

SELECTED MARITIME POLICY
PAPERS
PART I

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PART I

MARITIME POLICY DEVELOPMENT IN DOT

Memorandum of January 20, 1967, re: Need for DOT Action

Memorandum of January 25, 1967, supplementing January 20 memorandum

Memorandum of February 8, 1967, outlining presentation of program to the Congress and industry

Memorandum (undated) talking paper for a meeting with Congressman Garmatz

Memorandum of February 10, 1967, conversation with Congressman Garmatz

Memorandum of February 17, 1967, talking paper for meeting with shipbuilding industry

Memorandum of February 21, 1967, conversation with Lane Kirkland

Memorandum of February 28, 1967, conversation with Lane Kirkland

Memorandum of February 28, 1967, conversation with Joe Curran

Memorandum of March 1, 1967, proposed action on joint Commerce/AEC/DOD study of nuclear merchant vessels

Memorandum of March 9, 1967, meeting with CASL

Memorandum (undated) analysis of key program features

Memorandum of March 28, 1967, Paul Hall counter proposal

Memorandum of March 30, 1967, outline for the Secretary on points to cover in White House meeting

Memorandum (undated) summary and status of Maritime Program negotiations

Memorandum of April 5, 1967, summary analysis of Maritime policy and program proposals for the President

Memorandum of April 6, 1967, suggestions to the Secretary for discussions with the President

Memorandum of (late April 67) by Carl Davis outlining Congressional issues in Maritime policy

Memorandum of April 7, 1967, analyzes BOB cost estimates

Memorandum of April 8, 1967, for the President outlining Maritime policy options

Memorandum of April 11, 1967, outlines current tactical problems

Memorandum of April 11, 1967, discussions with Senator Bartlett

Memorandum of April 20, 1967, to the President re: status of negotiations on Maritime program

Memorandum of April 24, 1967, to the Secretary outlines needed actions prior to Secretary's appearance before the Senate Commerce Committee on May 1, 1967

Memorandum of April 24, 1967, to Mr. Califano re: status of Maritime Program

Memorandum of April 24, 1967, to Mr. Califano transmitting outlines for discussion with Mr. George Meany

Memorandum of April 26, 1967, for the President, outlines options for Boyd appearance before the Senate Commerce Committee on May 1, 1967

Memorandum of April 26, 1967, for the Vice President, follow-up on offer to discuss Maritime Program with Labor

Memorandum of (late April 1967), by Carl Davis outlining current Maritime Program concerns of the Congress

Memorandum of (early May 1967) outline for discussions with Paul Hall

Memorandum of (early May 1967) reactions of Paul Hall in foregoing discussions

Memorandum of May 25, 1967, re: contact with Thomas Rotell, President, Pacific Coast Metal Trades Council

Memorandum of June 1, 1967, assigning Maritime policy responsibility to Deputy Under Secretary

Letter of June 16, 1967, from the Secretary of Defense to Joseph Curran answering charges

Memorandum of June 19, 1967, re: proposed Maritime Pension Trust Insurance

Memorandum of June 20, 1967, for the President, outlining current situation in Maritime Program negotiations

Memorandum of July 19, 1967, to the Vice President outlining impact of Maritime Program on various industries

Memorandum of July 20, 1967, explaining mistake in Secretary's statement before Senate Commerce Committee

Memorandum of August 14, 1967, for the President re: Maritime Program alternatives

Memorandum of August 16, 1967, for the President, reporting on discussions with Paul Hall

Memorandum of August 17, 1967, for the Vice President re: current developments in Maritime industry

Memorandum of August 29, 1967, re: discussions with Congressional leaders on Maritime policy issues

Memorandum of August 30, 1967, outlining implications of discussions with Congressional leaders

Memorandum of September 11, 1967, capital reserve fund issues

Memorandum of September 11, 1967, for Mr. Califano, outlining a Maritime Program and transmitting a draft Presidential message

Memorandum of September 22, 1967, minutes of meeting with Congressional leaders

Memorandum of September 22, 1967, outline of DOT Program proposals

Memorandum of September 22, 1967, review of BOB reaction to DOT Program

Memorandum of October 2, 1967, briefing for Secretary for White House meeting on October 2, 1967

Memorandum of October 5, 1967, draft proposal for Presidential message on impact of expenditures restrictions on new Maritime Program (not used)

Memorandum of October 5, 1967, for the President, describing Maritime Program

Memorandum of November 13, 1967, comparing Congressionally proposed Maritime programs and DOT proposal

Memorandum of December 12, 1967, for the Secretary, recommends position to respond to inquiries of DOT reaction to Congressional Maritime programs

Memorandum of December 20, 1967, evaluation of current Maritime policy considerations

Memorandum of January 3, 1968, directing Assistant Secretary for Policy Development to assume responsibility for Maritime Program development

Memorandum of January 22, 1968, re: changes in Maritime Program since fall of 67

Memorandum of January 25, 1968, re: BOB commitment on CDS funding level

Memorandum of January 29, 1968, to Mr. Califano, outlines advantages of reorganization plan for transfer of MARAD to DOT

Memorandum of January 25, 1968, outlines current status of Program

Memorandum of February 15, 1968, outlines current status of Program

Memorandum of February 29, 1968, to the Secretary, outlines developments in Maritime Program

Memorandum of March 4, 1968, same

Memorandum of March 5, 1968, same

Correspondence of March 5, 1968, declines invitation to participate in AFL-CIO sponsored meeting

Memorandum of March 18, 1968, to the Secretary, suggests scope of discussions with Executive Director, Marine Science Council

Memorandum of April 17, 1968, outlines development in Maritime Program

Memorandum of April 18, 1968, outlines Maritime Program future alternatives

Memorandum of April 26, 1968, analysis of AMA testimony of April 23, 1968

Memorandum of April 27, 1968, compares Hall's legislative proposals with Task Force proposals

Memorandum of May 1, 1968, summarizes discussions with Commerce re: Discussions on Maritime Program

Memorandum of May 1, 1968, for the President, joint proposals of Commerce and Transportation re: Maritime Program

Memorandum of May 2, 1968, to the Secretary, background for White House meeting

Memorandum of May 22, 1968, support for Secretary's testimony
re: nuclear propulsion

Letter of June 11, 1968, to Garmatz re: role of Secretary of DOT
in Maritime Policy area

Memorandum of June 19, 1968, for Secretary of Treasury re:
capital reserve funds

Memorandum of June 27, 1968, re: developments in House
Merchant Marine and Fisheries Committee

Letter of September 5, 1968, to the Secretary, announcing
termination of Maritime Advisory Committee

APPENDIX TO PART I

Senate Commerce Committee Hearings, May/June 1967

Summary of Statement of Paul Hall

Summary of Statement of Frank Nemec

Summary of Statement of Edwin M. Hood

Analysis of Hood's Statement

Statement of Ralph Casey

Press Reaction

Analysis of Experimental Operating Subsidy Possibilities

Hearings Before House Merchant Marine and Fisheries Committee
on H. R. 13940

Analysis of American Maritime Association Testimony

Report on Testimony of Acting Maritime Administrator

Press Commentary

Department of Defense "Charges and Answers" Paper of 6/21/68

Jan 20 '67

Personal & Confidential

MARITIME POLICY ACTION

Opportunity: There is an opportunity (and a need) for some maritime policy action to be taken by DOT. This view is based on the considerations given below.

Current Activities by Maritime Labor & Industry:

The Paul Hall wing of maritime labor, with support from the AFL-CIO Executive Council and most of the maritime industry is making a drive to push two major items through Congress:

1. An independent Maritime Administration.
2. Legislative authorization of MarAd funds by the House Merchant Marine and Fisheries Committee.

Currently underway are a program of public and private meetings sponsored by the AFL-CIO Maritime Trades Department (Hall's group, Curran is not a member), with speeches by industry and political figures.

Significance:

A number of factors give this campaign more significance than past efforts:

1. While past union efforts have been principally oriented for maximum public relations effects, this one appears to be aimed at (and organized for) a serious, substantive result.
2. Rep. Gerald Ford's remarks at the first session of the program, the "legislative outlook conference" that the Republicans would "support measures which would revive the merchant marine," gives the maritime policy problem a high-level partisan twist that it hasn't had before.
3. Their efforts seem to be gathering support from previously uninterested congressmen (Rep. Celler for example).

4. Mr. Lester Velie's Readers Digest article (Dec. '66) has generated a more intense public interest, nation-wide, than we have seen since IMTF/MAC days. (We have had about 20 Congressional and White House referrals on it). There is going to be a follow-on article in Jan. or Feb.

Administration Problem on Maritime Actions:

All this comes at a time when due to:

1. Formation of DOT without MarAd, and
2. Secretary Connor's departure.

There is an inability to act by the parts of the administration which would normally be most directly concerned. Best available information is that the people behind the union drive are very aware of this power vacuum.

Near Future Consequences:

The immediate use to which they intend to put all the political support and public awareness being generated is to influence the upcoming Maritime hearings by the Magnusson and Garmatz Committees. Now, look at two contrasting possible outcomes:

1. If the hearings don't generate much public interest and broad congressional support for the union/industry viewpoint, then the President can (without fanfare) send over a reorganization order to place MarAd in DOT which would then risk only a very small possibility of Congressional rejection. This would move MarAd into DOT without placing any encumbering commitment on the administration with regard to maritime policy or program size. This, of course, is the consummation devoutly to be wished.

2. If, however, the hearings do generate broad congressional and public support for the union/industry views, both the "independent agency" and "legislative authorization" measures could be passed. They would be very difficult to veto: Maritime programs tend to come wrapped in red, white and blue, are inexpensive related to other national programs, and under the probable public relations conditions at the time, would cause considerable criticism if vetoed.

Action Opportunity:

The foregoing points up the need for:

1. DOT (with White House staff blessing) to take the initiative on maritime policy and program in a quiet way, but as soon as possible.

2. DOT to develop a strategy to prevent the hearings from generating strong pressures for "independent agency" or "legislative oversight," so that a reorganization order can be smoothly moved at an early date.

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incomplete

1. Present Commerce/Labor proposals now under discussion in BOB/DOT/Commerce/Labor meetings have produced as much as they are going to produce. The issues are fairly well defined and in the program level acceptable to BOB and Commerce as arrived at. The major unresolved issue is whether program should be under a restricted policy -- BOB thinks so Commerce and Labor do not.
2. Present round of negotiations should be scrapped but basic program level salvaged. The next round -- final round -- send program from the President to Congress will be in a special message would be between DOT and BOB.
3. Message should include program changes and proposals for reorganization combined in one package. In this way President could try in what he wants to buy and what he wants to give away. DOT should be permitted to draw on Commerce capability by detail over on a temporary basis so that basis basic material for message can be drafted and program justification prepared.
4. Secretary of Transportation would be principal spokesman since Commerce ^{DOD} is ~~not~~ in a state of disorganization and/would not be the appropriate for civil programs.
5. Present subsidized construction level would be increased slightly and guaranteed for 2-3 years while a temporary study is made of the requirements for shipyard ~~construction~~ subsidy above this all shipping operators domestic and international can build ships in foreign yards with all U.S. privileges beginning this year.

2. The non-subsidized liner fleet of roughly 80 ships would be brought under subsidy with new incentive contract which would be considered on a experimental basis for 2-3 years. (consider additional new operators) When the first of the existing subsidy contracts expire decision would be made at that time whether to offer them incentive contract or some other form of subsidy based on experience ~~in~~ not excluding the present parity system.
3. Bulk carriers would be constructed partly under the construction subsidy and partly foreign construction and given a direct incentive subsidy the cargo preference would be retained but vessels receiving operating subsidy would have to take at world rates because small buy American differential. One trade area would be from the Great Lakes to the rest of the world. ~~Re~~ Reserve Fleet revitalization. Call Oberland and find out ~~what~~ what Great Lakes people would settle for. Port development, research funds, ~~p~~ breaking loose nucleus ship proposal.
4. Bigger more productive containerships

WHY PROGRAM WOULD SELL

1. Many operators are frustrated with limitation placed on ~~w~~ ship expansion program by build American policy and ready to break away.
2. There is a possibility that Paul Hall and his group would break away from the massive opposition that we are presently faced with.
3. The danger of long term and unwise program commitment by unrestraining Congressional action makes it imperative that we do something now. Short term addition costs justify long term program gains to the Government and the economy.

X The Secretary

FEB 8 1967

Maritime Program

Purpose: The purpose of this memorandum is to provide you with suggestions on presenting your approach to a maritime program during discussions with Congressional people and the industry.

Key Points to Get Across:

- The real problem is lack of a program. The Administration is concerned and wants to do something about it. We are interested in keeping labor force at highest realistic level and with assuring future stability in the industry -- both stability of employment and stability of service to shippers.
- Our program would put fleet renewal and expansion decisions squarely up to the industry. We will work with industry in finding capital (public or private) to permit all operators to replace old ships and to expand their fleets -- once the log jam on foreign construction is broken. We will fight to get operating aids as needed for this expanding fleet.
- We want to get Government away from internal affairs of the industry, out of their management decision making and away from influence on their labor-management bargaining process.
- If we can get program agreement we can also get Government R&D support for innovations that will add industry modernization and apply American technology to areas where it will improve competitive position.

Tactics in Selling Program:

- Proposed program has new solutions for problems: Reiterate that Task Force Report is in the scrap heap. On the other hand, the MAC report just won't fly: It costs too much and doesn't solve basic problems.

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Executive
Secretariat

- Present the DOT proposal as a program that you would like to get agreement on, but you need Congressional and industry support in the hard job of selling it to the rest of the Government and to the tougher segments of industry and labor.
- Emphasize that DOT proposals are not set in concrete, but you feel that it is a good basis and that the final details can be worked out if you can get agreement with them. If this is achieved you are willing to go to the President and sell the package to him.
- You also can and will work strongly on getting some consensus from McNamara on peacetime use of FDL.
- You think that the proposed program is a good beginning. It gets Government and industry across the threshold and lets DOT act to get things moving.
- Once present program gets underway and we get a little experience on how it works and what it costs we can provide for further expansion and for adjustment of program features. The important thing is to get something started and you think with their support you can sell the DOT program to the President.

Status of Program Vis-A-Vis Bureau of the Budget:

There will have to be some further selling at BOB on the following items:

- Providing operating aid to as many ships as the industry can find capital to build at world prices.
- Revitalization of NDRF (This will have strong DOD support, however).
- Expansion of the construction program in U.S. yards by about \$20 million per year.
- Sending the Magnuson report to Congress.

Paul L. Sitton

Paul L. Sitton

PLSitton/IDye:kam 2/8/67

cc: Mr. Sitton

Capt. Dye

Mr. Mackey

Mr. Sweeney

Executive Secretariat-3

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TALKING PAPER FOR MEETING WITH
CHAIRMAN GARMAZ

KEY POINTS OF DOT PROGRAM

- Fleet Renewal and Expansion

In order to give ship operators the option to replace and expand their fleets at a faster rate than available Federal funds will allow, they would be permitted to buy as many ships as they wanted at world market prices, for renewal first, then expansion both under the expanded U.S. shipyard program given below, and in yards overseas. Ships built abroad would require DOT approval of the general design and would be registered under U.S. flag with full privileges. DOT would fight to insure that operating aid would be available for a practically unlimited number of ships (liners or bulk carriers) -- all that the industry could find capital and cargo for.

This puts fleet renewal and expansion-- and employment levels -- squarely up to the industry without any government restraints on ship purchases at competitive world prices.

- Larger Program in American Shipyards

The program in U.S. shipyards would be increased to the largest level since the Mariner program. Subsidized new construction program would be expanded immediately by 2-3 ships per year (about \$20 million). A major conversion and upgrading program would be started for NDRF revitalization (20 AP-5 conversions per year over 5 years; about \$60 million per year plus substantial reconditioning work on returning Victories.

- Unsubsidized Liner Operators brought under subsidy

The present unsubsidized liner operators would be given operating aid on experimental basis using a new system for a 3-5 year period. If the system works, we would adjust it and expand it to others 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 next few months and presented to MM & F Committee along with the rest of our package.

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By PP NARA, Date 4/11/2024

- 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. Since they would receive operating subsidy, they would be required to compete for government cargoes at world rates. They would have a "first refusal" on these cargoes in each case if within 5% of the low (world rate) bid.

- Cargo Preference

We would not eliminate cargo preference but would try to reduce its costs. The unsubsidized older ships would be handled under "Fair and Reasonable" rates as at present.

- Nuclear Ships

DOT is prepared to press strongly at the White House for a Nuclear Ship Program as part of the total package. If we have industry/Congress agreement on a total program, the nuclear program will be easier to sell at the White House.

- 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.

ITEMS TO EMPHASIZE

- Our program would put fleet renewal and expansion decisions squarely up to the industry. We will work with industry in finding capital (public or private) to permit all operators to replace old ships and to expand their fleets -- once the log jam on foreign construction is broken. (We should also remember that it is Navy Programs that really support the shipyards.) We will fight to get operating aids as needed for this expanding fleet.
- We want to get Government away from internal affairs of the industry, out of their management decision-making and away from influence on their labor-management bargaining process.
- This program should hold job opportunities up to a high level -- probably 40,000 or more (compared to about 47,000 today and 29,000 if present policy continued). Amount of industry investment for expansion would determine the level.

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3.

- This program should keep us well ahead of the Russians in tonnage and quality. (Of course, not necessarily in number they build lots of small ships where most of ours will be big).
- Moving MarAd into DOT is part of the package.
- The program moves ahead on nuclear power and new research.
- NDRF revitalization will mean substantial U.S. shipyard activity and will provide a "surge capability" of better quality for 10-15 years, and future "Viet Nam-type crises can be handled with less disruption of commercial services.
- The program would also start revitalization of the domestic fleet by making their capital costs competitive with land modes.

ITEMS THAT SHOULD BE LOW-KEYED

- Appropriations Oversight by NM & F Committee

Avoid talking about the Appropriations oversight issue: It is one of the chairman's prime interests, as well as being primarily an internal issue for the Congress. Further, we have nothing solid we can say against it that would not imply criticism of the Committee.

- Passenger Ships

These will be dealt with on a case-by-case basis, but even the owners don't want to replace them. However, if someone wanted to build a "Sea-Coach" system (large ship with dormitory accommodations and cafeterias) needing little or no operating aid, this program would let them do it.

PROGRAM WILL NEED SOME LEGISLATIVE CHANGES

Congressional cooperation is essential and legislative changes will be needed for:

- Foreign Construction for U.S. registry with full U.S. flag privileges.
- Experimental Operating subsidy system.
- Operating Subsidy for Bulk Carriers.
- "First refusal at World Rates" concept for government cargoes on subsidized bulk carriers.
- Authority to hold converted ships in NDRF at government option for Defense use, without ship exchange.

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ROUGH ESTIMATE OF PROGRAM OUTPUT

Item	Annual Cost	Effect
Unlimited Operating Aid to liners and bulkers	\$40 to \$100M	100 to 250 additional new ships; 4000 to 10,000 new job opportunities.
World Rate cargo preference	Saving of up to \$75M	Cargo opportunities for up to 50-60 bulk carriers
NDRP Revitalization	\$60M for 5 yrs. \$30M for 2 yrs.	U.S. shipyard work; Defense surge capacity.
Nuclear Program	\$50M for 2 yrs.	2-4 modern, productive nuclear ships.

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Paper "Maritime Program Proposed"
was given
to Garmatz on 2/13
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MEMORANDUM OF CONVERSATION WITH: Chairman Garmatz and
Jack Drewry, Chief Counsel of House Merchant Marine and
Fisheries Committee

I outlined a proposed maritime program to these two gentlemen advising them that if the idea appeared to have merit to them I was prepared to fight for it within the Administration and had reasonable hopes for success although I was sure there would be some opposition. I advised them that I had not discussed this with anyone, feeling that the Merchant Marine and Fisheries Committee should have the leadership in this matter in the Congress and that there was no point in pursuing the program if it did not meet with their approval in principle. They asked several questions including specifically the trade area vs trade route concept. Jack Drewry is attached to the trade route concept but feels there is room for considerable flexibility. They both indicated that U. S. shipbuilders could do a better job if construction contracts were awarded in flights of 5 or 6 ships. The most important point in their judgment was that shipyards be able to plan ahead on a firm program basis.

The incentive subsidy idea on an experimental basis met with their general approval. Drewry does not feel shipyard objections to foreign construction are insurmountable. The idea of cargo preference on bulk cargo for new ships being related to within 5% of the low bid met with approval so long as ODS is paid.

Chairman Garmatz wanted to know if he could have an outline of the points I made and I promised to make one available to him. He would like to test out the idea with some shipyard people not on the basis of a suggested program but on the issue of "what would you be satisfied with in terms of dollars annually for construction or modification work?" He feels a 5-year program is important for planning purposes and for stability in the industry.

A discussion of the politics of the situation ensued. There was general agreement that Paul Hall is a vital factor and should be contacted first. I promised to keep Mr. Garmatz advised of the indications I receive from contacts. I told him that if indications were favorable I would be prepared to urge on the President approval of the program and to seek legislation by mid summer including, if necessary, supplemental appropriations. Both Garmatz and Drewry feel the package is meritorious and should be pursued. Garmatz talked to the President last night, February 8, and attempted to get agreement for a meeting with maritime interests. The President told him to see me. He was disappointed but not upset at the President's reaction.

Alan S. Boyd

ASBoyd:sm

cc: Mr. Sitton ✓
Mr. Mackey

2/17/67

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TALKING PAPER FOR
MEETINGS WITH SHIPBUILDERS

GENERAL BACKGROUND

- The shipbuilding industry will not have much interest in the features of the program other than in its impact on them. It is almost certain that, in spite of the increased program in U.S. yards, they will strongly oppose the total package because of the foreign construction concept, which they assert will be very damaging to their industry. The facts are that government maritime programs plus private merchant marine expenditures are a small part (about 10-13%) of total shipyard industry income. The bulk of the government money going to the private ship yards is from the Navy: their input is about \$2.0 billion per year, thus our program increase will not greatly increase the industry's overall income. Further, at the present time, the yards are busy and full of work (mostly Navy work), and are less hungry for additional contracts.

KEY POINTS OF DOT PROGRAM

- Larger Program in U.S. Shipyards, new construction and conversion

The subsidized new construction program would be increased to about 18 ships per year in FY 1969. However, you should point out that the number of ships, taken by itself, is misleading: These would be large expensive ships, a mix of containerships, Sea-Barge clippers, LASH and Bulk ships. A better indicator of program size is that the new construction phase of the program would run out about \$150 million per year. This is about \$25-\$35 million above the average of recent years, and \$65 million over the \$85 million of the low years. It is only \$10 million over the \$140 million in the ~~\$142 million~~ '68 Budget, however.

AA level program in this \$150 million per year range would be maintained in U.S. Yards.

Here is a brief picture of recent Maritime appropriations for ship construction subsidy:

<u>Fiscal Year:</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u> (our program)
Appropriation (NOA:) (\$Million)	96	111	115	103	140	150
Ships (contract awards)	15	14	17	13	13	18

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By AD NARA, Date 4/11/2008

There would also be a major conversion and repair program for NDRF revitalization covering about a five-year period, commencing in FY 1969. The conversion program would jumboize 20 Victory (AP-5) troop transports per year at about \$3 million each, converting them to standard cargo ships with heavy lift (70 ton) cargo handling gear.

The repair program would perform upgrading work on about 150 of the Victory cargo ships now operating under GAA at the time they are returned to the reserve fleet (estimated to be in calendar 1969 and 1970). Both the converted and upgraded ships would be placed in the NDRF under dehumidified preservation.

The total shipyard program would therefore amount to about \$210 million or more for five years and roughly \$150 million thereafter.

A nuclear program could be in addition to the above or could be substituted for part of the 18 ships package.

- Fleet Renewal and Expansion

In order to give ship operators the option to replace and expand their fleets at a faster rate than available Federal funds will allow, they would be permitted to buy as many ships as they wanted at world market prices, for renewal first, then for expansion, both under the expanded U.S. shipyard program given above, and in yards overseas. Ships built abroad would require DOT approval of the general design and would be registered under U.S. flag with full privileges. DOT would fight to insure that operating aid would be available for a practically unlimited number of ships (liners or bulk carriers) -- all that the industry could find capital and cargo for.

- Unsubsidized Liner Operators Brought Under Subsidy

The present unsubsidized liner operators would be given operating aid on experimental basis using a new system for a 3-5 year period.

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The apparent variance between the ship numbers and amounts of money is caused by carryover of funds in some years and by the introduction of bigger, more expensive ships in the recent years. Our program has 4 bulkers in 1969, which are cheaper, and therefore gives more ships for the money.

- New Builders would get Operating Aid

New bulk carriers (built with subsidy in U.S. or without subsidy in foreign ~~yards~~ yards) could have operating aid which would enable them to compete for commercial cargoes. Since they ~~would~~ would receive operating subsidy, they would be required to compete for government cargoes at world rates. They would have a "first refusal" on these cargoes in each case if within 5% of the low (world rate) bid.

- Cargo Preference

We would not eliminate cargo preference but would try to reduce its costs. The unsubsidized older ships would be handled under "Fair and ~~Reasonable~~ Reasonable" rates as at present.

- Nuclear Ships

DOT is prepared to press strongly for a Nuclear Ship Program as part of the total package. If we have industry/Congress concurrence on a ~~xx~~ total program, the nuclear program will be easier to sell within the ~~Adm~~ Administration.

- Research and Development

Increased R & D ~~will~~ would be funded, aimed at facilitating interchange of cargo between modes (the port interface) and increasing ship system productivity.

ITEMS TO EMPHASIZE

- Our program would give the U.S. shipyard industry the largest sustained annual income from government Maritime sources that it has had since World War II. It would provide a continuous level of construction of about 18 ships. Numbers of ships to be ~~constructed~~ constructed is misleading as operators are planning to build ~~ing~~ larger, more expensive ships than in the past.
- We want to get Government away from internal affairs of the industry, out of the detailed ship design process, out of ~~the~~ their management decision-making and away from influence on their labor-management bargaining process.
- This program should hold job opportunities up to a high level -- roughly 13,000 production jobs in shipyards, on a level basis (700 man-years per ship), and probably 40,000 or more sea-going job opportunities, (compared to about 47,000 today and 29,000 is present policy continued).

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- This program should keep us well ahead of the Russians in tonnage and quality. (Of course, not necessarily in number they build lots of small ships where most of our will be ~~gt~~ big).
- Moving MarAd into DOT is part of the package.
- The program moves ahead on nuclear power and new research.
- NDRF revitalization will mean substantial U.S. shipyard activity and will provide a "surge capability" of better quality for 10-15 years, and future "Viet-Nam-type crises can be handled with less disruption of commercial services.

FEB 21 1967

MEMORANDUM OF CONVERSATION WITH Mr. Lane Kirkland, Exec.
Assistant to George Meany, AFL/CIO

Subject: Maritime Program

42
also
memo
2/28
Tuesday, February 14, I spent an hour with Lane discussing the proposed Maritime program. He was quite enthusiastic and expressed the view that the package contained all the elements for success, although he could not express a judgment on quantifies insofar as U. S. construction is concerned. He advised me, confidentially, that Paul Hall has indicated to him he has no objection in principle to the Maritime Administration becoming a part of the Department of Transportation.

Kirkland feels the key to this matter is providing a means for Hall to disengage himself from the shipbuilding unions. In this connection, Kirkland believes it will be important to get at least the assistance or acquiescence of some of the shipbuilders. He is convinced the shipbuilders can have a strong influence over their own unions.

Kirkland was to call Paul Hall, on a confidential basis, to try out the program I had outlined to Hall through Kirkland. He also agreed to ask Hall not to create any ruckus in terms of resolution, publicity, etc. about the lack of a Maritime program at the Federal level.

(sgd) Alan S. Boyd
Alan S. Boyd

ASBoyd:sm:2/20/67
cc: Signer
Exec. Secre.

cc: Mr. Sitton ✓

February 28, 1967

*see also
memo 2/21*

MEMORANDUM OF CONVERSATION WITH LANE KIRKLAND

SUBJECT: Maritime Program

I spent the evening with Lane Kirkland in Miami Beach. We discussed primarily Maritime matters. Lane gave me a very thorough rundown on the current investigation of Paul Hall in connection with difficulties on the Great Lakes over a period of years involving primarily Howe Banks, who has been one of Paul Hall's chief lieutenants. Lane shares Paul Hall's feeling that Paul is being persecuted in connection with the bombing of a ship belonging to the Upper Lakes Shipping Company. Paul believes this is related to a desire on the part of the Canadian government to eliminate Seafarer Union activity in Canada which was originally headed by Banks. He believes the U. S. Government is taking far more interest in the labor activities pertaining to this situation than would normally be the case because of the request of the Canadian government for active cooperation.

Mr. Kirkland stated that he had talked to Mr. Hall subsequent to my discussion with Hall about a Maritime program. Hall's response was an enigmatic smile. He is not going to take any position according to Kirkland, until he has an opportunity to see some actual figures which he can then compare with the recommendations of the Maritime Advisory Committee and the Interagency Task Force Report. Kirkland's guess is that Paul will feel the number of ships to be constructed is too small. Furthermore, Kirkland feels there is no set of circumstances whereby we can hope to obtain either the neutrality or support of the shipbuilding unions. He feels that this puts Hall in a difficult position since the shipbuilding unions have supported him and his effort to obtain an independent Maritime agency.

Kirkland advised me that Joe Curran, NMU had submitted to the AFL/CIO Executive Council a resolution which would call for the construction of some 25 cargo liners, 25 bulk carriers, and 10 passenger ships per year in U. S. shipyards. Kirkland is hopeful he can have the resolution tabled without any action being taken on it, but does not know at this stage of the game what will happen. He has little respect for Joe Curran's integrity and does not believe that his word can be counted upon.

Kirkland advises that the approach he took of last year attempting to get agreement among the unions to permit one ship to be constructed abroad for each two in the United States had gotten absolutely nowhere. We agreed that even were this to be accomplished it would not solve the matter of strengthening the U. S. Merchant Marine sufficiently, because we could not expect to obtain more than approximately 20 ships per year under U. S. construction subsidy. This would mean only a total of 30 new ships, which in my judgment is not sufficient.

Kirkland feels that it is imperative for the Administration to go forward with a program which it thinks is reasonable. He believes that a progressive program will cause a split within labor between the Maritime unions and the shipbuilding unions and that it will further alleviate what might become a partisan political issue next year.

signed Alan S. Boyd

Alan S. Boyd

February 28, 1967

MEMORANDUM OF CONVERSATION WITH JOE CURRAN

SUBJECT: Maritime program

I spent an hour and a half with Joe Curran on Saturday morning, February 25 at Miami Beach. In the course of our conversation, I outlined to him the Merchant Marine proposal which I have outlined to others. He advised me that several years ago the Marine Engineers Union MEBA had gone on record favoring foreign construction although he does not know their present policy. He was very critical of Paul Hall and his efforts to obtain an independent Maritime Administration stating that independence would be dead in this case, because such an Administration would have no voice in the policies of government. He says that there is a great deal of re-thinking going on among the Maritime Unions relative to their position on foreign construction. He has no qualms whatsoever about foreign construction. He also believes the Maritime Administration should be a part of the Department of Transportation.

I asked him for his views on the proposal I had outlined. He commented that it was a very good basis and that while he might quarrel with the number of ships to be constructed, he felt this was a worthwhile program. He also believes that we should make some sort of a start and build from there. In his words, it is possible to build a one story house this year and put a second story on next year, but if no effort is made to build the first story there can be no second story. He indicated that if we were able to get a program through the Congress at 15 ships a year U. S. constructed, he might very well be back before the Congress next year urging a larger number of ships but he would not want that to deter support for the original number of ships.

He also indicated concern about protecting the coastal operators from foreign construction. I told him we would make some protective arrangements that would not permit the existing operators to be flooded with foreign built competition. He raised the question about the future of the nuclear ship SAVANNAH. It is his feeling that the SAVANNAH would make a very fine fish factory and that the United States should definitely get into that sort of business. He stated that he has contracted with the Naval architectural firm of Gibbs and Cox to devise plans for converting the SAVANNAH into a floating fish factory.

He urged that I talk to Calhoun, President of MEBA and Sheldon, President of the Master Mates and Pilots Union. They seem to be working together with MMU on a number of items and Curran thinks they would probably be receptive to the proposals which I have outlined. He also suggested that I talk to Russell Berg, President of the Shipbuilders Union, although he does not feel there is any hope of getting the shipbuilders to agree to foreign construction.

He is convinced that if the Administration goes forward with the program, there will be a split among the Unions and that a number of members of Congress who were not able to support the Administration last year would be able to do so this year because of the split.

signed Alan S. Boyd

Alan S. Boyd

X

nuclear program

MAR 1 1967

Commerce/AEC/DOD Report on Nuclear Merchant Fleet

As I mentioned in staff this morning, Senator Magnuson has requested AEC, Maritime and DOD for response on status of the nuclear ship report which is long over due. The Bureau of the Budget is on the hot seat since they held it up in the White House and are anxious to get something moving. They are against recommendations in report and have proposed as an alternative that it be rewritten as a R&D program but without a nuclear ship building program. Their proposed recommendations are attached.

The Bureau of the Budget would like your views before they clear responses to Senator Magnuson. It is my impression that they feel you may be willing to move away from your previous position.

Your options are to (a) stand firm on original position; (b) cave-in to Bureau of the Budget; or (c) try to find a compromise.

A compromise could be a program of R&D plus agreement by the BOB to add money in budget to continue operation of SAVANNAH, replace the present reactor, and jumboize the ship to provide effective commercial use (Ralph Casey mentioned this in recent meeting). This would probably cost no less than \$18 to \$25 million. However, it does represent substantial fallback from the proposed program of \$225 million for the 2-4 large high speed nuclear powered ships.

My view is that we should support as bold a program as possible as part of the package you are selling to the industry. It seems to me that while it will not sell economically it will sell politically for the reason that the SST activity in aviation necessitates some parallel activity in the merchant marine area and combined with the other elements of your program it provides the President with a politically saleable merchant marine package to assuage industry, labor and Congress.

Executive
Secretariat

If you decide to hold firm it would be advisable to touch base with the Joint Atomic Energy Committee (present Chairman, Senator Pastore as well as Chet Holifield also on the Committee) who, I understand, have opposed this development program. You may wish to enlist Senator Magnuson's support in this effort rather than to do it directly yourself.

I understand Magnuson has been in touch with the White House on this subject also.

Paul L. Sitton
Paul L. Sitton

Attachment

PLSitton:kam 3/1/67
cc: Mr. Sitton
Executive Secretariat-3

RECOMMENDATIONS

1. The Department of Commerce and the Atomic Energy Commission should proceed in an orderly fashion with a research and development program looking to economically competitive nuclear-powered merchant ships. However, such a program should be initiated on the basis of and carried out in accordance with a plan and time schedule explicitly justified by technical and economic studies.
2. If it appears subsequent to initiation of a research and development program (of the sort described above) and prior to its completion, that legal, institutional and labor problems may stand in the way of the economic use of nuclear power for the merchant marine, the Government should consider the feasibility of building a nuclear-powered ship, using the best technology then available, to obtain additional operating experience to assist in resolving these problems.
3. Since the economic potential of nuclear power for merchant ships depends on an integrated approach to vessel and cargo operations, the Department of Commerce should undertake research on improved cargo handling systems.

OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

MAR 9 1967

MEMORANDUM OF MEETING WITH CASL PRESIDENTS AND ASSOCIATES

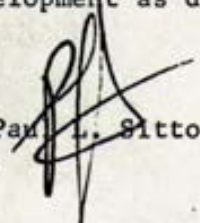
Secretary Boyd, accompanied by Paul Sitton, met with the Presidents of the CASL lines and their associates, March 7, to discuss the proposed maritime program being developed by DOT and to respond to a series of questions outlined by the CASL group in an earlier letter to the Secretary. A copy of the letter, the questions and suggested responses are attached.

The meeting began with an initial explanation by Secretary Boyd of what he was attempting to accomplish through the proposed maritime program. He proceeded to answer a number of the questions in the CASL outline along the lines as shown in the attached paper. However, because of time restraints, Frank Nemec (President of CASL) asked that CASL members be permitted to pose selectively the questions of greatest interest. During the discussion, additional questions arose to which the Secretary responded in the following manner:

- Labor Relations -- CASL members expressed concern over present labor-management relations and urged a more active role by Government in rationalizing maritime labor issues. Mr. Turman suggested that one approach would be that outlined in H.R. 5638, which would amend the Railway Labor Act. Secretary Boyd stated that his discussions with labor representatives left him with the impression that they were agreeable to the establishment of work rules and crew sizes for vessels prior to the time they are brought into operation and that major issues could be resolved through the collective bargaining framework. However, Secretary Boyd offered to take up with Secretary Wirtz the question of maritime labor relations which CASL raised. CASL is to provide precise suggestions to the Secretary for his guidance as to their views.
- Wage Review Board -- CASL has pressed Commerce and MarAd to move ahead with the Connor wage review board proposal now pending for two years in the Department of Commerce. They indicated that Gulick stated that Secretary Boyd had asked that the matter be held in abeyance pending resolution of maritime policy issues. CASL is anxious to have the review board established as soon as possible. Secretary Boyd stated the matter was under review.

- Operating Subsidy -- Secretary Boyd stated that SARK had been engaged as a consultant to work with DOT staff in developing a revised operating subsidy plan. CASL staff should contact DOT staff to give their views.
- Shipyard Subsidy -- Mr. McNeil urged consideration of a direct subsidy payment to the shipyards in lieu of present subsidy to operators. DOT will review this alternative.
- Cruise Trade -- CASL asked the Secretary not discard entirely the passenger ship promotional program since increasing cruise trade offers an alternative with balance of payment advantages and under proposed system ship operating crews would be eligible for subsidy. Foreign employment would be used in the hotel trades and ships could be constructed abroad. Secretary Boyd viewed this program as one on which industry and not Government should take initiative.
- Mortgage Insurance -- CASL members raised questions as to whether insurance (Title XI) would cover vessels constructed abroad and argued that it had favorable balance of payments impact. DOT will look into this matter.

There was general receptivity of broad concepts presented in DOT package and CASL desire to follow program development as details are developed.


Paul L. Sitton

Attachments

Decisions Needed Before Program
Paper can be Written

Program Level

	<u>Ships in U.S. Yards</u>	<u>5 Year Fed. Costs</u>	<u>10 Year Fed. Costs</u>
Option 1	18	\$2.4B	\$4.5B
Option 2	30 for 5 Years, then 25	\$2.8B	\$5.1B
Option 3	25	\$2.6B	\$4.9B
Current Program	13/14	\$2.0B	\$3.8B

(Recommendation: Option 2)

Program Feature Alternatives:

1. Shipyard subsidy scheme:

Alternative a.: Expand present CDS system.

Alternative b.: Operators and Yards come to government with proposals to be judged on basis of productive capability per subsidy dollar.

Alternative c.: System proposed by CASL: Set shipyard subsidy rates for each major ship type. Yard does design work and sells customer at competitive price (customer has option to build abroad). Subsidy paid directly to Yard. Any operator can purchase the ships.

(Recommendation: The CASL proposal, Alternative c: It is simpler than b, better than a. and has the strategic sales advantage of being an industry proposal).

2. Cargo Preference:

Alternative a.: New subsidized bulkers get cargoes if within 5% of low world market bid; old ships use "Fair and Reasonable" rates as at present.

Alternative b.: All ships under F & R rates. New subsidized bulkers would have a F & R rate computed to be at the world rate.

(Recommendation: Alternative b. the industry people affected are dead-set against a. Alternative b. would accomplish roughly the same end. The "5% over world rates" feature is not an important enough part of the program to warrant risking serious opposition in order to keep it)

3. Nuclear Ships:

Alternative a.: Magnuson proposal, i.e., 2-4 new ships. Keep Savannah in operation for interim training.

Alternative b.: Upgrade Savannah and have an AEC maritime reactor program ashore.

Alternative c.: One new nuclear ship plus Savannah.

(Recommendation: Alternative a. this would make Sen. Magnuson and the House Committee happy, and would put the problem in the laps of the nuclear program's proponents in Congress).

Paul Hall proposal
March 28 1967

MARITIME PROGRAM

1. Construction-differential subsidy is to continue for presently subsidized liner vessels at the current rate so as to enable that segment to build 15 vessels per year.
2. Construction-differential subsidy is to be provided for the replacement of the total tonnage and capacity of the existing unsubsidized liner fleet. At present, approximately 100 such vessels exist. They should be replaced at the rate of 20 per year for the next five years, and all are to be built at U. S. shipyards.
3. Operating subsidy should be extended to the companies presently operating these 100 liner-type vessels.
4. Construction-differential subsidy is to be provided so as to insure the attainment of a U. S. dry-bulk fleet capacity sufficient to carry 30% of this country's dry-bulk export/import commerce. This should begin with a minimum construction program of 30 vessels per year for five years. All vessels are to be built in U. S. shipyards.
5. The design of the above-mentioned bulk cargo vessels must be as standardized as possible to insure the lowest possible costs of ship construction, but at the same time to insure maximum productivity and efficiency for competency in the world market.
6. Operating-differential subsidy is to be extended to newly constructed bulk carriers under the cost-parity principle.
7. Government support is to be made available for the carriage of proprietary cargoes as well as for other dry-bulk cargoes.
8. Administration of the cargo preference laws is to be given to the Maritime Administration.
9. Thirty (30%) percent of all petroleum and petroleum products, molasses and sugar which are imported by virtue of the granting (by the Federal government) of licenses and/or quotas is to be carried on U. S. flag vessels.
10. A comprehensive investigation should be made of passenger services with a view to improving the competitive and economic position of American-flag passenger lines.
11. Regulations should be adopted to control foreign-flag ships cruising from the U. S. to nearby cruise areas.

12. The House Merchant Marine and Fisheries Committee should be permitted to pass on all Congressional authorization of Federal maritime funds, including those governing construction of subsidized merchant ships. (H.R. 158)

13. An independent Federal Maritime Administration should be created in order to effectively deal with the revitalization and expansion of the U. S.-flag merchant marine. (H.R. 159)

14. Federal aid must be provided for the development, construction and operation of nuclear-powered merchant ships. (H.R. 160)

15. Tax-free construction reserve funds must be established to enable operators to replace and modernize the domestic fleet.

16. Title XI assistance procedures should be revamped so as to insure that applications are expeditiously handled.

17. Efforts should be made to increase the cargoes reserved to U.S.-flag vessels by enforcing the 50/50 statutes and increasing the American-flag percentage.

18. The building of vessels for the domestic trade should be further encouraged by changing the I.C.C. rulings permitting rail-rate differentials to areas where there is water competition.

19. The Department of Defense should be encouraged to make long-term charters on nonsubsidized vessels to meet their basic long-term requirements. Such a policy with respect to tankers could result in more tankers being constructed in U.S. yards.

MAR 30 1967

Outline of Points to Cover in White House
Meeting on Maritime Policy

Paul L. Sitton

Secretary Boyd

- (1) As an introduction repeat mandate for seeking a program with general acceptability to government, industry and labor; and which can be accomplished at least cost to the public.
- (2) List people and organizations whom you contacted. This list is attached. You may also indicate that in subsequent discussions with individual members of AMA and the tramp owners association that a more reasonable attitude on their part might be forthcoming although they have expressed strong opposition to program.
- (3) Summarize the conclusions growing out of your discussions which are that:
 - Opposition to foreign construction is "an act of faith" of the ship builders, shipyard unions and the Maritime Trades Department.
 - The complexities of the problem involved in opening the cabotage laws are so great that they should be approached very carefully.
 - A long-term evolutionary program is more attractive to industry than an immediate radical departure.
 - The political reaction to the proposed lay-up of the SAVANNAH gives some measure of the attractiveness of the nuclear development program in the maritime area.
 - Industry management has become more realistic over the past several years and accepts the inevitability of change.
 - The continuing opposition to the program by certain labor groups is closely tied to the internal politics of AFL-CIO.

- (4) Call attention to the fact that the program you have outlined is not justified from the standpoint of economics or derived from a carefully conceived position as to the value of the U.S. merchant marine to the Government and the Nation. Its principal attractiveness is more sociological and political in nature; i.e., guarantee of maritime labor employment levels on a relatively constant but slightly declining level during the next ten years. If such a program can achieve labor stability in the maritime industry, the result could be untold benefits in elimination of costly strikes and an improved climate for reduced manning aboard U.S. vessels.
- (5) The program is timely in that the current obsolescence of our fleet comes at a point when improved technological breakthroughs are near at hand:
- containerization;
 - integration of total cargo movement;
 - foreign investment are heavy in conventional shipping thus making it difficult for foreign competition to adjust to new technology.
- (6) The emphasis on broadening U.S. flag fleet to include bulk carriage provides one of the more cheaper ways of increasing percentage of U.S. foreign trade carried by U.S. flag vessels. This has little direct economic value but would reduce pressure for expanding in cargo preference if combined use of cargo preference outbound and commercial cargo carriage on other leg of journey can be realized. Our conversations with tramp operators indicate this is a distinct possibility.
- (7) Submission of the program at this time will reduce substantially the embarrassment now facing the President, who along with President Kennedy promised a new maritime program. The Congress is especially unhappy with the failure by the Administration to propose a program. Congress would like to get off the hook and is reaching the point where it will take matters into its own hands. The result would face the President with the awkward dilemma of whether to veto a program on which he was not prepared to state Administration alternatives.
- (8) There is a distinct possibility that maritime labor in alliance with the Republicans could make this question a political issue in the next election. If the Maritime Trades Department of the AFL-CIO, which is engaged in this maneuver can swing enough weight in the larger

organization (another distinct possibility) this may be the result. The Cabinet Committee should know of the sustained and continuing efforts of Paul Hall to enlist political support.

- (9) While the program is expensive in an absolute dollar amount (an increase of about \$1.4 billion over a ten-year period), it brings certain indirect benefits which if measured could be a significant offsetting factor. Such items include reduction in:

- cargo preference rate differential;
- social cost of domestic cabotage;
- improved military sealift capability;
- hope for longer-term labor stability and crew size rationalization;
- reduced pressures for increasing cargo preference and quotas on commercial imports;
- mitigate political opposition to FDL program.

- (10) There is a strong possibility that program cost will not reach projected level since certain assumptions are included that program expansion is dependent upon ability of U.S. operators to get capital for ship construction and to improve the share of their carriage of U.S. flag cargoes. The Government program merely provides industry with an opportunity to take advantage of Government aid.

Paul L. Sitton
Paul L. Sitton

Attachment

PLSitton:kam 3/30/67
cc: Mr. Sitton
Capt. Dye
Executive Secretariat-3

List of Individuals and Organizations Contacted

Congressional

Sen. Magnuson
Sen. Bartlett
Cong. Boggs
Cong. Garmatz

Cong. Downing
Cong. Paul Rogers
Jack Drewry, Chief Counsel, House
Merchant Marine and Fisheries
Committee

Labor

Paul Hall

Joe Curran
Jesse Calhoon
Lloyd Sheldon
Lane Kirkland
Ray Murdock
Alvin Shapiro
Russell Berg

Pres., SIU and Maritime Trades
Dept., AFL/CIO
Pres., NMU
Pres., MEBA
Pres., MMP
Executive Assistant to George Meany
SIU - Andrew Furseth Foundation
NMU
Pres., Boilermakers, Iron Shipbuilders,
Forgers and Helpers

Management

Frank Nemec
Stanley Powell
Joe Andreae
Solon Turman
Ralph Casey
- Board Members
Donald Holden
Mike Klebanoff
Richard Kurrus
Jack Coakley

Pres., Lykes Bros. Steamship Line
Pres., Matson Navigation Co.
Humble Oil (tankers)
Chairman of the Board, Lykes Bros.
Pres., AMMI
AMMI
Pres., Newport News Shipbuilding
Chairman, American Tramp Owners Assn.
Washington Counsel for ATSA
Pres., United Tankers Co. (ATSA)

Sylvester Rothschild
Eric Holzer
Morris Feder
Bill Kohler
Al Segal
Braxton Carr
Edwin Hood
Frank Ichard
Subsidized Operators

Blidberg-Rothschild (ATSA)
Pres., American Union Transport (ATSA)
Maritime Overseas Corp. (ATSA)
Lake Carriers Assn.
American Trading and Production Co.
American Waterways Operators
Pres., Shipbuilders Council of America
American Petroleum Institute
Presidents of CASL companies

(Late March)
Spring 67
after 4/5 paper?

Summary and Present Status
of the Maritime Program
Proposed by the Department of Transportation

The Problem: Existing Merchant Marine and Shipbuilding Policies. Present policies have resulted in a jungle of direct and indirect subsidies that are paid to ship operators and shipyards, costing the taxpayer in excess of \$400 million per year--and in spite of these the fleet continues to age and shrink and the shipyards become less competitive. (Average age of ships is 19 years; over 600 of the roughly 950 were built under the World War II crash programs). U.S. ship prices have gradually risen to 210% of foreign prices and difference must be subsidized if ships are to be built, due to protectionist policies requiring U.S. construction, in order for ships to qualify for subsidy and domestic service privileges. This policy, established in early 1800's to encourage ship construction industry, is today irrelevant because the U.S. has one of world's largest and busiest shipbuilding and repair capabilities: over \$3 billion of government money went into government and private shipyards and their marine equipment supplies in FY 1966--\$2.7 billion from the Navy as contrasted to only about \$300 million for merchant ship construction (subsidy plus private matching funds). The private shipyard industry, with over \$1.5 billion of Navy business, does not stand or fall on marginal changes made in the merchant ship construction program.

Alan Boyd's Proposed Maritime Program, briefly described in one of the attached papers, would:

- Replace costly indirect subsidies for ship operators with direct subsidies and thereby place nearly all of the U.S. Merchant Marine that carries foreign trade under similar systems. Some new operators would immediately come under subsidy.
- Provide a separate and expanded subsidy program for shipyards under which they could compete in the construction and sale of merchant ships at world market prices. This would mean a subsidy increase of about \$100 million per year over present program--nearly a doubling.
- Allow a limited amount of ship purchases in foreign yards by U.S. operators to provide for early replacement of over-age ship group without excessive extra cost to government in an already heavily government-supported industry and without creating a level of shipyards activity geared to merchant shipbuilding that would be impossible to maintain under future subsidized programs.
- Expand Maritime R&D support and add a nuclear power development program.

- Upgrade the reserve fleet by conversion in U.S. shipyards of about 100 unneeded troop transports to cargo ships in order to meet defense "surge requirements."
- Move the Maritime Administration into the Department of Transportation to allow proper balancing of all promotional programs and consideration of transportation on an integrated basis.

Estimated results of Boyd's proposed program would include expansion of the fleet from today's 14.5 M DWT to 21.6 M DWT in first ten years, a reduction in the cost of subsidy per ton carried from \$12 to \$5, stabilized or expanding employment levels. Annual total subsidy would run about \$500 million.

Present Status. Alan Boyd has completed an extensive dialogue with industry, labor and relevant congressional committees aimed at gaining acceptance of his proposed program. There has been a considerable amount of negotiation in this process and agreement has been obtained with most of the maritime industry and much of maritime labor.

The sole remaining issue blocking full agreement is whether or not to permit U.S. ship operators to purchase some ships in foreign shipyards for registry under U.S. flag with full privileges--the so-called "foreign construction" issue. While the opponents of foreign construction also continue to oppose placing the Maritime Administration in the Department of Transportation, this opposition would disappear if agreement was reached with them on a program.

Support and Opposition. The proposed program (including foreign construction) is supported by: American Merchant Marine Institute, Committee of American Steamship Lines, Great Lakes Shipowners, the National Maritime Union and two major officer unions, Masters, Mates and Pilots and Marines Engineers Beneficial Association, the non-subsidized liner operators and the more progressive shipyards (Lockheed, General Dynamics, Litton, Avondale and National Steel). The program is opposed by: Paul Hall and the Maritime Trades Department of the AFL-CIO, a small number of independent tramp and tanker operators, and older shipyards such as Bethlehem, Todd and Newport News. Opponents have effective political influence in House Merchant Marine and Fisheries Committee. In general, Congressmen from shipyard districts have political difficulty over prospects of any foreign ship construction, even when connected with the much larger ship construction program in U.S. yards that is proposed. Opponents recognize that program is at impasse and are anxious to find a compromise.

The Future. If a satisfactory compromise cannot be found, the proposed program will probably die in its present "proposal" form and with it will go (for at least a couple of years) the opportunity for maritime

renewal and expansion which would have enabled both ship operators and shipyards to take advantage of the technological revolutions that are taking place in their fields. Also lost will be the activity in the steel and marine equipment supplier fields that would have resulted from the additional roughly \$200 million per year (about \$100 million in subsidy plus about \$100 million in matching private funds) that the program proposes to invest in construction in the U.S. private shipyards.

If a reasonable compromise can be obtained in the immediate future (sample: Allow foreign construction for five years, then re-evaluate its effect on shipbuilding industry before continuing with it) and substantially full agreement is obtained, then program could be sent to Congress this session. However, if not done soon, it will be overtaken by the priorities for the Vietnam War and programs for the problems of the cities.

4/5/67
2. President on fileBackground 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, Calhoun 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 in 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.

-- Option 3 -- Expanded version of program discussed with industry:

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.

Conclusion

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 COSTS & EFFECTS

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

	<u>Option 1</u> (Continue current policies; no policy reforms, 13 or fewer ships built per year all in U.S. yards)	<u>Option 2</u> (Minimum proposal some policy reforms, 13 ships built per year in U.S. yards, 11 foreign yards)	<u>Option 3</u> (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)

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
Shipyards 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.

APR 6 1967

Proposed Course of Action on Maritime Program

When you discuss with the President a proposed maritime program you may also wish to outline for him your views on how the Administration should present this package.

Agreement at the meeting with the President is extremely important because of the limited time available between now and your appearance before the Senate Commerce Committee on April 12. Assuming the President approves the program and gives you a go-ahead, the following schedules of action are suggested:

(1) The President should send to the Congress on Monday a short message proposing the new maritime program. President Roosevelt in announcing the 1936 Merchant Marine Act transmitted a message which was about one-half page long. Attached is a proposed statement which the President could use which outlines the purpose of the program and what he seeks to accomplish. It would end with a statement that the Secretary of Transportation will present the program in more detail to the Congress.

(2) In your appearance before the Senate Commerce Committee on the 12th, you would present the proposed program in more detail, outline its major elements and suggest a time schedule for later transmission of legislation including a reorganization plan.

(3) Simultaneous with your testimony before the Committee, John Sweeney would have prepared an appropriate press release with broad coverage whose general thrust would be that "the Secretary of Transportation strongly reaffirms the Administration's support of a revitalized U.S. merchant marine and proposes a far-reaching and long-range program to correct the ills of the industry."

(4) After President's announcement on Monday and before your hearing on the following Wednesday, you may wish to call the key members of the Senate Commerce Committee concerned with these hearings and offer to have someone brief them in advance on the program components. (See attached paper by Carl Davis outlining further steps which we must take.) Ira Dye and I could schedule short briefing sessions for each of them using the flip chart which Ira has prepared.

PLSitten

Exec. Sec.

The above outline would provide maximum and sustained news coverage, create a favorable climate for bringing MarAd into Department of Transportation, and give Bartlett's committee hearing good news coverage.

Paul L. Sitton

Attachments

PLSitton:mm 4/5/67

cc: Exec. Secretariat (3)

✓ Mr. Sitton
Capt. Dye

*Carl Davis - printed
revised*

Development of Congressional Plans and Tactics for
Congressional Consideration of the New Program and
Policy for Updating the American Merchant Marine

In our meeting of March 12th you indicated an interest in views with respect to the Congressional liaison work which should be done in connection with the congressional presentation of the proposed new merchant marine policy and program. I suggested that I would put some of my views on paper to facilitate their further consideration by personnel involved in the congressional presentation.

I believe that there is a need of paramount importance that this new policy and program be announced by the President as a part of his administration program. Thereafter, I think that it would be advisable to meet with the segments of the industry supporting the program so as to develop a consistent position that will be followed in informing the Congress and the public.

We should start working with the Committee Counsels of the Senate Commerce Committee and the House Merchant Marine and Fisheries Committee by briefing them in general terms at the earliest date, consistent with the announcement and publication of the program and policy. In addition, there is often considerable gain in presenting a similar type briefing to the Administrative Assistants and Legislative Assistants of the Committee Members.

We should explore the possibility of presenting a preliminary briefing to committee members.

We should also consider the "introduction" of our package legislation.

In this connection, as you know, the chairman normally receives first consideration, followed by ^{Seniors} similar members of the subcommittee on the Merchant Marine. Then we would normally consider any other members of the committees. We should also consider whether or not we are interested in having the legislation co-sponsored on the Senate side.

We must also make the necessary plans and arrangements to transmit our legislative package to the Congress for its introduction and the scheduling of hearings thereon, keeping in mind that the time period before the introduction and hearings should be as short as possible with a view to minimizing the time during which opposition may be crystalized through failure, willfully or unwittingly, to understand all facets of the complex proposal. In this connection, we should conduct a careful study designed to identify our opposition and try to figure out ways of getting those factions to support us, or at least how we can minimize their effectiveness. We must remember that the Congress membership of those states properly affected by the legislation will be besieged by various individuals, groups and organizations as our program becomes more publicized. Consequently, it behooves us to make every effort to see that the Congressmen who are likely to be visited by such delegations are informed with the complete picture before they are persuaded to oppose the legislation by reason of attacks of small

segments on the program. Our public relations staffs should have an affirmative, informative program worked out so that we will not be in a position of merely answering adverse publicity put out by our opposition. In the area of committee hearings, we should try to persuade the committee chairman to limit the scope of testimony since on any program of this magnitude it generally develops that long, lengthy hearings tend to confuse the legislation rather than clarify it. We should develop a schedule for the groups that would probably desire to be heard and endeavor to persuade the chairman to adopt our recommendations as to a reasonable time limitation on their testimony. We should also endeavor to get the committee chairman to permit the government to present its full testimony with questions being withheld until we have completed our presentation. If we are able to accomplish this, it will make the hearings much more informative and will drastically reduce the number of questions. If we are not able to get the chairman to withhold all questions until the completion of our presentation of the entire package, we should at least endeavor to get the chairman to withhold questions until after we have completed sizable, related, segments of our presentation.

In the preparation for the committee hearings, we should hold dry runs within the department and agency, if possible, we should hold dry runs before committee staffs. We should prepare check sheets covering various elements of our presentation accompanied by a question and answer paper on each segment of the legislation. We should also consider furnishing the committee counsels with pertinent questions to be asked by counsel or members of the committee that we want to be asked.

We must also consider briefing members of the Rules Committee of the House so as to expedite getting our bill to the floor after it has been reported out by the House Merchant Marine & Fisheries Committee. In this connection, we would want to brief the Administrative Assistants and Legislative Assistants of the Members of the Rules Committee. Also, advanced briefings for the appropriations committee of both the House and Senate should be conducted. We must brief the legislative and liaison staffs from other executive departments and agencies which would have an interest in or be affected by their legislation and illicit their support. This would include consideration of the Department of Defense, Department of State, Agriculture and Treasury and may be others. Moreover, we must develop the maximum industry support possible and we should also develop all of the grass root support that we can obtain such as the Chambers of Commerce, farm organizations, shippers, bulk carrier owners, tanker owners and state governors. In this connection, we should set up an informative program to enlighten our friends with letters to organization memberships, accompanied by a brochure explaining the program. We must not only prepare speeches to be used in Debate, but speeches by other members of congress and by a member of our committee to be given on the floor in support of our legislation. We must have a close working relationship with representatives of the Bureau of the Budget, keeping them informed of our actions and activities throughout the presentation and seeking their advices and assistance at all times.

1. May create problems with the Department of Defense since McNamara has said repeatedly that our present operating fleet is sufficient to meet defense needs.
2. With respect to the projected percentage of carriage both for liner and bulk carrier trade the figures which I have used here as our objective may be some what at odds with the 30% overall as required in the Maritime Advisory Committee Report. It would be highly advisable if we could have some firm figures to work with.
3. Statute does not require ships to be built in the United States and Title XI mortgage insurance can be used but our current regulations do and would have to be changed.
4. If there is a requirement to come up with an incentive subsidy system with respect to liner vessels how can we justify not having an incentive system for the bulk carrier we are now going to subsidize?
5. Discuss with Aptaker the point on subsidy simplification whether or not anything should be said with respect to current problems of differential determinations since I haven't come up with any logical solution.
6. The program paper provides that construction differential subsidy is to be based upon the difference between U. S. costs of building a ship and the weighted average cost of foreign construction. In the 89th Congress we endeavored administratively to base the subsidy on the average of 5 foreign shipbuilding countries and were unable to proceed with it because of industry and Congressional opposition.
7. One of the problems that needs to be dealt with is what is to be done with regard to the Section 506 provision requiring existing construction subsidy ships to pay back part of the construction subsidy if they operate in domestic trade.

APR 7 1967

Comments on the Schultze Maritime Options

where is copy?

The memorandum prepared by Charlie Schultze is objective with several exceptions. My suggestion is that in discussions with the President you dispassionately refer to the difference as a matter of judgment and indicate that under any circumstances whoever may be right they are not material to the final decision.

The points with which we would disagree are as follows:

- Schultze has upped direct Federal costs under present program by \$.8 billion, BOB proposal by \$.4 billion and the Boyd proposal by \$1.2 billion.

Comment: I have discussed these estimates with Captain Dye who had worked on them with Walt Boehner. We are unclear where BOB gets the differences since we had agreement at one point. I strongly believe it unlikely that direct Federal cost under your program could ever reach the \$5.1 billion since in large measure acceleration in Federal expenditures over the ten-year period depends upon capturing cargo trade to the extent of 60 percent under liner service and attracting necessary private capital to build trade level we have estimated for operating subsidy. This is not in my view possible, thus our cost estimates are overly high. We can claim the high levels of program performance since under a partnership arrangement the Government can only be held accountable for its part of the bargain.

- The BOB proposal has increased shipyard jobs for merchant ship construction under current program from our estimate of 1,400 to 9,800.

?

Comment: The proposal included by BOB is based upon an earlier estimate given by us to BOB which we have revised downward. Our figure is the correct figure.

Paul L.
Sitton

Executive
Secretariat

- BOB takes a more pessimistic view on our attempts to get labor agreement.

Comment: The BOB paper does not reflect our current knowledge with respect to the softening of position by Paul Hall and the tramp and tanker operators. BOB indicates that "some" of the opposition could be persuaded and the rest overridden. Our reaction to this is that the program which you have proposed would eliminate virtually all but the hardened opposition of the shipyard industry and even their opposition is more form than content with a 30 ship/year program.

- The economic and social impact discussion of the program presented by BOB reiterates the economic value question.

Comment: This is an old horse that we have laid to rest before. It is nothing new and the President is, I am sure, aware of this canard.

- BOB indicates there should be additional negotiation.

Comment: Resolution of the position of Paul Hall should settle this question.

- BOB raises the issue of the danger of enactment of the bad without the good.

Comment: The timing of the way we transmit our program should suffice to gain our end. We would present the program in increments. First, we would submit the reorganization plan. Secondly, when this is accepted we would transmit the legislation. Thirdly, when legislation as a package is enacted the President would request funds for expanded ship construction. In this way the President maintains stage control over the results of the program to which he can call a halt at any time unless his program is accepted.

- The BOB memorandum refers to McNamara's strong feelings of the value of an education program.

Comment: I think that these comments occurred before DOD's attitude on the FDL. In view of that fiasco I would suggest that McNamara support of the educational approach is now something less than enthusiastic.

PLS:itton:kam 4/7/67

cc: Mr. Sitton

Capt. Dye

Executive Secretariat-3

Paul L. Sitton

April 8, 1967

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Proposed Federal Maritime Program

For your consideration attached is a report on the status of recent discussions with representatives of the maritime industry. The purpose was to seek a mutual basis of agreement on a maritime program that would be enacted by the Congress.

Maritime policy has been studied to death. The program I recommend is the smallest that can be enacted. We should move forward with it or drop the subject.

Senator Bartlett begins hearings Wednesday, April 12, on maritime policy and programs. I am to be the first witness.

Budgetary constraints for FY 1968 and FY 1969 can be handled. Your approval will enable me to obtain the support of Paul Hall for the program.

Alan S. Boyd

Attachments

cc: Exec. Sec. (2) ✓
Secretary Boyd (2)
Mr. Sitton
Capt. Dye

ASBoyd:kel

APR 8 1967

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Maritime Policy Options

BACKGROUND

On February 1, you asked Secretary Boyd to sound out maritime industry and labor to see what kind of a maritime program could be put together, which would

- reform present subsidy policy towards a more efficient and independent merchant marine,
- be acceptable to industry, labor and their Congressional supporters,
- involve the least possible budgetary cost.

On the basis of extensive discussions with industry and labor, Secretary Boyd proposes a program which provides:

1. Important reforms in maritime subsidy policy, including
 - construction abroad
 - a revamped construction subsidy technique for those ships constructed in the U. S.
 - an incentive operating subsidy scheme, to be introduced on a pilot basis
 - a sharp reduction in the hidden subsidy under cargo preference.
2. Sharp expansion in the number of ships in the U. S. fleet; increases the number constructed in the U. S. (30 per year vs. 13 now); and

provide for adoption of Senator Magnuson's nuclear merchant ship proposal (\$300 million cost).

3. Inclusion of Maritime Administration in DOT.

The attached table compares the major elements of alternative programs.

Secretary Boyd believes his proposal is the minimum which can be enacted.

- it is supported by union leaders (Curran, Calhoon, Sheldon) representing the majority of seagoing labor force; by ship operators accounting for 80% of the U. S. fleet; Paul Hall's support can be obtained.
- it is opposed by shipyards and their unions (who oppose construction abroad even when accompanied by expanded construction in the U.S.); and by some tramp and tanker operators.

DISCUSSION

1. Advantages of the Boyd proposal

- The President has repeatedly indicated that he would propose a new maritime program. Anything less than the Boyd proposal could not be enacted at the present time.
- Without an Administration program, the Republicans will make the "plight" of the merchant marine a 1968 campaign issue.
- The U.S. merchant marine is inefficient, obsolete, and most of its decisions are made by the Federal Government - but it will continue to exist. By paying the price for expanding the fleet, we will buy increased efficiency in that fleet, and give the operators a chance to make their own decisions.
- A new and expanded program will probably lead to labor peace in an industry with a bad history of labor strife.
- A reformed, and expanded, construction subsidy program could lead to an increase in the competitiveness of U.S. shipyards - although they will probably remain higher cost than foreign yards.
- Improve chances of FEL program and for lifting restrictions on grain sale to bloc countries.

2. Problems with the Boyd proposal

This program provides for a significant expansion in the size of the U.S. fleet and in the number of ships constructed under subsidy in the U.S. The program:

- is far larger than needed for national defense purposes. (Smaller BOB proposal is also larger than national defense requirement.)
- adds \$1.7 billion in direct Federal costs over 10 year period. Net costs to the economy, however, will be only \$1.2 billion.
- is an expensive way of providing jobs. The investment of these funds in other Federal programs would be much more productive in creating employment.
- about 10% of U.S. shipyard activity is taken up by subsidized merchant ship construction. From a defense standpoint, the provision of additional subsidized construction is unnecessary.

OPTIONS

We believe you have two alternatives:

1. Submit to the Congress a legislative proposal incorporating the Boyd program.

We must insure that the expansion part of the proposal is not adopted without the reform components. Therefore, it is essential to make clear that any Congressional action which leaves out the essence of the reform proposals is unacceptable.

2. The second alternative has two components:

- A. Stay with the present program for now, and
- B. Launch an educational campaign (speeches, articles, editorials, etc.) ultimately aimed at securing approval of something like the BOB program.

Secretary McNamara, Director Schultze and Chairman Ackley feel strongly that the waste, inefficiency, high social costs, and lack of national security benefits in the present program are not generally known.

They believe that an educational campaign could sharply increase the chances of eventually enacting a maritime program

- . at reasonable costs
- . with major reforms

Alan S. Boyd

Attachment

COMPARISON OF MARITIME PROPOSALS

This table compares the major elements of:

- Present maritime program
- BOB proposal *
- Boyd proposal **

	<u>Current Program</u>	<u>BOB Proposal</u>	<u>Boyd Proposal</u>
1. <u>Ten-year cost (in billions)</u>			
- Direct Federal cost	\$4.6	\$3.6	\$6.3
- Indirect cost to consumers	<u>2.5</u>	<u>2.0</u>	<u>2.0</u>
Total cost	7.1	5.6	8.3
2. <u>Number of U. S. flagships</u> (by tenth year of program)	604	738	889
3. <u>Number of jobs</u> (by tenth year of program)			
- shipboard	28,236	32,000	37,000
- ship yard	<u>9,100</u>	<u>9,100</u>	<u>17,500</u>
Total jobs	37,336	41,100	54,500

* The BOB proposal was discussed with the President at a February 1 meeting. It is similar to the Boyd proposal in the reforms it proposes, but is smaller and less costly.

** The figures for the Boyd proposal represent a high estimate. Actual expenditures will probably be much less.

DOT
PROGRAM

4/11/67

Alternatives for Program Timing

1. If Hall can be contacted today (April 11) and Program is to be announced by DoT.

- Get Califano to approve release of program for you to announce at hearing with Bartlett tomorrow.
- Make as many of the other calls on your list as possible today. Consider delegating some of the calls to Sitton.
- Go ahead with Bartlett hearing. Present the revised statement. Give them copy of the edited program paper (the March 28 paper revamped for this purpose. Contains quite detailed program description.) *what does this
look like?*
- Arrange with Bartlett to keep the questioning general and ask him to program sessions on the details for about 10 days from now at which you will appear or send experts (Sitton & Dye).

pros:

1. Will avoid detailed questions at this initial hearing and allow development of congressional and industry reaction to detailed program features and magnitude before detailed questions must be answered.
2. Gets the program out in the open quickly and obviates any damage from leaks.
3. Meets the time schedule of the Bartlett hearings and improves administration image on meeting schedule.
4. By avoiding delay in making program public, this option minimizes the chance that BoB could get reconsideration plus delay and/or cancellation.

con:

1. Timing is terribly tight: Risks going to Bartlett hearing without anything to say if Hall can't be contacted.
2. If Hall can be contacted today (April 11), but release of program must wait for a Presidential message.

- Make a few of the key calls on your list (Congressional calls, Meany, one or two in industry).
- Make every effort to delay appearance before Bartlett until next week telling him why the delay is needed and emphasizing that the first detailed presentation of the program after the Presidential message will be at his hearings.

pros:

1. Gets Hall on the record at an early time.
2. Allows more time for detailed preparation for hearing.

cons:

1. Allows time for leaks to develop and embarrass the Administration.
 2. Allows time for BoB to obtain weakening or reversal of Administration position.
 3. Makes for slight embarrassment by not meeting the already-delayed Bartlett hearing dates.
3. If Hall cannot be contacted today:
- Delay Bartlett hearings with promise that first public presentation other than a Presidential message will be at his hearings.

pro:

1. Temporarily removes pressure until Hall can be contacted.

con:

1. Has all the disadvantages of option 2.

X

APR 11 1967

Discussions with Senator Bartlett

Ira Dye and I suggest the following approach in persuading Senator Bartlett to delay your testimony until next week.

There is need for an additional week since the President is out of the country. The President asked you to take a few additional soundings with certain key industry people before he gave a final okay to go ahead with the program. You anticipate giving him this report immediately upon his return from Latin America. In your judgment the reaction of these industry people whom you are now contacting will be extremely favorable for we are now talking in terms of something substantially above the 15 ship/year construction program in U.S. yards.

note increased level CDS line

If you have to testify tomorrow your statement will not be responsive to the issue of a new program. Unresponsive testimony might well destroy the consensus which has been laborously built up during the past month. If this consensus is destroyed and press reports of the results of the hearings are disappointing the President's support could be withdrawn.

Your strong selling point to Bartlett is that (a) by limiting testimony on Wednesday and Thursday to Trowbridge and McNamara and by carrying you over until the next week, his Committee and hearings will be given a substantially higher and longer level of news interest exposure; and (b) that you will assure him that the first public discussion other than the announcement by the President will be your appearance before his Committee next week.

The alternative which Bartlett probably would not want, is that once you have appeared before his Committee the likely next schedule of public hearings will be the House Committee which would then be first public disclosure of the program.

PLS itton:kam 4/11/67

Paul L. Sitton

cc: Mr. Sitton

Capt. Dye

Executive Secretariat-3

APR 20 1967

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Status of Negotiations on Maritime Program

On April 8, you agreed to move ahead with the maritime program which I outlined earlier to the Cabinet Committee contingent upon securing agreement of Paul Hall and AFL-CIO. Today, the major parts of the shipping industry, the licensed unions and one major unlicensed union are behind the program.

We are at present negotiating remaining differences with Paul Hall and expect agreement by end of week. The status of these negotiations are:

- Hall wants the level of foreign construction tied to the level of domestic construction under subsidy in U.S. yards. We are proposing 3 alternatives for consideration and believe this closed ended approach will place greater restraints on fleet expansion -- a desirable objective.
- Hall wishes to centralize administration of cargo preference in DOT. This point can be accommodated without loss of policy objectives.
- Hall proposes a panel to study new subsidy systems with representation of all maritime industry and labor components as well as government and the public. As long as this is advisory in nature it could be a useful adjunct to our own efforts to explore different subsidy schemes.

In addition, Hall has asked for accommodations on several other points which I have stated are not negotiable. These are as follows:

- Compensation will be paid to owners whose ships were built at U.S. prices in amount of unamortized investments necessary to make them financially even with foreign-built ships. Rejected as unrealistic and we can find other ways to accommodate this. He seems willing to accept alternative approaches.

CONCURRENCES
RTG. SYMBOL

INITIALS/SIG.

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INITIALS/SIG.

DATE

RETURN TO FILE

- An operating subsidy for domestic carriers to assist them in competing with on-land U.S. carriers. This was categorically rejected.
- Minimum percentage of cargo preference expanded to 75%. This also was rejected.
- Converted ships under Defense's NDRF program to be available under ship exchange to commercial operations. This was rejected.

My judgment is that we shall have a mutually acceptable position with Hall by the end of this week.. Hall and I agree we are within the same ballpark and he is anxious to resolve remaining issues and to move ahead rapidly with a program that has both Administration and labor support. He has to find a face-saving approach to back away from his previous position on foreign ship construction to assuage the continuing intractable opposition of shipbuilding unions to whom he owes an obligation as constituents of the Maritime Trades Department.

All other components of the industry and labor are reasonably in support of this program except for the Shipbuilders Council of America and the shipbuilding unions. It would be unrealistic to expect the shipbuilding industry to endorse the principle of foreign construction under any circumstance -- however, the Aero Space group of shipyard owners (Lockheed, Litton and General Dynamics), who are more progressive than the old line shipbuilders, seem willing to sacrifice the principle of foreign construction for the opportunities of an expanded ship construction program.

signed Alan S. Boyd

Alan S. Boyd

PLSitten:kam 4/20/67

cc: Mr. Sitten

Capt. Dye

Executive Secretariat-3

CONCURRENCES
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DATE

RETURN FOR FILING TO

April 24, 1967

Maritime Program

Paul L. Sitton

Paul L. Sitton

Secretary Boyd

The Bartlett Hearings are set for a week from today. There are a number of things that must be done by you personally:

- note tie-in provision*
- Obtain Paul Hall's final concurrence, either directly or thru Lane Kirkland. We think they accept our approach on on the foreign construction tie-in (a conversation with Ray Murdock seemed to indicate this). You have a meeting scheduled.
 - Clear up the matter of whether there will be a Presidential Message, and when. Obtain a go-ahead from the President to present program at the May 1st Bartlett Hearings (issue raised in paper cabled to President this morning).
 - Touch base with key congressional figures on program with latest changes (let them know "officially" from you about the 30 ship level and give them first news of the tie-in on foreign construction) and to bring others including Republicans, aboard who in your judgment should be notified. This can be done by phone from wherever you are after the first two items are cleared up.
 - Touch base by phone with 2 or 3 persons from industry-mangement and give them similar briefing. Suggested are Solon Turman and Ralph Casey.
 - Be available for a 3-4 hour session with selected DoT and MarAd officials to run thru the Hearing Statement, the Back-up Book and to develop unforeseen tough questions. We will schedule this fairly late in the week.
 - Schedule a major press conference for May 1, right after the first session of the Hearings. Although you should plan to hold this yourself, if you are not available or do not wish to do so the press can be met by Ira and me without involving you directly.

Ira Dye/bjs

cc:

Ex. Secretariat (3)

PLSitton

IDye

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APR 24 1967

MEMORANDUM FOR

Honorable Joseph A. Califano, Jr.
Special Assistant to the President

SUBJECT Status of Maritime Program

This morning I met with Paul Hall on the maritime program. He stated that due to strong opposition of the shipbuilding industry (management and Union) and of certain tramp operators, it would be impossible for him to support the proposed program so long as it contained foreign construction. His reluctance stems from his view that it is not salable in the Congress. I believe that he made a sincere effort to sell our proposal to these groups and failed.

Hall also indicated that because of his commitments to these groups and the leadership he has provided in the maritime area, that it would be impossible for him to support the program if the Administration sent it to Congress.

In the next several days I shall attempt to contact certain key representatives of the shipbuilding industry to see if this position in opposition can be changed. Otherwise, I hold out little hope of getting support from the AFL-CIO on any program that the President sends forward containing foreign ship construction.

(sgt) Alan S. Boyd

Alan S. Boyd

PLSittton:kam 4/25/67

cc: Mr. Sitton ✓
Capt. Dye
Executive Secretariat-3

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APR 24 1967

MEMORANDUM FOR

Honorable Joseph A. Califano, Jr.
Special Assistant to the President

SUBJECT

Status of Maritime Program

Secretary Boyd asked that I send you the attached summary for transmission to the President. It is for his use in discussion with Mr. Meany today.

Paul L. Sitton

Paul L. Sitton

Attachment

PLSitton:kam 4/24/67

cc: Mr. Sitton

Capt. Dye

Executive Secretariat-3

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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 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.

THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

APR 26 1967

MEMORANDUM FOR THE PRESIDENT

Subject: Maritime Program

I am committed to testify on the maritime situation before Senator Bartlett's Subcommittee, Monday, May 1. I do not believe it wise for me to avoid this hearing since I have already requested a delay on two past occasions.

Furthermore, I believe it essential that I outline the contents of the program we have developed. To appear and stand mute would lose us the already essential support we have developed in the industry and the Congress. I believe there are two ways to present my testimony. I am in favor of the first alternative outlined below. The second alternative would also be a reasonable presentation.

First Alternative

I would appear and read to the Congress the contents of your letter of the same date, transmitting to the Congress a new suggested maritime program. This would commit you to the submission of a legislative package implementing the program. It would also commit you to a vigorous fight for its enactment.

I believe this would be the most acceptable course of action for you to take, given past statements that the Administration would submit a new program. Furthermore I believe that with diligent work we could crack the maritime coalition and enact the legislative package.

Even if we failed, I believe you would have discharged your responsibility to propose the best program that economic reality and maritime necessity demand.

Second Alternative

I would appear and set before the Committee the following:

Your request to me to develop a new program.

My promise to you that I would not seek your support unless the new program had general support from management, labor and government.

My assessment that such support is not now present.

My belief that I should nevertheless outline the contents of the program.

My determination to continue to seek support for it.

(S) Alan S. Boyd

Alan S. Boyd

JLSweeney/fso
4/26/67

cc: Executive Secretariat (DOT) 3 ✓
Mr. P. Sitton

MEMORANDUM FOR

APR 26 1967

Honorable Hubert H. Humphrey

SUBJECT: Maritime Program

The proposed maritime program on which I have attempted to gain support from both industry and labor is presently stalemated over the question of foreign construction. Paul Hall has attempted to gain the support for this program among the unions of the Maritime Trades Department in the AFL-CIO. He informs me that the shipyard unions are adamant in their opposition.

You indicated your willingness to discuss this program with Mr. Russell K. Berg of the Boilermakers Union, who is one of the key leaders in this opposition.

Without their acquiescence the AFL-CIO Maritime Trades Department will oppose any program which the President transmits to the Congress that contains foreign construction. Without the foreign construction provision I cannot advise the President to go ahead with this program.

Our negotiations are at an extremely critical stage and your good offices in this matter would be extremely useful. Attached is a fact sheet indicating the major items which you may wish to discuss with Mr. Berg.

Alan S. Boyd

Attachment

PLS:itton:mm 4/26/67
cc: Secretariat (3)
Mr. Sitton

Capt. Dye

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Alan S. Boyd
Secretary, Department of Transportation

Subject: Recommended Course of Action with Respect to the New
Merchant Marine Program and Policy.

It now seems imperative that the President submit to the Congress at the earliest possible moment the program developed by you after consulting with practically all segments of the shipping industry, the ship building industry, and labor elements thereof. This program in various forms has been reported in the public press and has been the subject of extensive consideration and debate in both industry and labor circles. At the present time the Congress gives substantial evidence of impatience with reluctance of this administration to develop and stand behind a forward looking program for revitalization of the American Merchant Marine. Giving due regard to all of the possible consequence, it appears that the President will be well advised to proceed promptly with submission of his formal recommendations to the Congress.

In an industry as diversified as American shipping with dividing interests, emotionalism and personal prestige included, it is highly improbable that any program can be developed which would receive approval in advance from all elements of the American shipping and ship building industry.

Thus, while it is highly unlikely that all elements in any program submitted by the President will be enacted into law or otherwise receive Congressional approval, the submission of the program is now approached in the national interest and in order to give Congress ample opportunity to consider favorably the views of possible conflicting interest. Unless this is done now, there is ample evidence that failure by the President to submit this program will be construed as a sign of weakness by certain elements of the industry who would then urge on the Congress enactment of fragmentary and perhaps damaging statutes which would further tend to perpetuate the structure of the industry. Thus, for example, it is not beyond the bounds of reality that in the event the President should not elect to submit a comprehensive maritime program to the Congress, the Congress might enact bills such as (1) the establishment of the Maritime Administration as an independent agency (there are in excess of 90 such bills pending in the Congress at the present time) (2) authorize programs each year to determine the contractual authorization limits of the new independent agency, and (3) providing appropriations necessary to enable the foregoing.

At the present time in the throes of the Viet Nam war with national recognition of the all important roll played by the U. S. Merchant Marine, it is highly, indeed probable, that insurgent leadership in the House and Senate could develop an independent program and possibly unsatisfactory and have it enacted into law. Such a move undoubtedly

would have strong support not only from responsible elements of the Democratic party but practically united support from the Republican party who would seize upon this program as a further means for embarrassment and discrediting the effectiveness of this administration.

On the other hand, all elements of the industry including labor will recognize that substantial elements of the program developed by you are constructive and farseeing and these proposals will obtain the deserved support not only of Democratic members but also, I believe, of a significant number of Republican members of Congress. The various submissions of this program, most of which will be supported by substantial and respected segments of the maritime industry will almost automatically split the Republican party and enlist the support of strong elements responsible to the national administration.

Accordingly, for all of the foregoing reasons and for many others, I believe that it is now important for the President to forward a message to the Congress through appropriate channels presenting his views and recommendations as to the program necessary to revitalize the American Merchant Marine.

Great care must be exercised to develop the greatest possible acceptance for possible building in foreign shipyards in view of the obvious resistance by the American shipbuilding interests together with certain - but not all - labor elements.

Among the various factors which may be considered in this connection are that the President will include in his message and you will develop that (1) the Administration thoroughly supports an adequate shipbuilding industry for this nation, one that not only must be satisfactory in terms of mobilization requirements but one which also has the potential to contribute to export expansion; (2) in the near term future the consensus of the President and the Administration is that as a result of pressures of a Southeast Asia conflict, manpower shortages, the vast volume of orders flowing into shipyards from Naval, Coast Guard and other Government sources, the rapidly developing offshore drilling and oceanographic programs, and the increased number of ships to be built in American shipyards, the capacity of American shipyards must be stretched to the breaking point. A review of deliveries by American shipyards will clearly confirm that in the next two decades deliveries of vessels for private account have not, on the average, exceeded the 30 ships per annum which the Administration program proposes to build in American shipyards; (3) a high-level commission will be established which will include the Secretary of the Department of Transportation, the Secretary of Defense, and the Secretary of Commerce, together with representatives of shipping and shipbuilding industries whose purpose it will be to make recommendations to the President for the level of shipbuilding necessary to sustain an adequate commercial and military base after completion of the first 5-year shipbuilding plan; (4) thereafter it is contemplated that the findings of this

commission and other material will be made available to the Congress, together with the recommendations of the Administration as the annual level of shipbuilding necessary to be retained for United States shipyards in order to fulfill these national objectives.

In effect, these proposals would provide American shipyards with an exceedingly large volume of orders, a backlog of which because of delayed deliveries, would provide relatively full shipyard employment stretching into 1975. (This conclusion is based on a 5-year program with 3-year delayed deliveries being 8 years added to 1967 takes it to 1975).

Some pressure of access to foreign shipbuilding is necessary in the national interest to avoid the possibility of run-away inflation in shipbuilding costs and prices which will affect not only the private sector but also Naval and other Government construction to be undertaken in the near-term future. In the event foreign construction is not acceptable to the Congress then some other expansion valve must be utilized to restrain prospective inflation. This may require the reopening of Navy shipyards so as to siphon off some orders for Naval craft from the private shipbuilding industry.

In furtherance of the program, we urge that the President should undertake and authorize the following steps:

1. Immediately prior to submission of his recommendations to the Congress the leadership of both the Senate and the House should be consulted and advised of this impending action.
2. The Secretary of Transportation, to whom has been delegated the responsibility for developing this program, should appear before the Senate Commerce Committee as scheduled on May 1 and testify as to the details of the program. It will be essential that you be supported by other witnesses and that there be presented by way of testimony or submissions economic support covering the level of shipbuilding employment, shipbuilding orders, and a host of other related factors.
3. Shortly after submission of this program, it seems appropriate that there be submitted to the Congress a reorganization plan which would transfer the Maritime Administration from the Department of Commerce to the Department of Transportation. In advance of this submission, consultation should be had with and support solicited from both the Committee Chairman and the ranking minority members of the Government Operations Committees in both the Senate and the House of Representatives.

During the 60-day period in which either House of Congress has to reject the reorganization plan by majority vote, the maritime committees should be actively engaged in hearings and the Administration should strongly support its maritime program through direct and indirect channels. The effect of this will be to weaken the efforts of any special privilege groups which seek to defeat the reorganization plan.

In the face of constructive Administration maritime proposals, in the light of the Administration's willingness to consider alternatives, it is highly unlikely that there can be engendered the kind of emotional atmosphere which developed last year during consideration of the Bill for establishment of the Department of Transportation. During this time those opposed to inclusion of the Maritime Administration in the Department of Transportation concentrated on the alleged failure of the Administration to submit a comprehensive maritime program to the Congress. Under the present circumstances,, with the President standing behind such a program, it is highly unlikely that any efforts to defeat the reorganization plan will succeed.

Reverting now to the basic maritime policy, it is quite plain that^{not} all of the Administration's program will be enacted as submitted. Nevertheless, on balance, after giving all elements of the shipping and shipbuilding communities opportunity to be heard, the Congress will, in my opinion, enact a program which will be satisfactory to the President.

On the other hand, an unsatisfactory program enacted by the Congress after Presidential recommendations can be vetoed by failure to submit any program can be seized upon by the opposition as abdication of Administration responsibility in an area which is presently in the center of the national stage.

(Sgd.) Carl C. Davis
Carl C. Davis

PROGRAM FEATURES

*This appears to be the discussion outline used in meeting between Hall - Simon - Dye
See Hall's paper following*

Net Renewal and Expansion

1. - Industry would have the freedom to replace ships at a rapid rate and expand their fleets — and the responsibility for finding capital and cargo.
2. - All operators would face world market ship prices, in U.S. or abroad.
3. - 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.
4. - Shipyards and ship operators would have separate direct subsidy programs.

Larger Program in American Shipyards

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

Additional Liner Operators Brought Under Subsidy

1. - Present unsubsidized operators can obtain operating aid, initially on an experimental basis, using a new subsidy system.
2. - 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

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

Make this comparison

F. Cargo Preference Retained — Costs Reduced

1. - New subsidized ships wanting to carry bulk government cargoes would have "Fair and Reasonable" rate administered to be close to "World Rate"
2. - Old unsubsidized ships would be handled under "Fair and Reasonable" rates and cargo reserved for them.

F. NDRF Revitalized

1. - AP-5's would be converted and put back into NDRF; size of program, up to 100, related to amount of active shipping available.
2. - Some returning GAA ships would be repaired and put back in NDRF.
3. - Possible early retirement program for mariners and newer ships, into NDRF.
4. - All ships added to reserve fleet would be under modern preservation.
5. - No NDRF ships put in under this feature would be available under ship exchange.
6. - Dispose of non-usable ships and reduce number of sites.

Nuclear Ship Program

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

H. Increased R. and D.

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

I. Ship Availability for Defense

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

Don't like the subsidy system

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

<u>F.Y.</u>	<u>Proposed Program</u>	<u>Current Program</u>
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

	<u>First 5 Yrs.</u> <u>(FY 69 - 73)</u>		<u>First 10 Yrs.</u> <u>(FY 69 - 78)</u>	
	<u>Fed.</u>	<u>Priv. Cap. Needs</u>	<u>Fed.</u>	<u>Priv. Cap. Needs</u>
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)

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

①
A. Construction Subsidy

related to
24, 67 per
paper?

1. Construction subsidy, sufficient to enable American shipyards to build and repair ships at or near the average world cost, will be provided directly by the government to American shipyards.
2. The construction subsidy will be paid for construction and ^{CONVERSION} repair of all types of ships, and the appropriate ships will be available to American operators in all trades, foreign and domestic.
3. The responsibility for finding capital with which to purchase subsidized construction shall be on the purchaser, but he will continue to have all of the financing advantages now available under the 1936 Act, including Title XI. The government will enter into longterm charters with American operators for the movement of all government-owned and sponsored cargo.
4. For each of the first five years, the construction subsidy will be sufficient to finance construction of at least 50 ships, including 15 liner ships, and 35 domestic type, bulk, container and tanker ships. After the five-year period, the construction subsidy shall be adequate to enable the American Merchant Marine to keep pace with the growth of our domestic and foreign commerce of all types.
5. Ships constructed with subsidy shall be sold to American operators within 5% to 10% of the average world price for vessels of similar type.

DoD
que?

to foreign
to U.S.
→

creation
to world
by U.S.
range

Will permit flag on 6. April

In awarding subsidy for all types of ships other than liner, priority shall be given to ships of a capacity and design most beneficial to the commerce of the United States.

7. With respect to all American-flag ships built within the past years in American shipyards, and now being operated under the American flag, a construction subsidy shall be paid to the owner in an amount equivalent to percent of the unamortized cost.

- Adm. G. to be decided on basis of operator requirements*
8. If, under the above-described program, American shipyard facilities are not available within a reasonable time for the construction of new ships, and until such facilities are available, American operators shall be permitted to build ships abroad for operation in the American industry.

B. Additional Liner Operators To Be Brought Under Subsidy

1. All pending applications for subsidy which are eligible under the 1936 Act will be approved for subsidy as now constituted at the earliest possible date.

C. Operating Subsidy System

1. The Maritime Administration would immediately undertake a complete review of the existing operating subsidy system for the purpose of designing a new system to enable all American operators to compete effectively with foreign operators, to provide incentive to American operators to become and remain competitive with foreign operators, and

to provide American operators with incentive to increase their cargo, outbound and inbound.

- Advisory only*
2. To assist it in making such a survey, the Maritime Administration would designate a panel to consist one-fourth each of representatives of American-flag ship operators in all categories, maritime labor representing all segments, government agencies concerned, and public representatives having an interest in the well-being of the American Merchant Marine. Action of the panel shall be by majority vote. The members of the panel, and all segments of the American Maritime industry will be called upon to assist and cooperate with the Maritime Administration in the development of a new subsidy program.
 3. Once a new and improved subsidy system has been devised, it shall be appropriately extended to all operators receiving operating subsidy.

Under proprietary

D. Direct Operating Aid for Nonliner Operators

1. The Maritime Administration will undertake immediately to develop a system of direct operating aid to all nonliner operators engaging in our foreign trade, designed to enable them to compete with foreign operators.
 2. The Maritime Administration will undertake immediately to develop a program of direct operating aid to enable American operators in the domestic trades, coastwise, intercoastal, and noncontiguous, to withstand the unfair competition of nonwater-borne carriers.
- ?*

E. Cargo Preference Retained

1. Old unsubsidized American carriers of cargo-preference cargo shall be paid fair and reasonable American rates for carriage of such cargo.
2. As new subsidized American ships enter into the carriage of preference cargo, they shall receive direct operating aid sufficient to enable them to carry at fair and reasonable rates close to the world rate.
3. The minimum percentage of government cargo which must be carried on American ships shall be increased from 50% to 75%.
4. The cargo preference laws shall be enforced and administered by the Maritime Administration.

NDRF Revitalized

1. 1, 2, 3, 4, and 6 shall remain as expressed in the paper entitled "Program Features". P 5. All NDRF ships returned to reserve under this program shall ^{not} be available for exchange under the Ship Exchange Act. Vessels received in exchange shall be converted and restored to NDRF.

G. Nuclear Ship Program: H. Increased R & D: I. Ship Availability for Defense:

No comment.

Maad
Z

May 25, 1967

MEMORANDUM TO FILE

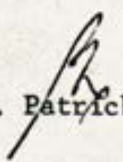
SUBJECT: Contact with Thomas A. Rotell (Roe-tell')

As requested by Mr. Sitton I called Mr. Rotell (Pacific Const. (Bay Cities) Metal Trades Council (Phone (415) 647-6905)) at 3 P.M. on Friday, May 12, 1967, to arrange the appointment requested by the Secretary. I was advised I had just missed him. After discussing the purpose of my call with his secretary, she advised she would try and reach him and call me back.

At about 5 P.M. Mr. Rotell's secretary called back and advised she could not reach Mr. Rotell until Monday.

I again called Mr. Rotell at about noon on Monday, May 15, reached him and discussed an appointment. He indicated the possibility he would be in Washington on Thursday or Friday for a meeting of the Metal Trades Department (AFL-CIO) and would call me to work out an appointment if the trip materialized.

On Wednesday, May 17, Mr. Rotell's article in the Labor Review came to my attention, and I discussed its implications with Mr. Sitton who agreed to my recommendations to now leave the initiative for the appointment with Mr. Rotell.


G. H. Patrick Bursely

PBURSLEY:nla:5/25/67

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

June 1, 1967

MEMORANDUM FOR THE DEPUTY UNDER SECRETARY

SUBJECT: Maritime Matters

Since you have been developing maritime programs for the Department and are thoroughly familiar with the national maritime background, I would like you at the earliest possible time to:

1. Review existing laws, executive orders and Department orders to determine my responsibilities in the maritime field in the event of hostilities or a widened emergency with maritime dimensions.
2. Provide me with your judgment as to whether we are adequately and properly organized to deal with our potential maritime role, including your recommendations for any changes.
3. Determine whether the Department's presently established role in emergency maritime matters should be altered or strengthened. Specifically should an attempt be made, based on the potential emergency to move ahead with placing the Maritime Administration under the Department.

It would also be useful for you to survey personnel resources of the Department (i.e. persons who are familiar with maritime activities) that would be available if some instant response is needed on our part.


Alan S. Boyd

Info: Mr. Sweeney, TPA-1
Commandant, U.S. Coast Guard
Mr. Robson, TGC-1

THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

JUN 16 1967

Mr. Joseph Curran
President
National Maritime Union of America
36 Seventh Avenue
New York, New York 10011

Dear Mr. Curran:

attached

I have studied your letter to the President of June 9, 1967. Some of the statements you make about the nation's maritime needs and capabilities are, in my judgment, incorrect. Enclosed is a paper which outlines some of these charges and gives my answers.

I agree with you that we need a new maritime policy that will revitalize the industry. For this policy to meet the nation's needs for efficient shipping services, however, it must incorporate basic reforms that will cut the costs of building and operating U.S. flag ships and guarantee that these ships are available to the Defense Department or other Government agencies at the times and places we need them. I fully support Secretary Boyd's efforts to develop such a program.

Sincerely,

Signed
ROBERT S. McNAMARA

Enclosure

bcc:

Hon. Jos. A. Califano
Hon. Alan S. Boyd
Hon. Everett Hutchinson, D/Trans
Hon. H. Cecil Mackey, D/Trans
Hon. Paul Sitton, D/Trans
Hon. Paul Ignatius, ASD(I&L)
Hon. Phil Couding, ASD(CA)

U.S. DEPT.
OF TRANSPORTATION
1967 JUN 19 PM 10 19
OFFICE OF SECRETARY
OF DEFENSE
EXECUTIVE SECRETARIAT

1. Charge: Passenger ships are essential to defense; almost two out of every three fighting men in Vietnam went by sea.

Answer: During the 18 months from July 1965 to December 1966, 772,800 military passengers went to SEAsia by air: 81 percent of all military passenger movements. During the same period 2,923,400 passengers--or 86.5 percent of all world-wide DoD passenger movements--went by air.

None of the 13 subsidized passenger vessels for which the Government annually pays \$45 million in operating subsidies was used for trooplift to SEAsia. These ships have a combined emergency lift capacity of 23,000 passengers. The passenger aircraft in the Civil Reserve Airfleet (CRAF) have the capability to transport 10,300 troops to Europe daily (309,600 monthly) or 4,370 troops to SEAsia daily (131,100 monthly). Currently DoD is using only 11 to 12 percent of this CRAF capability, which is more than adequate to meet DoD emergency demands.

2. Charge: The National Defense Reserve Fleet (NDRF) ships reactivated for use in Vietnam are rust buckets; their performance is inadequate.

Answer: As of December 1966, 153 NDRF cargo ships were in DoD service. During the 18 months (July 1965 to December 1966) these ships had an in-commission rate of 95 percent. By comparison, MSTC chartered vessels from the privately-owned active fleet had an in-commission rate of 97 percent. Including reactivation cost (prorated over three years) and operating cost, it costs DoD \$51 per ton to ship cargo to Vietnam on NDRF vessels, \$52 per ton on time chartered ships, \$71 per ton on liners.

The 10-year cost to the Government (reactivation cost plus what we spent to maintain them) of the 153 NDRF ships was \$90.3 million. This amount, if spent in operating subsidies alone for privately-owned ships, would have provided only 15 to 20 percent as much sealift as the NDRF ships have provided.

Repair and maintenance costs have averaged \$310 per voyage day for the NDRF ships; the same costs for comparable privately owned ships are \$302 per voyage day. Mothballing these ships has not made it more expensive to keep them operating once reactivated.

3. Charge: Foreign flag vessels, in the effective U.S. controlled fleet or otherwise, are not available to DoD for emergency use. Operators of these ships prefer profitable foreign trade. U.S. flag operators must carry the burden of DoD needs and sacrifice their commercial trade.

Answer: By law DoD is forced to minimize the use of foreign flag vessels even when using them would be cheaper than using U.S. flag vessels. Only when DoD cannot obtain shipping from U.S. flag sources is it allowed to use foreign flag ships. Foreign flag ships have repeatedly been available to DoD; however, MSTs has been allowed to use only a fraction of those available.

The availability of foreign flag dry cargo ships is shown in the following table--this table covers the critical early period of the Vietnam buildup. There were 39 more foreign flag ships offered for charter than U.S. flag ships.

AVAILABILITY OF GENERAL DRY CARGO VESSELS

<u>Time Period</u>	<u>Foreign Flag</u>		<u>U.S. Flag</u>	
	<u>Number Offered to MSTs ^{a/}</u>	<u>Number Chartered by MSTs</u>	<u>Number Offered to MSTs</u>	<u>Number Chartered by MSTs</u>
11-20 June 1965	20	0	0	0
21-30 June	6	0	3	3
1-10 July	15	1	4	4
11-20 July	24	2	25	25
21-30 July	11	0	10	10
31 July - 9 August	2	0	14	14
10-21 August	38	8	21	21
	<u>116</u>	<u>11</u>	<u>77</u>	<u>77</u>

^{a/} These numbers represent the actual number of vessels offered by MSTs.

The U.S. operators, primarily the subsidized operators, have preferred to remain in the commercial trades. During the first quarter of FY67, DoD used the following amounts of shipping capability from the privately-owned U.S. flag general cargo fleet:

<u>Source</u>	<u>Percent of Capability Utilized by DoD</u>
1. Subsidized Liner Operators	26.4% of their fleet
2. Unsubsidized Liner Operators	49.7% of their fleet
3. Tramp Fleet Operators	69.1% of their fleet

4. Charge: If a second contingency occurred simultaneously with Vietnam, the U.S. would be in an "impossible position" with respect to shipping capability.

Answer: During the first quarter of FY67, the DoD used 39.8 percent of the capability of the privately-owned U.S. flag general cargo fleet. In total DoD used 34.4 percent of the combined general cargo capability of the MSTs nucleus fleet, the NDRF fleet and the privately-owned fleet. Current worldwide DoD cargo movements are 7.5 percent above the first quarter FY67 movements; however, since improved port turnaround times have enabled DoD to better utilize the shipping under its control, the increased cargo movements have not required a proportionate increase in ships.

We can meet the general cargo demands of a second contingency as large as Vietnam entirely with U.S. flag shipping. We could support, in addition to Vietnam, a deployment to Europe much larger than our Vietnam commitment because distances are shorter.

5. Charge: Sufficient tankers are not available to meet current needs "primarily as a result of Mr. McNamara's past attitudes."

Answer: That part of our tanker requirements which can be met by large size tankers is being met without difficulty and at favorable rates with U.S. flag charters. However, we have had to charter small size tankers (25,000 DWT, 32-foot draft or less) from foreign operators. We have chartered all U.S. flag small tankers voluntarily offered and have resorted to foreign flag charters only when U.S. tankers in these sizes were not offered at any price. Currently only 20 percent of small U.S. flag tankers have been voluntarily offered to DoD. We could get five times as many as we now control if we had to.

Clearly, we do not need more tankers in the U.S. flag fleet. Moreover, foreign flag tankers in good condition and in desired sizes, including small sizes, are available in abundance, and they are much cheaper than U.S. flag tankers.

Chartering 23 U.S. flag small tankers has cost \$39.7 million/year more than if we had used foreign flag tankers to meet all of our needs, since foreign flag charters are available at 35 percent of the cost of equivalent U.S. tankers. A recent MSTIS solicitation resulted in offers of 138 foreign flag tankers for six months charter, only six of which are currently needed. Also, we may need 29 voyage charters.

Moreover, 18 T-2 tankers currently remain unactivated in the NDRF as insurance against sudden increases in need. The cost to maintain these ships in the reserve fleet is only \$3,500 per tanker per year.

6. Charge: "The so-called "effective control" concept seems to have disappeared as the Defense Department, in desperation, takes recourse to foreign flag ships none even in the effective control category."

Answer: In a full scale national emergency, we believe "effective U.S. controlled" ships will be as available to DoD as U.S. flag ships. (More than 80 percent of the effective U.S. controlled fleet is tankers and bulk carriers.) We have not taken emergency actions to get these ships because we have been able to satisfy our tanker needs without doing so. (We have no need of extra bulk carriers.)

Should requisitioning be necessary to meet our needs in worsening world conditions, we could call on up to six million additional deadweight tons of U.S. flag tankers and 11 million tons of foreign flag "effective U.S. control" tankers. This tonnage is equal to more than 1,000 T-2 tanker equivalents. This far exceeds our most demanding defense needs, which would be about 210 T-2 equivalents. (We are now using 129 T-2 equivalents.)

Action: Mr. Sifton S-5, prepare reply
for Secy signature

Due Date: 6/19/67

cc: Commandant, USCG

Secretary Boyd

Under Secretary Hutchinson

2311

Control No.

NATIONAL MARITIME UNION OF AMERICA

National Headquarters:

Affiliated with the American Federation of Labor and Congress of Industrial Organizations

36 SEVENTH AVENUE, NEW YORK, N. Y. 10011 • TELEPHONE: WATKINS 4-3900

CABLE ADDRESS: ENEMU, N. Y.

Office of the President

June 9, 1967

Hon. Alan S. Boyd, Secy. of Transportation
U. S. Department of Commerce
Washington, D. C.

My dear Mr. Secretary:

The enclosed copy of letter was sent to President Johnson
today.

May we have your comment.

Sincerely,

Joseph Curran
Joseph Curran
President

enc.

OFFICE OF SECRETARY
OF TRANSPORTATION
RECEIVED
JUN 12 1967

JUN 12 1967

U.S. DEPT.
OF TRANSPORTATION

seph. ... Building

NATIONAL MARITIME UNION OF AMERICA

Affiliated with the American Federation of Labor and Congress of Industrial Organizations
National Headquarters:
6 SEVENTH AVENUE, NEW YORK, N. Y. 10011 • TELEPHONE: WATKINS 4-3900
CABLE ADDRESS: ENLNU, N. Y.

June 9, 1967

The President
The White House
Washington, D. C.

My dear Mr. President:

How inconsistent can we be?

With this question I, as President of the National Maritime Union, call your Administration's attention, as well as that of the American public, to the urgent requirement for a prompt change in the Defense Department's attitude towards the American flag merchant marine. How unfortunate, that another outbreak of military hostilities in a new theater of operation is required before your Secretary of Defense reviews his total attitude towards American flag ships and the dedicated merchant mariners who sail them.

The closing of the Suez Canal as a result of Arab-Israeli hostilities will place ever-increasing demands on American flag ships in order to move to points of consumption, from U. S. sources, petroleum products which might otherwise have come from the Near East. Such ships are simply not available primarily as a result of Mr. McNamara's past attitudes.

I cautioned many times in the past that the logistic pipeline required to meet our obligations in Viet Nam had more than strained the supply of American merchant ships. A simultaneous emergency of any sort, I warned, the Secretary would put us in a totally impossible position.

His computer seemed not to agree with the conclusion I reached based on the current facts as I saw them and the history of the stresses the American merchant marine has had to face in the past.

The Secretary has much to explain! But it is my hope that the American public will not take refuge in his semantics and join with us in a demand of the Administration that you now proceed to develop a sound maritime policy which will give us American flag vessels of modern vintage and in keeping with our needs.

Almost five years ago the Secretary of Defense told the Congress that the American flag merchant marine was then adequate for its defense role. He condemned the American passenger ship into oblivion and indicated that we could rely on ships under so-called "effective control" although they were registered abroad and manned by aliens, many of whom are proven to be of dubious loyalty. The Secretary has not yet accounted for the fact that almost two out of every three fighting men in Viet Nam reached that area by sea rather than air. He has not explained the millions of dollars that have been virtually poured down a "rat-hole" in meeting Viet Nam's logistic requirements through rehabilitation of reserve fleet rust-bucket vessels built for World War II. Our members have sailed these ships. We know that their performance is inadequate.

The so-called "effective control" concept seems to have disappeared as the Defense Department, in desperation, takes recourse to foreign flag ships none even in the effective control category. Where are these "dedicated" American owners of foreign flag vessels who have allegedly committed themselves to support the American military effort? Obviously they are trading in the commercial market taking advantage of attractive freight rates brought about in large part by American government requirements. They are not serving our national defense! Is the head of our Defense establishment prepared now to renounce this dangerous "effective control" concept which today is, as we knew it always was, "Made out of whole cloth".

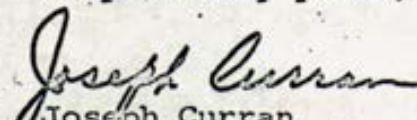
The National Maritime Union has always maintained that the American flag merchant marine is as much an instrument of our foreign policy as it is of our commercial trade. It is regrettable that long after our initial declarations the Soviet Union rather than the American government has recognized this dual essential role of merchant ships. At times covertly, frequently openly, the Russian merchant marine is used to effectuate their nation's goals and Communistic aspirations. They have proven their ability to cover their logistic requirements on several fronts while we improvise without success.

The times are perilous as you better than anyone else knows and it is particularly important that we effectuate measures today to prevent Russia's domination of the seas.

Beyond any doubt ours is the nation more than among others upon which more responsibility for peaceful trade and the protection of freedom-loving people has now fallen. We cannot effectively meet this responsibility without an American Merchant Marine which is manned by experienced, dedicated, and loyal personnel.

I do not believe it is too late to mend the error of our ways. It takes courage to admit to past mistakes. It takes even more courage to change our direction. The American people demand, I am certain, that a man in such a high position, in charge of our national defense, possess these qualities. It is he who should lead the band-wagon for a modern American Merchant Marine. As President of the U. S. I believe you appreciate the essentiality of what we herein urge.

Respectfully yours,


Joseph Curran
President

UNITED STATES GOVERNMENT

U.S. DEPARTMENT OF COMMERCE
MARITIME ADMINISTRATION

Memorandum

TO : Paul Sitton
Department of Transportation

DATE: June 19, 1967

In reply refer to:

FROM : Acting Maritime Administrator

SUBJECT:

A couple of months ago we discussed Paul Hall's problem of funding his pension funds, his particular problem being that his American Maritime Association companies (whose ships he mans) are largely unsubsidized and unable to adequately fund their pension plans negotiated with the union. We discussed the possibility of a "railroad retirement act for seamen" as a possible solution.

We have come up with a new idea which offers far greater possibilities of acceptance. In fact it would have applications in the total domestic industry area because many small industry groups outside the maritime field will be soon faced with the same problem of funding. The attachment outlines the concept of Federal insurance of pending funds similar to Federal insurance of private banking accounts administered by the Federal Deposit Insurance Corporation. It is believed that the financial interests in the Administration would be far more inclined to an insurance-guarantee program than to an expenditure program which would be involved in a Federal pension plan, such as the Railroad Employees Pension System.

This proposal has not been discussed with any parties outside my agency and any detailed study to flesh out the proposal would require access to the records of union pension trust funds. However, it may be that tentative approval of the thought could be obtained in order to use it as a negotiating point with Paul Hall and others in an effort to break the deadlock on merchant marine policy.

If you wish, I will be glad to discuss the matter informally with Paul Hall. I am sure appropriate confidences would be maintained.

J. W. Gulick
J. W. Gulick

Attachment

cc: Secretary Boyd

FOR OFFICIAL USE ONLY

BUY U.S. SAVINGS BONDS REGULARLY ON THE PAYROLL SAVINGS PLAN

MARITIME PENSION TRUST INSURANCE (MPTI)

GOAL:

To permit industry pension trusts to accumulate needed reserves without undue burden because of accelerated rates of contribution.

OBJECTIVES:

1. Provide Federal insurance for payment of pensions during a period of unfunded liability.
2. Establish orderly and reasonable contribution schedules for industry to achieve full funding.
3. Control benefits and eligibility.

PROCEDURE:

1. Require voluntary subscription to plan by trusts representing two-thirds of maritime industry employment (jobs).
2. Insurance premiums to be based on relationship of total unfunded liability of all subscribers to total contributions less current pension disbursements.
3. Unfunded liability to be determined by actuaries of the MPTI Corp.
4. Pension benefits and eligibility rules not to be modified without approval of the Directors, MPTI Corp. In evaluating proposed changes in benefits and eligibility, Directors are to be guided by:
 - (a) Cost -of-living changes (for benefits)
 - (b) Changes in workforce (eligibility)
 - (c) Status of benefits and eligibility within fully funded trusts in the same industry
 - (d) Benefits and eligibility rules in industry at large
5. Contribution rates established by Directors, MPTI, for each of the trusts to achieve fully funded in 20 years, shall not be increased in amounts exceeding 15 percent per year.

SEAFARING PENSION TRUST FUNDS - ESTIMATED STATUS - 1967

	Unfunded Liabilities (in millions)	Contributions (000)	Interest (000)	Disburse- ments (000) <u>a/</u>	
MEBA (A&G)	\$ 142.0	\$ 6,000.0	\$ 800.0	\$ 3,000.0	24/1
(Pacific)	56.0	1,000.0	100.0	725.0	56/1
MMP (A&G)	65.0	2,800.0	500.0	1,400.0	24/1
(Pacific)	29.0	600.0	80.0	450.0	49/1
ARA (A&G)	7.0	500.0	130.0	140.0	14/1
(Pacific)	3.5	205.0	20.0	100.0	15/1
ROU (A&G)	5.5	1,600.0	72.0	1,300.0	35/1
SOA	3.5	205.0	26.0	45.0	15/1
NMU	317.0	19,000.0	2,600.0	5,000.0	17/1
SIU (A&G)	52.0	4,000.0	260.0	1,350.0	13/1
(Pacific)	46.5	3,900.0	560.0	105.0	12/1
TOTALS (rounded in millions)	\$ 730.0	\$ 40.0	\$ 5.0	\$ 14.0	12/1

a/ Pension payments and administrative expenses

Division of Labor Studies
Office of Maritime Manpower

JUN 20 1967

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Maritime Program

This is a status report on my effort to gain industry/labor agreement on a maritime program. Since my report to you on April 20, 1967, some progress has been made in reducing opposition on the last remaining major issue: Whether or not to allow ship operators the freedom to purchase some of their ships from foreign shipyards.

- On this issue Paul Hall, shipbuilding unions and old line shipbuilding companies (Bethlehem and Todd) continue their adamant opposition to foreign construction. Individual discussions have secured favorable response from aerospace industry groups (Lockheed, Litton, General Dynamics) plus Avondale Shipbuilding (Zack Carter), National Steel Shipbuilding (Edgar Kaiser).
- The major ship operators in the American Merchant Marine Institute and the Committee of American Steamship Lines are actively supporting the program (public statements and Congressional contacts).
- Joe Curran (NMU) supports the program, and has criticized Hall publicly for "dog in the manger" attitude. Calhoun and Sheldon (NRP & NEBA) continue to support program.
- I have continued discussions with Senator Bartlett and Representative Garmatz who are anxious to have an Administration program for Congressional consideration. They urge that you transmit a program in spite of lack of full agreement.
- The Middle-East situation injects new element: Prolonged closure of the Suez Canal and major shifts in oil supply sources can create critical tanker problem. An Administration program before the Congress would enable us to proceed more rapidly if action is necessary.

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The options are:

Option 1: Send program to Congress now with present support. Further persuasion without Presidential endorsement is unlikely to win additional support since opponents and proponents are firmly committed to present position. Opponents still believe Administration will compromise on program I have advanced. Committee hearings would produce controversy but an endorsed program would minimize criticism if a shipping problem develops out of the Mid-East crisis and counter arguments on the issue of merchant marine neglect.

Option 2: Drop program entirely for present session. Opponents would have difficulty in avoiding criticism of intransigence. However, Administration could still be criticized if a shipping crisis develops and Republicans would accuse Administration of failure to provide national leadership.

Option 3: Continue to seek full consensus from shipbuilders and unions. In my view this is obtainable only by capitulation on major reform of freedom to purchase ships abroad. Such a radical compromise is considered unacceptable by Departments of Defense and Transportation, Budget and CEA.

I strongly urge that you endorse Option 1. My judgment is that the program is sound and that an aggressive campaign in Congress will produce favorable Congressional action.

signed Alan S. Boyd

Alan S. Boyd

PLSittton:kam 6/19/67

cc: Mr. Sittton

Capt. Dye

Executive Secretariat-3

UNITED STATES GOVERNMENT

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE SECRETARY

Memorandum

DATE: JUN 12 1967

In reply
refer to:

SUBJECT: Maritime Program

FROM : Deputy Under Secretary

TO : Secretary Boyd

If you have information not available to us which changes any of this, please mark-up the letter and we will re-type it.

Paul L. Sitton

*Yarrant to results.
6.14.67*

JUL 19 1967

MEMORANDUM FOR THE VICE PRESIDENT

As you will recall from our discussions of last week, I promised to send you a statement on the economic implications of the shipbuilding program which I am proposing as it relates to specific unions. A copy of this statement is attached.

You will note that the total direct and indirect shipyard purchases for structural steel, pipes and other items under the annual program which I have discussed could result in total additional business for the steel industry of about \$60 million per year. In addition, I have attached a list of unions and suppliers who would benefit from other major purchases of equipment and turbines. Also attached is a list of the unions who would benefit from this program.

You indicated your willingness to call Mr. Abel of the United Steel Workers and offer to have someone fly to Pittsburgh to discuss the program with him. Paul Sitton, Deputy Under Secretary, will be available to do this after you have talked to Mr. Abel. You may also wish to indicate that if he is in Washington, I would be pleased to meet with him personally and discuss this program.

I will await your response to this memorandum.

(sds) Alan S. Boyd

Alan S. Boyd

ALS:Sitton:Kam 7/19/67

cc: Mr. Sitton
Executive Secretariat-3

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RETURN FOR FILING TO

OFFICIAL FILE COPY

DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
ROUTE SLIP

DATE

7/23
-7/20/67

NAME AND ORGANIZATION		
T O	M. Cecil Mackey	☐ COMMENT
	Paul Sutton	☐ FOR YOUR INFORMATION
	<i>[Signature]</i>	☐ PER OUR CONVERSATION
	<i>[Signature]</i>	☐ APPROVAL
		☐ DISCUSS WITH ME
		☐ TAKE APPROPRIATE ACTION

REMARKS:

You asked me how the altered statement on foreign construction got into the Secretary's testimony.

Clark Tyler, in integrating the new program description (which Paul asked to have substituted for the more brief material previously used) made the changes for the purpose of providing a more smoothly organized statement. He got the material for the change by paraphrasing the Secretary's Baltimore speech and the substantive changes involved were unintentional.

FROM:

[Signature]
Ira Dye

ORGANIZATION

TPD-30

TELEPHONE No.

20885

Capt. Dye

AUG 14 1967

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Maritime Policy Proposals

Discussions have been completed with management, labor, and members of Congress to secure support for maritime program reforms.

Existing maritime programs involve budget expenditures of more than \$400 million annually plus added expense to the public for costly protectionist features. They inhibit optimum use of Government and private resources to make the maritime industry more competitive.

Program is geared to pre-World War II conditions with little relevance to today's situation. If continued the U.S. fleet will decline from 14.4 to 11.3 million tons by 1975 and seafaring jobs will drop from 47,000 to 25,000 (Shipyard jobs should continue at about 10,500.).

The proposed program would:

- Increase Federal support to about \$550 million per year under revised systems of subsidy.
- Permit foreign construction for ship needs unmet by subsidy.
- Reduce costs to Government of cargo preference (now about \$80 million/year).
- Expand support of maritime research and development of nuclear propulsion systems.
- Transfer Maritime Administration to Department of Transportation.

This program should result in a more modern and competitive maritime industry with stable job opportunities, thus improving labor-management relations. U.S.-flag tonnage would increase to 21.6 million tons by 1979; seafaring jobs would level off at about 39,000; and shipyard jobs would rise to about 21,000.

Disputed Issues

Permissive foreign construction -- fundamental to program reform -- is the only issue blocking agreement.

MarAd placement in DOT will be acceptable if a program is adopted.

The proposed program is supported by: AMMI, CASL, and non-subsidized liner operators; a number of Great Lakes operators; the major seafaring unions (NMU, MEBA, MMPA); and the more progressive shipyards (Lockheed, General Dynamics, Litton, Avondale, and National Steel). It is opposed by: Paul Hall's SIU and the shipyard unions in the AFL-CIO; a small number of independent tramp and tanker operators; and older shipyards (Bethlehem, Todd, and Newport News, etc.). Opponents have strong support in the House Merchant Marine and Fisheries Committee. Congressmen from shipyard districts find any foreign ship construction politically unattractive.

There are three alternative courses:

- (1) Send program to Congress including foreign construction.
- (2) Hold proposals in abeyance for present and emphasize need for general agreement on major program elements, including foreign construction, as a basis for Administration endorsement.
- (3) Eliminate foreign construction feature and send program, or some part of it, to Congress.

I recommend that you adopt Alternative (1). Your endorsement should expand support for program.

Alternative (2) has the advantage of reducing budgetary impact for the near term and increasing pressure on opponents to accept total program. However, it could lead to enactment of Congressional program with undesirable feature and limited program reforms.

Only one consideration favors Alternative (3). Dropping foreign construction would secure enactment of other program features and undercut the drive to make MarAd an independent agency. There are several arguments against this approach:

- Repudiates management and labor supporters of reform -- substantial part of the shipping industry -- and rewards opponents.
- Reduces bargaining position to secure least cost program from Congress.
- Issue is economic as well as political: The timely replacement of our merchant fleet in U.S. yards increases budget cost, builds up excessive shipyard capacity, and adds undesirable inflationary pressures.
- Operators need ships faster than prospective budget levels will allow.

My judgment is that some form of foreign construction should be retained in program. Possible compromise positions are:

Best: A 5-year limit on foreign construction, thus requiring Congressional authority for later extension.

Second Alternative: Foreign construction authorized only when reasonable bids and/or timely delivery cannot be guaranteed by U.S. yards. Determination of "reasonable and timely" to be made by the Secretary of Transportation. This poses difficult administrative problems.

I recommend sending the program to Congress with a compromise later as needed to protect bargaining flexibility.

[(sgd) Alan S. Boyd]

Alan S. Boyd

IDye/
PLSittton:kam 8/11/67
cc: Mr. Sittton
Mr. Mackey
Mr. Dye
Executive Secretariat-3

MEMORANDUM FOR THE PRESIDENT

AUG 16 1967

SUBJECT: Maritime Policy Decisions

We met with Paul Hall this afternoon; he will not accept foreign construction.

Continuing present program will cost about \$400 million annually. But will cause sharply reduced shipboard employment and result in substantially reduced U.S. flag tonnage. It will not provide benefit of program reform.

Budget cost of proposed alternatives (Program with or without foreign construction) are close to the same but yield greatly different results.

My original program alternative has support from all elements but Paul Hall and shipbuilding industry. -- It would cost \$560 million annually for five years. -- Holds employment at a high steady level and doubles fleet size. It would continue American merchant marine as a significant factor in world trade.

Last alternative proposed to Hall included maximum compromise but retention of possible foreign construction. It would cost \$560 million annually. -- But it means smaller fleet, no economic reforms and lower employment levels than original proposal.

The reason for a program as large as 30 ships per year rose from desire to buy industry and labor acceptance of the major policy reform of foreign construction. It failed to accomplish this objective. A much smaller program would meet all national needs. Schultze, McNamara and I agree on this.

Hall is talking of a high-level commission to separately study foreign construction. However, you recall the unfortunate experience with Maritime Advisory Committee.

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The issue is entirely political and I would appreciate your guidance.

Signed Alan S. Boyd

Alan S. Boyd

_____ Continue current program with no change.

_____ Stand by original program I proposed.

_____ Accept Hall position of expanded program without foreign construction.

cc: Mr. Schultze, BOB

IDye/PLSittton: kam 8/16/67

cc: Mr. Sittton

Mr. Dye

Executive Secretariat - 3

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AUG 17 1967

MEMORANDUM FOR THE VICE PRESIDENT

SUBJECT: Maritime Developments

I thought you would be interested in the attached articles in today's New York Times. They are indicative of several things.

U.S. shipyards appear to have limited interest in responding to bids for even a 13-ship program. You can imagine the results if the Government authorized a 30-ship program.

The second article is even more ominous for whoever gets into the North Atlantic container trade first is going to get the cargo and hold it for a substantially long time. The international consortium is proceeding at a rapid pace with the construction of container vessels. If our U.S. flag operators depend upon U.S. yards, we will be far, far behind.

It was this type of situation which convinced me that we must have maritime industry reforms including permissive foreign construction for U.S. operators.

Signed Alan S. Boyd

Alan S. Boyd

Attachments

PLSitton:kam 8/17/67

cc: Mr. Sitton

Mr. Dye

Executive Secretariat-3



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SIX SHIPS ORDERED BY CONTAINER LINE

Dry Cargo Craft Seen Due
for "Poor Relation" Roles

By WERNER BAMBERGER

The conventional dry cargo ship in North Atlantic service appears to be headed for the role of "poor relation" in the Port of New York beginning in 1970, when larger and faster containership tonnage will be in large scale operation.

This became apparent yesterday with an announcement by Atlantic Container Line that the international consortium had placed a \$67.2-million order with three European shipyards for the construction of six large, high-speed container ships.

With the placing of the order the line's entire fleet of 10 is now in the construction stage, since four of the vessels are now nearing completion.

One of the partners in the combine—Cunard Line, which has ordered two such vessels—said that all its traffic to the American northern range of ports from Boston and New York to Hampton Roads, Va., would be carried in A.C.L. ships.

Others to Follow Cunard

Cunard's decision to employ container tonnage exclusively beginning late in 1969, and to assign its conventional freighters to other routes is expected to be followed entirely or in part by a number of other lines active in the North Atlantic Trade between United States East Coast ports and European ports.

A spokesman for a major line that is scheduled to start containership operations with new tonnage next year, said his company had formed a special study group to deal with the problem.

Preliminary studies, the spokesman added, have shown that containerships are expected to carry between 70 and 80 per cent of the available cargoes on the North Atlantic.

"What remains to be resolved," he said, "is the question to what extent we want to participate in the carriage of the remaining 20 per cent of the available cargo by operating conventional vessels or vessels with limited container capacity."

Impact Felt Already

The impact of full-scale weekly containership services on the North Atlantic by a number of foreign and American steamship lines has made itself felt already.

Earlier this year a Norwegian operator of conventional cargo vessels, Compsoitan Lines, abandoned the North Atlantic business in which it had been active almost 40 years. Another European operator Black Diamond, has curtailed services.

The Atlantic Container Line announcement about the six new 24½-knot vessels ordered said Cunard and the French Line had ordered two vessels each and that one vessel each had been ordered by Holland-America Line and Wallenius Line.

The two Cunard vessels are to be built by the Tyne group of British shipyards while two French yards—at St. Nazaire and at Dunkirk—got the order for the four other vessels.

All six vessels are due to enter service between mid-1969 and early 1970. The other partners in the line are Swedish American Line and Swedish Transatlantic Line.

BIDS ON 11 VESSELS ARE FEW AND HIGH

2 LASH Offers Responsible
—Estimates Far Exceeded

By GEORGE HORNE

Two steamship lines planning the construction of 11 modern ships of radical design discovered yesterday that they would have to pay far more per ship than they had expected to spend.

The Maritime Administration and the two companies—Prudential Lines, Inc., of New York and Pacific Far East Lines of San Francisco—opened bids in Washington from four shipyards for the construction of the so-called LASH vessels. LASH stands for Lighter Aboard Ship.

The apparent low bidder was Avondale Shipyards, Inc., of New Orleans, a subsidiary of the Ogden Corporation.

Avondale offered to build all 11 vessels under a combined contract for \$239,724,000, at a unit price of \$21,794,000. It bid \$21,996,197 a ship on the six Pacific Far East vessels if contracted for separately and, on the same basis, \$22,276,412 for the five Prudential craft.

Doubt Cast on View

To a considerable extent the level of bids threw doubts on the Federal agency's expressed view that if ship lines could be persuaded to build identical ships in series, to gain production-line advantages, great savings could be had.

Prudential had developed the idea of mother ships that take aboard loaded lighters. PFEL, as the West Coast concern is known, adopted the design.

The idea is that the large carrying vessel can steam into port, quickly drop its lighters and as quickly pick up another covey of loaded small craft in order to get away on its next voyage with minimum loading delays.

Shipping men had talked in terms of \$16-million to \$18-million a ship. In recent months, as prices generally continued to rise, they had raised the outer limit to \$20-million.

Hope to Proceed

Officials of both companies said the bids would be reviewed and that they expected to go ahead with the project if the Maritime Administration, which oversees subsidy programs, found the bids acceptable.

The level of the bidding, and the evidence of a lack of interest on the part of some major shipyards in the country, will play an important role in future national discussions of Federal maritime policy, shipping men in New York predicted.

A key element in the continuing debate has been a proposal by Alan S. Boyd, Secretary of Transportation, that some United States-flag shipping be built abroad. Shipyard interests in this country have bitterly opposed any such plan.

In yesterday's bidding the only other "responsive" bid was from the General Dynamics shipyard division in Quincy, Mass., which offered to construct the 11 ships for \$264,252,998. It bid \$25,464,000 on each of the five Prudential ships \$25,204,833 on each of the six PFEL vessels.

Lighters Excluded

All of these bids were for the commercial configuration of the freighters. In each case additional bids were made to include national defense features, which would increase each price by a few thousand dollars.

The bids do not include the cost of the lighters or barges. Each of the 874-foot, 19,000-deadweight-ton vessels would carry about 38 of the lighters, and would need extra small craft at each end of its operating route.

Prudential's plans call for 425 of the 415-ton lighters for its New York-to-Mediterranean route. Pacific Far East would

need a proportionate number for its Pacific service.

The Ingalls shipyard division of Litton Industries, Pascagoula, Miss., and the Sun Shipbuilding and Dry Dock Company of Chester, Pa., put in partial bids. These, in the view of the Maritime Administration, were not responsive.

The Bethlehem Steel Company and the Newport News Shipbuilding and Dry Dock Company in Virginia did not enter bids.

Surprise Expressed

"We were surprised by the lack of broad interest from the shipbuilding industry," said Spyros S. Skouras, president of Prudential. "There were only two really responsive bids."

Leo C. Ross, president of Pacific Far East, said the lowest bids were "higher than we expected" and he indicated that the Maritime Administration was also surprised.

While the designs of the two companies are basically identical, there are some minor differences. The West Coast company, for instance, would require crew accommodations for two more seamen than Prudential's 38-man crew. And Prudential included facilities for carrying four passengers.

Mr. Ross said he believed the two companies could come to an agreement on a vessel that would permit a unit price of \$21,313,000, if 11 ships are ordered. The companies have 90 days to review the bids.

The Maritime Administration had authorized the seeking of bids, for construction out of the 1967 and 1968 budgets. For all subsidized ship replacement programs, the agency had approved the building of 13 ships a year for each of the two years.

The 1967 budget appropriation was \$106,685,000, but with additional moneys available the total for the year would be around \$120-million. The request for construction money in the 1968 budget is \$143-million.

Under the construction subsidy program the maximum limit of Federal funds in a shipbuilding program is 55 per cent of vessel costs. The subsidy level is based on comparison with foreign shipyard prices, which generally run around half of those in this country.

Outline of Understanding on Maritime Program Issues
Reached at Meeting Between Congressional Leaders
and Secretary of Transportation

Meeting held in Senator Magnuson's office, August 29, to discuss Maritime program differences between Congressional leaders and Secretary of Transportation. In attendance from Congress were Senators Magnuson and Bartlett, Congressmen Garmatz and Downing, and House and Senate Committee staff. In attendance from Department of Transportation were the Secretary and Deputy Under Secretary; also, Mr. Carl Davis, General Counsel of Maritime Administration.

Secretary Boyd reviewed major elements of the proposed maritime program, including DOT/Congressional differences. General agreement was reached as follows:

- ✓ 1. There will be a five-year program at \$260 million per year for ship construction subsidy and \$25 million per year for research and development. Subsidy will be made available for construction of vessels to be operated in the noncontiguous trade. Draft bills used as basis of discussion include provision for payment of construction subsidy directly to shipyards as contemplated in DOT program.
2. Tankers are not included in construction subsidy program but recognize that present law does not prohibit. Present law will not be changed.
3. Fix the maximum construction subsidy rate at 55% for one year with provision for periodic readjustment which would not exceed this rate. There is provision for appropriate reduction of maximum rate if vessel is built at negotiated prices.
4. There will be no foreign construction with allowable U.S. flag privileges and technical provisions related to foreign construction proposal were deleted.
5. Vessel Exchange Act is to be repealed.
6. No decision made on capital reserve funds until Secretary Boyd reports on understanding with Treasury.
7. Authorizes aid in development and construction of nuclear powered ships.
8. Authorizes negotiation of five-year experimental operating subsidy contracts, giving present subsidized operators the right to come under whatever subsidy system exists at the end of the five-year period.
9. Secretary Boyd stated that the Administration would not support authorization to construct two super liners. Magnuson and Garmatz supported proposal. No commitments made on this proposal.

10. A Commission will be created to study the shipbuilding industry and report within three years.

11. Left open for further discussion was provision of operating subsidy for vessels operating in the noncontiguous domestic trade. Bartlett stated that if reserve funds are made available to the operators plus construction subsidy, there is no need for operating subsidy, and it would drop out. Decision on this item must await report back on negotiations with Treasury.

12. Desultory discussion on location of Maritime Administration. Magnuson took position that this issue was separable from the program. No agreement.

13. Discussion on "me too" provisions of labor contracts. Indication was given that Committee Reports when issued on proposed legislation could cover this problem.

J. file
8/30/67

Mr.

Attached was brought in by Sitton.

As soon as you give your o. k. a copy will be sent to Messrs. McNamara, Reynolds Schultze, Califano and Trowbridge.

OK

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There follows a list of items which you may wish to review with the President on the political and economic consequences of either adopting the program you have proposed or acquiescing in the Magnuson/Bartlett program (a substantially higher program). There are four alternatives available to the President:

- Send forward the more liberal DOT program originally proposed.
- Send forward the latest restrictive program with foreign construction delayed for two years and then permitted only if U.S. yards are at capacity.
- Send forward program without foreign construction.
- Send no program to Congress.

Political Considerations:

1. Federal maritime programs must eventually be reformed and there will be conflict at some point. The issue is where and when to make a stand. If a stand is made now, it can be based upon principle and not expediency. We should not opt for another study since the bookshelf is already full of them.
2. Both this and the previous Administrations have promised reforms. Unless a program is proposed, the Administration is in a poor posture to veto Congressional program which will no doubt contain undesirable features -- higher appropriation, reserve funds to all operators (domestic and foreign), and no operating subsidy reforms.
3. A program without foreign construction will underwrite Paul Hall as major arbiter on maritime policy in spite of fact that he has been the primary opponent of reform. His union (SIU) represents only a small fraction of operating unions. Other labor elements (NMU, MEBA, MMPA) and ship operators who have supported program reform and represent major industry interest, would feel they have been ignored.
4. If there is no Administration program, Republicans will attempt to make it a political issue.
5. Proposals for maritime policy reform have gained editorial support of the Journal of Commerce, New York Times, Wall Street Journal, Fortune magazine and other journals. No foreign construction may mean to them that the Administration has disregarded broad public interest considerations, which have been under study for past seven years.
6. Policy reforms have been under study for the past seven years -- the results should produce more than mere increase in Federal subsidy.
7. Retaining foreign construction provides stronger bargaining position for reducing excessive Congressional program which is at least \$150 million higher than DOT program.

8. Maritime congressmen are firm in their opposition to foreign construction and their votes on an independent agency are indicative of the nature of this feeling.

Economic Considerations:

1. Failure to secure reform at this time means they are unobtainable for the foreseeable future.
2. Meaningful reforms in maritime programs at a minimum means some element of foreign construction since:
 - U.S. shipyards employ costly methods related to Navy-type design.
 - There is presently no incentive or competitive pressure for them to modernize.
 - Operators cannot otherwise replace ships without vast expansion in construction subsidy.
3. Operators need new ships to participate in container trade. If foreigners get ships first, they capture the trade. Foreigners are rapidly ordering new container vessels and, because of shorter delivery periods in foreign yards, U.S. operators are threatened with economic ruin because of the slow delivery time in U.S. yards. U.S. operators have money to build but current bid experience indicates that prices will be high with long delivery time.
4. Expansion in Federal subsidy alone is not the answer.
5. Proposed program doubles jobs for shipyards (10,500 to 21,000) and simultaneously permits operators to secure new ships without dependence on level of construction subsidy.
6. Without foreign construction alternative, operators will join in pressures, espoused in Congress, for substantial expansion in construction subsidy beyond the annual level of \$260 million projected under proposed program.
7. Peak demand for ships will subside after 4 or 5 years. If total demands are met in U.S. yards there will be a substantial dip in demands for ships after 5 years resulting in economic dislocation and causing pressures for sustaining uneconomic ship construction activity.

NOTE: If we are going to buy a program without reform, as a minimum, the President should allow Administration to use this as leverage for getting unions to give up "me-too" clauses in contracts.

MARITIME PROGRAM COST ESTIMATES
(in million)

Aug 29, 1967

<u>Program Item</u>	<u>1969</u> Present/DOT	<u>1970</u> Present/DOT	<u>1971</u> Present/DOT	<u>1972</u> Present/DOT	<u>1973</u> Present/DOT
Subsidy to Shipyards	113/261	122/263	122/263	113/261	113/261
Operating Subsidy	202/239	198/240	191/243	187/246	180/245
Cargo Preference Cost	89/85	93/87	98/75	102/64	107/53
NDRF Conversions	0/60	0/60	0/60	0/60	0/60
Nuclear Ship	3/5	3/60	3/50	0/10	0/10
R & D	6/25	6/25	6/25	6/25	6/25

Effects by Mid-70's,
Tonnage & Employment

DOT Program:
19 Million DWT
Fleet size
(up 5 million from
today)
56,000 Total job
opportunities

Present Program Forecast:
11.3 Million DWT
Fleet size
(down 3 million from
today)
41,200 Total job
opportunities

Impact of excluding foreign construction from DOT program

Federal budget impact of excluding foreign construction is nil. However, without foreign construction:

- Seagoing jobs will substantially decline.
- Shipbuilding prices will rise since shipyards have a monopoly -- probably little reform in industrial practices -- bid prices are already high because of substantial Navy work.
- Domestic and Great Lake operators unable to replace ships in U.S. yards because of high prices -- shipping public thus loses savings of new and lower cost ships.
- U.S. foreign operators unable to get vessels on rapid delivery schedule for timely entry into container trade and replacement for all components of fleet will be stretched out 5-10 years.

SEP 11 1967

Maritime Reserve Fund Issue

Deputy Under Secretary

Secretary

part missing

Further exploration reveals that Senator Bartlett is personally promoting liberalization of construction reserve funds to include operators in both foreign and domestic trade. His concern grows from Alaska problems, and I understand Sealand has enlisted his services in this effort. Mateon has no interest in the issue but will not actively oppose it because of Bartlett's personal interest. Bartlett is dead serious in his effort to extend eligibility of construction reserve funds and will probably press vigorously for his position.

Status of Negotiations with Treasury

Treasury strongly supports the status quo (which means exclusion of any new subsidized operators from benefits of tax reserves) and would agree to have President in message direct a comprehensive joint DOT/Treasury study into the entire question of tax shelters in the maritime area. The proposal would promise a full report to the Congress including recommendations for resolution of this issue in the next session. A reference to this is contained in the draft Presidential message.

DOT Position *sep 9*

On Saturday you decided that the Department should support extending tax reserve privileges to new liner operators that are approved for operating subsidy (the four companies now in business plus others who may apply). Reserve fund privileges would not be extended to bulk carrier operators. Further, the Department will support a study as may be directed by the President.

Further Steps to be Taken

- Call Secretary Fowler and confirm the resoluteness of his position. Suggest to him that it would be prudent and equitable to give new operators the same privilege now enjoyed by CASL group.

SEP 11 1967

MEMORANDUM FOR

Honorable Joseph A. Califano, Jr.
Special Assistant to the President

SUBJECT Maritime Program Actions

I have attached a draft message on maritime proposals which reflect the agreement reached with Senators Magnuson, Bartlett and Congressmen Garmatz and Downing. Two outstanding issues remain, but I believe they can be resolved. These issues are (1) location of the Maritime Administration and (2) the question of extending capital reserve tax shelters to other operators. I shall discuss these two points later on in this memorandum.

I recommend the following course of action for moving ahead with the maritime program:

- As soon as possible, the President should send forward a message containing the recommendations outlined in the attached draft.
- Simultaneously, the President would transmit to the Congress a reorganization plan transferring MarAd to DOT (a plan has been sent to BOB).
- At the same time the President should direct me to transmit a proposed bill to the Congress on legislative changes.

We plan to have a draft bill at the Bureau of the Budget this week. There should be no substantial delay in getting this language cleared since it reflects the major points of agreement with Congressional leaders.

The question of timing and tactics are extremely important, particularly with respect to the proposed reorganization plan. As you know, the plan can only be approved or voted down, thus during this week I intend to

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industry and labor support of its contents without indicating that it will be submitted as a reorganization plan. Another issue is whether the Congress will be in session for a 60-day period -- the required time for a reorganization plan before the Congress. Barring further recess, it seems fairly certain that an adequate time period will be available if we transmit this plan within the next week or two.

Senator Bartlett has strongly urged the extension of capital reserve fund privileges to all U.S. flag operators in the foreign and noncontiguous domestic trade. There is also strong Congressional sentiment to extend these privileges to all domestic trade operators. As you know, earnings placed in capital reserve funds are exempted from income tax payment. The annual cost to the Treasury in taxes foregone could amount to about \$40.3 million if these privileges are extended to all operators.

At present, reserve fund privileges extend only to the 13 subsidized operators. To deny this same tax advantage to new operators represents an unfair discrimination against them. Either all tax reserve privileges should be abandoned or equal treatment assured to all operators. At this time, it is not practical to propose elimination of existing tax reserve funds. My view is that, as a minimum, reserve fund privileges should be extended to new liner operators in the foreign trade who are brought under subsidy. We do not support extending these privileges to any domestic operator because of the precedent it would establish for other industries to seek the same tax relief. The argument for continuing privileges to the foreign U.S. flag operators is that foreign competitors often enjoy similar privileges and it represents our effort to sustain competitive parity. Treasury strongly urges that we hold to the status quo, i.e., no extension to any operator. Treasury would support a study to seek ways of substituting a direct subsidy for this indirect subsidy. They would support a statement in any Presidential message directing Treasury and Transportation to make a comprehensive study into the entire question of maritime industry tax shelters. Substantial analytical work has already been completed on this subject and a report could be completed during the next session.

Senators Bartlett and Magnuson are awaiting the conclusion of our discussion with Treasury and these issues must be resolved before a program is sent forward. I plan to discuss this issue with Secretary Fowler.

After you have reviewed this package, we should discuss further steps that are needed to move forward as soon as possible with this program.

(sgd) Alan S. Boyd

Alan S. Boyd

Attachment

PLSitton:kam 9/11/67

cc: Mr. Sitton

Mr. Robson

Mr. Dye

Executive Secretariat-3

To the Congress of the United States:

Since the earliest beginnings of this Nation, America's merchant fleet has written a proud and glorious chapter in our history. Without the adventurous spirit and the dedication of the merchant mariners who carried the flag of this Nation to the far corners of the earth, our development might have followed a far different course.

On the strength of that early development of routes of commerce extending around the globe, we have become the world's largest trading nation. Last year, more than 350 million tons of commerce moved in our waterborne trade. It totalled more than \$30 billion. By 1980, this trade will nearly double -- reaching some 600 million tons.

Indeed, development of this foreign commerce has been a key to the growth and prosperity of our great Nation. If our growth and prosperity are to be sustained, it is essential that this commerce between our Nation and the markets of the world continue to expand.

Traditionally, the U.S. flag merchant fleet has been an important element in this necessary expansion of our foreign commerce. Today, however, we face the fact that the strongest, the wealthiest, the most resourceful and inventive Nation on earth has a maritime fleet which is losing its ability to compete with ships flying flags of other nations in the movement of our own foreign commerce.

It is critically in need of revitalization.

It is desperately in need of modernization.

There is urgent need for innovation, for experimentation -- and for a reassessment of roles of responsibility of all parties with the end goal of attaining a strong, self-sustaining, competitive maritime industry.

There is also urgent need to relate this revitalized maritime activity to our Nation's broad and comprehensive transportation efforts -- so that ocean shipping is made a part of our Nation's transportation system.

I propose to you a program shaped to accomplish these goals. It will:

-- Provide a substantial increase in ship construction funds. I

ask appropriations to raise construction subsidies to U.S. shipyards to a level of \$260 million a year. This level will permit a substantial expansion in construction programs above the present level of 13 ships per year. And I ask that the new level of appropriations be maintained for a five-year period.

-- Provide a needed expansion in the scope of ship operating subsidies.

This proposal will bring certain non-subsidized operators under operating subsidy and promote the creation of new operating subsidy proposals for bulk carriers that will allow them to compete for commercial cargoes.

- Develop a new system of ship operating subsidies. This

new system will be designed to improve productivity and induce more competitive and efficient operation with diminished Government involvement in maritime management decisions.

- Expand our support for maritime transportation research. I

ask the appropriation of \$25 million yearly to increase both basic and applied research in a wide range of activities in the maritime field.

- Improve our Nation's capabilities to meet emergency shipping

needs. I ask for funds to revitalize the National Defense Reserve Fleet through the conversion of some unused reserve troops ships into enlarged general cargo ships.

-- Broaden our program of development of nuclear vessels. We

shall, as part of this program, launch a cooperative effort with selected ship operators to develop and construct nuclear container ships as part of a complete high-speed sea transport system.

-- Include the Maritime Administration within the Department of Transportation.

-- Establish a study commission to examine the capacity and competitive position of the private shipbuilding industry. This study should provide a better factual basis for future maritime programs.

* * *

I cannot urge you more strongly to give this program your swiftest consideration.

The need for action is imperative.

- A substantial part of our merchant marine is obsolete; much of the tonnage is World War II ships that are rapidly approaching the end of their useful lives.
- Much of the remainder of the American flag fleet is outmoded and unproductive.
- In contrast to earlier days, this Nation's foreign trade is substantially carried in the holds of ships flying another nation's flag; in 1966, the U. S. -flag share of this trade fell to a new low of 7 percent.
- Federal maritime subsidies have grown from \$65 million to more than \$400 million a year in the past 17 years -- yet, the fleet which these subsidies support relies increasingly on Government-generated cargoes and carries a declining portion of our commercial trade.

-- Full exploitation of recent advances in container technology--

this completely American innovation which holds great promise

for the future of the maritime industry -- may be denied to our

industry because of restraints on the ability of our operators

to acquire modern tonnage.

-- In the 1930's, our foreign commerce was largely made up of

manufactured and processed goods carried in cargo liner vessels.

Today, more than 80 percent, by tonnage, of our foreign trade

is comprised of dry and liquid bulk cargoes. Yet, we carry only

3 percent of bulk trade in U.S. bottoms.

-- Opening of the St. Lawrence Seaway has created a fourth sea

coast on this Nation's borders -- the Great Lakes. Yet, this trade

route, which reaches into the industrial and agricultural heartland

of our nation, depends largely on foreign flag service.

Federal programs designed to strengthen our maritime industry have been studied exhaustively in recent years. Every alternative for solving the vexing problems which plague this industry has been discussed, dissected, and debated in Government councils and in public forums. The conclusion is clear that our present policies have not induced the proper response from the industry, the shippers, and the public to cope with the changes overtaking the industry.

Yet, our evaluations also demonstrate convincingly that massive infusions of Federal dollars will not solve this industry's problems. Government's role is secondary to the ability of our free enterprise system, responding to the inducements of private profit and within the constraints of competition, to improve the productivity and, thereby, the prosperity of the American merchant marine.

But Government support can provide the incentives which will lead the maritime industry to achieve the goals of a truly new maritime program.

We can:

- Make available incentives that will bring to the maritime industry more of the talents of American business, more of an appetite and a capacity for competition, more of an attraction for greater and more productive private investment.
 - Provide the incentives necessary to restore the confidence of management and of labor in the future of the maritime industry.
- This is an important step in achieving long-term economic stability within the industry.
- Supply the incentives which will lead to more economic and efficient service in the movement of our foreign commerce.

-- Provide the incentives which will strengthen the capability of this industry to respond to all of our national requirements.

* * *

The course I lay before you for revitalization of our maritime industry is not, however, without its grave and continuing responsibilities for all concerned. I must most solemnly emphasize that the success of this program depends on the acceptance of three essential conditions.

We cannot tolerate the dissipation of Federal subsidy dollars through excessive price inflation in any corner of this economy. For that reason, the first condition is the recognition of all responsible parties -- the ship-building industry, its component industries, and labor -- that the ships to be provided under this program must be supplied at reasonable prices and on schedule.

The next several years will be a testing period for the industry, to demonstrate that it can meet the demands of an expanded merchant fleet -- both in competitive construction and competitive operation.

We intend to aid the American shipbuilding industry in fulfilling its capabilities. I propose a study commission to determine how and in what form ship construction subsidies can enhance the contribution of the

industry to the security, growth, and prosperity of our nation. This study commission will have several tasks:

-- It will analyze the shipbuilding capabilities of the industry, and those which are needed to meet national interest requirements.

-- It will consider what should be the national interest requirements for maintaining, under Government support, a properly determined level of commercial and defense ship construction and repair capability.

-- It will evaluate the contribution of the industry to the U.S. balance of payments and to the national economy.

-- It will analyze the shipbuilding industry's capability to compete within the broader framework of U.S. industry for needed additional capital, skilled manpower, and management resources.

-- It will consider how improved industrial technology and management techniques can be adapted to the domestic shipbuilding industry.

I am confident that this study will provide the basis for an expanded, cooperative research effort between industry and Government. It will, I believe, create the guidelines necessary to promote the competitive position of the industry both within the domestic economy and with respect to foreign shipbuilding competition.

If, however, the ship construction industry cannot respond to the needs of U.S. flag operators for economical ships, delivered on schedule, then we must re-assess the correctness of our approach, and, if necessary, we must seek alternatives to meet the demands of the American merchant marine for modern tonnage.

But this is not all which must be done.

If the U.S. merchant marine is to respond to the needs of the American shipper, both management and labor must work closely to eliminate the frequent interruptions in service caused by work stoppages and cooperate in efforts to stabilize the industry's wage costs.

Recent history of escalation of these wage costs can only be described as distressing. A series of labor-management agreements, negotiated in

1965 and designed to assure a stable relationship, have proved in practice to be destructive of the original intent. Through a series of arbitration awards, employment costs have escalated far beyond the original terms of settlement. This has created a situation which, if allowed to continue, threatens to bring the industry down in economic ruin.

The public interest of the entire shipping and consuming public is at stake in this unfortunate series of circumstances.

First, escalating employment costs in the maritime industry have a direct relationship to Federal expenditures through the operating-differential subsidy program and defense shipping costs.

Second, spiraling wage costs in the light of foreign competition will have a direct effect on the future growth of U.S. maritime industry-- and its ability to gain competitive standing with the other fleets of the world.

Third, inordinately high and unreasonable employment costs have a direct impact on our Nation's wage-price stabilization objectives.

Stabilization of the wage structure in this industry must, without question, go hand-in-hand with the rational development of a maritime policy looking to the future growth of the industry. It is incumbent on the industry's management and labor interests to resolve jointly the wage escalation issue in advance of any extensive Congressional consideration of measures seeking the achievement of this objective.

Therefore, I urge that the parties involved recognize their mutual interest in the quick settlement of this problem, and that they initiate prompt and meaningful discussions to bring it to an early solution.

* * * * *

There is yet another and important condition which must be accepted if this program is to succeed: the location of maritime programs within the Federal Government.

Last year, in signing the Department of Transportation Act, I stated that in a few respects it fell short of our original hopes. Specifically, it did not include the Maritime Administration. I expressed the hope

that the Congress would re-examine its decision to leave what must be considered vital transportation activity, alone, outside the jurisdiction of this new Department.

Today, I am transmitting to the Congress a reorganization plan which would transfer the Maritime Administration to the Department of Transportation.

I do this for good and specific reasons:

We cannot afford to continue the isolation of this important component of our transportation system from the mainstream of the new technology and promotional support which the Department of Transportation now provides to other transport modes.

Further, all Government transportation programs and their problems must be dealt with as a whole, instead of on a piecemeal basis. Because the Department of Transportation was created to promote a more efficient national transportation system, the transfer as proposed in this reorganization plan should be accomplished as quickly as possible.

This reorganization plan will assure that ocean shipping receives increased promotional recognition in top policy councils of the Executive Branch and will provide an independent status for a newly-created Civil Maritime Subsidy Board needed to assure fair and objective review of matters upon which it must act.

In addition, this reorganization plan would provide me with the authority to

shape a more effective administration of the Cargo Preference

Act. I am fully convinced that consolidating the administration of the preference programs is in the interest of increased Government efficiency and greater effectiveness.

* * * * *

The major difficulty which this Administration has experienced in the selection of a solution to the many and increasing problems facing the maritime industry has been to balance the public interest concern for the sound expenditure of public funds with the legitimate interests of management and labor who stand to lose or gain from the outcome. Clearly, an acceptable Government program cannot meet all the needs of all groups. But I believe all interests can and must agree that their common objective is building a strong maritime industry to serve all our national needs.

I believe this program meets this objective.

The level of subsidies I am proposing is a substantial increase over the recent average of some \$110 million a year. The level of ship construction made possible through the proposed annual appropriation rate of \$260 million will be the largest peacetime commercial shipbuilding program ever mounted in the nation's history.

A key feature of U.S. maritime policy to date has been to sustain a nucleus of shipyards, shipbuilding skills, and related component industries

to meet emergency needs.

Of course, major reliance for continued maintenance of this capability will depend mainly on Naval work which accounts nationally for about 80 per cent of Government-sponsored work.

However, the level of ship construction subsidies in my new program will serve to increase greatly the productive skills necessary to commercial shipbuilding and to assure this Nation an adequate and efficient commercial shipbuilding capability.

This expanded level of ship construction work provides the essential inducement for shipyard modernization and for the best which America can offer in improved industrial technology. Only if this occurs, can the U.S. shipbuilding industry adequately serve the replacement needs of the U.S. merchant fleet for high performance, competitively-priced ships.

Related to this, I propose legislation to:

-- Allow construction subsidies to be paid directly to shipyards. This will permit them to assume a more responsible role in the design and development of new vessels.

-- Permit, under certain circumstances, the use of negotiated prices which have been successfully utilized in foreign shipyards.

-- Provide for periodic determination in advance of shipyard subsidy rates for fixed periods and for different ship types.

* * * * *

We must recognize that in the maritime industry we are now on the threshold of important developments of new ship concepts and systems of operation which may demand radical change. We must be aware that today's conditions provide the opportunity for timely experimentation. We should not be timid.

Although it has sustained an active and modern fleet of high-speed liner vessels, the present system of ship operating subsidies is clearly in a need of reform. The reformed subsidy should extend beyond those who now receive subsidy to operators who are now non-subsidized.

In recognition of the fact that these new systems can radically change present practices, however, their workability should be amply demonstrated before any final commitment is made.

With this in mind, I propose legislation to permit the Secretary of Transportation to enter into experimental contracts with the presently unsubsidized operators plus any new qualified applicants. With such flexibility, we can demonstrate efficient, productive and competitive operating systems and can establish new Government procedures which will eliminate complex and costly administrative practices.

Today, bulk cargoes constitute more than 80 per cent of the total tonnage of U.S. export and import cargoes. U.S. flag vessels in this trade are old and inefficient and add about \$80 million a year to the Government's transportation costs for moving foreign-aid cargoes. Yet, the availability of these Government-generated cargoes to this component of the U.S. merchant marine is essential to its continued existence. Therefore, I do not recommend change in the Government's cargo preference laws. However, the Government's interest, in terms of reduced costs of cargo preference, would be best served if modern and efficient new bulk carrier tonnage were introduced in the trade. The expanded construction subsidy program will give appropriate emphasis to this component of the fleet.

I also recommend legislation to authorize new operating subsidy proposals for bulk carriers so they may compete for commercial cargoes as well. The combination of these support features should assist the development of a substantial U.S. flag bulk fleet of modern tonnage.

The National Defense Reserve Fleet established at the end of World War II, has serviced us well in two major emergencies and has effectively assisted during periods of crisis by maintaining more stable rates in the world shipping market. Measured against other alternatives, this approach to meeting peak emergency needs involves lower costs and causes less disruption of U.S. flag commercial services. So in order to improve the quality of this capability, I ask appropriations for the revitalization of National Defense Reserve Fleet by conversion of a certain number of unused reserve troop ships into "jumboized" general cargo ships. The size of the reserve fleet program I contemplate will depend on the extent to which the levels of ship availability can be worked out with active fleet operators.

Replacing modern, expensive ships requires large amounts of capital.

At present, certain ship operators can defer taxation on funds set aside for this purpose. The question arises as to whether this privilege could be extended to other operators without undue loss to the Treasury or whether a different system adaptable to the needs of all components of the U.S. merchant marine might not be developed. On an interim basis I propose that capital reserve fund privileges be extended to those liner operators which become eligible for construction and operating subsidies so that they may accumulate the needed capital to replace their obsolete fleet. I also have directed the Secretary of the Treasury and the Secretary of Transportation to study the continuing need for reserve funds under today's economic condition and to investigate the feasibility of direct subsidy alternatives to this indirect form of subsidy. With an eye to the possibility of future legislation on the matter, I have asked them to give me their recommendations within six months.

As our transportation system must be conceived, built and operated as a whole, so must the different areas of transportation research be coordinated within an overall framework. The transfer of the Federal Government's maritime

programs to the Department of Transportation will permit use of the research resources available to the Secretary of Transportation in promoting research in the maritime field. To assure that these programs receive the increasing attention they deserve, I shall request appropriations of some \$25 million annually for increasing both basic and applied maritime research activity, including ship operations, port facilities, ship design, and construction and maritime systems. Such research is to be integrated into the Department of Transportation's broader research activities.

We must continue to push back the frontiers in nuclear ship development. As part of this effort, we shall launch a cooperative effort with selected ship operators to develop and construct nuclear container ships as part of a complete high-speed sea transport system. Along with this, an expanded research and development program involving both the Department of Transportation and the Atomic Energy Commission will be undertaken with the aim of developing an economic ship reactor system. And, as part of this overall nuclear ship development program, the SAVANNAH will be continued in operation for as long as she is needed.

For its time, the Merchant Marine Act of 1936, was a remarkable accomplishment for the promotion of our national security and foreign trade needs. And, for a considerable period, it withstood the test of time well. But the world, and this Nation's role in it, has greatly changed since 1936. We face new problems. Every day in every field, we are confronted with new challenges. In few areas is the need for responses to these challenges as urgent as it is in our maritime industry.

I believe that the program I have set before you will meet these challenges and meet them effectively. Its aim is a partner relationship between the Government, the industry, and the men who labor in this industry, to see and make sure that America's merchant fleet is restored to the position of high prestige, efficient operation, and technical supremacy -- second to none -- which it should and it must occupy.

MINUTES OF MEETING HELD WITH SENATORS MAGNUSON AND
BARTLETT AND WITH CONGRESSMAN DOWNING
SEPTEMBER 22, 1967

Review of unresolved maritime issues.

- Capital Reserve Funds. Secretary stated that Administration position had not been consolidated; however, he believed Administration would agree to extension of reserve funds to non-subsidized liner operators. Magnuson and Bartlett expressed awareness of problems in further extension and indicated that on their own they might take initiative in Congress on further extension. Secretary indicated that was their business.
- Great Lakes. Magnuson raised question as to what we could do to get support of Great Lakes Congressmen. Everyone agreed that in terms of foreign trade there was very little we could do. We agreed to suggest that the message should call for study to improve this. Secretary would not agree to aids for domestic operators in the Great Lakes and suggested that Congress would be well advised to avoid.
- Superliners. Magnuson again raised issue of authorizing new superliners and referred to QUEEN ELIZABETH II. Secretary told Magnuson we would study economics of passenger vessels under U.S. flag.
- Tankers. Magnuson asked what we were doing for tankers. Secretary indicated that we weren't changing the law to deny tanker CDS; that as Administration policy we had no intention of approving CDS for them under existing priorities. Indicated that Title XI mortgage were adequate support. Nothing to be done on tankers.
- Vessel Exchange Act. Committee staff are getting flak from operators on repeal of this Act and now wanted to back away from repeal. Not crucial and it was agreed that would be allowed to expire naturally in 1969.
- Presidential Consultation Committee. Committee staff wanted to know if the President would make reference to cooperation between the Administration and Congressional leaders in working out program. The Secretary noted it as a good idea but it is up to the President to what he puts in his messages.

- Maritime Reorganization. As we left, Secretary told Carl Davis to stay behind and brief Committee staff on organization issues. Stan Barer asked is the Administration sending a reorganization plan with message? Secretary Boyd said that was the plan and Magnuson indicated it was a good idea and thought this was the best way to handled reorganization.

Outline of DOT Proposal

September 22, 1967

- * Section 1--Authorize Appropriations FY 1969 - 1973
 - \$260M/yr construction differential subsidy
 - \$25M/yr research and development
 - Authorize Appropriation FY 1969
 - \$30M to reconstruct reserve fleet

Section 2--Extend applicability of Merchant Marine Act to contract vessels and their operations.

- * Section 3--Establishes privately owned shipyards as eligible applicants for CDS (ship operators continue to be eligible)
Extends CDS to vessels for non-contiguous domestic trade--
with a hearing to protect investment of operators in the trade who were not subsidized.

Section 4--Technical amendment to limit shipyard applicants for CDS to contracting method set up in Section 504(b) (as added by this bill).

- * Section 5--Changes CDS computation from present ship by ship basis to a ship type basis for fixed periods of no less than one year. Extends temporary 55% ceiling (due to revert to 50% on July 1, 1968) for three years.
- * Section 6--Authorizes use of negotiated bids in CDS procedures when ship-owner is applicant; adds procedure for CDS when shipyard is applicant.
- * Section 7--Authorizes use of CDS vessels in non-contiguous domestic trade and eliminates present payback requirement for such use.
- * Section 8--Extends MarAd low down payment (12 1/2%), low interest (3 1/2%) installment sale procedure to include certain tug boats and barges
 - (Also operates (indirectly) to increase maximum mortgage loan insurance (Title XI) coverage) for these vessels from 75% to 87 1/2%.

Section 9--Amends definition of "obsolete vessel" to permit replacement of vessel when in the "public interest" rather than physically or economically obsolete. This eliminates possible conflict with ODS criteria.

10/15/67 * ~~Section 10--Repeals Vessel Exchange Act.~~

10/16/67 ~~Section 11--Technical amendment related to Vessel Exchange Act repeal.~~

Section 12--Extends Secretary's authority to prescribe methods of record keeping to new Title XIII (Experimental Operating Subsidy).

Rev 9/22

Section 13--Extends limitation related to ownership of competing foreign lines to Title XIII subsidies.

Section 14--Extends limitation related to ownership of coastwise lines to Title XIII subsidies. Repeals \$25,000 salary ceiling.

Section 15--Releases existing operators from present contract obligation re \$25,000 salary limitation.

Section 16--Extends prohibition re participation in agreements discriminating against U.S. carriers to Title XIII subsidies.

Section 17--Technical amendments of definitions.

* Section 18--Adds new Title X to authorize aid in development and construction of nuclear powered ships. Establishes CDS ceiling which gives operator ship at cost of comparable conventional ship (world price for foreign or non-contiguous domestic trade; U.S. price for domestic trade).

Section 19--Technical amendments to Atomic Energy Act re title to
20 inventions and indemnity.

Section 21--Permits use of capital reserve funds for nuclear cores.

* Section 22--Removes 6% interest ceiling on loans insurable under Title XI and allows Secretary to determine ceiling.

Section 23--Allows refinancing of insured loans to cover new nuclear fuel cores.

* Section 24--Authorizes experimental operating subsidies for five years for liner and dry bulk trades. (Title XIII)

* Section 25--Establishes Commission on American Shipbuilding to study private shipbuilding and report in 3 years.

SEP 22 1967

Bureau of the Budget Views on Maritime Program

Deputy Under Secretary

Secretary

In discussions yesterday with Walt Bochner on the legislation before the Bureau of the Budget, he listed three items which he planned to bring to Schultze's attention. These are as follows:

- Financing reserve fleet upgrading -- The Bureau feels that this program should be financed out of the Defense budget. At present the maintenance of the reserve fleet is financed out of the Maritime budget. I indicated to Bochner that we had no strong feelings on this issue and would rely upon guidance from BOB/DOD discussions.
- Tax free reserve funds -- Bochner plans to discuss with Schultze the range of considerations based upon Treasury/DOT discussions. BOB probably will not take strong position on this question but will rely on Treasury.
- Nuclear Ship program -- Bochner indicates that cost of land base reactor has gone from \$100 to \$200 million and will recommend to Schultze that the AEC portion of the nuclear development program be deleted.

For your information, Matt Nimitz in the White House indicated to me that Reynolds of Labor is still pushing for some kind of Presidential committee to take a look at the labor/management situation, particularly with respect to the "me-too" clause.

Paul L. Sitton

PLSitton:kam 9/22/67
cc: Mr. Sitton
Executive Secretariat-3

[illegible]

UNITED STATES GOVERNMENT

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE SECRETARY

Memorandum

DATE: OCT 2 1967

SUBJECT: White House Meeting on Maritime

In reply
refer to:

FROM: Deputy Under Secretary

TO: Secretary

*Held Wednesday October 4, 1967
5:00 PM*

Your meeting this afternoon is to review the maritime program items and to decide what we do about the timing of its transmittal by the President to the Congress. The agenda will include discussion of major program features as outlined in the draft message. Attached for your information is an outline of program features in the message.

In addition, the following issues may be raised at the meeting:

- Delay in Transmitting Program Because of 1968 Budget Constraints. As you will recall, this issue was raised repeatedly in our discussions of alternatives with the White House but you proceeded on Califano's instructions that the President desired a program as quickly as possible so as to quiet political problems. Even if program is delayed until next year, there is no certainty that the budget situation will be improved. There also is a strong presumption that failing the submission of a program in this session, the House and Senate leaders will carry forward with their threat to enact their own program if the Administration does not submit one.
- Labor Issue. Attached is an article by Helen Bentley of October 2, speaking quite strongly on the "me-too" labor problem and urging that a program not be transmitted without some commitment by labor. As you know, the message contains alternative language on how to handle this problem. Under either alternative, Administration leaders should sit down with Meany and the maritime union leaders to urge on early resolution of this labor issue. A meeting with the President would be best. As an alternative, the Vice President could take the lead in holding a meeting with you and Wirtz in attendance.
- Program Issues Raised by BOB. The following questions have been presented to Charlie Schultze by BOB staff. We do not know if they will be raised, but if they are you may wish to respond as outlined below:

- Financing Reserve Fleet. BOB may wish to shift financing of reserve fleet upgrading to DOD. This is not a critical issue; however, since DOT is responsible for assuring adequate transportation under emergency conditions, it is logical that we support funding of the needed resources in peace-time. We still justify NDRF as a Defense requirement.
- Tax Reserve Fund. As you know, Treasury has agreed to extend tax reserve funds to non-subsidized operators and to a joint study. (The draft bill gives you discretion to grant to liner operators coming under Title XIII.) There should be no issue on this item (Surrey's letter to me is attached). You may wish to point out that a strong move will be made on the Hill to extend tax reserve privileges to all U.S. flag operators, both in the domestic and foreign trade.
- Nuclear Ship Program. BOB does not want a program including AEC cooperative research on advanced reactors. BOB also wishes an alternative approach to nuclear ship development which would permit direct Government financing. We don't mind this alternative but believe it suggests more Federal interest than is warranted. In any case, we should also retain our approach (joint industry/Government cooperative effort) so that operators and private industry can participate in the program and have maximum impact at all developmental stages. The BOB approach means more cost to the Government.
- New Subsidy System. Our proposal makes either Title VI or experimental operating subsidy available to presently-subsidized operators at the end of their current contract. BOB will probably press for exclusive reliance on the new subsidy system. Our argument is that the new system should be sufficiently attractive to induce all operators to come under that system, and in this way we will meet BOB goals. Moreover, it will be difficult to get the bill through Congress without it being stated in the manner we propose.

The status of the program is as follows:

We have signed off on the draft message which is now ready for transmittal. The reorganization plan and its transmittal message are in the Budget Bureau and have been cleared. We are today submitting a revised draft to the Bureau of the Budget which incorporates some technical changes in the bill and are of

CNC

substance. We have included in the bill an exemption from the "Buy American" provision in the case of containers capable of inter-modal movement. These are not eligible for CDS. We should be ready to go with the entire package now if the President desires.

To reiterate, the President has two options:

- He can send over this program with its increased expenses (but only \$17 million in 1969) and strongly support it. While this would not get us all the reforms we wanted, it would bring MarAd into the Department and would bring reforms in construction and operating subsidy systems, and cargo preference areas. A delay until January leaves us vulnerable to further pressure for bargaining by industry and labor.
- He could initiate a strong public relations campaign to convince the country that no action whatsoever was needed on maritime matters this year.

We believe some statement by the President is essential now.

If he neither sends a program nor convinces the country of the lack of need for a program, then the Congressional people involved will almost certainly draft their own program, more expensive than ours with extremely unpalatable policy features -- including a separate Maritime Administration and reserve funds for everybody -- maybe even oil quotas. Such a program, wrapped in patriotic language, would be extremely difficult to veto. It would give the Republicans the opportunity to initiate a good sized campaign issue for 1968.

Attached is a copy of the draft message, reorganization plan and message, and the draft bill.


Paul L. Sitton

Attachments

OFFICE OF SECRETARY
OF TRANSPORTATION
EXECUTIVE SECRETARIAT

1967 OCT 2 PM 5 02

U.S. DEPT.
OF TRANSPORTATION

Agenda for White House Meeting -- October 2, 1967

Califano's staff man on maritime (Matt Nimetz) called to say that the agenda for today's 5 PM meeting will call for going through the program step by step, hitting the subjects underlined below. Following each heading is a brief back-up statement for your use:

MarAd to DOT: This is the real major gain of the program. After much discussion (between Nimetz, Middleton, Ira and I) it was placed first rather than last in the message to 1) allow the description of the program to be tied into other transportation 2) emphasize the importance placed on the reorganization.

Construction Subsidy at \$260 Million: It is difficult to defend any specific figure, however, this is the number on which consensus was reached with Hall and the Congressional people. It will buy a mix of 30 ships if used right.

Flexibility in Construction Subsidy Administration: The proposed procedures on handling CDS are a significant improvement: By allowing the shipyard to be an applicant, we open the way for series production for several customers; negotiated contracting will put U.S. operators in the same position vis-a-vis the yards as foreign operators are with their yards and should allow lower prices (and subsidy) if they will seriously negotiate; setting CDS percent rates in advance is a strong cost-cutting incentive.

Reserve Funds: Sen. Bartlett is strong for extending reserve funds to the non-contiguous domestic operators and others would like all operators to have them. The proposed study hopefully will find something that looks like a reserve fund, but without the undesirable tax-avoidance features. The program would also give you discretion (through the Board) to extend the present capital reserve fund idea to the now-unsubsidized liner operators. This is less objectionable than the "Special Reserve Funds: Even if these operators start funds, it will be some years before they can build up a significant amount.

Operating Subsidy Extension: New liner operators (70-80 ships initially) and bulk operators (no ships until some are built -- about 2 years) will be put under Title XIII with the new "experimental" system. It will be difficult to force in the present (Title VI) operators at the end of their contracts unless the new system has proved workable and attractive.

Passenger Ship Study: We will do a serious, positive study on passenger ship costs and benefits, which is about all we can do. No U.S. operator wants a new superliner -- AEIL is getting ready to refuse to operate their three (Constitution, Independence, Atlantic -- 1500 + jobs -- which lose money after subsidy. This is very sensitive information) after the end of the Fall season this year.

Great Lakes Study: The squeaking wheels in the Great Lakes situation are the ports (like Toledo, in Ashley's district) that would like more Defense cargoes to move through their ports. It is probably going to be relatively more expensive to move through these ports in the future due to the efficiency of containerized movement through East Coast ports. There is no shortage of foreign flag liner service for commercial needs in the Lakes. Possible solutions: 1) Send more Defense cargo through selected ports, regardless of cost. 2) Assign one operator the Lakes as "his Coast," with freedom to roam the rest of the world.

NDRF: Defense (Enthoven's people) now would like to do a pilot program of AP-5 conversion, or have the flexibility to do a pilot program to construct a few new austere ships of the Blohm & Voss type, to be put in the fleet. Who funds this is relatively unimportant -- we think it ought to be in our budget, analogous to other transportation resources.

FDL: DOD (Enthoven) said they would like a boost for this in the message.

R & D: We will have some trouble effectively programming \$25 million on Maritime R & D in the first year or two.

Nuclear Ship: BOB wants to drop out the AEC Research program.

Shipbuilding Study Commission: It will be very important to appoint the right people to this group. If done correctly, this study will pave the way for the breakthrough on some foreign construction in about 3-5 years.

Wage Escalation: Note Helen B's article in today's paper. We recommend that President talk to Meany and the Maritime Union President's rather than you and Wirtz.

P.L.S.



TREASURY DEPARTMENT

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

Dear Mr. Sitton:

SEP 27 1967

Thank you for your letter dated September 14, 1967, in which you indicated that Secretary Boyd is prepared to concur with the Treasury in opposing further extension of existing maritime tax shelters. We are glad to hear that the Department of Transportation shares our concern regarding proposals to extend these tax privileges.

We have also noted that it is Secretary Boyd's view that the four presently non-subsidized liner operators who will be brought under direct subsidy by the proposed maritime program should receive the same tax privileges as are accorded the 13 liner operators which are presently receiving direct subsidies. It appears that extension of tax privileges to these additional four firms will cost approximately \$8,400,000 per year in lost tax revenues.

We believe that tax incentives are an inherently inefficient method of aiding the merchant marine and would be opposed to any significant extension of them. Nevertheless, we realize that if existing tax subsidies are preserved, it is difficult to deny similar subsidies to a few additional firms which are in precisely the same situation as firms which already receive tax subsidies. Hence, although we would prefer to avoid any extension of existing maritime tax subsidies, if that is possible, we are prepared to agree to a minor extension of those subsidies for reasons just outlined.

These tax provisions are not a part of the Internal Revenue Code and have not been passed on by the Ways and Means Committee. It may well be that that Committee will, at some time, wish to examine these provisions, in which event we might be called on to reappraise the entire tax subsidy program.

I hope that you find these comments to be helpful.

Sincerely yours,

Stanley S. Surrey

The Honorable
Paul L. Sitton
Deputy Under Secretary
Department of Transportation
Washington, D. C. 20590

SEP 14 1967

Honorable Stanley S. Surrey
 Assistant Secretary for Tax Policy
 Department of the Treasury
 Washington, D. C.

Dear Mr. Surrey:

Recently, I met with members of your staff to review the general question of tax shelters available to the maritime industry. The issue of extending capital reserve fund authority was raised by Congressional maritime leaders in recent conversations with them on maritime program proposals under study in the Administration.

As I indicated to your staff, the Department of Transportation recognizes Treasury's concern over the extension of capital reserve fund privileges to components of the maritime industry not eligible under existing law.

I have discussed this question in further detail with Secretary Boyd and he is prepared to concur in the Treasury position of opposing further extension of tax shelters to other components of the maritime industry. However, he believes that the presently non-subsidized liner operators who will be brought under subsidy by the proposed maritime program (States Marine, Isthmian, Central Gulf and Waterman) should be afforded the same privileges now accorded the 13 subsidized liner operators since it is not practical at this time to eliminate capital reserve funds currently in force. This view has been set forth in discussions with the White House on the overall maritime program package.

We have informed both the White House and the Bureau of the Budget that your Department strongly supports maintaining the status quo.

Sincerely yours,

Paul L. Sitten

Paul L. Sitten

PLSitten:kam 9/13/67
 cc: Mr. Sitten

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RETURN FOR FILING TO

10/5/67

*Secretariat proposed for
Presidential message to
delay program*

For the past several months officials of this Administration have worked diligently to develop a workable maritime program which would lead the merchant marine and the shipbuilding industry toward a competitive and profitable future. These officials have worked with members of these industries and with responsible members of Congress to achieve a consensus on a program which would serve these ends. We had quite recently reached the point at which a program -- although lacking many of the policy reforms that we feel would be highly desirable -- could be sent to the Congress for its consideration.

This program would have entailed additional expenses of roughly \$300 million per year. I regret that in all good conscience I can not send to you this year a program of this major magnitude. National priorities require that absolutely every program that can be delayed or that is not immediately vital to our national welfare be cancelled or held until the current fiscal situation is eased.

Recent statements and actions in the House of Representatives clearly indicate to me that I would not be exercising my fiscal responsibilities if I submitted a program requiring major expenditures at this time. However, I would like to assure you that the Administration's concern for the merchant marine and the shipbuilding industry and for a comprehensive maritime program is very active and that we are speaking of a delay in this program rather than a diminishing of our interest and strong sense of concern in this area.

I am sensible of the effort being made by the responsible union leaders representing the vast majority of maritime labor who are, together with industry management, working to solve the problems posed by the destructive escalation of maritime wage costs. I hope that their effort meets with full success and that when my program is submitted to the Congress it will be received against a background of labor stability and responsibility.

Only remaining disagreement is Reserve Fund issue.

MarAd into DOT. We have received no commitment from them on moving MarAd into DOT -- although Magnuson recognizes close tie-in between this issue and the program. Carnatz doesn't. --In debate in House on independent Maritime Agency bill he said he didn't know White House view. It is important that you make it clear to him that moving MarAd to DOT will be a key element of any program you send up.

Signed Alan S. Boyd

Alan S. Boyd

cc:
S-10 (3)
S-5
TPD-30

11/13/67

MEMORANDUM FOR MR. SITTON

SUBJECT: Congressionally Sponsored Maritime Bills

I have made a very hasty comparison between S.2650 and the last version of the maritime program legislation that the Department prepared. The most conspicuous differences in terms of a section by section summary are as follows:

- Section I is the same except that the CDS level would be 300 million per year vice 260 million.
- Our provision for use of foreign built containers is not adopted.
- Our proposal to expressly restrict nuclear powered ships to Title XIII subsidies is not adopted.
- Our proposal to open end the Title XIII experimental subsidy is not adopted --the 5 year limit is retained. Nor has the bill picked up the discretionary authority for the Secretary to apply Title VI limitations on Title XIII subsidies.
- Another item which is not picked up is the option for Title VI operators to elect between Title VI and Title XIII subsidies upon renewal of their contracts.
- Added to our proposal is a section extending the construction reserve subsidy principle to non-subsidized merchant vessels and fishing vessels.


G. H. Patrick Bursley

Summary of Substantive Differences Between
S. 2650 and the Administration's Proposed Maritime Bill

1. The Administration bill contains a provision (section 8) authorizing the purchase of foreign built containers. S. 2650 does not contain this provision.
2. In the new title X, the Administration bill proposed to grant operating subsidy to nuclear vessels only under the new subsidy program proposed in title XIII of the bill (section 1007 of section 14). S. 2650 would authorize subsidy to such vessels under whatever system was in force when the ships went into operation.
3. The Administration bill contains no time limit on the new operating subsidy program. S. 2650 would limit the program to five years on an experimental basis (section 1301 of section 20).
4. In the event of a decision by the Secretary not to approve extension of the initial subsidy contract under the new subsidy program, the Administration bill would give the operator the option only of selling back to the Government ships built for operation under title XIII. S. 2650 would give the operator the option of receiving a contract under whatever subsidy system was in force at the end of the five-year experimental period (section 1304 of section 20).
5. S. 2650 contains a new title XIV (section 22) authorizing the establishment of capital reserve funds for operators of the non-subsidized merchant and fishing fleets. The Administration bill contains no such provision.

NOV 16, 67

Changes we want in our package or in S2650

1. Eliminate non-contiguous domestic from CDS availability (S2650 only).
2. Call "CDS" by name of "Shipyard Subsidy."
3. Reduce money to \$300 million or less (and set first year at 1970?)
[Dorio builds ships if subsidy rate exceeds 55%].
4. Change page 2 line 5 so that instead of "reconstructing" reserve fleet we can "modernize" it by constructing some austere ships.
5. The entire drafting job should be reviewed; for example, does page 2 line 9-16 restrict us to "common and contract carriers."
6. Review with Lud Hoffman and Carl Weir whenever the wording on CDS and shipyard contracts does what we want it to--but a workable solution--will it really work.
7. Can "F&R" be more tightly defined on page 5 line 19.
8. Keep in our proposal to buy containers abroad which was taken out of S2650 (page 6 line 17).
9. Drop non-contiguity in S2650 page 11 line 22-23.
10. Change 1007 of S2650 back to limit Nucleus to Title XIII subsidy.
11. Can't we get rid of 605c some way?
12. Review and rewrite and use DOT version of Sec. 1304 relating to operators options at end of experimental period.
13. Add to part on ship building commission, page 20, line 2, a statement to give them the duty to determine the of various levels of foreign construction of merchant vessels on our shipyards and our B of P.
14. Eliminate Sec. 14 of S2650 or at least 1402 (and 1403, 1404, 5, 6 on reserve funds. Defer to Interior on Fishing Vessel?

15. Write the "Respond" program into the bill in detail.
16. Eliminate immediate subsidy to old PUSL's.

DEC 12 1967

Secretary

On Thursday (11/16) we sent the following to the White House for possible use in the Friday press conference--it was not used:

Senators Magnuson and Bartlett and Congressmen Garretts and Downing on November 9 announced their merchant marine program which would provide minimum construction for 30 to 40 ships a year at a cost of \$300 million. There will likely be a question as to (a) is the President supporting this program, (b) when, if at all, is the President going to submit his own merchant marine program? Perhaps the best answer would be for the President to express the hope that once the budgetary and the tax question before the Congress are resolved then at that time there should be an opportunity to move forward with the type of a program which will meet the total needs of the merchant marine industry.

The Secretary of Transportation has been working with the maritime industry--both management and labor--in attempting to reach a mutually acceptable basis for an immediate maritime program. While our current shipping needs are being met and the American merchant marine is serving us well in Viet Nam, the rapidly changing situation--maritime economics, containerization, automation--make a new program essential. Present priorities have prevented funding at an adequate level. Once the budgetary and tax situation is resolved, we can again go ahead with the development of an appropriate program. The current bills, which incorporate many points upon which the Congress and the Administration are in agreement, will serve as an excellent foundation.

Paul L. Sitton

FBURSLEY:nla:12/11/67

cc: OFFICIAL FILE COPY
Executive Secretariat - 3[illegible]

New Approaches to Maritime Policy

Deputy Under Secretary

Secretary

DEC 20 1967

At staff meeting Friday, December 15, I made references to a new approach to maritime policy. The major points covered were:

- Realistically we cannot anticipate any substantial increase in appropriated funds during the 1969 fiscal year in support of an expanded maritime program.
- The needs of the U.S. -flag operators for new ships remains critical and this problem must eventually be faced.
- The prospects for successful non-subsidized operation by Matson and Sea Land in the North Atlantic and North Pacific raise questions as to whether present subsidy approaches for CDS and ODS are proper, particularly if they are made to operators competing with non-subsidized U.S.-flag lines.
- An FMC decision on the Sapphire case has revived the program alternative for getting new ships through combined use of Title XI mortgages and long-term DOD shipping contracts.
- Shipbuilding costs in U.S. yards as indicated by the recent Lykes bids reflect their full capacity and continuing disinterest in commercial shipbuilding requirements of U.S. operators.
- The dynamics of shipping economics -- as represented by the shift to containerization and integrated transportation concepts necessitates substantial flexibility on the part of U.S. operators if they are to survive.

Bartlett and Garmatz will be under heavy pressure to push their proposed maritime program early in the next session. This Congressional program will be the subject of considerable controversy by many parties. The subsidized

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operators will oppose the experimental subsidy as providing to Government a hunting license to do them in. The non-subsidized operators will press for the same liberal reserve fund benefits now available to the subsidized operators and higher Government cargo rates. The labor unions will press for increased cargo preference above the present 50 percent and establishment of quotas on basic commodities. Certain operators have already begun to refer to the experimental subsidy as a watering down of Government restrictions thus raising danger of a return to the mail scandal situation of the early 1930's.

Another condition which does not augur well for a peaceful year is the potential maritime labor strife that may grow from the Hall/Gleason/Curran controversy.

What this all adds up to is the need for a careful rethinking of our approach to the Federal maritime promotional program and an exploration of alternatives in the light of changing conditions.

A number of specific studies should be initiated immediately to prepare for developments in the next session of Congress. These include (1) a joint review by Treasury/DOT/Commerce on the capital reserve fund issue; (2) an evaluation in collaboration with DOD and Commerce of the Sapphire approach for obtaining new ships under U.S. flag (Title XI mortgages, plus long-term DOD contracts); and (3) an updating of the material which we used last fall.

Recommendation

Far greater DOT personnel resources need to be devoted to this effort if the analytical quality of this work is to be satisfactory. I don't think we can continue to rely only upon the three-man team of Boyd/Sitton/Dye. Cecil's organization has the Department's primary resources for this work and the Coast Guard possibly can play a more meaningful role. Participation by Agger's staff would also be beneficial.

Attached for your signature is a memorandum to Cecil asking that he assume this responsibility. You may wish to discuss this orally with Don Agger who has indicated a strong interest in the maritime policy area and who legitimately has an interest in ocean shipping.

Paul L. Sitton

Paul L. Sitton

Attachment

*new file
more time*

JAN 3 1968

MEMORANDUM FOR

M. Cecil Mackey
Assistant Secretary for Policy Development

SUBJECT Maritime Affairs

As you know, principal responsibility for maritime policy formulation in the Department has previously been assigned to the Deputy Under Secretary working with Ira Dye on your staff. During the coming session, further sustained legislative activity can be anticipated to move the Bartlett/Garmatz legislative proposals forward. While elements of that proposed measure would not be inconsistent with the Department's approach to maritime promotional programs, there are many issues that remain unanswered. Changing economic conditions of the industry combined with the tight budgetary limits on subsidy, further complicate our efforts to provide program alternatives in support of the U.S. merchant marine. Increasing pressures will be placed upon the Administration to come forward with a program to replace obsolete vessels with new vessels that can compete under new shipping concepts which are rapidly integrating ocean shipping with other transportation modes.

I believe that we should institutionalize responsibility for maritime policy in the Department's organization structure. To this end, you should assume major responsibility for maritime program formulation and provide the staff support needed to respond to demands placed upon the Department during the next session of Congress.

As needed, the Deputy Under Secretary will continue to work with you to provide the necessary continuity. You also should work closely with the Assistant Secretary for International Affairs and Special Projects to the extent that his assigned responsibilities require coordination with this effort.

signed Alan S. Boyd

Alan S. Boyd

PLSitton:kam 12/20/67
cc: Mr. Sitton
Executive Secretariat-3

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UNITED STATES GOVERNMENT

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE SECRETARY

*Memorandum**start seeing
hill people.
HILL?*

DATE: January 22, 1968

SUBJECT: Maritime Program

In reply
refer to:

FROM : Deputy Under Secretary

TO : Secretary

*AP-5
and entire
slip* *both
or
me*

Attached is a copy of a memorandum I sent Matt Nimetz on Saturday transmitting a marked-up copy of the Maritime Message. You will note that I specifically emphasized the fact that you had not seen or approved my memorandum.

I suggested that you would want to talk to Califano about some of the issues. We covered most of these Saturday morning:

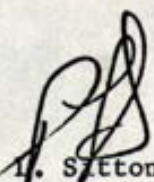
- AP-5* *1203* *→*
- Sharpening the labor-management issue in the light of additional escalations of wages.
 - Adjustment of the budgetary level from \$260,000,000 to \$300,000,000 for CDS.
 - The timing of the Maritime Message vis-a-vis the Cities Message, i.e., the MarAd reorganization plan and the transferring of urban mass transit reorganization plan being played off against each other in the Congress.
 - Contact with Secretary Trowbridge to review Commerce (MarAd) participation in refining legislative package.
 - Extent of touching base with labor and management.
 - Extent of consultation with other executive agencies and Congress.

We are going ahead with the following:

- Updating unit ship cost estimates.
- Sam Aldock developing proposals for alternate subsidy system.

--Detailed review of legislative proposal in light of developments since September.

--Briefing DOD and Labor. (I will make no other contacts until you get clearance from the White House.)



Paul H. Sutton

January 20, 1969

MEMORANDUM FOR MATTHEW NIMETZ

Subject: Maritime Message

Attached is a marked-up copy of the maritime message reflecting some changes we think should be made, principally brought about by the passage of time since last Fall.

There are several issues on the maritime program and message that should be discussed between Alan Boyd and Joe Califano at an early time.

- Level of Appropriation -- Sen. Magnuson's Bill proposes a level of \$300 million as compared to our earlier figure of \$260 million. Due to cost escalation since last Fall, we can probably only get a mix of about 25 ships for the \$300 million. The \$260 million would buy something around 20. We will need about two weeks to refine these estimates and to run out some better cost figures; in the meantime, the \$300 million figure should go in the message and no mention of numbers of ships. We have so revised the message.

Also related to this is a proposed change to the message to direct DoT and DoD to do a study of the impact on the ship-building industry of the large future Navy building program plus our program in terms of price increases, etc.

- Labor Problems -- On page 25 of the original message we mention that wages in the industry have risen 20 percent in two years. At the present time, this figure is 33 percent, rather than 20 percent. There is a further labor issue: A jurisdictional dispute between Paul Hall's union and Jesse Calhoun's MEDA over a new rating of "apprentice engineer" has tied up Delta Steamship Lines for some weeks and may well force them out of the shipping business if it is prolonged. The issue is, in view of these recent changes, should the President make a stronger, more public interest-oriented statement on maritime labor management problems? This matter will need personal discussion between Joe Califano, Jim Reynolds and Alan Boyd.

-- Additional Substantive Items in the Program -- There will be some relatively minor substantive items reflected in the legislation and mentioned in the message. First, Defense would like some more emphasis placed on their "RESPOND" program, which insures shipping availability for Defense needs. Second, both we and Defense would like to put some emphasis on the use of long-term Defense charters plus Title XI insurance to assist with the fleet expansion promotional programs. Third, we plan to remove the differentiation between non-subsidized liner ships and tramps in the operating subsidy area.

What further contacts have to be made with industry and labor prior to sending up the package? In our view, these should be minimized.

We have not discussed the message with any of the other affected Departments or with the Bureau of the Budget.

This memorandum has not been seen or approved by the Secretary, and he will be in touch with Califano, probably on Monday.

Paul L. Sitten

Ira Dye/bhm 1/20/68

cc:

Mr. Dye

Mr. Sitten

✓S-10

Subj File

Mr. Matthew Nimetz
Staff Assistant to the President
The White House
Washington, D.C.

UNITED STATES GOVERNMENT

DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY*Memorandum*

DATE: JAN 25 1968

SUBJECT: Telephone Conversation with Charles Zwick
(BOB), Thursday, January 25, 1968In reply
refer to:

FROM : Deputy Under Secretary

TO : Memorandum for the File

At the request of the Secretary, I called Mr. Zwick to confirm the fact that BOB had signed off on CDS at the \$300 million annual level as proposed in the maritime message. When I broached the subject, Mr. Zwick's reaction was that he believed he had signed off at the higher level. When I indicated "I thought you had," Mr. Zwick replied "Yes." Our ensuing discussion established that the funds would first be included in the FY 70 budget and that it would be "suicidal to go in for less" (Mr. Zwick's language). He reserved the right "to nickel and dime you" as the programs come forward.


Paul L. Sitton

January 29, 1968

MEMORANDUM FOR

Honorable Joseph A. Califano, Jr.
Special Assistant to the President

SUBJECT: Use of Reorganization Plan for Transferring Maritime
Functions to Department of Transportation

The plan would (a) transfer maritime promotional functions to the Secretary; (b) create within DOT a Federal Maritime Administration headed by an Administrator at Level III and a Deputy at Level V; (c) establish a Civil Maritime Board within DOT consisting of the Federal Maritime Administrator as Chairman and two other appointive members; and (d) include provisions on conflict of interest and interim appointments.

The reorganization plan approach is preferred to the alternative of legislation for the following reasons:

- The principal reason is tactical. Over 100 Congressmen have introduced bills to create an independent maritime agency. They are strongly committed to the Maritime Trades Department of AFL-CIO on this approach thus making it questionable that legislation in a form acceptable to the Administration to transfer the maritime program to DOT could be pushed through in this session even with strong leadership support.
- The reorganization plan is preferred since it provides the Administration a quid pro quo in its dealings with the Congress (i. e., no transfer to DOT -- no maritime program). If legislation were submitted it is likely that the Administration's bill would be amended either to (a) seriously dilute the Secretary's control over programs; or (b) establish an independent agency.
- A reorganization plan permits the Administration to select the organization principles it desires to follow and to maintain control over the

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internal structure of the maritime agency. Legislation would undoubtedly be amended through pressures of special interest groups -- including, possibly, greater independence for a Maritime Subsidy Board than is desired by the Administration.

- Through a reorganization plan, the Administration can control the number and levels of Presidential appointments and establish their subordination to the Secretary of Transportation for policy guidance -- an essential ingredient which could be imperiled along the legislative route.
- The 60-day time period required to secure approval of a Reorganization Plan provides critical leverage for the Administration since it would permit subsequent re-evaluation on maritime program levels and scope if the Congress failed to go along with the reorganization proposal.

The Department believes that a program of the size and scope recommended by the President should not go forward without tight and continued Administration control and an assurance that an expanded maritime program will be integrated with all other transportation promotional programs under a national transportation policy administered by DOT.

Paul L. Sitton

Paul L. Sitton

PLSitton:kam 1/29/68

cc: Mr. Sitton
Mr. Mackey / Dye
Mr. Robson
Mr. Dean

Secretary

President's Maritime Message
(January 25, 1968 Draft)

Summary of Program

Proposes to

- Transfer (by a reorganization plan) Maritime Administration to DOT.
- Increase annual construction differential subsidy from \$110 million to \$300 million (5 year program).
- Expand scope (to include bulk vessels) and improve system of operating differential subsidy by using a continuing authority for experimental contracts.
- Improve capability to meet shipping needs in a national emergency (\$30 million pilot project).
- Expand maritime transportation research to \$25 million per year (5 year program). Not only to cover ship construction and operation but also port development and facilitation of intermodal systems.
- Broaden nuclear vessel development program.
- Establish Commission to explore capability and competitive position of the private shipbuilding industry.

In order to

- Develop the maritime industries' appetite and capacity for competition and attract private investment.
- Restore confidence of management and labor in future of maritime industries.
- Provide more economic and efficient movement of our foreign commerce.
- Strengthen capability to respond to national (emergency) requirements.
- Maintain high and stable employment levels.

Will also

- Rationalize administration of Cargo Preference Act.
- Integrate ocean transportation into national transportation system.
- Introduce flexibility into CDS system
 - direct payments to shipyards.
 - competition among shipyards for CDS funds.
 - subsidy rates by class of vessel for fixed periods.
 - standardized vessels.
- Encourage use of Title XI mortgages by use of long-term DOD charter commitment. (This is now out of program.)
- Study place of Construction Reserve Funds in today's economy.
 - possible extensions to other operations.
 - direct subsidy alternatives.
- Assess future economic prospects for passenger lines.
- Seek ways to improve U. S.-flag vessel service to Great Lakes.
- Urge Fast Deployment Logistic Ship Program be reconsidered.
- Continue N.S. SAVANNAH in its role in overall nuclear ship development program.
- Study (by Secretaries of Defense and Transportation) ~~on~~ short-term capability of private shipyards to absorb increased construction without price escalation and still meet reasonable delivery schedules.
- Urge labor and management to stabilize wage picture in merchant marine, i.e., "Me Too" problem.

2

SUMMARY OF MARITIME LEGISLATION
COVERED BY PRESIDENTIAL MESSAGE
FEBRUARY 15, 1968

Funds - Also see attachment

- \$300 million annually for ship construction subsidy FY 70-74 (includes defense features and buying in used ships).
- \$25 million annually for research and development FY 70-74
- \$30 million FY 1970 only for reserve fleet modernization
- Total FY 1970 impact should not exceed \$20 million in expenditures

Construction Subsidy Features

- Separate rates for different types of vessels rather than each vessel
- Subsidy rates (reflecting difference of average U.S. and foreign costs) fixed for specific periods
- Encourage shipyards to seek out buyers for standardized designs leading to multiple ship production runs
- Subsidy awards to shipyards would be based upon "ship productivity per dollar" basis
- Current procedures for CDS applications by operator retained

Operating Subsidy Features

- Present subsidized operators continue their current contracts
- Authority for "experimental subsidy" system (alternatives are under development; others may be developed) which would pay difference between operating costs and operating revenues by classes of operators
- Provides greater flexibility for management decisions and provides incentives for reducing operating costs
- Operating subsidy extended to bulk and tramp operators but would only apply to new ships

2/14/68-2

- Presently subsidized operators which government determines should have renewed ODS contracts may elect "new" or "old" subsidy system

Nuclear Ship Program

- Research in nuclear propulsion
- Contemplate 2-4 high speed ships
- Amount of money open: estimate \$100 M for ship construction

National Defense Reserve Fleet Improvement

- One year pilot program; build a few austere ships and/or convert AP-5's
- Implicit (but not mentioned) is better management of reserve fleet

Shipyard Studies

- Three-year "Commission on American Shipbuilding" to study need for Federal assistance to preserve national capability for shipbuilding and repair competitive position
- Six members -- named by Secretary of Transportation
- A separate joint DOD/DOT short range study of impact of government programs on ship prices and delivery schedules is planned -- not included in legislation

Maritime Administration

- Transfer to DOT
- Presidential Message makes transfer integral element of package -- just short of "or else"
- Restructure organization of MarAd and subsidy board
- Centralize administration of cargo preference

Expanded Research

- Ship operations...port facilities...ship design...ship construction methods...maritime-intermodal systems

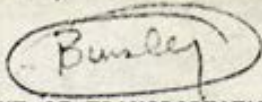
Rough Estimates of Maritime Program Costs

(\$ Million)

<u>FY</u>	<u>Shipyard Subsidy</u>	<u>Operating Subsidy</u>	<u>Cargo Pref.</u>	<u>Research</u>	<u>Totals</u>
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	<u>300</u>	<u>260</u>	<u>40</u>	<u>25</u>	<u>625</u>
Total 5 yrs.	\$1,500M	\$1,130M	\$290M	\$125M	\$3,045

Note: Nuclear Package will probably cost about \$100 M for ship construction, in addition to the above.

UNITED STATES GOVERNMENT


DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
Memorandum

DATE: February 29, 1968

In reply
refer to:

SUBJECT:

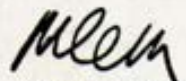
FROM : Assistant Secretary for Policy Development

TO : ✓ Paul Sitton, Deputy Under Secretary
John Sweeney, Assistant Secretary for Public Affairs

I talked with Charlie Zwick yesterday following our meeting on maritime problems. I told Charlie that it was our opinion that the Administration should not respond to the request for comments on the Magnuson/Garmatz bills nor send witnesses to the hearings until there had been some final resolution of the Administration's plans for a maritime message. It seemed particularly important that we get some kind of a commitment from the Bureau of the Budget in the light of Garmatz's announced intention to continue the Maritime Administration's authorization hearings and get into the issues involved in the pending legislation.

Charlie agreed wholeheartedly that it would be a mistake for any part of the Administration, DOT, or MarAd to send views to the Hill or offer a witness. It was his opinion that it would be no more difficult to explain not commenting or testifying than it had been to explain a number of other events which have been associated with our efforts to get an Administration position sent to the Hill.

He asked me to call Fred Simpich and confirm this arrangement with him. I have a call to Fred and will confirm this.


M. Cecil Mackey

cc: Secretary Boyd



ASSISTANT SECRETARY

OFFICE OF THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

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March 4, 1968

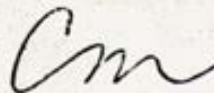
MEMORANDUM FOR THE SECRETARY:

SUBJECT: Maritime

I talked with Joe Klausner this morning and Joe said that Ray Murdock and one or two others were on the Hill this morning doing some ground work for possible legislative action. Joe hopes to know by later today what a possible schedule for introducing a bill will be. He apparently had some second thoughts after his commitment to send us a copy of his draft bill last Thursday and he held on to it over the weekend. He said that he would send a copy over later today. I don't know to what extent his willingness to turn loose of the draft is related to his finding out what happens on the Hill this morning. I will keep you posted on this as soon as I hear from Joe.

I checked with Carl Davis for any information concerning the scheduling of the House Committee. Carl says that his best judgment based on unofficial sources is that it will be possibly a week or a week and a half before the Committee is ready to go with MarAd on the Garmatz bill. There are a number of things which appear to be necessary before the Committee turns to those hearings. The authorization hearings themselves are apparently not scheduled to end until Wednesday. The Committee then needs to meet in executive session on the Coast Guard authorization bill. There is some talk of asking MarAD to testify further on their own authorization bill in the light of some industry comments. Carl feels that the Committee is not likely to start hearings on Friday and, furthermore, there is a Panama Canal bill which he believes will take up some of the Committee's time the first of next week. All of these things lead him to estimate the week to ten days. He has been working on possible testimony in the event that someone does have to go up which would generally support those parts of the bill which are consistent with the program as the Administration has been considering it, specifically excluding extension of the capital reserve fund.

Carl has had some conversations with Ray Murdock which bear on the kind of legislation that is being considered. Murdock apparently told Carl that the bill in its present form was a bill for the subsidized operators. Its problem, Murdock said, was that it did not have any priority written into law for an allocation of CDS to the non-subsidized operators. Carl did not indicate any further specifics and Murdock has apparently been unwilling to offer Carl a copy of the legislation they are working on. Murdock apparently did not specifically tell Carl that the legislation would seek establishment of an independent agency but Carl has the impression it is a part of the package.



M. Cecil Mackey

cc:

Mr. Sitton

Mr. Dye



ASSISTANT SECRETARY

OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

✓

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PLS saw

March 5, 1968

MEMORANDUM FOR THE SECRETARY:

SUBJECT: Maritime

Joe Klausner called shortly before 9:30 this morning to say that work on the Hill was continuing. Hall's staff is working with the Committee Members and Committee staff to try to settle some details. In Klausner's view, the principal question at issue now is whether or not the legislation they have developed will be introduced in the form of amendments to the Garmatz-Magnuson bills or whether it will be introduced as an entirely separate bill with a new number. Joe said that he does not know at this point which course he prefers. I have no strong feelings one way or the other either and see no particular reason for choosing one over the other. Whatever course is best in the light of the strategy the Chairman chooses to follow would seem reasonable. The most important thing, of course, is for Hall to be committed to something whether it is a new bill or a series of amendments.

It was Joe's understanding that there would be a meeting with Garmatz immediately after this morning's hearings.

Klausner also said that he expects to hear some rather loud howls from CASL when they see the legislation which is being proposed. He didn't go into any details on this but it is clear from what he said earlier that the proposed priorities for CDS in favor of the non-subsidized operators would alone be enough to raise howls. There will undoubtedly be other things CASL will find objectionable also.

In what I would assume to have been an effort to strengthen our confidence in the process which Joe has identified as now being at work, he said that he is also getting feedback from the House Committee staff as well as from Hall's staff. This indicates to him that there is more solid reason for assuming that something will be worked out.

Ira and I continue to have at least a substantial measure of cynicism and would not be at all surprised to find that Hall had been using this effort either as a diversion or to try to accomplish some objective which he might ultimately find unachievable through this means. That would then indicate the possibility of abandonment of this project by Hall, leaving the Administration essentially where it was three weeks ago, with the same set of hard decisions and the same high level of uncertainty.

M. Cecil Mackey

cc:
Mr. Sitton
Mr. Dye

NAME OF AGENCY DEPARTMENT OF TRANSPORTATION SECRETARY OF TRANSPORTATION	PRECEDENCE ACTION: ROUTINE INFO: TYPE OF MESSAGE ☒ SINGLE ☐ BOOK ☐ MULTI-ADDRESS
ROUTING CLASSIFICATION	

SECURITY CLASSIFICATION STANDARD FORM 14 REV. MARCH 15, 1957 GSA REGULATION 24X-203.04 14-303
TELEGRAPHIC MESSAGE OFFICIAL BUSINESS U. S. GOVERNMENT

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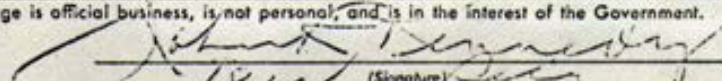
JOSEPH CURRAN, CHAIRMAN
AFL-CIO MARITIME COMMITTEE
100 INDIANA AVENUE NORTHWEST
WASHINGTON, DC

WITH REGARD TO YOUR TELEGRAM OF MARCH 4, I APPRECIATE YOUR
INVITATION BUT WILL BE UNABLE TO ATTEND THE MEETING.

ALAN S. BOYD
SECRETARY
DEPARTMENT OF TRANSPORTATION

DO NOT TYPE MESSAGE BEYOND THIS LINE
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DRAFTER: TPD-1/MARKEY

NAME AND TITLE OF ORIGINATOR (Type) Alan S. Boyd Secretary of Transportation	ORIGINATOR'S TEL. NO. x25525	DATE AND TIME PREPARED 3/5/68 12:00
I certify that this message is official business, is not personal, and is in the interest of the Government.  (Signature)		SECURITY CLASSIFICATION

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ALAN BOYD, TRANSPORTATION DEPT

800 INDEPENDENCE AVE SOUTHWEST WASHDC

WE HAVE RECENTLY FORMED IN THE MARITIME INDUSTRY A WORKING COMMITTEE WHICH CONSISTS OF AN OVERWHELMING PERCENTAGE OF MARITIME LABOR AND MANAGEMENT REPRESENTATIVES. OUR OBJECTIVE IS TO WORK JOINTLY ON A UNIFIED APPROACH FOR A 1968 ACTION PROGRAM FOR THE U. S. MERCHANT MARINE. IN DEVELOPING SUCH A PROGRAM WE WILL EMPHASIZE OUR SUPPORT FOR THE MAGNUSON-GARMATZ BILLS (S.2650 AND H.R.13940) WITH APPROPRIATE AMENDMENTS.

THE AFL-CIO MARITIME COMMITTEE INVITES YOU TO A WORK SESSION COMPOSED OF BOTH LABOR AND MANAGEMENT REPRESENTATIVES IN ROOM 5110 NEW SENATE OFFICE BUILDING 1ST AND CONSTITUTION

AVENUES NORTHEAST WASHINGTON DC BEGINNING AT 230PM

THURSDAY MARCH 7, 1968. WE SHOULD THEN BE ABLE TO

FINALIZE

AND SUBSEQUENTLY ANNOUNCE OUR LABOR MANAGEMENT PROGRAM AGREED TO IN NEW YORK. PLEASE

EASE ADVISE WHETHER OR NOT YOU CAN ATTEND

JOSEPH CURRAN CHAIRMAN AFL-CIO MARITIME COMMITTEE 100 INDIANA AVENUE NORTHWEST WASHINGTON DC PHONE AREA CODE 202-347-5980

1968 S.2650 H.R.13940 5110 1 230PM 7 1968 100 202-347-5980

Maritime

Meeting with Edward Wenk

March 18, 1968

Deputy Under Secretary

Secretary

The attached clipping from the March 14 Journal of Commerce illustrates the expansive view the Marine Sciences Council is taking of its role (largely, I believe, at Ed Wenk's urging). You will recognize that the Council's intrusion into the Maritime policy arena at this critical time could be disruptive.

I recommend that you bring home to Ed Wenk the sensitive state of affairs in the Maritime policy arena and suggest that the Council's activities in respect to marine resources and engineering development seem to you to present fertile fields of opportunity for the immediate future. He should know that the Departments of Transportation and Commerce (MarAd) are active in this arena and have a pretty good perspective on the contending forces which the Council might lack.

The purpose of this meeting is to brief Wenk on the status of the program.

signed
Paul L. Sitton

Attachment

PBURSLEY:nla:3/18/68

cc; Mr. Sitton
Executive Secretariat - 3

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Mr. Simon S-5

April 17, 1968

Assistant Secretary for Policy Development

Secretary of Transportation

I talked with Matt Nimetz this afternoon and filled him in in detail on the meeting with Secretary Smith. He said that he would talk with Joe Califano about the program and the strategy later today. He said that he thought you should talk with Califano personally before Joe makes a decision as to when to try to reach the President and how to put the issue before him.

I suggest that you call Califano first thing tomorrow morning.

I also talked with Wilf Rommel and Walt Bochner in BOB. Charlie Zwick is out of town in Florida and will not be back until Monday but apparently can be reached by phone if it becomes necessary. Both Wilf and Walt seem to find the substance of the decisions you and Mr. Smith had reached quite acceptable and they also agreed with the strategy.

The one issue that I discussed with both Nimetz and the Bureau staff was the possibility that the House committee might react to an announcement of a pending Administration proposal by delaying the hearings and not going ahead to get the other witnesses on the record with their positions. Such a decision would obviously defeat at least a part of the strategy that you and Mr. Smith agreed on. On the other hand, the Congress has grown somewhat accustomed to statements that the Administration would send forward a maritime program only to find no action taken. In the light of this history the committee might well decide that the more prudent course would be to proceed as scheduled and not depend^{on} or wait for the Administration.

In my judgment we can get together a program proposal and probably work out an interdepartmental agreement rather quickly once a decision is made to allow Mr. Smith to commit the Administration.

Prior to that time I think it would be a mistake to get the other Departments involved in the discussions. If the plan as developed this morning holds, there will be little difficulty in working out positions for the other Departments to take in their reports or in testimony if they plan to go to the Hill. In any event, it would probably be all right for Treasury to testify in detail on its attitudes toward extension of the capital reserve fund.

M. Cecil Mackey

M. Cecil Mackey

MC Mackey:pk

4/17/68

cc: Secretariat-3

Mr. Mackey-2

Mr. Sitton

Mr. Sweeney

Mr. Dye