disruptions.

Our program meets this problem by rejuvenating the NDRF as well as by providing expansion of the active fleet (which will give it a bit more elasticity). Also, by providing for incremental availability of part of the active fleet without requisitioning, the program meets DoD's availability needs.

The unions have made much over the alleged unreliability of foreign flag shipping in the Vietnam war, trying to connect this also to the concept of "Effective Control" of U.S.-owned Flags of Convenience. DoD experienced problems with 2 Greek and a Mexican cargo ship on which Vietnam cargo was booked. However, DoD has successfully used over 200 foreign cargo bookings, worldwide, since Vietnam began, with only the above problems. Much AID cargo goes into Saigon on foreign-flag ships. DoD says that foreign-flag shipping is available and that it can be reliably used when needed.

- Soviet Merchant Marine:

The rapid growth of the Soviet merchant fleet in the last few years has become an emotional issue in the U.S. maritime industry (particularly the shipbuilders and the unions) who think that we should build up our fleet to retain maritime supremacy. The issue should be kept in perspective:

1. Even when it has achieved its projected build-up, the Soviet merchant marine will only be about 5% of the world's total.

2. Their target is apparently to carry all of their own trading that they control the routing of; to "raid the sea lanes," they would have to charter free world shipping to carry their own trade.

3. The problem is really, "How do the free enterprise nations of the West deal with the Soviet State trading monopoly," and the maritime sub-problem is only one dimension of it.

Our program, by allowing for fleet expansion up to the limits of private investment, should keep us well ahead of the Russians.

- Fast Deployment Logistics (FDL) Ships:

The shipping industry, particularly the subsidized branch, opposes the FDL project on the grounds that:

1. They think the job could be done cheaper by commercial shipping.

2. They are afraid the ships will be used to carry Defense cargo in peacetime and thus cut them out of some lucrative business.

The capability that DoD wants from the FDL, i.e., to be able to land heavy infantry divisional equipment at trouble spots on 1-3 days notice, can't be met by commercial shipping.

You can use as a bargaining point that you will urge DoD to promise that they won't use the FDL for point-to-point cargo movements in peacetime, i.e., for movements not to a war zone. Further, you can point out that the ships will be crewed with civilians (like MSTS) who will be union members. With 20 FDL's, this might be roughly 1,000 new jobs.

INDUSTRY VIEWS ON PROGRAM

The industry views on this program should run about as follows:

- Subsidized Operators and CASL:

Cautious acceptance of foreign construction, opposition to incentive subsidy system. McNeil (Grace Line) and Isbrandtsen (AEIL) would be more likely to give strong support than others.

- Unsubsidized Lines Operators:

Strong support, although they would prefer cost parity to an incentive system.

- Tramp and Bulk Operators:

Probable support. Some, like Joe Kahn, with heavy current investment may oppose. Lee White and Ran Hetenna, both key individuals, should support the program.

- Domestic Operators:

  Reaction should be mixed, depending on how heavily they are tied to present ships built or converted at U.S. prices. Large oil companies will probably support. Joe Andreae (almost certain support) and Malcolm McLean (reaction unknown) are key people.

- AMMI:

  Probable support.

- National Maritime Union:

  We have heard recently that they may now be willing to accept some foreign construction as inevitable.

- Seafarer's International Union:

  Will probably be more reluctant to part company with shipyard unions. However, most of the benefit of the program in bulk carrier expansion and bringing unsubsidized ships under subsidy goes to them.

- Shipyards and Their Unions:

  Probably unalterably opposed. Even the extra shipyard work in the program may not mollify them as the yards are full of work at present.

COMPARATIVE FORECASTS
ALTERNATIVE MARITIME POLICIES
(Constant 1966 Dollars)

	1967	1970	1975	1979
I. Proposed Program				
A. Fed. Input ($Mil.)	$ 410.8	$ 433.0	$ 372.6	$ 346.2
B. Fleet Size				
No. of Ships	974	866	830	865
Total DWT (000)	14,520	14,320	16,440	19,080
C. Job Opportunities (Shipboard)				
Private Fleet	47,555	42,000	38,200	39,000
GAA (172 ships)	7,834	-	-	-
D. Production in Foreign Trade* (Millions Long Tons Per Year)	27.4	29.8	36.5	49.1
E. NDRF				
No. of Ships	434	344	281	247
Fed. Costs ($Mil.)	.3	59.3	(2.5)	1.5
II. Present Policy				
A. Fed. Input ($Mil.)	420.4	451.0	377.0	251.6
B. Fleet Size				
No. of Ships	974	888	711	692
Total DWT (000)	14,520	13,807	12,077	12,062
C. Job Opportunities (Shipboard)				
Private Fleet	47,555	43,323	33,639	29,110
GAA (172 ships)	7,834	-	-	-
D. Production in Foreign Trade* (Millions Long Tons Per Year)	27.4	30.2	27.4	28.4
III. Program Set I, Opt. 3				
A. Fed. Input ($Mil.)	420.4	365.9	295.7	-
B. Fleet Size				
No. of Ships	974	869	756	-
Total DWT (000)	14,520	13,776	13,978	-
C. Job Opportunities (Shipboard)				
Private Fleet	47,555	42,389	35,044	-
GAA (172 ships)	7,834	-	-	-
D. Production in Foreign Trade* (Millions Long Tons Per Year)	27.4	30.0	31.0	-
E. NDRF		MINIMAL PROGRAM		

* Includes domestic fleet production translated to foreign trade basis.

III

March 24

See "TACTICS" file for a slightly different version of this paper dated ~~March~~ February 14 -- was given to AMA on 3/10/67

Proposed Maritime Program: Key Points and Employment Opportunities

Fleet Renewal and Expansion:

The proposed program would remove Government restrictions on fleet renewal and expansion and all U.S.-flag operators would be able to purchase as many ships as they needed at world market prices (first in U.S. yards up to limit of expanded shipyard program, after that in foreign yards), to be placed under U.S. registry and manned with U.S. crews. The number of job opportunities will be limited only by the industry's ability and willingness to locate investment capital for expansion and their ability to expand their cargo carryings.

The fleet would be renewed by replacing the small, low-productivity war-built ships with large, highly-productive new ships. After replacement of old ships operators could expand their fleets. It is estimated that the number of ships in the fleet would stay roughly level within about 10% but that deadweight tonnage would increase by 50% and cargo carrying capability by 200%. The employment available in the renewed and expanded fleet should be larger than today since highly-productive, fast-turnaround new ships will probably need more men in the labor force to fill each billet on a full-time basis.

Larger Program in American Shipyards:

The program in U.S. shipyards would be increased to a higher level. The subsidized new construction program would be expanded by a minimum of 2-3 ships per year. A major conversion and upgrading program would be started for NDRF revitalization (about 20 AP-5 conversions per year for 5 years; plus substantial reconditioning work on returning Victories). It is estimated that shipyard employment from Government-sponsored maritime work would be expanded by 50% or more.

Unsubsidized Liner Operators Would Be Brought Under Subsidy:

The present unsubsidized liner operator would be offered operating aid on experimental basis using a new system for a 3-5 year period. If the system works effectively, it could be applied to other operators as contracts come up for renewal. If not, try something else or return to present system. The experimental system would be worked out with operators over the next few months and presented along with the rest of the package.

New Bulkers Would Get Operating Aid:

New bulk carriers, built with subsidy in U.S. or without subsidy in foreign yards could have operating aid which would enable them to compete for commercial cargoes, either on long-term time charter or shorter arrangements.

Cargo Preference Would be Retained But Costs Reduced:

The program recommends retention of the cargo preference principle, but would try to reduce its costs and new subsidized bulk carriers would have Fair and Reasonable rates administered to be at the world rate. The unsubsidized older ships and independent tankers would be handled as at present, and cargo would be reserved for them.

A Nuclear Ship Program Would Be Urged:

A Nuclear Ship Program would be recommended as part of the total maritime package.

Research and Development:

Increased R&D would be funded.

Ship Availability for Defense Needs:

Arrangements would be made between the industry and the Department of Defense for the availability of subsidized ships from the active fleet on an incremental basis without requisitioning.

3-27-67

Program Comparisons
Federal Input.
($ millions, constant 1966)

Program.	1st Year 1969	Cumulative 5 years	Cumulative 10 years	10th Year Fleet Size (ACTUALS)
Current Policies	$ 403	('69-'73) $ 2017	('74-'78) $ 3229	(1978) 625
Program Set I (B.O.B.)			('67-'76)	(1976)
opt. 1			2260	656
opt. 2a			3137	635
opt. 2b			2145	514
Opt 3			3118	701
Program Set II (Conf...)			4834	684
Level 1 (DoT)	475	('69-'73) 2382	('74-'78) 4462	(1976) 51[illegible]
Level 2 (DoT)	546	2754	5108	893
Level 3 (DoT)	518	2607	4944	868

~~CONFIDENTIAL~~

normal release

A PROGRAM FOR MERCHANT MARINE RENEWAL

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Department of Transportation
March 28, 1967

A PROGRAM FOR MERCHANT MARINE RENEWAL

BACKGROUND

At a meeting in the White House on February 1, 1967, the President assigned to Secretary of Transportation Alan S. Boyd the task of developing a maritime policy and program that: 1) would express the maximum feasible degree of consensus between industry elements and the Administration, 2) would be acceptable to the Congress, and 3) would accomplish this at the least cost to the public.

In recent years a number of serious Administration-sponsored efforts have attempted to establish new policies and programs for the merchant marine, and almost every independent industry group and many knowledgeable individuals have also expressed their views. As a result, the objectives and expressed wishes of most institutions and key individuals are available and well-known. The diversity of goals and special interests of all of these groups makes any broad consensus difficult and probably makes complete agreement impossible.

Here in brief form are the points considered most important by the government and by industry. These are the points which must, in some form, be considered in a consensus program:

- Government Program Objectives

  1. Foreign construction: The opportunity for American shipowners to purchase their ships at world market prices without restraint imposed by need for government appropriations.

  2. An operating subsidy system that would have built-in incentives toward more productive, competitive and efficient operations; and with less government involvement in industry management decisions.

  3. Rationalization of the cargo preference system to minimize costs while retaining "routing preference."

  4. Availability of active commercial shipping for use by the Department of Defense in situations less than full-scale national emergencies where use of requisitioning authority is not desirable.

  5. Inclusion of the Maritime Administration in the Department of Transportation.

- Industry Program Objectives

  1. Maintenance or increase in the level of maritime job opportunities -- Considered a key to future labor-management stability.

2. Protection of the rights of the present operators having contractual arrangements with the government (including trade route or area rights).

3. Retention of the cargo preference principle.

4. Full recognition and protection of the position and value of the commercial shipbuilding and ship repair industry from the standpoint of national security and its contribution to the economy.

5. Protection of private capital investments made at U.S. prices in construction or conversions of ships.

6. Retention of cost parity as a base for operating subsidy systems.

7. Reduction to a minimum of government restrictions on management decisions and prerogatives.

8. Expanded and effective government promotion of use of American-flag vessels by American exporters and importers.

9. Greater support for Maritime-oriented research and development.

PRESENT DEGREE OF CONSENSUS

- Majority Support of Seagoing Labor and Operators: The program presented in this paper meets the foregoing requirements. It currently has favorable but qualified support of certain Union Leaders representing the majority of the seagoing labor force (both of the major licensed officer unions plus the largest of the two seamen's unions) and the management-operators of about 80% of the ships in the fleet. This qualified support is based on the general features of the program as discussed with them.

- Opposed by Tramp Operators and Shipbuilders: The operators of the tramp shipping and independent tankers (comprise about 125 war-age dry cargo ships and 33 post-war tankers, about 15% of the fleet) oppose the program. They believe that new U.S.-flag ships constructed under the proposed programs at world prices would jeopardize their investment equity in existing ships as a result of increased competition, both for government cargoes that they carry at preferred rates and for the cabotage trade. These arguments are sustained by them in spite of explanation that the construction program is equally available to them and assurances that the program would protect their equity and access to cargo.

can they take advantage of it?

- Opposed by One Major Union Leader: The President of the Seafarer's International Union (and head of the Maritime Trades Department, AFL-CIO) opposes the program on the grounds that the level of construction in U.S. Yards (discussed with him as being about 15 ships per year) was too small and that he opposed any foreign construction. His position also is influenced by AFL-CIO political considerations. His alternative program recommends a subsidized construction program of 65 ships per year, expansion of cargo preference and its extension to cover commercial bulk cargoes.

- Opposed by Shipbuilders Council and Shipyard Unions: The Shipbuilders Council and the union leaders of shipyard labor oppose any foreign construction of merchant vessels whatsoever. However, it should be remembered that merchant ship work represents only about 5% of the income and employment in this industry. An increase in the size of the construction program being proposed in U.S. yards should greatly reduce or discount their opposition although they will always adamantly oppose foreign construction.

EXPECTED RESULTS OF PROGRAM

The proposed program does not guarantee that any given size fleet will be built -- no program short of nationalization of the merchant marine could do this.

The program would give the maritime industry the opportunity and flexibility to fully meet the revolution in technology now underway in maritime transportation: Containerization and large specialized bulk ship systems which are being placed in operation require that heavy capital investments in new ships be made at competitive prices, and new ship types such as large specialized carriers will inevitably drive older and obsolete ships from the ocean. The as-yet-unknown impact of these new developments on the market for shipping services requires that management be free and flexible in its ability to make judgements. The program removes government restraints on fleet renewal and expansion and extends the government's willingness to provide assistance beyond the probable limits of the industry's ability to take advantage of such aid (in terms of investment and development of new business).

This opportunity is timely: Competing foreign merchant marines have committed large investments in conventional ships which although young, are obsolescent in the light of technological possibilities. The U.S. Merchant Marine, by virtue of the existing stagnation of investment caused by the rigid laws requiring U.S. construction, ~~are~~ in a position to renew and expand under this program with advanced-type vessels and systems, thus turning the problem of our obsolete (but largely amortized) fleet to advantage. In a separate context, the favorable impact of the announcement of a ship construction and fleet expansion program of this size upon the over-all American economy would be considerable.

If the maximum opportunities for investment and expansion were taken by the industry, the Federal cost per ton cargo carried in the foreign trade would decrease to about \$4.90 per ton by 1979 (the tenth year of the program), from the present \$11.65.

Fleet size would increase from 14.5 M DWT (955 ships) to 21.0 M DWT (893 ships) and seagoing billets would be at a stable and slightly increasing level of roughly 38,000. Cumulative Federal costs over the first ten years of the program would be about \$1.3 billion more than under the present program level.

DESCRIPTION OF PROGRAM FEATURES

✓ - Separate Subsidy Programs for Ship Operators and Shipyards: Ship operators and shipyards would have separate direct subsidy programs.

Shipyards would receive subsidy in order to enable them to compete in the construction and sale of merchant ships at world market prices. Ship operators could purchase their vessels at world market ship prices and only receive operating subsidy to enable them to operate flexibly and competitively in the world market for shipping services. These programs are separately described below.

- Fleet Renewal and Expansion:

  • Operators in Foreign Trades: Ship operators in foreign trades would be permitted to buy ships at world market prices either by purchasing ships built in U.S. yards under the shipyard subsidy program or in foreign yards. Foreign-built vessels would be registered under U.S.-Flag, manned with U.S. crews and would have all privileges of U.S. registry accorded to similar U.S.-built vessels. Only new foreign-built ships would be eligible. General design features and specifications of vessels to be built would require approval by the Maritime Administration to be eligible for operating subsidy. Operating subsidy would be available for all ships in foreign trade except proprietary carriers, up to the limits of the program level. This allows for 490 ships under subsidy in 1979 (10th year) and 562 by 1986, at annual operating subsidy costs estimated at $239 million and $254 million, respectively. War-age ships would have to be renewed before operators could expand the number of vessels in their fleets under subsidy. Replacement of war-age ships would be completed before 1976.

  • Operators in Domestic Trades: Ship operators in domestic trades would be able to purchase ships at world market prices in U.S. or foreign shipyards but under a licensing procedure which would function to protect existing unamortized investments in ships constructed or substantially converted at U.S. prices. The procedure for placing in domestic trade of a new ship to be built at a world market price would be as follows:

    1. The operator would make application to the Maritime Administration with his proposal.

    2. A hearing would be scheduled and opportunity to be heard would be available to those who considered that their existing ship investment equity would be jeopardized by the proposal.

    3. The application, together with hearing record would be considered by the Maritime Subsidy Board, who would decide whether the ships could be entered in the service (subject, of course, to normal ICC certification).

4. Appeal by either applicants or opponents could be made to the Secretary of Transportation.

Entries would be considered on a trade-by-trade basis: There are are some domestic trades where there would be small likelihood of either opposition or jeopardy of existing investment. No operating subsidies would be available in domestic operations.

The program would call for removing all restriction on foreign construction of U.S.-Flag, U.S.-manned vessels for domestic trades in FY 1980, 12 years after the program starts.

- Shipyard Subsidy Program: The Federal money available for subsidizing shipyards for merchant ship construction would be increased from the FY 1968 level of $140 M to about $222 M in 1969,1/ which would construct about 30 ships: A mix of 14 liners, 10 bulk carriers and 6 tankers. In FY 1974 this would drop to $194 M, sufficient for about 25 ships in a similar mix. The size and continuity of the program will enable shipyards to plan plant investment that would, in their judgement, be necessary to enable them to be more competitive. Induced modernization and retooling would permit greater economies of scale and hopefully make U.S. shipyards more competitive.

The program would handle shipyard subsidies as follows:

1. Construction subsidy rates would be initially calculated in a manner similar to the present system to indicate the best estimate of percentage difference between U.S. costs and weighted average foreign costs, separately for liner vessels, dry bulk carriers and tankers. These rates (for example, 55% for liners, perhaps 50% for bulk and tankers) would be promulgated by MarAd and fixed for an initial two-year period.

2. The U.S. ship purchaser would have the full freedom to purchase his ships either in the U.S. yard or abroad based on price and any other considerations he may wish to include, such as ease of repair and supply, etc. Thus, except for additional safety requirements for U.S. registry or more expensive crew quarter needs, he faces the same ship prices as any world market ship purchaser.

3. Added defense features would be financed as added cost to the government, as at present.

1/ In FY 1970 and 71 the program assumes construction of 3 combination cargo/passenger ships now scheduled in The Grace Lines replacement program. This would add $30 M in each of those years.

4. The U.S. shipyard, with knowledge of his costs, the subsidy rate and world ship prices, could design ships for sale to operators, could bid on contracts offered by ship purchasers and could negotiate on a completely free basis with the operators.

5. Proposed contracts for construction would be brought to MarAd who would pass on the general specifications of ships for U.S. operators. Subsidy money to the limit appropriated for the year would be allocated to yards with preference to contracts for U.S. operators with choice between contracts being made on a production-per-government-dollar basis.

6. After some actual experience has been obtained relating to construction abroad for U.S. registry, the subsidy rates would be reset periodically at increments of 3 years at levels more accurately reflecting the actual competitive difference between U.S. and foreign ship construction prices.

7. Ship repairs would not be subsidized inasmuch as the present 50% duty and the convenience of repair in U.S. yards for all domestic operators and most U.S. operators in the foreign trade is considered to offset any competitive price advantage now held by foreign yards. This matter would be monitored and opened for review after five years.

8. Title XI loan guarantees would not be available for foreign construction.

9. Construction reserve funds could be used for foreign as well as U.S. construction.

10. Shipowners purchasing ships abroad would be urged to take maximum advantage of financing, interest rate and ship pricing arrangements that are offered by foreign countries. (In many cases these will represent subsidization of ship prices by foreign countries.)

- Operating Subsidy Programs:

  - New Liner Contractors: The four present unsubsidized liner operators (74 ships) plus any new qualified applicants would be placed under experimental contracts for a 3-5 year period for the purpose of developing an operating subsidy system that would provide greater incentives to efficient, productive and competitive operation while allowing the government to reduce its surveillance and stay out of the operator's management decisions. The system would be worked out with the participating operators in the next 30-60 days and taken to Congress for such legislative changes as are needed to conduct the experiment. The revenue incentive system would be used as a basis in working out the system, but other systems could be considered and tried. The system will be monitored and adjusted during the 3-5 year developmental period and at the end of the period, if effective and acceptable, the system would be utilized for a long-term contract with the experiment participants, who in any event, would have an option for a long-term contract under whatever system the government finally settled on for liner operating subsidy. More than one system could be placed under development.

- Present Subsidized Contractors: The present contractors would be asked to participate in monitoring the experiment to insure that the system would work effectively for them. At the end of their present contracts, or earlier if operators desire, renewal contracts would include whatever new system had been developed. Operators (United States Lines is the only one affected if the program is initiated in FY 1969) whose contracts would terminate during the development period, would be given extensions of their present contracts until after this period in order that they and the government could evaluate the results of the new proposed system.

- Bulk Operators: The operating subsidy for bulk carriers would be a streamlined, administratively simplified cost parity system. The system as structured would probably work only in the context of long-term time charter operations or with shorter-term arrangements. It would not be expected to succeed for operators who depend on "spot" market charters.

.. Long-term Operations:

won't this help proprietary carriers? - desired result? cross trade?

1. Entrepreneurs planning to set-up or bid upon a long-term charter (for example, a 10 or 15 year charter to move coal or ore for a steel industry operation, here or abroad), prior to making his bid would bring the details of his proposal and its costs, including shipbuilding plans and costs (assuming the package to include construction of new ships) to the Maritime Subsidy Board.

2. The Board, using streamlined evaluation procedures to reduce the time required for processing to about one week, would decide on the size of annual subsidy payment that the government would make to the operator and would set times during the proposed charter period, for example, at the end of each five years, when the subsidy arrangement would be reopened for evaluation and adjustment. Performance requirements would be included in the government's agreement with the operator consistent with the nature of the operations being contemplated under the proposed charter. These matters would be on a confidential basis between the Board and the operator to avoid jeopardizing the operator's competitive bidding or negotiating position.

3. The Board's decision would form a commitment to the operator, should he obtain the contract, and he can then make his bid (or negotiate) for the charter allowing his bid price to reflect the subsidy.

•• Short-term Operations:

1. Operators contemplating shorter-term time charters (for example 1 or 2 years) contracts of affreightment, etc., would bring the details to the Maritime Subsidy Board, as above.

2. Depending on the length of arrangement contemplated, the Board could commit for a one-time subsidy payment or annual payments, with performance requirments consistent with the charter.

3. This commitment could then be used by the operator in his bidding or negotiations.

- Subsidized Bulk Operations to be Related to U.S. Foreign Trade: To receive subsidy, bulk operations would have to be related to the U.S. Foreign Trade. However, these subsidized operations could have one or more legs in crosstrades between foreign countries as part of their overall operation.

- Cargo Preference: Cargo preference would be retained but its costs would be reduced by allowing new subsidized bulk ships to compete for the cargoes, in conjunction with their commercial operations (due to the year-to-year uncertainty of PL 480 grain shipments, it appears doubtful that operators would make new ship investments for this cargo alone). Cargo preference would be administered under "Fair and Reasonable" ceiling rates, and subsidized new ships built at world market prices would have "Fair and Reasonable" rates administered so as to be at the competitive world rate. The potential impact of new bulk ships would not begin to be felt until 1971 and would not be expected to be of significance until about 1975 or 1976. Cargo would be reserved for the older ships and independent tankers during the life of the program at an annual cost of roughly $33 million in differential rates. (An alternative to this latter reservation would be some form of government "buy-off" or trade in of obsolete tonnage).

Liner cargo preference would be continued as at present at an estimated cost of about $11 million.

In considering cargo preference, the program makes the assumption that PL 480 shipments will continue under the present administrative arrangements and that these shipments may gradually increase from the present roughly 8 million tons per year up to roughly 10 million tons over the next ten years.

There is a strong possibility that these shipments may increasingly be made as sales for hard currencies in future years, thereby taking on more of the characteristics of commercial transactions than of foreign assistance. One effect of this may be to decrease the total tonnage of U.S. shipments if delivered grain prices from competing producer-nations are lower than similar U.S. prices. Customer-nations may in the future be more selective in viewing commodity prices and transportation terms, thereby possibly reducing the tonnage shipped under cargo preference.

A second effect, already evident, is that the increased cargo insurance cost being applied to shipments made in war-age vessels will seriously affect the ability of most U.S.-Flag tramp tonnage to remain in this market, unless the government decides to subsidize these costs in order to extend the life of this old tonnage. Costs of doing this, i.e., providing for government payment of the increased insurance premium, might run as high as $8 to $10 million annually for these old tramp ships. This tonnage has no possible employment except in carriage of government cargo preference cargoes and is of little or no value for future emergency use. The proposed program contemplates that this tonnage would be scrapped when it was no longer useful in cargo preference and that the operators would construct new tonnage at world market prices and possibly even enter other trades.

NUCLEAR SHIP PROGRAM

The proposed maritime program would include a nuclear ship program as part of the total package. Given below are two alternative programs. The first would implement the recommendations of the "Magnuson Report" and utilize the SAVANNAH as a training vessel. The second would upgrade and operate the SAVANNAH.

- Alternative 1:

  • Forward with Administration endorsement the draft nuclear ship report to Senator Magnuson's Commerce Committee. The recommendations in this report are:

    1. Set up a joint program with a selected ship operator to develop and construct 2-4 nuclear container ships to form a complete high speed system. These ships would be about 900' long, carry 1400 standard 20' containers, and would have a speed of 30 knots. This part of the program would cover 5 years and cost about $90 million.

    2. Establish a parallel 5-year AEC Research and Development program at a cost of $100 million towards development of an economic reactor system.

- Operate the SAVANNAH in her present condition as a cadet training vessel for the Federal and State Maritime Academies for three years (estimated cost $5.5 million) followed by two years of crew training as well as cadet training (estimated cost $4 million). After five years, re-evaluate the need for the SAVANNAH.

- Alternative 2:

  - Convert the SAVANNAH to a full containership (750 standard) containers) and upgrade her present power plant. This would take two years and is estimated to cost $4 million per year for conversion plus an additional $3.3 million for refueling, support and operation over the two years, i.e., total costs $11.3 million for this period. Following this the ship could be operated for 15 years at an added cost of $18 million.

RESEARCH AND DEVELOPMENT

The program contemplates significantly increasing the level of effort in Maritime-related research and development as part of the Department of Transportation R & D program. A specific program proposal is currently under development by the Maritime Administration.

SHIP AVAILABILITY FOR DEFENSE NEEDS

The program would include arrangements for the availability of ships from the active fleet on an incremental basis without the need for requisitioning.

A plan being discussed between the Department of Defense and the present subsidized operators (CASL), project RESPOND, calls for several levels or stages of ship availability, keyed to particular levels of Defense activity and capable of being implemented by decisions in the Department of Defense, the Department of Transportation, or in the case of the highest stage of activity short of full mobilization, by a decision of the President.

The details of this system remain to be worked out between the Department of Defense, the Department of Transportation and the representatives of the private operators.

REVITALIZATION OF THE NDRF

The program includes a proposal for the revitalization of the NDRF [1] in order to provide a "surge capability" to meet peak emergency needs in future crises with less disruption of commercial services:

1. The roughly 100 Victory (AP-5) -- class troopships in the NDRF would be converted and jumboized into general cargo ships of

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1/ The size of reconversion program would be dependent upon success of current DOD/CASL negotiation on subsidized ship availability -- if considered satisfactory, the NDRF revitalization program could be reduced from the described maximum program.

about 13,700 measurement tons (550,000 cubic feet) capacity, with cargo handling gear capable of up to 60 long ton lifts. This would be done over a five-year period commencing in FY 1969 at an estimated cost of $2.8 million per ship. Every effort would be made to obtain a lower unit price through competitive bidding for larger numbers of the conversions to a single shipyard.

2. Returning Victory cargo ships now under general agency agreement operations would be selectively repaired and returned to the fleet. Up to 100 - 150 ships could be affected over the next five years at an estimated average cost of $300,000 each.

3. Unusable ships in the NDRF would be sold for scrap or other non-ship uses as rapidly as possible.

4. Converted and returning ships would be placed under modern preservation.

5. The number of Reserve Fleet sites would be reduced as feasible.

6. In the mid-1970's the desirability of early retirement of post-war-age ships for NDRF use would be considered in the light of the needs at that time. Early retirement of post-war ships before that time would mean taking newer ships out of active service while war-age ships would still be in service and under subsidy. This is considered to be contrary to the active fleet renewal objectives of the program.

7. Converted and upgraded ships in the NDRF would be excluded from ship exchange provisions in order to keep a better quality "surge capacity" for emergency use.

SUMMARY OF COSTS AND EFFECTS

It should be re-emphasized that the proposed program is no guarantee that a fleet of this size will be built, but rather, by providing for the availability of federal funds together with restructured, less restrictive policies, removes government restraints on decisions by management in the maritime industry regarding amount and timing of investment and constraints on the degree of competition for a larger share of their market. Put another way, the program provides the maritime industry with the opportunity to grow to this size if it will make the investments and develop the business. Thus, the benefits to the maritime industry in terms of higher construction levels, larger fleet size and high and stable employment level, would all depend on the industry's own actions (by both management and labor) to operate with efficiency and stability.

Of course, the Federal costs will be directly proportional to the industry's success in locating investment capital and business: Government costs would reach the levels shown only if industry was successful in expanding their activities to the limits shown.

- Program Level: The cost and effects figures shown below are for a program that would increase the Federal input into U.S. shipyards by about $80 million annually for new construction. This would allow for a shipbuilding program of about 30 ships 1/ per year for five years, followed by 25 ships in subsequent years. As shown below, NDRF revitalizations and a nuclear ship program would be added to this in the early years.

Summary comparison figures are given for over-all costs and effects of a similar program set at a level of 18 ships per year in U.S. yards (program orally discussed by Secretary Boyd with industry) and for the current program. Federal costs include shipyard subsidy, operating subsidy and costs of cargo preference differential rates.

- Summary Comparisons:

	Construction in U.S. Yards	Cumulative Fed. Costs 10 Years	Fleet Size in DWT at 10 Yrs.
Proposed Program:	30/25	$5.1 Billion	21 Million
Option 1:	18	4.5 Billion	17 Million
Current Program:	13 to 14	3.8 Billion	11 Million

- Proposed Program Detail Levels:

1. Construction and Conversion Program Fiscal Years

	1969-73	1973 on
Construction, U.S. Yards		
Ships, per year	30	25
Fed. $, per year	$223 M	$194 M (less in some yrs.)
Private Investment	$206 M	$179 M.(less in some yrs.)

(Add $30 M in 1970-1 to cover costs of 3 combination ships in each of these years).

1/ A mix of 14 liners, 10 bulk carriers and 6 tankers is assumed.

Conversion of AP-5 troopships for NDRF, U.S. Yards:

	1969-1973
Ships, per yr.	20 (total: 100)
Fed.$, per yr.	$50 M ($280M)

Add for Victory Ship rehabilitation: $15 M in each of 3 years upon their return to the NDRF.

Construction, Foreign Yards:

	1969-74	1975	1976	1977 on
Ships	38	19	16	4 or less
Private Invest. needed	$260 M	$108M	$85M	$20M (-)

2. Operating Subsidy Level: Total operating subsidy increases from $239 M in FY 1969 to about $250 M in FY 1976 then remains relatively level.

3. Employment (Shipboard billets): The number of shipboard billets decreases from 46,500 in FY 1969 to 38,000 in 1975 then stabilizes at about 38,000. The decline results primarily from the loss of war-age tramp ships and their replacement with bulk carriers manned with smaller crews. Shorter turn around time and increased vessel utilization could offset this decline through the need to employ more men per billet.

4. Total Federal Costs and Fleet Size (over 10 years):

F.Y.	Federal Costs[1/] ($ Millions)	Fleet Size (Ships/Million DWT)
1969	546	955/14.5
1970	582[2/]	915/14.0
1971	573[2/]	892/14.7
1972	532	882/14.7
1973	520	875/16.4
1974	483	867/17.2
1975	487	843/18.0
1976	489	861/19.0
1977	452	877/20.0
1978	444	893/21.0

[1/] Includes shipyard subsidy, Direct Operating subsidies, cargo preference differential costs. Does not include the AP-5 conversion program, a nuclear program, or R & D costs.

[2/] Includes $30M for replacement of 3 combination cargo-passenger ships.

5. Trade articipation, tenth year (FY 1978)

	Productive Capacity in Foreign Trade (Millions of Long Tons)	Total Volume of Foreign Trade (Millions of L.T.)	% Participation
Liner	39	62	63%
Dry Bulk	32	272	12%
Tanker	14	192	7%
Total	85	526	16%

prepared June 67 by [illegible]

COMPARISON OF ELEMENTS IN INTERAGENCY TASK FORCE REPORT, MARITIME ADVISORY COMMITTEE PROGRAM, AND "BOYD PROGRAM"

Task Force Report	MAC Report	Based on "Boyd Frogram" Feb/Mar 67 version?
I. <u>Operating Subsidy Features</u>		
A. Restructure subsidy to allow more freedom, encourage productivity and profitability, and lessen Government interference, while maintaining cost parity ("incentive subsidy").	The cost-equalization parity concept of operating subsidy payments be continued.	Parity concept retained until contract renewal for presently subsidized operators. New experimental system, to be worked out with operators, for 3-5 years for presently unsubsidized lines.
B. Increase the number of cargo liners receiving operating subsidy by 30 to 40 ships.	Operating differential subsidy should be extended to several unsubsidized companies, then operating approximately 100 vessels.	"Operating aid...would be made available for all the ships (liners...) that the Industry could find capital and cargo for."
C. Extend operating subsidy to a new group of modern dry bulk carriers operating in foreign trade.	"Cost-parity principle of operating subsidies be extended to American flag dry bulk carriers constructed under this program."	"New bulk carriers... could have operating aid which would enable them to compete for commercial cargoes."

Task Force Report	MAC Report	"Boyd Program"
I. Operating Subsidy Features (cont'd)		
. Encourage voluntary reduction or elimination of unessential, unprofitable services to release funds to offset costs of other program features. Passenger service was one element specifically to be curtailed.	Investigation be made with view to improving competitive and economic position of American-flag passenger lines.	Not discussed.
II. Construction Subsidy Features		
A. Construction aid after FY 1969 to be based on determination as to level of ivate shipbuilding capacity required b ional security considerations.	Recommend that construction subsidy be continued.	Program in U.S. would be increased to a higher level; subsidized new construction would be immediately expanded 2-3 ships per year.
B. Create an annual construction subsidy fund available on a bid basis to build, convert or repair vessels for any American ship operator in foreign trade.	Recommend that construction subsidy payments be made on basis of direct support to shipbuilding industry.	Not specifically discussed.

Task Force Report	MAC Report	"Boyd Program"
I. Construction Subsidy Features (Cont'd)		
C. After national security level of shipyard support has been reached, foreign building and repair permitted. These foreign-built vessels would be eligible for all privileges, including domestic privileges and operating subsidy.	Recommend that operating subsidy be granted only for U.S. constructed vessels, and that expansion of fleet be through construction in U.S. yards; ship repair in U.S. yards should be continued.	Operators could buy vessels at world prices, first in U.S., then in yards overseas. Ships built abroad would require approval of general design, U.S. manning and U.S. registration with full privileges. Domestic operators could build foreign under a licensing agreement.
II. Bulk Carriers and Specialized Ships		
A. Government build 5 U.S. flag dry bulk car. .s per year for next 5 years in U.S. yards. Purchase and labor-management agreements would be assured before construction. Private funds could be used to build abroad dry bulk carriers. Re-evaluation of program at end of 5 years.	Government commit itself to program to insure dry bulk fleet that can handle 30% of this type commerce, these vessels to be built in U.S. with construction subsidy. Labor-management agreement assured in application for vessel construction.	New bulk carriers could be built in U.S. with construction subsidy or without subsidy in foreign yards.

4

Task Force Report	MAC Report	"Boyd Program"
II' **Bulk Carriers and Specialized Ships (Cont'd)**		
B. Operating subsidy for new dry bulk vessels available for a total increase annually up to 5 vessels, including both U.S. and foreign built.	Recommend that cost-parity principle of operating subsidies be extended to American flag dry bulk carriers constructed under this program (in U.S. yards).	Operating aid for new bulk carrie[rs] no matter where built, in order th[at] the vessels might compete for con[...] cargoes.
C. Cargo preference will be gradually reduced and phased out as operating aid is extended to new bulk ships.	Cargo preference laws should be continued. However, rate differentials for government supported cargoes should be phased out as new vessels are constructed and placed into service.	Retention of cargo preference ~~prin~~ principle but costs would be reduced. New bulkers would have to meet world rates, b but old unsubsidized vessels would be ~~han~~ handled as under "fair and reasonable" rates at present, for government cargoes

Task Force Report	MAC Report	"Boyd Program"
'ational Defense Reserve Fleet		
A. Usable ships in NDRF should be tained for as long as they meet the iteria for satisfying emergency requirements - which at that time justified tention of all usuable ships.	Not discussed	Major conversion and upgrading work to revitalize NDRF (about 20 AP-5 conversions per year for 5 years; plus substantial work on returning Victories).
B. NDRF should continue to be replenished by trade-in ships, with sufficient residual utility to meet emergency requirements, if required by national need.	Not discussed	Trade-in not discussed.
C. ll ships taken into NDRF should receive modern, effective preservation treatments consistent with speed of activation necessary for national emergency.	Not discussed	Revitalization of 100 AP-5 NDRF vessels within 5 years and work on returning Victories would provide substantial shipyard conversion, repair and upkeep work.

Task Force Report	MAC Report	"Boyd Program"
V. Research and Development		
A. Cost-disadvantaged U.S. industries must compete with foreign counterparts through development and utilization of advanced technology.	Government investment to insure our ability to innovate and be in technological forefront is justified.	R&D be aimed at facilita interchange of cargo between modes, and increasing ship system productivity.
B. Long-term future depends on new ideas from coordinated use of increased R&D.	Recommend government establish a National Maritime Research Foundation, with cooperation of all industry segments, with goal of exploring new technology for fleet improvement.	Increased R&D program.
C. Establish more effective mechanisms and criteria for industry - government selection of goals.	Recommend government establish a National Maritime Research Foundation, with cooperation of all industry segments, with goal of exploring new technology for fleet improvement.	Increased R&D program to be recom mended by Maritime Administration's new advisory committee.

MARITIME POLICY AND PROGRAM PROPOSALS

April 5 67
earlier version of
W.H. memo 3/28/67

Background of Problem

-- Federal maritime subsidies have risen from $65 to over $400 million annually in last 17 years. Yet over 70% of the active U.S. fleet is of World War II age and fast approaching obsolescence. Replacement in U.S. yards would cost the Federal Government about $5 billion in ship construction subsidies. Government cargoes make up about 60% of U.S.-flag carriage which underscores its limited role in our commercial ocean trade.

-- Traditionally unstable maritime labor relations are made worse, ship automation and reduced crews are difficult to achieve, because of uncertainty of long-range Government support commitment for this protected industry. Labor opposes policy changes, fearing austere program levels.

-- Past Federal efforts to formulate new program have failed. Industry wants expanded subsidy and more protected cargoes but is reluctant to accept policy reforms -- 3 major Federal studies completed since 1963 have failed to create mutual basis for agreement between Administration, industry and Congress.

-- Defense's FDL program is in serious trouble in Congress. Much of the opposition to it is apparently based on maritime industry fear that it competes with the merchant marine. Absence of an Administration maritime program confirms this, in industry's view.

The Current Status

On February 1 the Secretary of Transportation was directed to seek agreement on a maritime program embracing policy reforms which could win acceptance from industry and its Congressional supporters at the least added cost to Government. The program concept gives industry the opportunity to renew and expand the fleet -- and the responsibility for developing increased profits and employment levels. Features of the program are:

. Separate subsidy programs for ship operators and shipyards in lieu of current tied-in subsidies.

. Ship operators would pay world market prices for ships whether built under subsidy in U.S. yards (up to money limits of shipyard subsidy) or in foreign yards with no subsidy. Vessels to be under U.S.-flag and manned with U.S. crews. This is the most essential of the policy reforms -- and the most controversial.

- Incentive operating subsidy system proposed for U.S.-flag fleet in foreign trade including bulk operators, except proprietary carriers. System to be further developed and given necessary adjustments during a 3 to 5 year cooperative experiment between selected operators and government, in order to gain industry acceptance. After successful development, present subsidized operators can be expected to amend contracts to join the system or to accept it at end of their present contracts. The system substitutes direct, measurable subsidies for indirect aids (such as higher rates on cargo preference.)

- Cargo preference costs would be reduced sharply as new, more efficient ships are brought into service.

- Selective entry into domestic cabotage trade would be permitted for new ships purchased at world market prices in U.S. or abroad. Existing ships built at high U.S. prices would be protected.

- Nuclear ship program proposed -- by either endorsing the report requested by Senator Magnuson now pending in White House (about $200 million) or by upgrading the SAVANNAH (about $30 million.)

- Maritime research and development would be expanded as part of Department of Transportation R&D.

- Emergency capability would be improved by revitalization of reserve fleet and arrangements for availability of active ships under conditions short of all-out mobilization.

Support and Opposition

Discussions held with maritime union leaders and industry management covered above program features, but with purposely qualified references to a construction level of 15-18 ships per year in U.S. shipyards -- and U.S. construction level is key item in setting program size for industry and Congressional acceptance.

- The program has favorable but qualified support of:

  - Union leaders representing majority of seagoing labor force (Curran, Calhoon and Sheldon, i.e., NMU, MEBA and MMP).

  - Operators of about 80% of ships in U.S. fleet (CASL, AMMI, representing subsidized operators, some tramps and oil company tanker subsidiaries.)

- Program is opposed by:

  - Some tramp and independent tanker operators who fear new ships would jeopardize their investments through competition for (1) Government cargoes carried at preferred rates and (2) domestic trade. (Their opposition has weakened and position is negotiable under reasonable compromise.) Larger operators in this group now support the program.

- Paul Hall (SIU and head of AFL-CIO Maritime Trades Department) who believes level of construction is U.S. yards (presented to him as 15 ships/year) is too small. However, the higher level proposed as Option 3 on following page would probably be acceptable to him. He is against foreign construction on principle. His position is influenced by internal AFL-CIO political considerations. Hall's counter-proposal (given to White House staff) calls for construction subsidy in U.S. yards for 65 ships/year, expansion of cargo preference and its extension to commercial cargoes. Its costs are estimated to run roughly $1 billion per year.

- Shipbuilders Council and shipyard unions who oppose any foreign construction of merchant vessels. (However, merchant ship work represents only 10% of their government-generated business -- remaining 90% is mostly Navy.)

Program Alternatives

Three options are proposed for your consideration and their costs (direct and indirect) are projected and compared in table on last page.

-- Option 1 -- Continue present program: This is least attractive in that costs will continue to rise without any concomitant increase in productive capacity. Present undesirable policies would remain in effect. Further:

. A new merchant marine policy was promised two years ago by the Administration and the matter will continue as an embarrassment until a program is sent to the Congress.

. Republicans are given a ready-made issue for 1968 campaign. This already is considered a major political issue by maritime labor.

. If a program does not go forward, Congressional maritime supporters of both parties will likely enact their own program -- an industry-oriented program with no policy reforms and on a much larger scale than the Administration would like to buy. It would be difficult to veto such a program unless an Administration position had been presented earlier to the Congress.

-- Option 2 -- Adopt lower cost program prepared by BoB: This program would meet national security needs at the lowest direct cost to the Federal Government and includes most of the policy objectives being sought by the Administration. However:

. It would be unacceptable to maritime labor, to most of industry management and to Congress: The program is too small to satisfy either the ship operating or shipyard industry and would not bring about acquiescence to any foreign ship construction.

. It will cause radical reductions in maritime labor.

. The program does not include the proposed reserve fleet revitalization which DoD supports.

-- <u>Option 3 -- Expanded version of program discussed with industry</u>: Secretary Boyd recommended to the Cabinet Committee that the program orally discussed with industry be expanded by increasing the annual level of ships constructed in U.S. yards from 15 to 30, reducing after 5 years to 25. This would increase Federal costs over the FY 1968 level by an average of $170 million annually for the first 5 years (which includes $75 million for National Defense Reserve Fleet revitalization), reducing to $10 - $20 million more than FY 1968 thereafter.

. It provides the expanded program in shipyard and shipboard activities which will bring maritime labor and industry management acceptance of the policy reforms.

. The expanded program could have significant and favorable economic impact throughout U.S. industry generally (steel, equipment supplies, etc.)

. It would stimulate needed capital investment in new facilities by ship construction industry, which would improve their productivity and competitive position.

. Most opposition to the policy reforms and to inclusion of MarAd in the Department of Transportation would probably disappear.

. While direct Federal costs would be higher than other options, long-term reforms are anticipated to produce lower total social costs to the nation than under current program and policy assumptions.

. Nuclear ship program options would add either $30 million or $200 million over a 10-year period.

<u>Conclusion</u>

The Cabinet Committee agrees that the Option 3 program is probably the only alternative acceptable to industry. Under any circumstances, the foreign construction proposal will remain controversial with vocal opposition by shipyard industry. However, this opposition would be blunted by the larger program size.

While the more limited program proposed by the Bureau of the Budget is attractive from the least Federal cost standpoint, it would require a massive selling job involving the President and senior members of the Administration, and even this would not insure success. A danger of mounting such a sales campaign is that it could escalate the maritime controversy into a national political issue.

The Cabinet Committee further agrees that a status quo approach sending no program runs the grave possibility of facing the President with an unattractive situation -- i.e., the alternative of vetoing a substantially larger and unpalatable maritime program than either active option referred to in this paper.

The issue is whether the Federal Government is willing to incur a direct budget cost increase, averaging from about $100 million up to about $130 million annually for the next ten years, in order to achieve desirable reforms and labor stability in the maritime industry. A further point here is that unless an acceptable program is obtained, the proposal to relax restrictions on shipment of grain to Russia and Eastern Europe has little hope of gaining labor acquiescence.

Secretary Boyd believes that any program that goes forward should be clearly presented as a package and that the reforms must be taken with the expansion. Also, it should be clearly indicated that the program complements the FDL as far as National Security is concerned, but it in no sense substitutes for it.

Attachment

TEN-YEAR COS[illegible] EF[illegible]TS

Program Costs - First Ten Years Cumulated (FY '69 thru '78) 1/

	Option 1 (Continue current policies; no policy reforms, 13 or fewer ships built per year all in U.S. yards)	Option 2 (Minimum proposal some policy reforms, 13 ships built per year in U.S. yards, 11 foreign yards)	Option 3 (Expanded program, all policy reforms, MarAd to DoT, 30 ships per year in U.S. yards foreign construction freely allowed)
Federal Costs	$3.8 Billion 2/	$3.2 Billion 2/	$5.1 Billion 3/
Total Costs 4/	$7.2 Billion	$4.6 Billion	$6.9 Billion
Private Investment Requirement	$0.8 Billion	$2.4 Billion	$3.7 Billion

Program Effects - In Tenth Year (FY '78)

	Option 1	Option 2	Option 3
Fleet Size (Ships/Millions of Deadweight Tons)			
Subsidized 5/	340/5.7	447/8.1	589/13.8
Unsubsidized (Domestic)	264/5.2	285/5.6	300/ 7.5
Total	604/10.9	732/13.7	889/21.3
Shipboard Jobs	28,236	32,000	37,000
Shipyard Jobs Supported by Merchant Marine Construction	1,400	9,800	17,500
Total	29,636	41,800	54,500
Reserve Fleet Size (Useful General Cargo Ships)	-	-	250

1/ Programs have no budget impact in FY '68; first program effect on budget is in FY '69.

2/ Includes subsidy to ship yards, ship operators and cargo preference costs.

3/ A nuclear program would add about $30 million for minimum size program utilizing SAVANNAH or about $200 million to implement the draft nuclear ship report requested by Sen. Magnuson. Reserve fleet revitalization program costs are included in the total costs.

4/ Includes social cost of cabotage, extra peace-time costs to the Defense Department, costs of Merchant Marine Academy and seamen's medical care.

5/ Includes 75 ships indirectly subsidized through government cargoes.

Estimated Budgetary Impact of Proposed Maritime Program on F.Y. 1969 Budget

4-7-67

Appropriation	1968	1969 Existing Program	1969 Proposed Program	1969 Change + or −
Const. Differential Subsidy				
Unobl. Bal., Prior years	47500	—	—	—
N.O.A.	139850	111263	222602	+111339
Total Avail.	187350	111263	222602	+111339
Est. obligations	187350	111263	166932	+ 55669
Unobl. Balance	—	—	55670	+ 55670
Est. expenditures	120000	123000	128000	+ 5000
Oper. Differential Subsidy				
NOA (Contr. auth. - Perm. indefinite)	190000	200000	200000	—
Approp. to liquidate (expend.)	200000	202100	207100	+ 5000
Change in unfunded balance	-10000	- 2100	+ 2900	+ 5000
Est. expenditures	200000	202100	207100	+ 5000
Research & Development				
NOA	7625	7625	12625	+ 5000
Est. obligations	7625	7625	12625	+ 5000
Est. expenditures	7025	7425	8425	[illegible]000

Nuclear Ship Program				
NOA	—	—	5000	+5000
Est. obl.	—	—	5000	+5000
Est. expenditures	—	—	1000	+1000
National Defense Reserve Fleet				
NOA	5440	5440	55440	+50000
Est. obl.	5440	5440	55440	+50000
Est. expenditures	5000	5300	10300	+5000
Summary				
NoA	342915	324328	495667	+171339
Est. OBL. (incl. prior bal.)	400415	426428	447097	+20669
Est. Exp.	332025	337825	354825	+17000

Apr [illegible]

Outline of maritime program
discussion paper [illegible]

The proposed Federal maritime program under study in the Administration is ready for submission to the Congress. Its major elements are as follows:

(1) Annual increase in Federal subsidy support of about $150 million which will sustain employment of about 54,000 jobs by 1978 as opposed to 37,000 by projection of present program. This will be accomplished by:

-- Sharply expanding U.S. fleet tonnage from 14 million to 20 million in ten years.

-- Guaranteeing to domestic U.S. ship yards a construction program of 30 ships per year vs. 13 at present.

-- Providing an operating subsidy to now unsubsidized operators in liner and bulk trade to permit them to compete for the expanded U.S.-foreign trade.

-- Maintaining the availability of preference on Government cargoes to U.S. flag operators and centralizing its administration in DOT.

(2) The long-range health of the industry and the protection of jobs is improved by reforms in the present policy

-- Restructured operating subsidy schemes will remove Government from involvement in business decisions of the industry and give them competitive incentive.

-- Provides a guaranteed base for ship yards to modernize and improve production techniques.

-- Provides for foreign construction of some ships (without government costs) tied into U.S. ship yard levels.

-- Provides protection of equities of present domestic operators under public hearing procedures while allowing them to selectively introduce modern equipment.

-- Substantially expands research program in maritime area, plus nuclear ship development program.

(3) The Maritime Administration and its programs to be transferred to the Department of Transportation so that resources available in that Department can be brought to bear on maritime problems.

Vast majority of industry endorse program and there is strong support among seagoing unions. Key problem is how Paul Hall can find a basis for publicly moving away from opposition to construction abroad by U.S. operators. The proposed closed-ended approach of tying level of foreign construction to level of construction in U.S. yards (suggested by Hall) offers an acceptable compromise. Administration is expected to testify on new program at Bartlett hearings on May 1. Presidential announcement prior to that date is needed.

Given to Ed Head

[illegible] Apr 24, 60 [illegible]
and May 60 [illegible]

or may be april 23 meeting
seems more likely

<u>A PROGRAM</u>

<u>FOR</u>

<u>MERCHANT MARINE</u>

<u>RENEWAL</u>

PROGRAM FEATURES

Fleet Renewal and Expansion

- Industry would have the freedom to replace ships at a rapid rate and expand their fleets -- and the responsibility for finding capital and cargo.
- All operators would face world market ship prices, in U.S. or abroad.
- Operating aid would be available for all ships that industry can find capital to build -- up to the limits shown on the pages that follow.
- Shipyards and ship operators would have separate direct subsidy programs.

Larger Program in American Shipyards

- Ship construction program would be increased and held roughly level.
- A separate shipyard subsidy system will be provided. See separate attachment for more detail.
- Shipbuilding subsidy (up to program money limits) would be paid shipyards for sales to operators that give most ship value per subsidy dollar.
- Ships built with shipyard subsidy would be available to operators in both foreign and domestic trades -- all ship types.
- Conversion program for interim NDRF revitalization.
- Repairs in U.S. yards expected to increase.

Additional Liner Operators Brought Under Subsidy

- Present unsubsidized operators can obtain operating aid, initially on an experimental basis, using a new subsidy system.
- New system, after 3-5 year development period, would, if effective, be extended to other operators as contracts come up for renewal.

Direct Operating Aid for Bulk Carriers

- New bulk carriers could receive operating aid to enable them to compete for commercial cargoes and long term charters.
- Bulk subsidy system would be developed over a 3-5 year period before finalization.

Cargo Preference Retained -- Costs Reduced

- New subsidized ships wanting to carry bulk government cargoes would have "Fair and Reasonable" rate administered to be close to "World Rate"

- Old unsubsidized ships would be handled under "Fair and Reasonable" rates and cargo reserved for them.

NDRF Revitalized

- AP-5's would be converted and put back into NDRF; size of program, up to 100, related to amount of active shipping available.

- Some returning GAA ships would be repaired and put back in NDRF.

- Possible early retirement program for mariners and newer ships, into NDRF.

- All ships added to reserve fleet would be under modern preservation.

- No NDRF ships put in under this feature would be available under ship exchange.

- Dispose of non-usable ships and reduce number of sites.

Nuclear Ship Program

- A nuclear ship program, based on a recent study, would be part of the total package.

Increased R. and D.

- Increased emphasis on maritime/port R. and D. as part of transportation research package.

Ship Availability for Defense

- Subsidized vessels to be available on incremental basis without requisitioning. Amount available will govern reserve fleet program size.

PROGRAM LEVEL

	Construction in U.S. Yards	Federal $, 10 Yr. Cumulative
Proposed Program	30 per year for 5 years; then 25/yr.	5.1 B.
Current Program for comparison	13-14 per yr.	3.8 B.

FEDERAL MONEY LEVELS

F.Y.	Proposed Program	Current Program
1969	546	403
1970	582	409
1971	573	407
1972	532	400
1973	520	398
1974	483	337
1975	487	391
1976	489	281
1977	452	270
1978	444	264
1986	495	416

AP-5 Conversion = $60M/Yr. and Nuclear Program, would be add-ons to this.

CUMULATED COSTS

	First 5 Yrs. (FY 69 - 73)		First 10 Yrs. (FY 69 - 78)	
	Fed.	Priv. Cap. Needs	Fed.	Priv. Cap. Needs
Proposed Program	$2.8B.	$2.4B.	$5.1B.	$3.7B.
Current Program for comparison	$2.0B.	$0.6B.	$3.8B.	$0.8B.

FLEET SIZE TONNAGE
(DWT in Millions)

	1976	1986
Proposed Program	861/19.0	1035/27.6
Current Program	641/11.2	619/11.6

SHIPYARD SUBSIDY PROGRAM

The Federal money available for subsidizing shipyards for merchant ship construction would be increased from the FY 1968 level of \$140 M to about \$222 M in 1969, 1/ which would construct about 30 ships, depending on the mix of types. In FY 1974 this would drop to \$194 M, sufficient for about 25 ships in a similar mix. The size and continuity of the program should enable shipyards to plan plant investment that would, in their judgement, be necessary to enable them to be more competitive. Induced modernization and retooling would permit greater economies of scale and hopefully make U.S. shipyards more competitive.

The program would handle shipyard subsidies as follows:

1. Construction subsidy rates would be initially calculated in a manner similar to the present system to indicate the best estimate of percentage difference between U.S. costs and weighted average foreign costs, separately for liner vessels, dry bulk carriers and tankers. These rates (for example, 55% for liners, perhaps 50% for bulk and tankers) would be promulgated by MarAd and fixed for an initial two to three year period.

2. The U.S. ship purchaser would have the full freedom to purchase his ships either in the U.S. yard or abroad based on price and any other considerations he may wish to include, such as ease of repair and supply, etc. Thus, except for additional safety requirements for U.S. registry or more expensive crew quarter needs, he faces the same ship prices as any world market ship purchaser.

3. Added defense features would be financed as added cost to the government, as at present.

4. The U.S. shipyard, with knowledge of his costs, the subsidy rate and world ship prices, could design ships for sale to operators, could bid on contracts offered by ship purchasers and could negotiate on a completely free basis with the operators.

5. Proposed contracts for construction would be brought to MarAd who would pass on the general specifications of ships for U.S. operators. Subsidy money to the limit appropriated for the year would be allocated to yards with preference to contracts for U.S. operators with choice between contracts being made on a production-per-government-dollar basis.

1/ In FY 1970 and 1971 the program assumes construction of 3 combination cargo/passenger ships now scheduled in The Grace Line's replacement program. This would add \$30 M in each of those years.

6. After some actual experience has been obtained relating to construction abroad for U.S. registry, the subsidy rates would be reset periodically at increments of 3 years at levels more accurately reflecting the actual competitive difference between U.S. and foreign ship construction prices.

7. Ship repairs would not be subsidized inasmuch as the present 50% duty and the convenience of repair in U.S. yards for all domestic operators and most U.S. operators in the foreign trade is considered to offset any competitive price advantage now held by foreign yards. This matter would be monitored and opened for review after five years.

8. Title XI loan guarantees would not be available for foreign construction.

9. Construction reserve funds could be used for foreign as well as U.S. construction.

10. Shipowners purchasing ships abroad would be urged to take maximum advantage of financing, interest rate and ship pricing arrangements that are offered by foreign countries. (In many cases these will represent subsidization of ship prices by foreign countries.)

A PROGRAM

FOR

MERCHANT MARINE

RENEWAL

PROGRAM FEATURES

Fleet Renewal and Expansion

- Industry would have the freedom to replace ships at a rapid rate and expand their fleets -- and the responsibility for finding capital and cargo.
- All operators would face world market ship prices, in U.S. or abroad.
- Operating aid would be available for all ships that industry can find capital to build -- up to the limits shown on the pages that follow.
- Shipyards and ship operators would have separate direct subsidy programs.

Larger Program in American Shipyards

- Ship construction program would be increased and held roughly level.
- A separate shipyard subsidy system will be provided.
- Shipbuilding subsidy (up to program money limits) would be paid shipyards for sales to operators that give most ship value per subsidy dollar.
- Ships built with shipyard subsidy would be available to operators in both foreign and domestic trades -- all ship types.
- Conversion program for interim NDRF revitalization.
- Repairs in U.S. yards expected to increase.

Foreign Construction Permitted

- Foreign construction for U.S. registry would be permitted at levels tied to program level in U.S. yards.

Additional Liner Operators Brought Under Subsidy

- Present unsubsidized operators can obtain operating aid, initially on an experimental basis, using a new subsidy system.
- New system, after 3-5 year development period, would, if effective, be extended to other operators as contracts come up for renewal.

Direct Operating Aid for Bulk Carriers

- New bulk carriers could receive operating aid to enable them to compete for commercial cargoes and long term charters.

- Bulk subsidy system would be developed over a 3-5 year period before finalization.

Cargo Preference Retained -- Costs Reduced

- New subsidized ships wanting to carry bulk government cargoes would have "Fair and Reasonable" rate administered to be close to "World Rate".

- Old unsubsidized ships would be handled under "Fair and Reasonable" rates and cargo reserved for them.

NDRF Revitalized

- AP-5's would be converted and put back into NDRF; size of program, up to 100, related to amount of active shipping available.

- Some returning GAA ships would be repaired and put back in NDRF.

- Possible early retirement program for mariners and newer ships, into NDRF.

- All ships added to reserve fleet would be under modern preservation.

- No NDRF ships put in under this feature would be available under ship exchange.

- Dispose of non-usable ships and reduce number of sites.

Nuclear Ship Program

- A nuclear ship program, based on a recent study, would be part of the total package.

Increased R. and D.

- Increased emphasis on maritime/port R. and D. as part of transportation research package.

Ship Availability for Defense

- Subsidized vessels to be available on incremental basis without requisitioning. Amount available will govern reserve fleet program size.

PROGRAM LEVEL

	Construction in U.S. Yards	Federal $, 10 Yr. Cumulative
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A PROGRAM FOR MERCHANT MARINE RENEWAL

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Department of Transportation
May 1967

A PROGRAM FOR MERCHANT MARINE RENEWAL

BACKGROUND

In recent years a number of serious efforts have been made to establish new policies and programs for the merchant marine. Many government agencies, almost every independent industry group and a number of knowledgeable individuals have expressed their views. As a result, the objectives and expressed wishes of most institutions and key individuals are available and well-known. The diversity of goals and special interests of all of these groups makes any broad consensus difficult and probably makes complete agreement impossible.

Here in brief form are the points considered most important by the government groups and by industry. These are the points which must, in some form, be considered in a program. They are considered in the program proposed in this paper:

- Government Program Objectives

  1. Foreign construction: The opportunity for American ship-owners to purchase their ships at world market prices without restraint imposed by need for government appropriations.

  2. An operating subsidy system that would have built-in incentives toward more productive, competitive and efficient operations; and with less government involvement in industry management decisions.

  3. Rationalization of the cargo preference system to minimize costs while retaining "routing preference."

  4. Availability of active commercial shipping for use by the Department of Defense in situations less than full-scale national emergencies where use of requisitioning authority is not desirable.

  5. Inclusion of the Maritime Administration in the Department of Transportation.

- Industry Program Objectives

  1. A stable or increasing level of maritime job opportunities -- considered a key to future labor-management stability.

  2. Protection of the rights of the present operators having contractual arrangements with the government (including trade route or area rights).

  3. Retention of the cargo preference principle.

4. Full recognition and protection of the position and value of the commercial shipbuilding and ship repair industry from the standpoint of national security and its contribution to the economy.

5. Protection of private capital investments made at U.S. prices in construction or conversions of ships.

6. Retention of cost parity as a base for operating subsidy systems.

7. Reduction to a minimum of government restrictions on management decisions and prerogatives.

8. Expanded and effective government promotion of use of American-flag vessels by American exporters and importers.

9. Greater support for Maritime-oriented research and development.

EXPECTED RESULTS OF PROGRAM

The program proposed does not guarantee that any given size fleet will be built -- no program short of nationalization of the merchant marine could do this.

The program would give the maritime industry the opportunity and flexibility to fully meet the revolution in technology now underway in maritime transportation: Containerized general cargo systems and the large specialized bulk ship systems which are being placed in operation require that heavy capital investments in new ships be made at competitive prices. New ship types, particularly the large specialized carriers, will inevitably drive older and obsolete ships from the ocean. The as-yet-unknown impact of these new developments on the market for shipping services requires that management be free and flexible in its ability to make judgements on new equipment investment and service opportunities. The proposed program would provide this flexibility: It would lift the ceiling on government restraints on fleet renewal and expansion, extend the government's willingness to provide assistance and reduce the interference in day-to-day operations.

The opportunity provided by the revolution in technology is timely: Competing foreign merchant marines have committed large investments in convetional ships which although young, are obsolescent in the light of technological possibilities. The U.S. Merchant Marine, by virtue of the existing stagnation of investment caused by the rigid laws requiring U.S. construction, are in a position to renew and expand under this program with advanced-type vessels and systems, thus turning the problem of our obsolete (but largely amortized) fleet to advantage. In a separate context, the favorable impact of a ship construction and fleet expansion program of this size upon the over-all American economy would be considerable -- steel and equipment sales, for example, would generate useful secondary economic effects.

If the maximum opportunities for investment and expansion were taken by the industry, the Federal cost in subsidies per ton cargo carried in the foreign trade would decrease to about $5 per ton by 1979 (the tenth year of the program), from the present $12. Fleet size would increase from 14.5 M DWT (955 ships) to 21.6 M DWT (910 ships) by 1979 and 27.1 M DWT (1035 ships) by 1986. Both shipyard and shipboard employment would be increased.

The cumulative Federal costs over the first ten years of the program would be about $5.1 billion. At present, the differential rate payments under the indirect subsidy of cargo preference make up about 20% of the Federal subsidy costs. Under the proposed program this reduces to 10%, with direct subsidies for shipyards and operators making up the balance.

DESCRIPTION OF PROGRAM FEATURES

- Separate Subsidy Programs for Ship Operators and Shipyards: Ship operators and shipyards would have separate direct subsidy programs:

  . Shipyards would receive subsidy in order to enable them to compete in the construction and sale of merchant ships at world market prices.

  . Ship operators could purchase their vessels at world market ship prices and receive operating subsidy to enable them to operate flexibly and competitively in the world market for shipping services.

  These programs are separately described below.

- Fleet Renewal and Expansion:

  . Operators in Foreign Trades: Ship operators in foreign trades would be permitted to buy ships at world market prices either by purchasing ships built in U.S. yards under the shipyard subsidy program or in foreign yards. Foreign-built vessels would be registered under U.S.-flag, manned with U.S. crews and would have all privileges of U.S. registry accorded to similar U.S.-built vessels. Only new foreign-built ships would be eligible. General design features and specifications of vessels to be built would require approval by the Maritime Administration to be eligible for operating subsidy. Operating subsidy would be available for all ships in foreign trade except proprietary carriers, up to the limits of the program level. This level allows for about 490 ships under subsidy in 1979 (10th year) and about 560 by 1986, at annual operating subsidy costs estimated at $239 million and $254 million, respectively. War-age ships would have to be renewed before operators could expand the number of vessels in their fleets under subsidy.

Replacement of war-age ships should be completed by about the 8th year of the program.

. Operators in Domestic Trades: Ship operators in domestic trades would be able to purchase ships at world market prices in U.S. or foreign shipyards but under a licensing procedure which would function to protect existing unamortized investments in ships constructed or substantially converted at U.S. prices. The procedure for placing in domestic trade of a new ship to be built at a world market price would be as follows:

1. The operator would make application to the Maritime Administration with his proposal.

2. A hearing would be scheduled and opportunity to be heard would be available to those who considered that their existing ship investment equity would be jeopardized by the proposal.

3. The application, together with hearing record would be considered by the Maritime Subsidy Board, who would decide whether the ships could be entered in the service (subject, of course, to normal ICC certification).

4. Appeal by either applicants or opponents could be made to the Secretary of Transportation.

Entries would be considered on a trade-by-trade basis: There are some domestic trades where there would be small likelihood of either opposition or jeopardy of existing investment. No operating subsidies would be available in domestic operations.

The program would call for removing all restriction on foreign construction of U.S.-flag, U.S.-manned vessels for domestic trades in FY 1980, 12 years after the program starts.

. Trade-in Vessels: Existing vessels of operators in either domestic or foreign trade could be purchased into the National Defense Reserve Fleet, depending on the needs of the NDRF and the vessel's potential utility to the NDRF in terms of condition and type of configuration.

. Renewal Preference to Existing Operators: Applications by existing operators for ship purchases under the shipyard subsidy program, for permission for foreign construction or for operating subsidies would be considered ahead of similar applications by new operators.

- Shipyard Subsidy Program: The Federal money available for subsidizing shipyards for merchant ship construction would be increased from the FY 1968 level of \$140 M to about \$222 M in 1969 1/ which would construct about 30 ships, depending on the mix of types. In FY 1974 this would drop to about \$194 M, sufficient for a mix of about 25 ships. The size and continuity of the program should enable shipyards to plan plant investment that would, in their judgement, be necessary to enable them to be more competitive. Induced modernization and retooling would permit greater economies of scale and hopefully make U.S. shipyards more competitive.

The program would handle shipyard subsidies as follows:

1. Construction subsidy rates would be initially calculated in a manner similar to the present system to indicate the best estimate of percentage difference between U.S. costs and reasonable foreign costs. These rates would be promulgated by MarAd and fixed for an initial two-year period.

But see p7 for tie to U.S. program levels.

2. The U.S. ship purchaser would have the full freedom to purchase his ships either in the U.S. yard or abroad based on price and any other considerations he may wish to include, such as ease of repair and supply, etc. Thus, except for additional safety requirements for U.S. registry or more expensive crew quarter needs, he faces the same ship prices as any world market ship purchaser.

3. Added defense features would be financed as added cost to the government, as at present.

4. The U.S. shipyard, with knowledge of his costs, the subsidy rate and world ship prices, could design ships for sale to operators, could bid on contracts offered by ship purchasers and could work on a completely free basis with the operators.

5. Proposed contracts for construction would be brought to MarAd who would pass on the general specifications of ships for U.S. operators. Subsidy money to the limit appropriated for the year would be allocated to yards with choice between contracts being made on a productivity formula basis.

6. After some actual experience has been obtained relating to construction abroad for U.S. registry, the subsidy rate would be reset after the initial two-year period and after that annually at levels more accurately reflecting the actual competitive difference between U.S. and foreign ship construction prices.

1/ In FY 1970 and 1971 the program assumes construction of 3 combination cargo/passenger ships now scheduled in replacement program of a subsidized line. This would add \$30 M in each of those years.

7. Shipyard subsidy would not cover repairs inasmuch as the present 50% duty and the convenience of repair in U.S. yards for all domestic operators and most U.S. operators in the foreign trade is considered to offset any competitive price advantage now held by foreign yards. This matter would be monitored and opened for review after five years. NOTE: Subsidized operators under present contracts would continue to receive "M&R" as an item of subsidy and would be required to repair in U.S. yards until termination of their contracts.

8. Title XI loan guarantees would be available to U.S. operators for foreign construction.

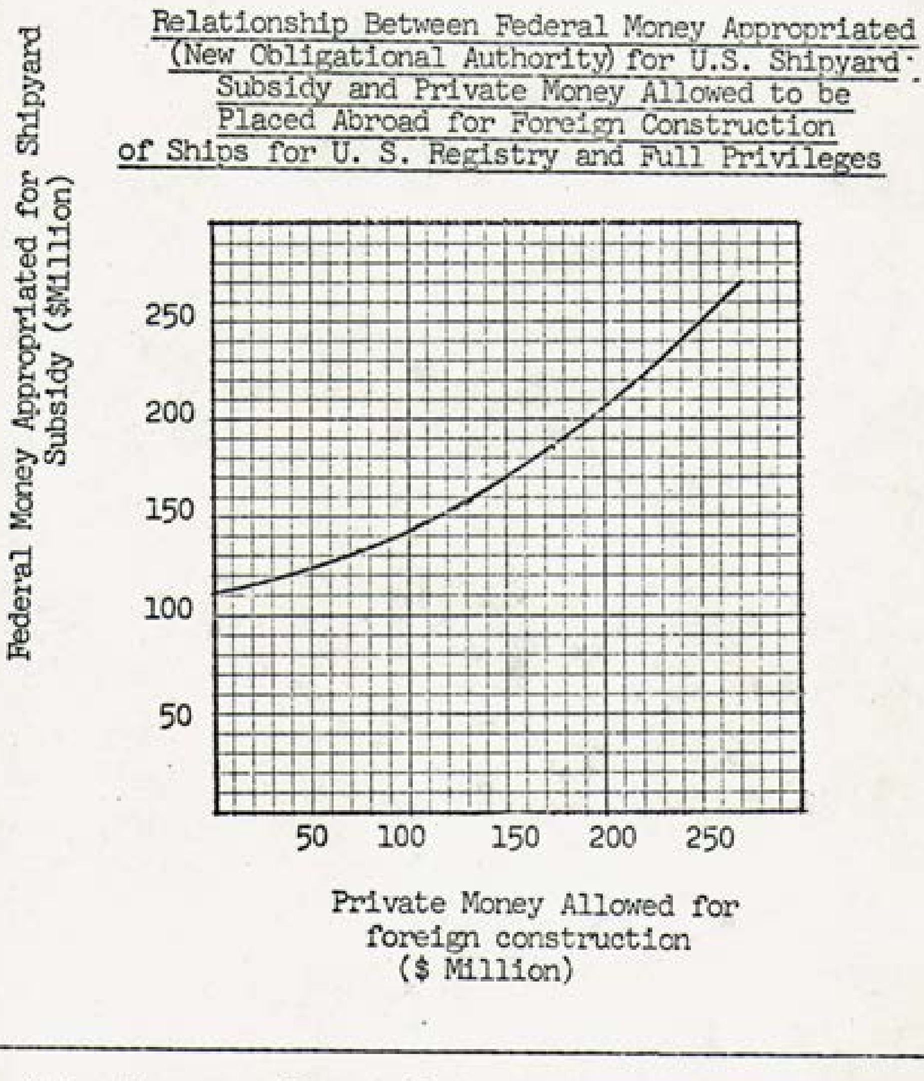
9. Reserve funds could be used for foreign as well as U.S. construction.

10. Shipowners purchasing ships abroad would be urged to take maximum advantage of financing, interest rate and ship pricing arrangements that are offered by foreign countries. (In many cases these will represent subsidization of ship prices by foreign countries.)

11. U.S. shipyards can build ships for foreign purchasers if not enough U.S. ship purchase contracts develop in a given year. Priority would be given to all U.S. purchasers before allowing any foreign ship purchases under shipyard subsidy.

- Foreign Construction Levels would be tied to U.S. Construction:

  - The level of money that American ship purchasers (operators) would be allowed to place abroad in any given fiscal year would be tied to the amount of New Obligational Authority (NOA) approved for that year by the Congress for shipyard subsidy. When after 5 years the program goes to a level of roughly 25 ships, or in some future year the Congress appropriates a lesser amount, the allowable foreign construction authorization would be scaled down so that at a level of appropriation of about $110 million or roughly a mix of 15 ships, no foreign construction would be allowed for that year. The scale relating the two figures is shown on the chart below: 1/



1/ The interrelationship of money and approximate numbers of ships assumes a mix of liners, bulk carriers and tankers and assumes a ship price differential between U.S. and foreign yeards of approximately 50%. These are examples and would require revision when changes are made in the mix or the U.S.-foreign differential.

- To allow adequate time for design and contract letting, and to allow for longer production runs of standardized vessels, the relationship would be cumulative over a period of up to five years, that is, the annual authority for placement abroad based on the above table would be cumulated over a period of up to five years.

- If the level of NOA for ship construction in the U.S. were to fall to $110 M or below (roughly equivalent to an average mix of 15 ships), no foreign construction placement would be allowed for that year.

- Operating Subsidy Programs:

  - New Liner Contractors: The four present unsubsidized liner operators (about 85 ships) plus any new qualified applicants would be placed under experimental contracts for a 3-5 year period for the purpose of developing an operating subsidy system that wold provide greater incentives to efficient, productive and competitive operation while allowing the government to reduce its surveillance and stay out of the operator's management decisions. The system would be worked out with the participating operators in the next 30-60 days and taken to Congress for such legislative changes as are needed to conduct the experiment. A number of systems could be considered and tried. The system (or systems) will be monitored and adjusted during the 3-5 year developmental period and at the end of the period, if effective and acceptable, the best system would be utilized for long-term contracts with the experiment participants, who in any event, would have an option for long-term contracts under whatever system the government finally settled on for liner operating subsidy.

  - Present Subsidized Contractors: The present contractors would be asked to participate in monitoring the experiment to insure that the system would work effectively for them. At the end of their present contracts, or earlier if operators desire, renewal contracts would include whatever new system had been developed. Operators whose contracts would terminate during the development period, would be given extensions of their present contracts until after this period in order that they and the government could evaluate the results of the new proposed system.

* Bulk Operators: The operating subsidy for bulk carriers would be a streamlined, administratively simplified cost parity-based system. The system would be slightly different for long-term time charter operations and shorter-term arrangements.

  ** Long-term Operations:

  1. Entrepreneurs planning to set-up or bid upon a long-term charter (for example, a 10 or 15 year charter to move coal or ore for a steel industry operation, here or abroad), prior to making his bid would bring the details of his proposal and its costs, including shipbuilding plans and costs (assuming the package to include construction of new ships) to the Maritime Subsidy Board.

  2. The Board, using streamlined evaluation procedures to reduce the time required for processing, would decide on the size of annual subsidy payment that the government would make to the operator and would set times during the proposed charter period, for example, at the end of each five years, when the subsidy arrangement would be reopened for evaluation and adjustment. Performance requirements would be included in the government's agreement with the operator consistent with the nature of the operations being contemplated under the proposed charter. These matters would be on a confidential basis between the Board and the operator to avodi jeopardizing the operator's competitive bidding or negotiating position.

  3. The Board's decision would form a commitment to the operator, shoud he obtain the contract, and he can then make his bid (or negotiate) for the charter allowing his bid price to reflect the subsidy.

  ** Short-term Operations:

  1. Operators contemplating shorter-term time charters (for example 1 or 2 years) contracts of affreightment, etc., would bring the details to the Maritime Subsidy Board, as above.

  2. Depending on the length of arrangement contemplated, the Board could commit for a one-time subsidy payment or annual payments, with performance requirements consistent with the charter.

  3. This commitment could then be used by the operator in his bidding or negotiations.

- Subsidized Bulk Operations to be Related to U.S. Foreign Trade: To receive subsidy, bulk operations would have to be related to the U.S. Foreign Trade. However, these subsidized operations could have one or more legs in crosstrades between foreign countries as part of their overall operation.

- Cargo Preference: Cargo preference would be retained but its costs would be reduced by allowing new subsidized bulk ships to compete for the cargoes, in conjunction with their commercial operations. Cargo preference would be administered under "Fair and Reasonable" ceiling rates, and subsidized new ships built at world market prices would have "Fair and Reasonable" rates administered so as to reflect the subsidy and be at the competitive world rate. The potential impact of new bulk ships would not begin to be felt until 1971 and would not be expected to be of significance until about 1973 or 1974. Cargo would be reserved for the older ships and independent tankers at an annual cost of roughly $33 million in differential rates. The proposed program contemplates that the older tonnage would be scrapped when it was no longer useful in cargo preference and that the operators would construct new tonnage at world market prices and possibly even enter other trades.

  Liner cargo preference would be continued as at present at an estimated differential cost of about $11 million.

  In considering cargo preference, the program makes the assumption that PL 480 shipments may gradually increase from the present roughly 8 million tons per year up to roughly 10 million tons over the next ten years.

  The program recommends that the maritime promotional features of cargo preference administration be centralized in the Department of Transportation.

- Nuclear Ship Program

The proposed maritime program would include a nuclear ship program as part of the total package.

- Set up a joint program with a selected ship operator to develop and construct 2-4 nuclear container ships to form a complete high speed system.

- Establish a parallel Research and Development program aimed towards development of an economic reactor system.

- Operate the SAVANNAH in her present condition as a cadet training vessel for the Federal and State Maritime Academies for three years, followed by two years of crew training. After five years, re-evaluate the need for the SAVANNAH.

- Research and Development

The program contemplates increasing the annual level of effort in Maritime-related research and development to roughly $24 M as part of the Department of Transportation R & D program. Maritime R & D would include shipbuilding, ship operating, ports and maritime aspects of transportation systems.

- Ship Availability for Defense Needs

The program would include arrangements for the availability of ships from the active fleet on an incremental basis without the need for requisitioning.

A plan being discussed between the Department of Defense and the present subsidized operator (project RESPOND), calls for several levels or stages of ship availability, keyed to particular levels of Defense activity.

The details of this system remain to be worked out between the Department of Defense, the Department of Transportation and the representatives of the private operators.

- Revitalization of the NDRF

The program includes a proposal for the revitalization of the NDRF 1/ in order to provide a "surge capability" to meet peak emergency needs in future crises with less disruption of commercial services:

1. The roughly 100 Victory (AP-5) -- class troopships in the NDRF would be converted and jumboized into general cargo ships of about 13,700 measurement tons (550,000 cubic feet) capacity, with cargo handling gear capable of up to 60 long ton lifts. This would be done over a five-year period commencing in FY 1969 at an estimated cost of $2.8 million per ship. Every effort would be made to obtain a lower unit price through competitive bidding for larger numbers of the conversions to a single shipyard.

2. Returning Victory cargo ships now under general agency agreement operations would be selectively repairdd and returned to the fleet. Up to 100 - 150 ships could be affected over the next five years at an estimated average cost of $140,000 each.

3. Suitable ships owned by existing operators could be purchased as "trade-ins" under the ship renewal portion of the program and would provide additional usable NDRF capability.

4. Unusuable ships in the NDRF would be sold for scrap or other non-ship uses as rapidly as possible.

5. Converted and returning ships would be placed under modern preservation.

6. In the mid-1970's the desirability of early retirement of post-war age ships for NDRF use would be considered in the light of the needs at that time. Early retirement of post-war ships before that time would mean taking newer ships out of active service while war-age ships would still be in service and under subsidy. This is considered to be contrary to the active fleet renewal objectives of the program.

7. Converted and upgraded ships in the NDRF would be excluded from ship exchange provisions in order to keep a better quality "surge capacity" for emergency use.

1/ The size of reconversion program would be dependent upon success of current DoD/CASL negotiation on subsidized ship availability -- if considered satisfactory, the NDRF revitalization program could be reduced from the described maximum program.

SUMMARY OF COSTS AND EFFECTS

It should be re-emphasized that the proposed program provides no guarantee that a fleet of this size will be built, but rather, by providing for the availability of federal funds together with restructured, less restrictive policies, removes government restraints on decisions by maritime industry management regarding the amount and timing of investment and constraints on the degree of competition for a larger share of their market. Put another way, the program provides the maritime industry with the opportunity to grow to this size if it will make the investments and develop the business. Thus, the benefits to the maritime industry in terms of higher construction levels, larger fleet size and high and stable employment level, would all depend on the industry's own actions (by both management and labor) to operate with efficiency and stability.

Of course, the Federal costs will be directly proportional to the industry's success in locating investment capital and business: Government costs would reach the levels shown only if industry was successful in expanding their activities to the limits shown.

- Program Level: The cost and effects figures shown below are for a program that would increase the Federal input into U.S. shipyards by about $80 million annually[1/] for new construction. This would allow for a shipbuilding program of about 30 ships[2/] per year for five years, followed by 25 ships in subsequent years. As shown below, NDRF revitalizations and nuclear ship program would be added to this in the early years.

  Summary comparison figures are also given for over-all costs and effects of the current program. Federal costs include shipyard subsidy, operating subsidy and costs of cargo preference differential rates.

- Summary Comparisons:

	Construction in U.S. Yards	Cumulative Fed. Costs 10 Years	Fleet Size in DWT at 10 Yrs.
Proposed Program:	30/25	$5.1 Billion	21 Million
Current Program	13 to 14	$3.8 Billion	11 Million

1/ Over FY 1968 levels—considerable more if related to ship construction funding levels of the past several years.

2/ A mix of 14 liners, 10 bulk carriers and 6 tankers is assumed as an example.

- Proposed Program Detail Levels:

1. Construction and Conversion Program Fiscal Years

Construction in U.S. Yards	1969-73	1973 on
Ships, per year	30	25
Fed. $, per year	$223 M	$194 M (less in some yrs.)
Private Investment	$206 M	$179 M (less in some yrs.)

(Add $30 M in 1970-1 to cover costs of 3 combination ships in each of these years.)

Conversion of AP-5 Troopships for NDRF, U.S. Yards:

	1969-1973
Ships, per yr.	20 (total: up to 100)
Fed. $, per yr.	$56 M ($280 M)

(Add for Victory Ship rehabilitation: up to $7 M in each of 3 years upon their return to the NDRF.)

Construction in Foreign Yards:

	1969-74	1975	1976	1977 on
Ships	up to 38	19	16	4 or less
Private Invest. needed	$260 M	$108 M	$85 M	$20 M (-)

2. Forecast Estimate of Total Active Fleet Size

FY	Ships	Millions of DWT
1969	955	14.5
1973	875	16.4
1977	877	20.0
1980	928	22.5
1983	979	24.7
1986	1035	27.1

3. Ten-year forecast estimate of Federal Subsidies[1/]

FY	($Millions) Direct Shipyard Subsidy	Direct Operating Subsidy	Indirect Cargo Preference Subsidy	Total
1969	222	239	85	546
1970	255[2/]	240	87	582
1971	255[2/]	243	75	573
1972	222	246	64	532
1973	222	245	53	520
1974	194	245	44	483
1975	194	249	44	487
1976	193	252	44	489
1977	186[3/]	246	44	476
1978	186[3/]	238	44	468
1986	194	255	46	495

1/ Does not include costs for Federal and State Academies or Public Health Service Costs.

2/ Includes $30 M for replacement of 3 combination cargo-passenger ships.

3/ Reflects reducer liner content of mix due to completion of first-flight replacement of current subsidized lines.

April 17
1967

A. Comparative Federal Support

Five year forecast of Federal levels of support for operating and construction differential subsidies. 1/

Fiscal Year	Current Program	Proposed Program
1969	$313	$461
1970	316	495
1971	309	498
1972	298	468
1973	291	467

1/ Assumes today's dollar value - cost escalation would require upward adjustment.

-- Does not include programs proposed for research and development, nuclear ship development or upgrading the reserve fleet -- these would add an additional cumulative total of $732 million for the five-year period.

B. Shipyard Employment

Since controversial element is ship construction, the following table shows shipyard employment for commercial shipbuilding under proposed and current tonnage. The employment figures are approximate and do not reflect lag between availability of funds and actual construction.

Fiscal Year	Current	Proposed
1969	9,800	21,000
1970	9,800	21,000
1971	9,800	21,000
1972	9,800	21,000
1973	9,800	21,000

These figures reflect a 30 ship/year level at 700 man years/ship. In later years program would drop to 25 ships/year or 17,500 in employment.

FLEET SIZE TONNAGE
(DWT in Millions)
Number of Ships/DWT

	1976	1986
Proposed Program	861/19.0	1035/27.6
Current Program	641/11.2	619/11.6

IV

JUL 18 1967

Program for Merchant Marine Renewal and Expansion

Purpose of Program -- To create Federal maritime promotional programs and policies which in cooperation with industry will (a) provide incentives for modernization of the shipbuilding industry; (b) permit timely and rapid increase in the number of modern vessels operating under U.S. flag; (c) improve the competitive role of the U.S. merchant marine in our foreign commerce; (d) establish a predictable level of Government support to stabilize future maritime job opportunities and thus promote stable labor-management relations; (e) sustain a U.S. maritime capability for meeting national interest requirements; and (f) expand Federal research and development activities to enhance the competitive position of the U.S. merchant marine.

Description of Program Features

-- Expand support for U.S. ship construction industry: Increase construction subsidies from 1968 level of $140 million to about $222 million in 1969. Pay subsidy directly to shipyards to help them compete for customers on world market. This level will subsidize construction of about 30 ships annually (depending on the mix of types) as contrasted to recent subsidy support for an average of 13 ships annually. This program level would be maintained for 5 years and thereafter continued at a level of $194 million annually (about 25 ships per year). While the present subsidy principle of reducing U.S. cost-differential with foreign competitors to parity would be continued, the computation would involve types of ships rather than individual ships and would be constant for a fixed period of years.

-- Increase Federal support to promote expansion of U.S. flag fleet operation: Extend operation subsidies to all U.S. flag ships (liners and bulk carriers) in foreign trade (except proprietary carriers). Retain cost parity principle but introduce more flexible systems of administration with less Government involvement in management decisions. The subsidy would cover about 490 ships by 1979 and 560 ships by 1986. To the extent that ship operators are unable to purchase vessels at world prices under expanded construction program in U.S. yards, they would be permitted to register foreign-built vessels under U.S. flag to be manned by U.S. crews. These vessels would be eligible for both operating subsidy and cargo preference privileges.

-- Promotional incentives to expand waterborne domestic trades: Permit domestic ship operators (including Great Lakes) to purchase ships at world market prices (U.S. or foreign shipyards) under a licensing procedure involving public hearings to protect unamortized investments in existing ships constructed or substantially converted at U.S. prices. Foreign-built ships would be admitted on a trade-by-trade basis without freedom of changing trades. (For example, permission to operate world-market price ships in the Hawaiian trade would not allow operator to extend operations to coast-wise or other non-contiguous trades.)

Eventual amortization of investments in higher priced U.S. ships should permit unrestrained freedom to purchase vessels and elimination of the licensing procedure at a later date.

-- Retention of cargo preference: Retain cargo preference but reduce rate differential as new and more efficient bulk carriers are brought into trade. Permit ships to carry commercial cargoes on return trips with appropriate operating subsidies. Most cargo preference administration would be consolidated under the Department of Transportation. A portion of cargo preference cargoes would be reserved for older ships and independent tankers until phase out of older tonnage.

-- Ship availability for Defense needs: Execute agreements with ship operators to assure ship availability keyed to particular levels of Defense activity. On a selective basis vessels in the National Defense Reserve Fleet would be renovated and upgraded (cost of $60 million per year) to provide "surge capability" for peak emergency needs. Defense experience clearly demonstrates that maintenance of the reserve fleet in the manner proposed is a least-cost approach to support emergency requirements.

-- Promotion of nuclear powered merchant marine: Undertake extensive research in the technology and economics of advanced nuclear ships looking to the possible construction of one or more vessels and the continued operation of the SAVANNAH.

-- Expanded maritime research and development program: Increase maritime research support in shipbuilding, ship operations, port development and other maritime areas to level of $25 million annually as part of the Department of Transportation research program.

-- Transfer Maritime Administration to Department of Transportation: Maritime-related transportation programs would be transferred to the Department of Transportation thus assuring that ocean shipping receive similar promotional support as presently provided to other transportation modes in top policy councils of the Executive branch. Maritime Subsidy Board would be reconstituted to exercise greater degree of independence than presently afforded in Maritime Administration.

Summary Results of Program

The proposed program approximately doubles the level of Federal support to U.S. merchant marine for period 1969-1973 and would earmark approximately $3 billion for maritime programs during that period. Domestic shipbuilding jobs would build up to level of 20,000 annually by 1972 as opposed to present level of 10,500. It is estimated that by 1980 this program will support shipboard jobs at a level of about 40,000 as contrasted to a level of 25,000 under projected present program levels. Industry would be placed in stronger competitive position in our foreign trade.

Both Government and industry will benefit from higher ship construction levels in U.S. shipyards, expanded U.S. flag fleet and higher and stable employment levels. Combined, these will improve substantially the economic position of the industry and promote U.S. prestige abroad through a more efficient and diversified U.S. merchant marine.

Summary of Features of DOT Maritime Program

August 24, 1967

Ship Construction

1. The ship construction provisions of the program would be controlled as described below by the independent "Civil Maritime Board." The structure of the Board is summarized here:

   a. The Civil Maritime Board would be composed of the "Director of Maritime Operations" as chairman and two independent members. (See attached organizational sketch.)

   b. The Director of Maritime Operations is a Presidential appointee, confirmed by the Senate, and serving at the pleasure of the President.

   c. The two independent members will be presidential appointees, confirmed by the Senate, with a tenure of office of four years.

2. There would be no ship construction permitted outside the U. S. until two years after enactment of the legislation (i.e., probably FY 1971).

3. After the two-year waiting period, the Board would have the authority, based on criteria to be set in the Act by the Congress, to decide whether bids submitted by U. S. Yards were:

   - Reasonable in price
   - Reasonable in terms of delivery schedule

   Price and delivery schedules are considered to be indicative of the capacity and desire of the shipyard industry to perform the work.

   The Board's decisions would be final and not be subject to review by the Federal Maritime Administrator or the Secretary of Transportation.

   In the event that a bid is not considered by the Board to be reasonable, the Board may permit the operator to construct a limited number of vessels outside the U. S. for U. S. registry and manning with full privileges.

4. Appropriations for construction-differential subsidies would average about $260 million annually which, with the ship purchaser's share of the price, would be equivalent to about $520 million in U. S. shipbuilding business. This amount would be sufficient to build a mix of about 30 ships per year consisting of cargo ships and bulk carriers. Unobligated funds in any one year would carry over to the

following year. It is contemplated that the program would last for 5 years after which time it would be reviewed. Construction subsidies would be paid directly to U. S. shipyards with the level of subsidy determined by application of a subsidy rate to the contract price for ships to be constructed.

5. Construction of standard ships would be encouraged. Preferred consideration would be to vessels which would provide the highest transport capability measured in terms of ship speed, capacity, prospective capacity utilization, number of days of anticipated service in trade and amount of subsidy participation. Where feasible, more than one ship purchase would be encouraged to utilize the same design in order to obtain the benefits of serial construction of ships. This should reduce the price of each succeeding vessel, with savings to both Government and shipowner.

6. The procedure to be followed would be:

   a. The price paid by the owner to the shipbuilder for a ship built in a U. S. shipyard (i.e., the foreign cost) would be determined by the Civil Maritime Board after considering foreign cost estimates prepared independently by the shipowner, shipbuilder and the Maritime Administration staff. The shipowner's cost estimate could consist of a firm bid or set of bids from foreign yards (including delivery schedules) for the number of ships that could be built abroad under the Board's criteria, should the contract not be approved for a U. S. Yard (Example: He wants to build 10 ships. He gets firm bids on four from Foreign yards). If firm foreign bids are obtained, they will be given extra weight by the Board over estimates.

   b. The Board would make a determination of the ceiling amount for a reasonable U. S. price using the formula: foreign cost divided by 1.00 minus the pre-determined construction-differential subsidy rate (CDS); i.e., $\frac{\text{Foreign Cost.}}{(1.00 - \text{CDS})}$

   c. The U. S. shipyard price would be determined through competitive bidding or by direct negotiations between the shipowner and the shipyard.

   d. The initial CDS rate to be used under a competitive bidding system will be 52.8% which is an average of actual Subsidy Board determinations over the past five years.

   e. The CDS rate to be used under a negotiated price system should reflect the cost benefits of direct negotiations between shipyard and shipowner.

f. The Board will pay the construction subsidy (equal to the difference between the foreign cost or amount to be paid by the owner and the bid or negotiated shipyard price) directly to the shipyard.

g. As more accurate foreign cost differentials are developed, revised CDS rates will be periodically determined in advance for fixed periods of at least one year and for different ship types.

h. United States owners may build ships in U. S. shipyards at prices in excess of the ceiling established by the Board, however, construction subsidy to the shipyard would be limited to the difference between the foreign cost and the ceiling price.

7. Construction subsidy will be available to construct ships for the present subsidized segment of the fleet, for the replacement of the existing unsubsidized liner fleet and for the development of a modern U. S. Flag bulk-carrying fleet.

8. Title XI procedures will be streamlined and modern analytical techniques applied wherever possible in order to speed up handling of applications.

Operating Subsidy Programs

1. New Liner Contractors: The four present unsubsidized liner operators (about 85 ships) plus any new qualified applicants would be placed under experimental contracts for a 3-5 year period for the purpose of developing an operating subsidy system that would provide greater incentives to efficient, productive and competitive operation while allowing the government to reduce its surveillance and stay out of the operator's management decisions. The system would be worked out with the participating operators in the next 3-6 months. A number of systems could be considered and tried. The system (or systems) will be monitored and adjusted during the 3-5 year developmental period and at the end of the period, if effective and acceptable, the best system would be utilized for long-term contracts with the experiment participants, who in any event, would have an option for long-term contracts under whatever system the government finally settled on for liner operating subsidy.

2. Present Subsidized Contractors: The present contractors would be asked to participate in the development of the experiment to insure that the system would work effectively for them. At the end of their present contracts, or earlier if operators desire, renewal contracts would include whatever new system had been developed. Operators whose contracts would terminate during the development period, would be given extensions of their present contracts until after this

period in order that they and the government could evaluate the results of the new proposed system.

3. Bulk Operators: The operating subsidy for bulk carriers would be a streamlined, administratively simplified cost parity-based system. The system would be slightly different for long-term time charter operations and shorter-term arrangements.

4. Subsidized Bulk Operations to be Related to U. S. Foreign Trade: To receive subsidy, bulk operations would have to be related to the U. S. Foreign Trade. However, these subsidized operations could have one or more legs in crosstrades between foreign countries as part of their overall operation.

Cargo Preference

1. Cargo preference would be retained and the percentages strictly enforced, but its costs would be reduced. Cargo preference would be administered under "Fair and Reasonable" ceiling rates, and subsidized new ships built at world market prices would have "Fair and Reasonable" rates administered so as to reflect the subsidy and be at the competitive world rate.

2. Cargo would be reserved for the older ships and independent tankers. The proposed program contemplates that the older tonnage would be scrapped when it was no longer useful in cargo preference and that the operators would construct new tonnage at world market prices and possibly even enter other trades.

3. Liner cargo preference would be continued as at present.

4. The program recommends that administration of maritime promotional features of cargo preference be centralized in the Department of Transportation.

Nuclear Ship Program

1. The nuclear ship portion of the program would include:

   a. An R & D program aimed toward development of an economic reactor system.

   b. A development program looking toward the construction of new ships for a high speed system.

   c. Continued operation of the SAVANNAH as part of the overall nuclear program.

Research and Development

1. The program contemplates increasing the annual level of effort in Maritime-related research and development as part of the Department of Transportation R & D program. Maritime R & D would include shipbuilding, ship operating, ports and maritime aspects of transportation systems.

Construction Reserve Funds

1. An effort will be made to develop a construction reserve fund applicable to all operators and acceptable to the government.

Intermodal Rate Discrimination

1. The Department clearly recognizes that the Interstate Commerce Act bars rate discrimination by railroads against connecting water carriers. Such recent cases as Seatrain Lines, Inc. v. United States, 233 F. Supp 199 (D.N.J. 1964) stand as a firm barrier against violations of section #(4) of the Interstate Commerce Act. In addition, the Department is fully aware that the Interstate Commerce Commission has the duty under Section 307(d) of the Interstate Commerce Act to end discrimination by establishing through routes and joint rates for rail-water transportation, and can under section 6(11)(b) of that Act prescribe rail proportional rates on ex-water traffic from water carrier ports of discharge.

2. The Department supports the concept of intermodal coordination and believes it should be implemented to the fullest extent.

Ship Availability for Defense Needs

1. The program would include arrangements for the availability of ships from the active fleet on an incremental basis without the need for requisitioning.

2. A plan being discussed between the Department of Defense and the present subsidized operator (project RESPOND), calls for several levels or stages of ship availability, keyed to particular levels of Defense activity.

3. The details of this system remain to be worked out between the Department of Defense, the Department of Transportation and the representatives of the private operators.

4. The Department of Defense would be encouraged to make long-term charter arrangements whenever feasible.

NDRF Revitalization

1. A number of the AP5 troop transports in the NDRF would be converted to general cargo ships. A pilot program of about 10 ships would be started in FY 1969 to establish feasibility and to determine accurate cost data.

Passenger Ship Study

1. A thorough study would be made of Passenger Ship operations under American Flag to determine the proper course for the future and to develop means to make these operations more competitive and economic.

COMPARATIVE MARITIME PROGRAM ANALYSIS
(Estimated Costs in $millions)

I Current U.S. Maritime Programs
II Revised Boyd Maritime Program Proposals
III Revised Boyd Proposals less Foreign Construction

	1969			1970			1971			1972			1973		
	I	II	III	I	II	III	I	II	III	I	II	III	I	II	III
Operating Differential Subsidy	202	239	239	198	240	240	191	243	235	187	246	230	180	245	223
Construction Differential Subsidy	113	261	261	122	263	263	122	263	263	113	261	261	113	261	261
Cargo Preference	89	85	85	93	87	87	98	75	75	102	64	64	107	53	53
TOTAL	404	585	585	413	590	590	411	581	573	402	571	555	400	559	537

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VI

Rough Estimates of Maritime Program Costs

($ Million)

FY	Shipyard Subsidy	Operating Subsidy	Cargo Pref.	Research	Totals
1970	$300	$200	$80	$25	$605
1971	300	210	70	25	605
1972	300	220	60	25	605
1973	300	240	40	25	605
1974	300	260	40	25	625
Total 5 yrs.	$1,500M	$1,130M	$290M	$125M	~~$6,090M~~ $3045M

1-24-68

3/26/69

Comparison of Paul Hall's Legislative Proposals to the Interagency Maritime Task Force Proposals

The Hall package goes beyond the Task Force in some policy reform respects:

-- It uses the TF "revenue incentive" operating subsidy package, but gives it only for commercial cargo revenues and only after January 1, 1972; the TF excluded only Defense cargo revenues, but allowed subsidy on other government cargo revenue.

-- It narrows the construction differential subsidy formula to the foreign-American cost differences for labor and materials and would allow subsidy on ships built or repaired for foreigners. The TF allowed shipyard subsidy on the foreign-American ship price differential, and would be available to Americans only.

-- It requires the repayment by the operator of a portion of construction subsidy if government cargoes are carried; the TF phased out cargo preference, but allowed the cargoes to be carried without loss of either construction or operating subsidy, as the cargoes would be obtained in competition with foreign operators.

Some features of the Hall proposal seem to be specifically anti-CASL:

-- The Revenue Incentive operating subsidy is anathema to CASL, particularly so when government cargo revenues are excluded from subsidy.

-- Restricting shipyard subsidy to the labor and material cost differences will increase the price to CASL for ships.

Not surprisingly, the Hall proposal strongly benefits the Hall-supported sector of the Maritime Industry.

-- Consistent with the TF report, the Hall proposal extends operating subsidy to all dry cargo operations including bulk and other non-liners, but not tankers.

-- Consistent with the TF, the construction subsidy is paid to shipyards and all operators are allowed to buy ships whose construction has been subsidized. As an extra benefit to the shipyards (whose unions are in Hall's MTD), they are paid subsidy on ships they can sell to foreign purchasers. This parallels the TF philosophy of supporting shipyards to construct for anyone--to the extent we need to support shipyards.

-- Preference is given to the now unsubsidized portions of the fleet in expending the appropriations authorized by the Act. These unsubsidized operators are mostly in the Hall ambit.

-- Cargo preference eligibility is drastically changed in favor of American-built ships in that no ship can carry military or other government cargo if it has been built or altered in a foreign shipyard. At present, any U.S. flag ship, regardless of where built, is eligible for military cargo and after three years of U.S. registry, for other cargo preference. Hall's change protects the shipyards and the present group of independent tankers--both of which are in Hall's group.

-- Operating subsidy is extended to the present unsubsidized and tramp ships, provided they immediately contract to build new ships. The TF program called for extending subsidy coverage to the older unsubsidized liners, but not to tramps.

Features of the Hall proposal that are contrary to the TF report or its philosophy:

-- Extension of operating subsidy to the overage tramp ship group.

-- No foreign construction.

-- Money level for construction subsidy set at $300 M for 5 years; TF CDS level was about $145 M.

-- Cargo preference not eliminated and ship eligibility requirement tightened.

-- No determination of need in arriving at shipyard subsidy levels--but does support a broad study of shipbuilding industry capabilities.

-- A nuclear program is included as a separate item--the TF felt that nuclear ships were uneconomic and uncompetitive.

-- Reserve funds are extended to all operators.

-- The stated objectives of the two are different, although parallel:

Hall Proposal objective: To balance the privately-owned merchant fleet, particularly for the bulk trades.

<u>Task Force Objective</u>: Promote modernization and economic growth, and eliminate detailed government supervision by rationalizing the structure of government aids.

PROGRAM FEATURE ALTERNATIVES

May

Shipyard Subsidy (CDS) Alternatives

-- Subsidy amount to be determined by evaluation of national need for shipbuilding capacity; subsidy rate determined by U.S.-Foreign differential then held fixed for two year period; operators have option to buy foreign; yards can sell to foreign purchasers.

-- Subsidy rate determined by indexes of U.S.-Foreign differences in Labor and Materials, to be applied to each yard's gross revenues from Commercial work. Purchases by U.S. operators would be competitively bid. Yards subsidized for foreign sales.

-- Same as above but with foreign construction available to operators until end of FY-1971.

-- Subsidy rate determined by U.S.-Foreign differential and held fixed for two years; subsidy amounts controlled by fleet renewal requirements; operators can call for competition bids or can negotiate with yards; yards compete at Subsidy Board for available funds on productivity basis.

-- Present system.

Operating Subsidy Alternatives

-- Revenue Incentive System with or without recaptive; payment for commercial cargoes only; relatively free entry; flexible trade routes.

-- Class rate system

- Cost parity determined by difference between indices of U.S.-Foreign costs.

-- Present cost parity system

Cargo Preference Alternatives

-- Eliminate non-military preference cargoes by making AID and PL480 cargoes available to recipient nations on FAS basis on

U.S. port.

-- Phase out non-military cargo preference over 5-year period.

-- Retain routing but shift extra costs to a direct subsidy.

-- Present system of differential rates

Passenger Ship Alternatives

-- Press for early retirement and reprogramming of the subsidy.

-- Don't discuss the item in program, but allow operators to request early retirement.

-- Study ways to improve passenger ship operations to minimize operating losses.

-- Continue present program.

-- Build additional passenger ships.

[illegible] Fund Alternatives

-- Eliminate Title VI reserve funds at end of present contracts.

-- Allow present holders to have reserve funds indefinitely but do not extend further than liner operators.

-- Extend funds to all operators.

Title XI Alternatives

-- Use standard BOB A-70 interest rate guides -- do not subsidize the interest rates; encourage Title XI use for specialized private building for DOD use (as small tankers) of otherwise non-competitive ships.

-- Use artificially low interest rates under Title XI as an additional subsidy.

Research & Development Alternatives

-- Government provide matching funds under some formula such as 20 industry, 80 government.

-- Emphasize R&D rather than other subidies in attempt to find means for competitive improvement.

-- Increase R&D in attempt to improve competitive performance, but concurrently with fleet renewal.

-- Present program (too small to be effective; too heavily "Savannah" and "Surface Effect" oriented).

Nuclear Ship Alternatives

-- No new nuclear program; discontinue Savannah.

-- Undertake maritime reactor research but no construction of ships; discontinue Savannah.

-- Construct small number of ships concurrent with reactor research; continue Savannah.

NDRF Alternatives

-- Revitalize by converting substantial number of AP-5's, rehabilitating AP-2's and possible early retirement of mariners.

-- Revitalize by some converstions and some austers new construction in foreign yards.

-- Revitalize by austere constructions in U.S. Yards.

-- If active fleet program is large enough to meet all future needs, retain only small reserve fleets for future trade-ins, or eliminate it entirely.

Alternatives for Transfer of MARAD to DOT

-- Transfer by reorganization plan

-- Include transfer in legislation

-- Forget about it for the present

Independent Subsidy Board Alternatives

-- Present board of MA Staff members

-- Independent Board appointed by Secretary

-- Independent Board appointed by President.

Shipbuilding Study Alternatives

-- Interdepartmental government group to determine level of need for subsidies on merchant ship construction in addition to Navy and other government programs.

-- Government-Industry Committee to determine capability of yards to meet merchant replacement needs.

-- Presidentially appointed Commission to study extent to which Federal aid is necessary to preserve competitive positions of industry and preserve a national capability.

Program Money Levels

-- Construction and operating aids sufficient to meet military and urgent civil emergency needs, taking foreign construction and shipyard needs into account (Task Force level).

-- Sufficient to replace old ships with 5-8 years and provide some dry bulk capacity; some increase in fraction of foreign trade carried; utilize foreign constructions (original Boyd Program).

-- Sufficient to replace old ships and provide some expansion in liner and buld area to carry significantly more foreign trade; tied-in foreign construction (Boyd, May 1967 program).

-- Same as above, but enlarged slightly and U. S. construction only (Boyd program in Fall 1967 -- with reserve funds extended to all; this becomes roughly the same as HR 13940 and S 2650).

Summary of Features of a "Possibly Salable" Maritime Program

Shipyard Subsidy (CDS)

-- Subsidy rate determined by indexes of U.S.-Foreign differences in Labor and Materials, to be applied to each yard's gross revenues from Commercial work. Purchases by U.S. operators would be competitively bid. Yards subsidized for foreign sales.

-- foreign construction available to operators until end of FY-1971.

Operating Subsidy Alternatives

-- Revenue Incentive System with or without recaptive; payment for commercial cargoes only; relatively free entry; flexible trade routes.

-- Class rate system

Cargo Preference

-- Retain routing but shift extra costs to a direct subsidy.

Passenger Ship

-- Study ways to improve passenger ship operations to minimize operating losses.

Reserve Fund

-- Allow present holders to have reserve funds indefinitely but do not extend further than liner operators.

Title XI

-- Use standard BOB A-70 interest rate guides -- do not subsidize the interest rates; encourage Title XI use for specialized private building for DOD use (as small tankers) of otherwise non-competitive ships.

Research & Development

-- Increase R&D in attempt to improve competitive performance, but concurrently with fleet renewal.

Nuclear Ship

-- Construct small number of ships concurrent with reactor research; continue Savannah.

NDRF Alternatives

-- Revitalize by austere constructions in U.S. Yards.

-- If active fleet program is large enough to meet all future needs, retain only small reserve fleets for future trade-ins, or eliminate it entirely.

Transfer of MARAD to DOT

-- Forget about it for the present

Independent Subsidy Board

-- Independent Board appointed by President.

Shipbuilding Study

-- Presidentially appointed Commission to study extent to which Federal aid is necessary to preserve competitive positions of industry and preserve a national capability.

Program Money Levels

-- Sufficient to replace old ships and provide some expansion in liner and buld area to carry significantly more foreign trade; tied-in foreign construction (Boyd, May 1967 program).