

4/13/72?

PROGRAM FEATURE ALTERNATIVES

Shipyard Subsidy (CDS) Alternatives

- Subsidy amount to be determined by evaluation of national need for shipbuilding capacity; subsidy rate determined by U.S.-Foreign differential then held fixed for two year period; operators have option to buy foreign; yards can sell to foreign purchasers.
- Subsidy rate determined by indexes of U.S.-Foreign differences in Labor and Materials, to be applied to each yard's gross revenues from Commercial work. Purchases by U.S. operators would be competitively bid. Yards subsidized for foreign sales.
- Same as above but with foreign construction available to operators until end of FY-1971.
- Subsidy rate determined by U.S.-Foreign differential and held fixed for two years; subsidy amounts controlled by fleet renewal requirements; operators can call for competition bids or can negotiate with yards; yards compete at Subsidy Board for available funds on productivity basis.
- Present system.

Operating Subsidy Alternatives

- Revenue Incentive System with or without recaptive; payment for commercial cargoes only; relatively free entry; flexible trade routes.
- Class rate system
- Cost parity determined by difference between indices of U.S.-Foreign costs.
- Present cost parity system

Cargo Preference Alternatives

- Eliminate non-military preference cargoes by making AID and PL480 cargoes available to recipient nations on FAS basis on

U.S. port.

- Phase out non-military cargo preference over 5-year period.
- Retain routing but shift extra costs to a direct subsidy.
- Present system of differential rates

Passenger Ship Alternatives

- Press for early retirement and reprogramming of the subsidy.
- Don't discuss the item in program, but allow operators to request early retirement.
- Study ways to improve passenger ship operations to minimize operating losses.
- Continue present program.
- Build additional passenger ships.

Reserve Fund Alternatives

- Eliminate Title VI reserve funds at end of present contracts.
- Allow present holders to have reserve funds indefinitely but do not extend further than liner operators.
- Extend funds to all operators.

Title XI Alternatives

- Use standard BOB A-70 interest rate guides -- do not subsidize the interest rates; encourage Title XI use for specialized private building for DOD use (as small tankers) of otherwise non-competitive ships.
- Use artificially low interest rates under Title XI as an additional subsidy.

Research & Development Alternatives

- Government provide matching funds under some formula such as 20 industry, 80 government.

- Emphasize R&D rather than other subsidies in attempt to find means for competitive improvement.
- Increase R&D in attempt to improve competitive performance, but concurrently with fleet renewal.
- Present program (too small to be effective; too heavily "Savannah" and "Surface Effect" oriented).

Nuclear Ship Alternatives

- No new nuclear program; discontinue Savannah.
- Undertake maritime reactor research but no construction of ships; discontinue Savannah.
- Construct small number of ships concurrent with reactor research; continue Savannah.

NDRF Alternatives

- Revitalize by converting substantial number of AP-5's, rehabilitating AP-2's and possible early retirement of mariners.
- Revitalize by some conversions and some austere new construction in foreign yards.
- Revitalize by austere constructions in U.S. Yards.
- If active fleet program is large enough to meet all future needs, retain only small reserve fleets for future trade-ins, or eliminate it entirely.

Alternatives for Transfer of MARAD to DOT

- Transfer by reorganization plan
- Include transfer in legislation
- Forget about it for the present

Independent Subsidy Board Alternatives

- Present board of MA Staff members

- Independent Board appointed by Secretary
- Independent Board appointed by President.

Shipbuilding Study Alternatives

- Interdepartmental government group to determine level of need for subsidies on merchant ship construction in addition to Navy and other government programs.
- Government-Industry Committee to determine capability of yards to meet merchant replacement needs.
- Presidentially appointed Commission to study extent to which Federal aid is necessary to preserve competitive positions of industry and preserve a national capability.

Program Money Levels

- Construction and operating aids sufficient to meet military and urgent civil emergency needs, taking foreign construction and shipyard needs into account (Task Force level).
- Sufficient to replace old ships with 5-8 years and provide some dry bulk capacity; some increase in fraction of foreign trade carried; utilize foreign constructions (original Boyd Program).
- Sufficient to replace old ships and provide some expansion in liner and bulk area to carry significantly more foreign trade; tied-in foreign construction (Boyd, May 1967 program).
- Same as above, but enlarged slightly and U. S. construction only (Boyd program in Fall 1967 -- with reserve funds extended to all, this becomes roughly the same as HR 13940 and S 2650).

5-3
APR 26 1968

House Merchant Marine and Fisheries
Committee Hearings
Deputy Under Secretary

Secretary

The American Maritime Association (AMA) represented by Alfred Maskin and Joe Klausner presented the attached testimony on April 23 proposing a new maritime program. AMA represents 90 companies operating 237 unsubsidized American flag liners, dry bulk carriers, tramps, tankers, container ships, etc.

The approach is identical to Klausner's promises for revising the legislative proposal introduced by Carmatz.

The legislative proposals presented to the Committee include:

- Support for annual authorization level of \$300 million; research and development at \$25 million; and \$30 million in FY 69 for reconstruction of reserve fleet.
- ~~Extension of CDS and GDS to presently unsubsidized vessels operating in foreign commerce of the United States, including tankers, but not extended to proprietary operators.~~
- Revised system of construction subsidy to make payments directly to shipyards and to retain competitive bidding. The basis for paying subsidy would be based only on labor and material cost differentials and employing general indices for a base period as an inducement to greater efficiency.
- An operating subsidy system which parallels the gross revenue subsidy proposed by the Interagency Task Force.
- Restriction which makes the carriage of Government cargoes ineligible for subsidy.

- A nuclear ship program but deletes requirement in Garmatz bill that nuclear ship operators involved in an interunion dispute must sell his ship after 30 days.
- Lifts the 6 percent ceiling on Title XI loans.
- Extends capital reserve fund privileges to all operators.

This program has been heralded as a "public interest" program that simultaneously promotes the "welfare of the industry." The approach adopted is that no shipowner has been deprived of his rights to which he is entitled under present law and that the effort has been directed to correct conditions which represents "subversion of the intent of the 1936 Act."

The highlights of this testimony present an interesting proposition. It accepts the conclusion that today's conditions are not the same as those which attended passage of the 1936 Act in three specific areas. These areas are: non-contiguous trades have disappeared; dry and liquid bulk trades, which it was predicted in 1937 would soon disappear, have grown enormously (particularly in our foreign commerce); and since 1936 the U. S. Government has become the world's largest shipper and its cargoes represent a substantial volume of U. S. foreign trade. The proposition is made that the law must be revised to reflect these conditions.

The Government cargo component of our foreign trade in 1964 constituted over 60 percent of all cargo on American ships and involved total Government expenditures for freight and charter hire ran about \$650 million annually. This precluded the Viet Nam build-up. By 1967, MSTC expenses for shipping reached \$705 million and nearly \$1 billion if fees to private operators serving as general agents for reserve fleet ships are added. This means that if other agency expenditures remain level the Government now generates between \$1 billion and \$1.4 billion in shipping revenues -- thus dwarfing commercial revenues for American ships.

Since AMA represents the trampers, the testimony predictably points to the need for increasing U. S. flag carriage of our bulk trades. It also criticizes the Nation's dependence on foreign flag operations for the importation of raw materials during peace and war.

Perhaps the highlight of AMA's testimony is the charge that because of our failure to adapt the 1936 Act to changing conditions, the subsidized operators have become the beneficiaries of a double subsidy program.

They not only receive direct subsidy to compete in foreign trade but also freight rates based on American costs for the carriage of Government cargoes. A persuasive line of reasoning is outlined based upon reasoning that the double subsidy arises because Government cargoes are insulated from foreign competition. It is an attractive trade and acts as a positive inducement which causes the subsidized lines to neglect their commercial obligations. The testimony concludes that this situation has subverted the original intent of the 1936 Act subsidy system, which was initially to increase American flag ship competition in our foreign trade. This means that the American tax payer is paying twice into the same pocket to purchase a total merchant marine far smaller and less efficient. AMA believes that this condition has frustrated Government officials and created an inbuilt hostility to existing maritime promotional programs.

The proposed amendment to the Garmatz bill would accomplish, according to the rationale of the AMA, the following:

- Maintain for purposes of subsidy a sharp cleavage between trades exposed to foreign flag competition and those protected from such competition.
- Make the Government cargo preference program a positive instrument for rebuilding the unsubsidized fleet when combined with an extension of tax reserve privileges.

The provisions of the amendments proposed would require a proportionate refund of ship construction subsidy by operators for carriage of Government cargoes. Subsidized operators would also forfeit operating subsidy for the carriage of Government cargoes. Thus, while each operator would continue to have the right to carry both Government and commercial cargoes, they would no longer be enabled to collect a double subsidy.

A novel innovation is also written into the Act which we considered at one time or another. That is a proposal to combine long-term charter arrangements with Title XI mortgages to provide inducement for unsubsidized operators to renew their fleet -- this is the original Safir proposal.

Conclusion

The provisions (1) extending tax privileges; (2) placing an absolute prohibition on participation in preference trade by rebuilt vessels transferred to American flag; and (3) proposed monetary levels of subsidy support are bad features of the program. Otherwise, the proposals advanced in this report, are, in my view, constructive and provide a basis for accommodating to an industry/labor proposed program. It is my understanding that Paul Hall will testify at some point during the hearings in support of this program. We are also informed that the shipyards and the subsidized operators are extremely disturbed by the proposals and will reassess their tactics for dealing with the proposed amendments. The controversy over the proposal to make illegal the payment of double subsidies could trigger a much greater controversy in debate over maritime programs than we have witnessed in many years.

Paul L. Sitton

PLSitton:kam 4/26/68 (S-5)

cc: Mr. Sitton

Mr. Mackey

Mr. Robson

Mr. Agger

Mr. Lehan

Mr. Dye

Executive Secretariat-3

27?
April 1968

Comparison of Paul Hall's Legislative Proposals
to the Interagency Maritime Task Force Proposals

The Hall package goes beyond the Task Force in some policy reform respects:

-- It uses the TF "revenue incentive" operating subsidy package, but gives it only for commercial cargo revenues and only after January 1, 1972; the TF excluded only Defense cargo revenues, but allowed subsidy on other government cargo revenue.

-- It narrows the construction differential subsidy formula to the foreign-American cost differences for labor and materials and would allow subsidy on ships built or repaired for foreigners. The TF allowed shipyard subsidy on the foreign-American ship price differential, and would be available to Americans only.

-- It requires the repayment by the operator of a portion of construction subsidy if government cargoes are carried; the TF phased out cargo preference, but allowed the cargoes to be carried without loss of either construction or operating subsidy, as the cargoes would be obtained in competition with foreign operators.

Some features of the Hall proposal seem to be specifically anti-CASL:

-- The Revenue Incentive operating subsidy is anathema to CASL, particularly so when government cargo revenues are excluded from subsidy.

-- Restricting shipyard subsidy to the labor and material cost differences will increase the price to CASL for ships.

Not surprisingly, the Hall proposal strongly benefits the Hall-supported sector of the Maritime Industry.

-- Consistent with the TF report, the Hall proposal extends operating subsidy to all dry cargo operations including bulk and other non-liners, but not tankers.

-- Consistent with the TF, the construction subsidy is paid to shipyards and all operators are allowed to buy ships whose construction has been subsidized. As an extra benefit to the shipyards (whose unions are in Hall's MTD), they are paid subsidy on ships they can sell to foreign purchasers. This parallels the TF philosophy of supporting shipyards to

construct for anyone--to the extent we need to support shipyards.

-- Preference is given to the now unsubsidized portions of the fleet in expending the appropriations authorized by the Act. These unsubsidized operators are mostly in the Hall ambit.

-- Cargo preference eligibility is drastically changed in favor of American-built ships in that no ship can carry military or other government cargo if it has been built or altered in a foreign shipyard. At present, any U.S. flag ship, regardless of where built, is eligible for military cargo and after three years of U.S. registry, for other cargo preference. Hall's change protects the shipyards and the present group of independent tankers--both of which are in Hall's group.

-- Operating subsidy is extended to the present unsubsidized and tramp ships, provided they immediately contract to build new ships. The TF program called for extending subsidy coverage to the older unsubsidized liners, but not to tramps.

Features of the Hall proposal that are contrary to the TF report or its philosophy:

- Extension of operating subsidy to the overage tramp ship group.
 - No foreign construction.
 - Money level for construction subsidy set at \$300 M for 5 years; TF CDS level was about \$145 M.
 - Cargo preference not eliminated and ship eligibility requirement tightened.
 - No determination of need in arriving at shipyard subsidy levels--but does support a broad study of shipbuilding industry capabilities.
 - A nuclear program is included as a separate item--the TF felt that nuclear ships were uneconomic and uncompetitive.
 - Reserve funds are extended to all operators.
 - The stated objectives of the two are different, although parallel:
- Hall Proposal objective: To balance the privately-owned merchant fleet, particularly for the bulk trades.

Task Force Objective: Promote modernization and economic growth, and eliminate detailed government supervision by rationalizing the structure of government aids.

May 1, 1968

MEMORANDUM FOR THE SECRETARY:

SUBJECT: Today's Meeting on Maritime Program

Fred Simpich called me just a few minutes ago to discuss the meeting today on maritime policy. He said that he had met with Secretary Smith and that the Secretary had reviewed the memorandum to the President and the program paper to go with it. Mr. Smith apparently agrees with the program and the recommendation that the Administration go forward at this time. Secretary Smith, however, did not sign the original of the memo to the President which you signed last night. Fred said that Mr. Smith's comment was to the effect that it was not necessary to sign it and apparently that ended the discussion. Fred had no explanation to offer as to what had led Mr. Smith to this conclusion and I certainly have none. I suggest that you raise the question with Secretary Smith at the time of the meeting if you feel it is of sufficient importance.

The only thing that occurs to me as even a remote possibility is that Mr. Smith may have talked to Gulick, who cautioned that he go slow on this or may have suggested some disagreement with the program. That still does not make sense, however, if Mr. Smith is prepared to indicate to the President that he agrees with the memo. I simply don't know why he doesn't want to have his name on the memo to the President.

M. Cecil Mackey

M. Cecil Mackey

MC Mackey:arb

cc:

Exec Sec

File

Chron

5-5
MAY 1 1968

FINAL

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Maritime Program

Garnatz Committee is now holding hearings on proposed Magnuson/Garnatz maritime program.

Their proposals could result in annual Federal costs up to \$500 Million if enacted -- double existing level. While some subsidy reforms are in their bill, it has a number of bad features:

- Priority need is new ships for obsolete merchant marine, not added shipyard support. Yet nearly half of subsidy funds in bill go to high cost U. S. shipyards who already get about \$2.5 billion per year, mostly from Navy -- adequate support for mobilization base.
- Extension of tax exempt reserve funds to entire merchant marine, plus fishing industry would cause loss to tax base of about \$135 Million annually compared with present cost of \$36 M, and create precedent for extension to other industries. Treasury is strongly opposed.
- Acceptance of subsidy reforms by industry is voluntary, not mandatory.

This program has similarities to proposals advanced in 1967 by Secretary of Transportation in unsuccessful attempt to gain consensus within industry/labor. Present hearings show continuing disagreement within industry/labor groups.

Administration is in a better tactical position this year since for first time all components of industry and labor will be on the public record with alternative programs and an Administration program would no longer be a "stalking horse." At least three separate program proposals are being launched, including one from Paul Hall and tramp operators, a second from Joe Curran, and third from subsidized operators. Paul Hall has in the past frustrated Administration efforts to get program consensus, but without stating what he wanted. His supporters (without Hall's personal commitment) now are on record with proposal specifying radical public-interest reforms for his opponents but increased protection and preference for his part of industry. This proposal will be opposed by subsidized operators and by Curran.

Industry/Labor disagreement over acceptable alternative could on the one hand frustrate Committee and result in no action or on the other hand result in legislation with undesirable features of all proposals.

There are several options available to Administration:

- Propose a Public Interest Program that would subsidize merchant marine and shipyards at minimum level to meet emergency needs for each; reform and simplify subsidy programs to provide competitive incentives; eliminate non-military cargo preference; allow foreign ship purchase by operators: Five year costs \$2.4 Billion -- roughly same as present program; would build 170 ships including foreign construction vs. 84 ships under existing program. Program would probably not pass but would provide a bench-mark for policy dialogue and basis for Administration rejection of an unsound program.
- Propose a salable reform program that would give major subsidy reforms; larger and therefore more acceptable program; no cost increase in FY 69-70 due to budget restraint; option for foreign building limited to those years subject to usual foreign investment restraints to avoid Balance of Payments impact; \$275 Million increase in FY 71 to about \$640 Million -- 5 year cost \$2.8 Billion. Builds 170 ships. As with first option, would provide basis for Administration rejection of unsound program.
- Let Congress take initiative and accept their program. This could mean undesirable extension of tax exempt privileges and only limited subsidy reforms, if any. Very difficult to veto in absence of Administration proposal. Costs far exceed benefits -- net costs about \$800 Million per year, \$3.9 Billion over next five years. Would build 170 ships only, because no foreign construction.

An acceptable program should include transfer of MARAD to DOT and should not extend tax exempt reserve funds beyond present limits.

We recommend that you adopt the second option. An Administration program is desirable -- we need to renew the fleet. The first option would not pass. The third option is too costly and lacks reforms. The recommended option:

- Obtains most policy reforms.

- Establishes base for veto if necessary.
- May move Harb'd to DOT.
- Holds cost well below Magnuson/Garnatz proposal.
- Initial break-through in foreign construction would provide valuable precedent.

C. R. Smith
Secretary of Commerce

signed Alan S. Boyd
Alan S. Boyd^d
Secretary of Transportation

May 2, 1968

MEMORANDUM FOR THE SECRETARY:

SUBJECT: Today's Meeting on Maritime.

You are scheduled to meet at 12:15 today with the President, Secretary of Commerce and Joe Califano to discuss maritime policy and an Administration program.

Attached are two papers: (1) the memorandum to go from you and Secretary Smith to the President on maritime policy, and (2) a memorandum outlining in greater detail the substance of the program which you and Secretary Smith propose for the President's approval.

The original of the memorandum to the President went to Commerce first thing this morning and Secretary Smith should have it signed when he gets to the meeting. Copies of both these papers with the memorandum unsigned went to Joe Califano last night. They were to go to the President with his reading for last night with a cover memorandum from Joe Califano.

Also attached are several copies of a one-page paper on the issue of foreign construction. In view of the critical nature of this aspect of the program, I thought it might be useful for you to have such a paper to use as a basis for discussion at the meeting. Should the President decide to go forward with an Administration program, you should discuss with him and the others at the meeting the question of timing. In view of the present course of the hearings, it would certainly seem desirable to wait and get all the parties clearly on record as to their views before the President advances his program. This would probably mean a delay of two weeks or so. That should give us sufficient time to get legislation and a message ready in line with such decisions as are reached today.

M. Cecil Mackey

M. Cecil Mackey

Attachments

MC Mackey:arb

cc: Exec Sec File Chron

ROUTE SLIP

DATE

5-22

168

TO:	NAME	ORG/RTG SYMBOL
	Paul Simon	S-5

- ☐ PER YOUR REQUEST
☐ FOR YOUR INFORMATION
☐ PER OUR CONVERSATION
☐ NOTE AND RETURN
☐ DISCUSS WITH ME
☐ FOR YOUR APPROVAL

- ☐ FOR YOUR SIGNATURE
☐ COMMENT
☐ TAKE APPROPRIATE ACTION
☐ PLEASE ANSWER
☐ PREPARE REPLY FOR SIGNATURE
OF _____

REMARKS:

THIS IS THE INFO GIVEN
BY SHAW TO THE J.C.A.E.
AND IS ENOUGH TO HANG
OUR STATEMENT ON.

FYI, LUB HOFFMAN
FEELS THE TIME IS WRONG
FOR NEW NUCLEAR SHIPS

FROM:	TELEPHONE NO.	ORG/RTG SYMBOL
IRA DYE		

[In millions of dollars]

	Fiscal year 1966		
	Amount appropriated	Actual costs	Underrun
Nuclear safety.....	\$23.7	\$21.7	\$2.0
Space nuclear safety.....	10.7	8.4	2.3
Total.....	34.4	30.1	4.3

The underrun in Nuclear Safety was principally caused by the actual (\$1.0 million) versus the planned (\$2.6 million) hardware procurement for LOFT, deferred for reasons stated above. The FY 1966 estimate to Congress included \$1.2 million for a launch vehicle for use in the Space Nuclear Safety Reentry Flight Demonstration #3. Flight demonstrations have been deferred. Costs associated with the experimental payload for this flight demonstration is the balance of the underrun.

8. Maritime Reactor Program

(a) Has a decision been reached yet on the Administration's position on maritime nuclear propulsion?

Answer: Based on information available to the AEC, the Administration has not yet reached a position on maritime nuclear propulsion.

(b) Please provide the latest cost estimates for reactors of the size of interest in maritime propulsion (100 MWe range). Summarize these cost trends in the past few years.

Answer: On July 31, 1967, identical inquiries were sent to five reactor fabricators for their interest in the supply of (a) small (less than 100 MWe) nuclear central stations plans and (b) near term (direct) and long term (via large scale development programs) civilian nuclear maritime applications. A copy of one of the inquiry letters is attached.

Replies have now been received from all five companies. In general, the responses indicate that while the companies would be interested in the market for small nuclear plants (both central station and civilian maritime) if the market were to develop, they are not interested in making turnkey offers for the nuclear steam supply system. This is a significant departure since 1965. A copy of the letter received from each of the five companies is attached.

The trends for central station nuclear power reactors as indicated in the 1967 Supplement to the 1962 Report to the President for Civilian Nuclear Power will significantly affect the small power reactor costs as well as the effect on interest discussed above. First costs of unique cases will be high.

Small central station plants at the 75 MWe size which were estimated in late 1965 to cost about \$24 million are today expected to cost at least \$30 million. Similar size maritime nuclear steam supply units which were also estimated in late 1965 are noted below:

NUCLEAR STEAM SUPPLY SYSTEM AND CONTAINMENT VESSEL*

[Dollar amounts in millions]

Shippingport.....	1st plant		24 and 36 plants*	
	75,000	100,000	75,000	100,000
1965.....	\$18	\$21	\$11.5	\$16.5
1968.....	\$22	\$26	\$18.0	\$22.0

* Costs for all installation, drive machinery, reactor core, auxiliary systems, and acceptance tests are not included.
 * Based on identical plants to 1st plant, procured on same order, with optimum delivery.

Escalation percentage increases for the costs due to extended deliveries are not included in these estimates but could raise these values approximately another 10 to 15% if orders were placed today.

It should be noted that the actual market conditions existing at the time of the bids and the actual plant specifications could materially affect the price.

Mr. W. H. ROWAND,
Vice President, The Babcock
Barborton, Ohio.

DEAR MR. ROWAND: I participated in providing small (less than 100 MWe) reactors, including those for information from reactor reports prepared by other provide substantive plans more difficult since we receive reports. In addition, we are changes which have occurred trends toward larger size number of reactors order manufacturers have design, inspection, construct.

In order that we can be provided from others is appreciate receiving your state the fullest response interest in (a) small nuclear and long term (via large applications. The scope of

1. Current interest on small plants (less as required, including shielding and containment one and multiple order
 2. Current estimate nuclear plant equipment
 3. Schedules for Reactors
 4. Current and projected estimates and waste
 5. Performance characteristics and fuel
 6. Your comments on report 330 of February Nuclear Plants (COO)
- Your early reply would matter, please do not hesitate.

Sincerely yours,

Direct

Re your letter of July 3 maritime and central
 Mr. MILTON SHAW,
 Director, Division of Reactors,
 U.S. Atomic Energy Commission,
 Washington, D.C.

DEAR MR. SHAW: We have in order to include information General Dynamics and the In my letter of January terms for 100,000-SHP C items and associated core

*Hand Delivered
6/19/68
ASB*

JUN 11 1968

Honorable Edward A. Garmatz
Chairman, Committee on Merchant
Marine and Fisheries
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

The President has asked me to respond to your letter of May 21. I do not think it is necessary for me to emphasize the President's appreciation of the need for wholehearted cooperation between the Congress and the Executive and the value which he places on it for advancing programs and policies which are in the national interest. He has repeatedly stated this conviction which he holds so firmly. Thus, the circumstances which prompted you to write him do not reflect any disposition on the part of the President, or on the part of his Administration, to slight the essential role of the Congress in the development of national policy.

On May 15, I replied to your telegram of May 10, regarding the possible impact of Government-wide expenditure reductions in fiscal year 1969 on the current maritime program. In acknowledging that the matter was under study, I had hoped that I made it clear that no decisions had yet been made; that no decisions would be made until expenditure levels were settled; and that the Congress would be consulted when the time for decisions came. (Separately the President has indicated that he would welcome initiatives by the Congress to identify areas for reduction.) However, I did state that it would be unrealistic to ignore the possibility that maritime construction programs could be drastically affected by heavy overall reductions in Federal expenditure levels. Many vital social and economic programs, in which the consequences of reduced expenditure levels might be even more serious than those of reduced maritime expenditures will have to be considered for reduction or elimination in the event expenditure levels are reduced more than four billion dollars.

I have reviewed my earlier letter to see if I suggested in any way that Congress should not play its proper role in the difficult decisions which are pending; I cannot find any such suggestion.

I am concerned that you have concluded that this Administration has exhibited a "lack of concern -- perhaps even worse" in its consideration of maritime problems and its decisions on maritime policy. I can think of no single transportation issue to which I have personally devoted more time. I can also assure you that other leading figures in the Administration have spent countless hours on this subject. As you know, I have made every effort to talk with all the interests that are involved in the industry. I have also held numerous conversations with Members of Congress concerned about the future of the maritime program.

I deeply regret that our efforts to develop a sound new maritime program have yet to result in an agreement. I share the deep concern of many members of the Congress for the future of the merchant marine, and I respect their efforts in developing a program which will be acceptable to the industry, the Congress and the Administration. But I do not believe that failure to find a consensus reflects on the goodwill or integrity of any of the parties. Indeed I believe that continued discussion can ultimately resolve the still outstanding issues.

I am also concerned that my role as the President's chief advisor and spokesman on transportation affairs (including maritime matters) has been a source of friction with you and other members of the Congress. My activity in this area is not based on any intent of the President to disregard the clearly expressed desires of the Congress to continue present operational authority for the maritime program in the Department of Commerce and of the evidence that many members of the House of Representatives would prefer that the Maritime Administration be accorded independent status. Rather, the President is faced with the fact that transportation policy can no longer be formulated on a modal basis, independent of the other forms of transportation. This has become increasingly apparent with the development of the new technology in shipping. This new technology clearly forecasts a totally interrelated transportation system. The responsibility for Federal Government leadership for a national transportation system is vested in me by Section 4(a) of the Department of Transportation Act.

On May 7, the Urban Mass Transportation Administration was transferred from the Department of Housing and Urban Development to the Department of Transportation. Thus the only major, non-regulatory, transportation

function of the Federal Government still outside the Department of Transportation is the Maritime Administration. I hope you will therefore understand that no insult or rebuff to the Congress is intended because this Administration continues to hold the view that such an omission is unwise when related to the future of the Nation's transportation system. I assure you that we recognize that many others in the Congress share the view that such an omission is sound. While we disagree, I sincerely hope that our disagreement can be discussed without any personal animosity on either side until agreement is reached.

Sincerely yours,

((sgd) Alan S. Boyd

Alan S. Boyd



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

June 19, 1968

MEMORANDUM FOR HONORABLE HENRY H. FOWLER
Secretary of the Treasury

In a conversation today with Chairman Garmatz of the House Merchant Marine and Fisheries Committee, he indicated a belief that he might be able to get through the Congress legislation which would permit all elements of the U.S. Merchant Marine to obtain the tax reserve benefits which now apply only to the subsidized lines. I told him that I felt the Administration would oppose this for two reasons. First, it is a preferential treatment granted to no other element of the industry, and second, it has the characteristics of additional subsidy.

His response was that it didn't cost the government much money. I replied by saying that I was not at all convinced that the tax reserve funds withheld by the shipping companies had, in fact, been beneficial to the U.S. Merchant Marine. While I did not question the benefit to the company, it seemed to me a distinction must be made between the company as a business enterprise and the U.S. Merchant Marine which was supposed to be fostered by the use of these tax reserves.

Mr. Garmatz indicated that the Committee might want to call you to discuss the pros and cons of extending tax reserves to the whole fleet. I suggested to him it might be helpful first for the Committee to ascertain the use to which the current reserve funds are being put and to make a judgment as to whether, in fact, the Merchant Marine was being promoted the way these funds are being used. I indicated that he should be able to obtain that information from the companies themselves.

This memorandum is for your information in the event you receive a call from the Committee.

Sutton	✓	Morris	
Eustice	2	Stabough	
Carroll		W. J.	
Johnson			
Lee			
Smith, A.			
Johnson		Disposition	
Info	✓		K


Alan S. Boyd

UNITED STATES GOVERNMENT

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE SECRETARY

Memorandum

DATE: JUN 27 1968

SUBJECT: House Merchant Marine and Fisheries
Committee Activity on Maritime Program

In reply
refer to:

FROM : Deputy Under Secretary

TO : Under Secretary

Yesterday, Carl Davis was summoned to a House Merchant Marine and Fisheries Committee executive session and was asked to provide technical advice on a revised bill which Committee staff have presented for the full Committee's consideration. Shortly after his arrival there was a quorum call and the meeting was adjourned. Carl's sticky fingers managed to attach themselves to several copies of a Committee Print which is represented to him as a proposed maritime bill which the Committee plans to move out to the floor and which according to Davis' understanding has been concurred in by Magnuson. Magnuson has given someone an indication that he can pass it through the Senate.

The rationale for the Committee proposals is that "in view of the current fiscal strains affecting the operations of all Government programs and the national economy generally, it was felt that recommendations for the legislation for the remainder of this session should be limited to those items which would have the least financial impact on the Government under current conditions and yet would result in constructive steps towards correcting existing deficiencies in the merchant marine." The above quote was taken from a summary description of the purpose of the bill.

The proposed draft bill would enact the following:

- Sections 1, 2, and 3 -- Amendments which pertain to determinations of construction-differential subsidy systems would simplify and reduce Commerce's review of vessel design, and it would provide for a determination of CDS on the basis of types of vessels rather than individual vessels with subsidy rates be computed periodically for different types of vessels. X The bill would also require that subsidy determinations be based on the record after opportunity for hearings (This is a CASL proposal.).

*Note... This parallels an earlier DOT proposal on CDS system.

- Section 4 -- This provision would permit trade-in of vessels without regard to age if in the judgment of the Secretary they should be replaced in the public interest. (Except that until June 30, 1974, no vessel may be deemed obsolete and available for trade-in unless it is more than 12 years old). Present law requires ^{that} a vessel must not be less than 17 years old before it may be traded in for allowance of credit towards construction of a new ship.
- Section 5 -- Tax deferred construction reserve fund privileges are extended to all operators in the foreign or domestic commerce of the United States as well as in the fisheries industry. This provision represents the only item in which the industry is in full agreement -- tax privileges for everyone. Treasury, BOB and everyone else in the Executive Branch oppose this provision. As you will recall, Secretary Boyd referred to this in a memorandum to Fowler on his conversation with Garmatz. (see attached)

It is not known that we have a copy of this bill. . Before making any general distribution or discussion of it within the Administration, I would like to talk to you.



Paul L. Sitton

Attachments

THE WHITE HOUSE
WASHINGTON

WH 03.10
8317

September 5, 1968

Dear Mr. Secretary:

This is to advise you that the President on September 4th signed an Executive Order entitled "Terminating the Maritime Advisory Committee."

No announcement was made of this action by the White House and although it was not mimeographed for distribution here the original was filed with the Federal Register on September 5th.

Sincerely,



William J. Hopkins
Executive Assistant
to the President

The Honorable
The Secretary of Transportation
Washington, D.C. 20590



SUMMARY OF STATEMENT OF PAUL HALL
President, Seafarers International Union
and
AFL-CIO Maritime Trades Department

Senate Commerce Committee
(Subcommittee on Merchant Marine)

June 23, 1967
(Based on Advance Text)

When Secretary Boyd entered maritime scene the Maritime Advisory Committee was meeting regularly and there was an air of optimism that the Administration would finally get going on a maritime program. The Committee, with broad membership, developed and reported out a sound program which, however, has never been given serious consideration or publicity. Rather, a so-called Interagency Task Force, which had a very narrow representational base, issued a report which Secretary Boyd adopted and widely promoted. The report was rejected by all elements of industry, not only for its unsound recommendations but also because it was prepared in secrecy and its proponents refused to discuss its ramifications. Secretary Boyd's objectivity in maritime matters is tainted by his association with this report notwithstanding the fact it has been rejected. This taint led in part to labor fighting the move of MarAd to DOT and it is the basis for some resentment that the President has tapped Secretary Boyd for his current role in selling a maritime program.

Hall opposes Boyd Program at this time because it is not specific and can't be analyzed. (He resents "confidential" label which was placed on it when it was discussed with him in the face of the fact practically everyone knows the "details.")

The construction subsidy proposal is typical -- nowhere is the manner of determining the rate, or the amount stated. This is important because rate selected has great impact on U.S. industry. There is no specified limit on foreign construction for U.S. documentation. The whole concept of foreign competition involves a battle with industries paying substandard wages, repudiates the U.S. cabotage tradition and requires the repeal of well considered laws. The 15 ship per year level initially proposed is grossly inadequate and even the 30 ship level [semble] doesn't leave enough left over (15) for the sick elements of the industry -- bulkers and tankers -- to embark on a rational replacement program. Pretermittting the question of the adequacy of the commitment -- who is giving it -- isn't it the Congress' role rather than the Executive's?

Labor has tried to be objective -- it really doesn't make any difference who builds ships if it means jobs for U.S. seamen -- but threat to U.S. shipyard industry and unions is too great. The program is a foot in the door for their destruction.

U.S. shipyards need lots of money to get in shape to compete or even to build types of ships that are needed today. Hall has suggested to Secretary Boyd that industry needs a Government guarantee of work at full capacity (as determined administratively by Secretary Boyd) for a sufficient time span to get on its feet. Secretary Boyd has rejected this suggestion as inflationary but isn't this a matter of degree -- doesn't the increase from 15 to 30 ships per year Secretary Boyd has agreed to

create inflation? Seems all Secretary Boyd -- a man who sees positive virtues in foreign construction -- wants is to get control of the industry and he has given Congress an ultimatum.

Secretary Boyd doesn't believe the industry is capable of building the ships he feels the U.S. needs, but didn't he have the responsibility as under Secretary of Commerce for Transportation to review annually with the Secretary of the Navy the state of commercial shipyards and report unsatisfactory conditions. Has he neglected his duty; why should we feel he'll do any better wearing a different hat?

Hall supports all the objectives of the Boyd proposal -- who wouldn't? But he does not see that there is a program -- does one exist? What will ODS program for bulkers look like? What will happen to operators with large investments at U.S. prices? What are the guidelines to be for the hearings Secretary Boyd describes as a solution to the problem?

What can we expect from an administrator who says his program will continue cargo preference provisions but who is philosophically opposed to the concept and who has the misconception that cargo preference has been of no real help. The U.S. bulker trade has lived only because of cargo preference and many liner operations have relied heavily on its benefits.

How can extension of ODS be spoken of as a new program? The law now permits ODS for many operators not receiving this support. The failure to approve applications is but another element of the Administration's

neglect of the industry. The proposal to give presently subsidized operators a monitoring role in new ODS programs is ridiculous since they are direct competitors.

Labor supports a nuclear merchant vessel program but doubts state of the art warrants diversion of funds which could be used for conventional vessels.

Labor supports an increased research program.

Labor doubts it is worthwhile to upgrade the Victory Ships but is reconciled to the inevitability of this DOD sponsored program.

The Boyd proposals do not do justice to domestic lines and give short shift to their progress in container trade.

Labor's opposition to the transfer of MarAd to DOT was not a "bargaining ploy." The move promised nothing for MarAd that did not already exist. What industry wants is a program, an able administrator and an administration committed to saving the merchant marine.

The announced support for the Boyd Program is not what it seems:

- CASL speaks for only 13 subsidized operators (and not all subsidized lines are members)
- AMMI only speaks for many CASL members and some international oil and ore companies who operate foreign flag vessels (and some members have resigned because of AMMI position)
- NMU does not speak for a majority of seamen (and has close ties to CASL)

We offer the following 20 point program as a solution:

- *1. A commitment to all U.S. vessel construction.
- *2. CDS at current rate to presently subsidized companies to permit building 15 vessels per year.
- *3. CDS to replace unsubsidized fleet - 80 vessels - at rate of 16 vessels per year for 5 years.
- *4. ODS for the 80 unsubsidized vessels.
- *5. CDS to build up U.S. dry-bulk fleet to carry 30% U.S. trade - minimum 30 ships per year for 5 years.
- *6. Standardized bulk ship design.
- *7. ODS for bulk fleet on cost-parity basis.
- *8. Cargo preference rates for all Government cargoes.
- *9. Centralize administration of cargo preference in MarAd
- *10. Reserve 30% of licensed and quota cargo for U.S. vessels
- *11. A study to improve passenger vessel competitive position.
- *12. Control of foreign cruise vessel operations from U.S. ports.
- 13. Authorization procedures for maritime funds.
- 14. An independent MarAd.
- 15. Federal-aid to develop nuclear commercial vessels.
- 16. Extend Construction Reserve Fund to all vessels.
- 17. Procedures to expedite handling Title XI applications.
- *18. Increase of cargo reserved for U.S. vessels
- 19. Control of ICC rate determinations where competing rail and water carriers are involved.

*20. DOD long-term charter for tankers

*These recommendations are identifiable, to one degree or another, with recommendations of the Maritime Advisory Committee in the report which adopted on November 30, 1965.

These points constitute a program and give a lie to the contention labor opposes -- rather than proposes -- improvement in the merchant marine. This program has been offered to the Administration -- we now offer it to Congress. It will help all concerned, subsidized and unsubsidized operators, shipbuilders and operators, labor and management.

SUMMARY of STATEMENT OF FRANK A. NEMEC
Chairman, Committee of American Steamship Lines

Senate Commerce Committee
(Subcommittee on Merchant Marine)

June 26, 1967

(Based on Advance Text)

CASL believes the protracted dialogue regarding a new maritime policy is drawing to a satisfactory close after a low point represented by the Interagency Maritime Task Force Report. The good points of the "Boyd Program" i.e., doubling of CDS, retention and strengthening of cargo preference and retention, strengthening and extension of ODS meet the real needs of the industry and greatly outweigh the practical significance of the two points which form the basis for opposition. The proposed level of subsidized construction (30 ships per year) will more than likely use all available private funds and make the issue of according foreign built vessels U.S. privileges an academic one. Whether MarAd is in DOT or independent is of no real consequence to the industry; the key issues are the existence of an Administration policy and an effective agency, enjoying the confidence of the President. CASL supports the Boyd Program since it will provide enough money to permit the building of ships when needed at world prices to meet competition in both the liner and bulk trades. It urges early action in a situation which can brook no further delay.

Our present maritime resources are strained to the breaking point and any additional demands will have to be met at the expense of our current

commercial operations since the MSTs and NDRF fleets are practically fully committed to handle the 9.5 million measurement tons of the 30 million ton requirement projected for FY 1968. The private sector of the fleet, however, has only limited resources to be called on because of the general obsolescence of the fleet illustrated by the following table:

Composition of U.S. Ocean-going Fleet

Passenger and Combination Ships	27	2.7%
Relatively Recent Construction (1950 and later)	261	27.0%
Dry Cargo	136	
Tanker	125	
World War II Construction (or earlier)	681	70.3%
Dry Cargo	531	
Tanker	150	
TOTAL	969	100.0%

The generally low replacement level through the past years makes the outlook in the years ahead even bleaker.

The Merchant Marine Act, 1936, was a common carrier act which successfully met the needs of the '30's. A new program is needed to meet the changed trade needs of today, particularly in the bulk cargo trades.

The Government's protracted failure to provide adequate resources makes essential the 125-175 ships (in five years) in the proposed program.

which could cause severe cost inflation and delivery delays in the shipbuilding industry which already has a large back-log (\$30 billion) of U.S.N. (\$2.35 billion) and private orders (\$0.65 billion). Since the closing of several Navy yards and increased construction of offshore drilling rigs, fishing vessels, research vessels, etc., will put even heavier pressure on U.S. shipyards, legislative changes which will permit utilization of foreign construction will provide a necessary safety valve. Even more, a provision to allow foreign built vessels U.S. trade privileges will remove an inequitable competitive situation with other transportation modes.

CASL also would like to have the following included in the program:

- 1) ODS for domestic trade routes to non-contiguous points
- 2) Liberalization of the right to sell old vessels foreign and of the trade-in privilege
- 3) Lapse of the Vessel Exchange Act when it expires
- 4) Repeal of provisions which limit compensation paid for CDS vessels requisitioned by U.S.
- 5) Repeal of "Buy-American" provisions for ODS vessels
- 6) Government suasion to increase dry bulk cargo in U.S. vessels
- 7) Simplification of administration of Merchant Marine Act, 1936, to reduce accounting burdens, expedite ODS decisions, eliminate salary ceilings and restraints on investments and purchasing practices.

- 8) Elimination of recapture (which simplifies accounting requirements) since today's business climate, higher taxes, renegotiation, better information on foreign costs, provide adequate safeguards.
- 9) Elimination of Government restraints on essential trade routes (except as to minimum trips) and let patterns of trade (which are the greatest determinants in any event) establish service levels.

CASL supports consolidation of the Government's routing preference operating in one agency and the ultimate elimination of rate preferences through use of direct subsidies. It wants a bigger effort to encourage American importers and exporters to specify American carriers.

Recent events have demonstrated that the United States has no satisfactory method for allocation of shipping in near-war situations. Accordingly, CASL has submitted a program to DOD -- RESPOND -- which balances military and commercial needs in these circumstances. Its implementation will require legislation to permit operators to charter U.S. vessels as replacements (or if no U.S. vessels are available, foreign vessels) and still qualify for all privileges applicable to the vessel made available to DOD.

CASL is encouraged by the Boyd proposal to increase research and development projects and suggests the formation of "The Maritime Research Institute" a Federally chartered, non-profit organization with a board of

trustees having industry, supplier, professional and governmental membership which would select research projects to be jointly funded by industry and government.

CASL supports the transfer of MarAd to DOT as a logical move. To ensure independence of decision and continuity (of the Maritime Subsidy Board?) it proposes a three-man board of Presidential appointees. To get the best qualified personnel, it supports amendment of the "conflict of interests" legislation.

Finally, CASL sees a real need for permanent machinery to handle labor-management relations to preclude interruption of work and urges early action to implement the President's proposals of August 1965.

believe you are ready to pounce, and I think that is a consideration of utmost importance of the policy proposed under the FDI program.

We thank you.

Senator BARTLETT. The next witness is Edwin M. Hood, president of the Shipbuilders Council of America.

Mr. Hood.

STATEMENT OF EDWIN M. HOOD, PRESIDENT, SHIPBUILDERS
COUNCIL OF AMERICA, WASHINGTON, D.C. 6/28/67

Senate Hearings

Mr. Hood. Good morning, Senator.

Senator BARTLETT. Good morning.

I am glad to see you.

Mr. Hood. Senator, I have a rather lengthy statement which I would like to talk to, read certain parts of, and emphasize other points if that is satisfactory to you. I would also request that the complete statement be included in the record as though read.

Senator BARTLETT. So it will be.

Before I forget it, Mr. Berg didn't read all of his statement. We will incorporate the complete text in the record.

Mr. Hood. Mr. Chairman, Senator Brewster, I deeply appreciate this opportunity to present material from the standpoint of the shipyards bearing on your commendable and timely considerations of maritime and shipbuilding policy. Though my presentation this morning is on behalf of the Shipbuilders Council of America, I am authorized to state that it has the endorsement of the Western Shipbuilding Association in San Francisco.

It will probably come as no surprise to you that I appear before you today to support the construction of U.S.-flag merchant ships in the shipyards of the United States and to oppose recent proposals calling for the foreign construction of American-flag ships whose operations are to be subsidized with public funds. This is by no means a new position for us. In my many previous appearances before you, I believe that our opposition to the many "build abroad" theories has been positive and consistent.

In latter days, however, our position is said to be unreasonable or irrational by either Government or industry officials whom we otherwise hold in high regard. But this kind of characterization, it seems to us, reflects the superficiality with which many of the elements of the maritime/shipbuilding problem have been evaluated in terms of certain economic "facts of life."

There is little disagreement among those interested in national maritime affairs with respect to the present state of the U.S. merchant fleet. The ships are predominantly old and the volume of trade carried by U.S.-flag vessels has been steadily declining.

Obviously, something must be done. But, first, a better understanding of the correlation between dollars invested and earned, gross national product, tax revenues, and the balance of international payments is required. In all of this, unassailable logic, rational thinking, incontestable statistics, and orderly programing are needed as never before.

The basic facts underlying the present maritime dilemma are quite simple, and it is clear that the emphasis on foreign construction is being erroneously placed.

The next section of my presentation is headed "Fundamental Considerations." It discusses our standard of living which President Johnson only yesterday in Baltimore said was second to no other in the world. It also discusses the evidences that an increasing number of American industries face an economic disadvantage when competing in the world markets, and the cost disparity between foreign and U.S. wage levels. The extent to which U.S. services and industries are vulnerable to foreign competition because of this wage cost disparity varies considerably.

Most of our Nation's commerce exists in an atmosphere totally isolated from direct confrontation with the wage structure of other nations. In 1965, our gross national product—GNP—was \$676 billion and total value of foreign trade was \$50 billion or only 7.4 percent. These figures show that nearly all of our service industries and most manufacturing concerns do not have foreign competition.

Practically all of our industries which are successful in world markets owe their success to one of two reasons, both of which relate to superior technology.

In the first category are industries which have a technology superiority paid for by the Federal Government through massive research efforts. The aerospace and electronics industries are good examples.

The second category includes those industries which owe their technological advantage to the tremendous consumer purchasing power of our citizenry, such as the automotive and chemical industries.

The U.S. maritime industry enjoys neither advantage.

Next comes "World Comparisons" which underscores the strength of our economy and the well-being of our citizens relative to other nations.

This section is statistical in nature, but the point of all these figures is to emphasize that our high-g geared productive economy gives our citizens a standard of living without parallel.

We would consider our Nation in the depths of a catastrophic depression if our average standard of living declined just half way to that of Canada, the second most affluent of the leading nations of the world.

When confronted with a commercial situation, manufacturing or service, which places us in direct labor cost to labor cost competition with other nations, it is doubtful that we will ever be able to close the gap completely.

It is a reality that must be squarely faced. As pointed out previously, we can freely compete in world markets only in those sectors of our economy which are (1) propped up by Federal Government-purchased technology, or (2) tooled to the hilt because of the massive consumption of our near trillion dollar society.

Beyond this, our industry and commerce is cost competitive to the extent that indemnification is available by one means or another from direct competition.

We come now to the "Economic Background Affecting the Maritime Industry." This industry, both shipbuilding and ship operations, does not benefit from barriers of distance and duties, nor from massive infusions of Government sponsored technological advance, nor from the powerful base of substantial domestic consumption. Our maritime industry exists because of Federal Government programs and regulations.

Should the various maritime programs be eliminated, there would be no maritime industry since a world market confrontation solely on the basis of our wage rates versus foreign rates would invoke a competitive contest we have little chance of winning.

Recognizing how international wage structures fit into maritime affairs is the first step in formulating a constructive approach to revitalizing our maritime capabilities. The implications are very plain. Without the kinds of maritime programs we have today which accommodate this wage differential, we would have virtually no merchant fleet and no merchant shipbuilding capability. With these programs, we will.

We are caught in the strange paradox that as our foreign commerce increases and as our responsibilities for maintaining world peace increase in scope and distance from our shores, our merchant marine competence declines. The more seapower we need, the less we have.

Those who say that the maritime industry is inefficient and archaic because it requires Federal Government support to survive against foreign competition are victims of our statistics-happy society which has learned to express things in numerical terms but not to look beyond these figures to the meaning of what they portray.

For example, the cost of cargo handling in U.S. ports averages about four times that in foreign ports. Port charges for pilotage, dockage and so forth, are double or more than those of other countries. Should we quit "subsidizing" our ports and longshoremen by carrying on our foreign commerce only between foreign ports without merchant ships touching our shores? Of course not. This would be ridiculous.

Putting the first factor of the maritime problem—the need to accommodate our higher wage rates—together with the second, the declining quality and size of our merchant fleet, leads to the real reason why maritime affairs are so controversial today. To replace a fleet growing obsolete in bloc and to expand it to a size suitable to both our economic dependency on international trade and our free world commitments will require a considerable amount of Federal Government support for both ship construction and ship operations.

The expenditure backlog created by inattention in past years is a politically unpopular fact to utter aloud and has led to a variety of alleged corrective measures of dubious logic.

The way to resolve our present maritime problems is not to present unreal economic interpretations. Since a cost disparity is inherent in our national success, it must be either accommodated or not. The extent to which this accommodation is forthcoming in our maritime programs is precisely the extent to which our merchant marine will exist.

This is true today and will remain so for a long time to come. Further, if our fleet has been permitted to grow old in bloc, and concurrently small, it naturally follows that expenditures in bloc are required to restore its strength and vitality.

In the next section, we discuss the weaknesses of reliance on reserve fleets of old and inefficient vessels and the inadequate shipbuilding levels of the past, most of which I am sure, Mr. Chairman, has been reviewed by previous witnesses.

I would like, nonetheless, to emphasize one paragraph on page 12.

Our shipyards have been building fewer than 15 new merchant ships per year, though there has been a substantial amount of idle capacity for some time. This rate will support a fleet of 375 ships.

What kind of program is this for a nation which utilizes one-quarter of the world fleets active in foreign trade?

What kind of a program is this for a nation which already has well over 500 ships, about one-half of its total active capacity, carrying routine military supplies and aid cargoes and supporting a conflict which is minor by historic comparisons?

The insufficiency of our present level of effort is eminently clear.

We come now to the "Economic Impact of Shipyard Activities." Shipyard work contributes directly and indirectly to the economic well-being in our Nation. Using the Department of Commerce Census of Manufactures for 1963, you will note the value of shipwork done in U.S. private yards totaled about \$1.5 billion. Of this amount, merchant ship construction of all types represented \$314,145,000 or 20.9 percent.

Repairs and conversions to merchant vessels of all types amounted to another \$276,514,000 or 18.4 percent.

In other words, 39.3 percent of the total volume of work performed in domestic shipyards in that year can be attributed to work on merchant vessels, and about 13.3 percent involved ship construction contracts coming under the jurisdiction of the Maritime Administration.

Again, according to the 1963 Census of Manufactures, the private shipbuilding and repairing industry employed 114,205 people, including 96,053 production workers. Approximately 10,000 shipyard employees are directly or indirectly engaged on Maritime Administration contracts. Based on the ratio of purchased goods and services to total ship cost, it is estimated that another 10,000 persons in supporting endeavors and industries earn their livelihood as a result of the MarAd shipbuilding program.

Economists use a factor—known as the multiplier effect—of one job in industry creates one job in supporting services or commercial enterprise. Thus, shipbuilding under Maritime Administration auspices accounts for about 40,000 jobs and more than \$300 million in gross national product.

In 1965, one economist, Dr. Charles O. Meiburg, associate professor of business administration and associate director of the Bureau of Population and Economic Research in the Graduate School of Business Administration at the University of Virginia in a paper entitled "The Impact and Net Cost of Ship Construction-Differential Subsidy," based on the multiplier effect, made this conclusion—

Senator BARTLETT. May I interrupt a minute?

Off the record.

(Discussion off the record.)

Senator BREWSTER. Please go ahead.

Mr. HOOD. I will read the quote:

Construction-differential subsidy payments at their present level of \$100 million annually, generate income in the economy of about \$600 million, supporting employment for some 80,000 workers. Because of this added income and business activity, Federal tax revenues are higher by almost \$100 million, which means the net cost of the subsidy is virtually zero. This result is obtained because the construction-differential subsidy, unlike most other Government subsidies, requires a direct and matching contribution to the spending stream on the part of private business firms—ship operators. Therefore, money that would be spent abroad for vessels built in foreign shipyards is retained in the United States, where it works, in accordance with the multiplier principle, to generate additional income and employment.

In addition, the subsidy helps to maintain a domestic ship construction and repair capacity for use in times of national emergency and serves to relieve the pressure on the U.S. balance of international payments.

The net action is a highly technical "Cost-Benefit Analysis" put together by a group of economists. If you will turn to table B on page 19, you will note that on the basis of modest assumptions, that in each of these 16 illustrations, the net gain to the economy of building United States rather than foreign is all on the plus side. This is a very relevant point especially in rebutting those who believe that subsidies are all negative.

I turn now to page 22 headed the "So-Called Boyd Proposals."

With the foregoing economic discussion as background, recent proposals suggesting the foreign construction of U.S.-flag ships should be considered objectively. I am, of course, referring to the recommendations made by the Honorable Alan S. Boyd, Secretary of Transportation, before your subcommittee on May 1, 1967.

Under his plan, ships built abroad would be permitted to register under the American flag with all subsidy privileges and other financial benefits from the Public Treasury which are available under the Merchant Marine Act of 1936. In addition, foreign-built vessels registered under the American flag would be permitted to operate in the domestic waters of the United States.

Needless to say, these two proposals will be opposed by the shipyards—first, because it is not unreasonable to expect that any subsidy program, using public funds, should require that the ships given its benefits be built in American yards; that was the rationale behind the establishment of operating and construction subsidies in the beginning.

Second, it is our firm conviction that the introduction of foreign-built vessels into the domestic trades, in minimal or massive numbers, will lead to economic havoc, not only for ship operators but for shipbuilders.

To the inland waterway and domestic operator who has invested his funds in American-built vessels, this prospect would present an entirely new competitive environment for him in which he very well might not be able to survive.

We also believe that once the barriers are down on building, foreign-flag operations would be only a step behind. It should not be necessary to stress that the opening of domestic waterborne trade to foreign-flag vessels would have an impact extending far inland.

Railroads, barges, pipelines, and trucks, and so on, for the first time in the history of our Nation, would face the adverse effects of direct foreign competition.

Though Secretary Boyd, in his May 1 testimony, was not specific about numbers of ships, our analysis of all of his earlier and subsequent statements to various representatives of the maritime industry would seem to indicate that his plan, if adopted, would contemplate the construction of 100 merchant ships in American yards, and approximately another 100 in foreign shipyards, during a 5-year period beginning in fiscal 1969. His plan further would institute some kind of yet-to-be-particularized subsidy system to enable U.S. shipyards to be competitive on the world market.

By reason of the vagueness of this proposal—and the absence of details—we can only say at this point that the objective is noble but

the mechanics of operation will determine whether or not it can be achieved.

Even so, construction of nearly 100 merchant shipyard contracts would mean that more than \$1 billion in foreign shipyard contracts would be lost to the American economy, and the aggravation to the balance of international payments would be substantial. This figure is very much on the low side in my opinion. In terms of job opportunities for shipyard craftsmen, it would represent a loss of about 100 million man-hours of employment.

Another 100 million man-hours of potential employment in supporting industries throughout the United States that supply materials and services to the shipyards—the steel, the boilers, the electrical wire, motors, pipe, and so on—would be transferred to other countries.

By applying the multiplier effect of money flow throughout the economy, the total loss would be far greater than these figures indicate—approximately \$6 billion.

According to our research, the net loss to the American economy as a result of placing such a volume of business abroad, taking into account all factors including avoidance of construction subsidy and loss of taxes, would be in excess of \$400 million.

The rationale of the so-called Boyd shipbuilding proposals is generally stated as being twofold:

1. To avoid inflation of U.S. shipyard prices and facilities; and
2. To give American ship operators the right to buy equipment abroad at world market prices.

And I would like to add a third item which is also covered in my statement:

The capability of the U.S. shipyard industry to produce the merchant ships that are needed.

On the first point, the economic indicators do not support the inference that an expanded merchant ship construction program would cause an inflationary pattern. We, of the shipyard industry, are convinced that through a realistic program involving a limited variety of ship designs, properly scheduled to take advantage of available shipyard facilities, price inflation can be avoided.

Firstly, U.S. shipbuilding prices, according to the Secretary of Commerce, are still better than 10 percent below the 1958 index.

I doubt that many other American industries can make the same claim.

Secondly, U.S. shipbuilders believe there are opportunities for cost savings in this country in the magnitude of 20 to 30 percent below present levels through multiple or series construction of standardized ships and an improved procurement environment.

A study of "The Prospects for Reducing U.S. Shipbuilding Costs" performed by a task force of our members in late 1965 and early 1966 for the Maritime Administration, detailed areas in which this cost saving potential might be achieved without sacrifice of strength, safety and stability in the ships we build.

On the other hand, inflation in foreign-shipyard prices can reasonably be foreseen if a "build abroad" program were to become a matter of law.

Experiences during the last 18 months with regard to the award of contracts for noncombatant U.S. Navy vessels to shipyards of

United Kingdom illustrate the manner in which foreign competition assesses the U.S. market and responds accordingly. In only four invitations, British yards dropped their bidding from 19 percent above U.S. prices to 17 percent below, then 22 percent below and, finally, 41 percent below, and thus received three awards.

Manifestly, in keeping with accepted economic axioms, an expanding market—not a circumscribed market such as Secretary Boyd and others are now advocating—is fundamentally essential for cost reduction. A greater volume of production makes possible economies of scale, and very significantly enhances the opportunities for technological advancement in facilities and procedures to decrease the labor content per unit.

Higher productivity of labor will depend above all on a continuity of production—preferably of the same type—and a stability of operations.

A sporadic and low level of shipbuilding, and a fluctuating workload in individual yards, such as has existed in this country over the last decade, severely taxes the ability of the industry to accomplish the very desirable objective of greater output per unit and greater output per man.

While Secretary Boyd would limit the substance by which this very essential objective might be achieved, the Department of Defense has recognized the economic desirability of series construction contracts of larger unit numbers in U.S. shipyards and is proceeding accordingly with beneficial results in terms of labor content, cost savings, design improvement, volume purchases of materials and components, and production efficiency.

Our new merchant marine policy should be similarly predicated.

Now let me take up the third point, whether or not the industry is capable of producing the ships. I will return to the second point later.

Senator BREWSTER. Mr. Hood, let me interject one question here.

The Secretary has argued that if we geared our present yards up to 40 to 50 ships a year that we will very substantially increase the cost of construction; we will drive wages up.

In the long run, U.S. production would even be more costly than it is today and, therefore, they argue, to keep a balanced output and balanced cost in our U.S. yards, it is absolutely necessary to build some of our requirements overseas.

Would you comment on that?

Mr. Hood. Senator, in 1953, U.S. shipyards delivered 45 ships.

I would like to ask you—was there an inflation of prices at that time or an overexpansion of facilities at that time?

I don't believe so.

Senator BREWSTER. So, you would argue that U.S. yards could construct substantially large numbers of ships without driving the cost up?

Mr. Hood. Yes, sir.

There are some qualifications that have to be placed on the cost per unit.

In other words, the initial cost of building a nuclear-powered ship is going to be much greater than that of a C-5 ship.

Senator BREWSTER. It is entirely possible rather than drive the cost

up as the Secretary argues that if you add greater production and a continuity of production that your cost per unit would in all chances go down?

Mr. Hood. That is the principal thrust of my presentation this morning.

To assess the ability of the shipbuilding industry to accommodate the requirements of ship operators coming within the purview of any new maritime program, it is important to know, with a high degree of authenticity, the extent that existing facilities have been recently utilized.

To that end, we retained the accounting firm of Ernst & Ernst to make an independent and impartial survey to determine the capacity and utilization of a substantial segment of the shipbuilding and ship repair industry during 1966.

On the next two pages of my statement, I quote the conclusions from that report, the complete text of which has been made available to the subcommittee.

You will note Ernst & Ernst concludes that our facilities in 1966 were operating at about 60.5 percent of capacity. They further estimate that we could have built 61 to 59 additional vessels last year.

With regard to C-5 cargo ships generally coming within the present maritime program, they say that the larger shipyards could have constructed 20 to 32 additional ships over and above that which we had under construction.

With respect to tankers, they say that we could have constructed 24 tankers in the 37,250 deadweight category.

The Ernst & Ernst report shows quite conclusively that there is an immediate capability to build, repair, and overhaul far more ships than were handled in 1966, and there has been no major change in conditions since the start of 1967 which would alter their findings.

With existing facilities, then, there is sufficient capacity to build as many as 30 additional merchant vessels in the C-5 category annually.

I use the figure of 20 here because that seems to be the popular figure for discussing the initial volume of contracts that would result when and if a program and policy were forthcoming.

This statement, however, presupposes a continuity of work which will enable the recruitment and retention of skilled craftsmen. Assurances of a sustained program of larger proportions than heretofore would also prompt additional investments in capital improvements to enable greater productivity and cost economies.

Or, said differently, given the opportunity of an orderly, carefully planned program, keyed to multiple or series construction of identical or near-identical ships, and with assurances of properly phased continuity, the U.S. shipyard industry could meet and probably exceed the most ambitious ship replacement requirements of U.S.-flag operators.

With delivery of 33 ships per year from U.S. shipyards—a not too unrealistic figure—remember I cited 45 as being delivered in 1953 and the comparable figure for 1954 was 38—in any event, with delivery of 33 ships annually, optimum quality and quantity could be restored to the American merchant marine by January 1, 1974.

I predicate this statement on the figures and definitions used in the Interagency Maritime Task Force report of 2 years ago in which the

minimum optimum capability to meet national needs was indicated.

In all this, however, assurances of a sustained, expanding program will be of primary importance.

I can't emphasize this point too strongly. With such expectations, the shipyards would be able to improve their facilities, as necessary, beyond present forward planning in a framework which would obviate overexpansion.

A more stable and increased workload would make it possible for the shipyards to proceed with additional improvements of facilities with the prospect of cost reductions. Mechanization of shipyard operations requires significant capital expenditures which can logically be justified if continuous operations and a greater work volume are assured.

The heavy capital investment in shipyards—to serve the Nation's defense and economic structure—involves a total commitment to keep those facilities active. It must, therefore, involve a total commitment to keep the workers employed.

A pattern of assured employment for the shipyard labor force must be provided. This factor has been given little consideration in recent years, and the consequences are now being felt in various sections of the country.

As Mr. Berg testified earlier, many craftsmen have sought, and obtained, steadier employment in more stable endeavors. Through continuous operations and an expanding work volume, manpower shortages can be avoided and the incentive for greater productivity will be ever present.

Nonetheless, and I would like to correct some impressions that might be current, despite some of the handicaps and shortcomings of recent years, the commercial shipyard industry of the United States has not been bereft of capital improvements.

A recent sampling of U.S. private shipyards indicated that a new, postwar peak in capital expenditures may be established during 1967. Outlays in 1966, according to the poll, revealed that plant improvement programs topped the industry's previous post-World War II high.

Among the multimillion-dollar projects underway are construction of additional shipbuilding ways, rearrangement of existing facilities to achieve more efficient materials flow, and installation of the most advanced material handling and steel fabricating equipment.

To use the words of another departed authority on maritime affairs, Mr. Nicholas Johnson, in several appearances before this subcommittee and others, made the statement that by and large U.S. shipbuilding facilities, techniques, and productivities are comparable with the balance of the world.

Now, to the point that American shipowners, unlike other American businessmen, are denied the right to buy equipment at world market prices. This is an old saw which clearly fails to take into account the real facts.

I was happy to note that Mr. Frank Nemec, the other day, said, "Let's be honest on this point." U.S. ship operators have the "right" today to "buy equipment at world market prices."

They have always had it.

Some 1,229 large oceangoing merchant vessels, totaling more than 35 million gross tons, have been built in foreign shipyards for American companies or their affiliated interests since 1946. In the same period of time, 436 merchant ships of nearly 5 million gross tons have been built in U.S. shipyards for American companies or affiliated interests—or a ratio of about 3 to 1 favoring foreign building for U.S. interests in the last 20 years.

Obviously, U.S. shipyards have had no monopoly on the construction of ships for U.S. citizens.

These 1,229 foreign-built vessels were constructed without any expectations that Federal operating subsidies, U.S. Government defense and premium cargoes, tax-free capital reserve funds, Government guaranteed mortgage insurance, or operations in U.S. coastal waters would be available. Yet, the proponents of foreign construction for U.S.-flag shipping want all of these enormous privileges continued for U.S.-flag ships constructed abroad and are willing to sacrifice the U.S. shipbuilding industry if need be.

Of these 1,229 foreign-built ships, particularly those in the liner or bulk categories, few, if any, have been brought under U.S.-flag registry. Either the Federal Government was unwilling to provide funds for operating subsidies or, in the absence of subsidies, the ship operators were unwilling to pay American crew wages two to four times higher than they would have to pay foreign seamen under foreign-flag operations.

By comparison, let us look at what has been taking place with respect to other types of transportation equipment. There has, of course, been some importation of railway locomotives and cars, trucks, and buses, and commercial aircraft, but in each case the ratio of imports to domestic production, over the last decade, has been less than 1 percent. In other words, unlike shipping, virtually all rolling stock for other U.S. transportation interests is produced in this country.

It is relevant to add that imports of transportation equipment, other than ships, are subject to ad valorem duties in keeping with the schedule listed on page 34 of my statement.

Oceangoing vessels, throughout the history of our Nation, have been treated uniquely, free from duty but subject to an entirely different set of laws and regulations from those applied to imported articles.

But this uniqueness takes on an unconformable dimension with the advocacy of foreign building for U.S.-flag ships. It is logical to expect the establishment of duties on foreign-built ships would come before the Congress for attention, should that remote possibility ever materialize.

Now, I would like to discuss the "Balance of International Payments" problem.

Viewed in the framework of the balance of international payments, the 1,229 foreign-built ships, to which I have referred, theoretically represented an outflow of more than \$6 billion. The build abroad proposal advanced by the Secretary of Transportation, it has been estimated, could involve another charge on the U.S. balance of payments of as much as \$1 billion. Oddly, his proposal is put forward at a time when the President of the United States and the Secretary of

the Treasury are striving to restore equilibrium to U.S. international accounts. Now, it comes at a time when the Secretary of Commerce is appealing to the American business community for restraint in making foreign investments and generally discouraging foreign expenditures by U.S. citizens.

For an authoritative definition of the relationship between "Foreign Ship Construction and the U.S. Balance of Payments," we retained Dr. Jacob J. Kaplan, a consultant in international finance and economics, who has had vast experience with the Department of State and the Agency for International Development. He is also the author of a recently published book entitled "The Challenge of Foreign Aid," a major reexamination of the ideology and operations of our aid program in which the balance-of-payments problem is treated in some depth.

Dr. Kaplan's principal conclusions are that "balance-of-payments considerations strongly urge the construction of ships in the U.S.," and that "at any agreed subsidy level, balance-of-payments considerations should be a major, if not a controlling, element in the design of a (maritime) program."

I have already made available to the subcommittee the complete text of Dr. Kaplan's report for the benefit of the record.

Listed on pages 35, 36, and 37, of my statement, are the conclusions of his report.

At this particular juncture, conclusion 2 confirms previous estimates that if foreign building is to become a matter of law, there will be a considerable drain on the balance of payments.

In his report, Dr. Kaplan also states:

While the balance of payments cost of foreign ship purchases can be estimated within a fairly narrow range, the net contribution of ship operating revenues to the U.S. balance of payments requires some rather shaky guesswork.

In this context, we analyzed the data furnished your subcommittee on April 12, 1967, by the then Acting, now Secretary of Commerce, and calls attention to an expert appraisal of U.S. balance-of-payments statistics, prepared in 1965, by a distinguished review committee. From the report of that group to the Bureau of the Budget, Dr. Kaplan cites this passage:

The estimate of receipts from ocean shipping could be significantly in error . . . the estimate of U.S. payments for ocean shipping . . . is highly unsatisfactory.

This comment, of course, concerns conclusions 7, 8, and 9, and we sincerely hope that the members of the subcommittee will have a chance to study the full text of the report.

Dr. Kaplan offers another observation relating to the contention that we must award foreign countries shipbuilding contracts so that they will be able to buy from us. He says:

The demand for U.S. goods and services generally is unlikely to be increased as a result of providing the principal shipbuilding nations of Europe and Japan with an additional one-half to one billion of dollar earnings.

The greater likelihood is that the foreign exchange reserves of either the shipbuilding countries or their immediate Western European neighbors would be increased by the amounts they earn for ship construction. They may well prefer to hold such additional reserves in the form of gold rather than dollars.

In his report, he explains in detail the recent practices of various shipbuilding nations with respect to foreign exchange dollars or gold investments.

And so it is clear that balance-of-payments considerations strongly support a policy calling for the construction of ships in U.S. yards rather than foreign shipyards. Now, to significant cost reductions that are possible.

Furthermore, numerous possibilities exist for reducing the cost of U.S. shipbuilding and ship operations through reliance on our own domestic resources.

In previous appearances before this subcommittee I listed some of them.

Today, I would like to comment on three particular categories.

The first is shipbuilding. I have said this before many times. Production-oriented construction of austere ships of standardized design could lead to a cost reduction potential of about 20 to 30 percent which is about equal to a 35- to 55-percent reduction in construction differential subsidy.

Through shipboard automation—others have already commented on this—cost reduction potential according to consensus of our data is definitely available and could reduce the operating differential subsidy by about 40 to 45 percent.

Finally, shipping systems improvement: Implementation of rapid shiploading systems, such as containerization or warehouse concept and improvement of cargo control, cargo preference cargoes, ship routing, and so on, could reduce the nearly three-quarters of shipping costs assignable to port operations. The cost reduction potential is estimated to be 20 percent or more of unit shipping cost. This should result in further reduction of subsidies.

Even a partial achievement of the cost reduction potential believed feasible for these three areas would remarkably improve our maritime posture and competitive position around the globe, and would obviate the illusion that our problem can only be corrected through foreign construction of our ships.

While total equalization of our costs with those of foreign nations is for all practicable purposes an unrealistic goal, the proper execution of programs in the categories outlined should enable our ships to be built in U.S. shipyards, operated under the U.S. flag and to compete in world markets with significantly reduced government subsidies per unit of cargo delivered.

My statement explains the conclusions I have just read.

Now, I come to the "Summary."

Senator GRIFFIN. Before you skip over that, you point to three broad categories where you will reduce cost and talk about shipboard automation. Are the unions going to cooperate in allowing that kind of automation that you are talking about?

Mr. HOOD. Before answering that question, Senator Griffin, may I read one more paragraph?

Senator GRIFFIN. It seems we would need more explanation of how you will accomplish this great saving.

Mr. HOOD. Automation of ship operations to allow crew levels below those now utilized is well within proven ship-design technology. An increase in vessel cost of about 10 percent for automation equipment

will allow crew reductions of 50 percent. Since crew costs represent about one-third of total costs for current ships and since operating subsidies covering the differential between U.S. and foreign crew wages are now 60 percent of total subsidy cost, the merit of such automation is readily apparent.

Here is the point I would like to emphasize. This program of automation should be accomplished in coordination with an expansion of our merchant fleet so that total shipboard employment is not reduced.

This would avoid unfair economic harm to our seamen and would preserve the valuable national asset these skilled crews represent.

Now to answer your question, Senator. It is my understanding that many of the seagoing unions agree with the point I have just made—so long as automation is tied to a realistic expanded merchant marine program.

Senator GRIFFIN. Thank you.

Mr. HOOD. Returning to the "Summary"; the achievement of total equality in shipbuilding and ship operating costs between the United States and other maritime nations is not within the realm of immediate possibility. Our society has progressed too far to make such a goal wholly attainable. Nevertheless, we have a critical and immediate need to maintain significant seapower.

To obtain this capability, the cost to the Federal Government will be considerable in terms of construction and operating payments. This reality has prompted some Government spokesmen to favor either building ships for our flag abroad, or greater dependence on foreign-flag shipping for our seapower requirements, or both.

It is suggested instead that the U.S. Government accept the precept that a cost differential of indefinite duration must be indemnified with subsidies, that a merchant fleet capacity and shipyard capability are essential, and then move to implement those actions which will significantly reduce the Government's share in shipbuilding and ship operating costs. Certain recommendations which could reduce total governmental subsidies well over 50 percent if properly executed have been offered here, and it cannot be denied that savings of this magnitude are worthwhile pursuing in the national interest.

Some people advance the notion that shipbuilding and ship operations are separate and distinct activities. From this they conclude, in essence, that reliance on foreign shipyards would not importantly decrease job opportunities for U.S. citizens, and that a greater use of foreign-flag shipping to transport our trade and commerce would not significantly take away job opportunities for our people.

This kind of thinking ignores not only some of the relationships already cited, but fails to take into account possibilities for more effective and efficient allocation of resources and manpower coming within the purview of maritime subsidies. In other words, despite the wage cost disparity, are there ways by which more jobs in the maritime industry can be held by U.S. citizens rather than citizens of some foreign country?

There are, but first the industry must be viewed as a single unit. Shipbuilding, ship repair, and all of the various categories of ship operations—subsidized and unsubsidized services, domestic deep-water carriers, inland waterways operators, the Great Lakes fleet, and all of the others—must be considered one with the other in terms of the aggregate.

To use a popular economic term, the industry can be strengthened by developing methods to "maximize its hardware," ships, shipyards, and personnel.

As a viable component of merchant marine capability, shipyard "hardware" can only be maintained and maximized in direct proportion to the availability of shipbuilding and ship repair in the United States. Obviously, to build or to repair in foreign shipyards would constitute a decision to forgo a fundamental part of the industry's hardware, to allocate shipyard jobs and production facilities to other nations, and to forgo significant opportunities for cost savings.

Clearly, our shipyard hardware is not presently "maximized." There is available production capacity to build more than 50 merchant ships annually, and more shipwork could be accomplished by increasing the number of workers. There is every indication that private shipyards could provide almost 60,000 more jobs for skilled workers if a stable and expanding workload were available.

Given the opportunity of an orderly, carefully planned program, the U.S. shipyard industry could meet and probably exceed the most ambitious ship replacement requirements of U.S.-flag operators—on this we are truly confident.

Thank you, Mr. Chairman and members of the subcommittee.

Senator BARTLETT. Thank you.

Senator Griffin?

Senator GRIFFIN. No questions.

Senator BARTLETT. Mr. Barer?

Mr. BARER. In your statement, Mr. Hood, you suggest two justifications on behalf of Secretary Boyd's program.

Mr. HOOD. I added a third extemporaneously; the third being the capability of the industry to meet the requirements of the fleet.

Mr. BARER. Now that third justification, I think, is becoming quite important. In the last few days just before this subcommittee, on the basis of that one factor it was suggested that we should build foreign and forget about the ability of the U.S. yards because they cannot do it. It has been suggested that we should build foreign for 2 years to see if the U.S. yards can tool up during that period of time to do the job.

We have also had it suggested that we should build in the United States for 2 years and see whether or not they are doing a job and then decide whether or not to go forward.

I think that is probably the crucial factor.

I am glad you put it in extemporaneously. You suggest in your statement that the shipyards are operating only at 60 percent capacity.

Mr. HOOD. That was the finding of the Ernst & Ernst study.

Mr. BARER. Do you have any idea what the capacity of the Japanese yards are right now? What percent of capacity they are at?

Mr. HOOD. I would say they are probably operating close to full capacity.

Senator BARTLETT. Is that true of the small yards?

Mr. HOOD. Probably not true of all of the smaller ones.

Senator BARTLETT. I was told they were being quite badly hurt.

Mr. HOOD. I was thinking mostly, Senator, in the context of yards capable of building vessels comparable to our present maritime effort.

Mr. BARER. Do they have more shipyards capable of building the types of vessels than we do?

Mr. I. "Capability" is a misused word. We have a capability here, a capability that probably cannot always be defined in finite terms. Utilization of facilities is a function of the available workload.

Mr. BARER. Do they have more physical facilities devoted right now within the jurisdiction of their nation to shipbuilding?

Mr. HOOD. You are asking me to compare apples and oranges because they have some facilities to build, as you know, supertankers, which are not presently available in this country.

Mr. BARER. But you think they are probably at a higher percentage of capacity right now than we are.

Mr. HOOD. Definitely.

Mr. BARER. You also stated that inasmuch as you are only at 60-percent capacity the existing facilities you have now could turn out the number of ships we need; is that correct?

Mr. HOOD. Yes.

Mr. BARER. If it is true that we are only at 60-percent capacity and there is an existing capacity to build additional ships and if it is true that Japan is at a greater percent of capacity right now than we are, perhaps you can shed some light on this example we had the other day from—

Mr. HOOD. Mr. Logan?

Mr. BARER. Yes.

Mr. HOOD. Yes; I studied his diagram and again will say that production scheduling is a function of the available workload. When you have a decreased merchant ship workload such as today confronts yards in this country, it is only natural that a longer production cycle will take place to get the best out of the facilities while keeping the work force together. In addition, with respect to the contract awarded to the American yard, cited in Mr. Logan's example, the time schedule for delivery of the ships was specified in the invitation to bid and the shipyard had no control over that factor.

The Maritime Administration and the owner specified a time period to fit in with the ship lines' planned replacement and operational requirements.

Mr. BARER. Just so this is in the record, generally what that example showed is that for four ships, comparable ships being built here and in Japan, there was a 2-year longer time period taken for those four ships to be delivered here in the United States.

Mr. HOOD. Again, Mr. Barer, you are comparing apples and oranges. You are comparing two entirely different types of shipbuilding environments.

Mr. BARER. But the point is that they are all similar ships and all will be in the business of shipping.

Mr. HOOD. Yes, similar ships but produced under entirely different circumstances.

Mr. BARER. Is it your assertion that a large part of this delay was because of the three-party relationship involving the shipyard, shipping company, and Maritime Administration?

Mr. HOOD. A part is due to that. Another part is due to a rigid requirement imposed on the U.S. shipyard.

Mr. BARER. Why would it be—perhaps you could explain?

Mr. HOOD. When an invitation for bid is issued shipyards are asked to bid on delivery in an exact number of days for each ship. On that basis, the shipyards make their proposals and a contract is awarded accordingly.

Mr. BARER. What is the basis for determining when you want this delivery date to be? Why would they choose to have their ships delivered 2 years after the competitors?

Mr. HOOD. You would have to consult the shipping operators for that information.

Mr. BARER. Apparently they were not happy with it because they brought this forth as something detrimental to their competitive position.

Mr. HOOD. This could be. There may be other factors involved. Design changes after the beginning of construction frequently affect the production timespan. In other instances, strikes and work stoppages beyond the control of the shipyards have delayed the delivery of ships.

Mr. BARER. What is your position on construction subsidies being paid directly to shipyards rather than through the—

Mr. HOOD. As I said in the statement, we do not have enough details to comment intelligently on this idea. Some 2 years ago, in discussions with the ship operators we agreed to this idea in principle but no one, including the shipyards, has yet come up with a workable method of operation satisfactory to all parties.

Mr. BARER. Do you find the participation of the Government in the formulation of these shipbuilding contracts to be a principal factor in the delay and resulting expense in building ships?

Mr. HOOD. The administrative jungle that surrounds a shipbuilding contract is tremendous, and it adds to confusion, delay, and cost.

Mr. BARER. Do you think that there could be a direct subsidy program developed with subsidies directly to the shipyard that would short circuit much of this administrative jungle?

Mr. HOOD. Yes.

Mr. BARER. In your statement you used figures for 1963 showing that approximately 40 percent of the business was merchant vessel. What has the trend been since 1963 up to the present?

Mr. HOOD. I checked on that yesterday. The Bureau of Census issued a supplement in 1964 but it did not reflect a breakdown of work categories. My feeling is that it is just about the same.

Mr. BARER. In other words, approximately 60 percent of the business is Navy work?

Mr. HOOD. Navy oriented; yes.

Mr. BARER. Do you believe that the present disparity in cost which is claimed between the foreign shipyards and U.S. shipyards would continue if foreign building became a reality?

In other words, would the foreign shipyards adjust their prices to the new order?

Mr. HOOD. I tried to deal with that subject in my statement. The way was one paragraph that I did not read which bears on this point. It was a quote from a British journal.

This publication commented on the fact that our Government was considering a change in maritime policy whereby some ships might be built in foreign shipyards and observed if the United States does then open the gates to foreign building for ships, foreign yards might then

for one while be able to call the tune, and in calling the tune I interpret that to mean that their prices are going to rise. They have, according to the foreign trade journals, been suffering from unsatisfactory profits, poor levels of activity and related problems.

Mr. BARER. Two days ago Mr. Nemec testified that the new Lykes vessel, *Sea Barge*, would have a replacement ratio of approximately 5 to 1 over a conventional World War II-type vessel.

How does that factor fit in with the estimates as to the number of vessels you could build a year?

Mr. HOOD. It fits right in because, as Mr. Nemec pointed out, ships are not necessarily replaced on a 1-for-1 basis. The ratio is probably 3 to 5 for 1 with the advance in technology that is taking place.

Mr. BARER. In other words, you are absorbing that technology and still being able, on the basis of your figures, to build 1 for 1?

Mr. HOOD. That is correct.

Mr. BARER. That is all.

Senator BARTLETT. Did you recently write a report, Mr. Hood, on the Japanese shipbuilding industry?

Mr. HOOD. Senator, I was in Japan in late February and early March and visited a number of their shipyards. I did prepare a report of my visit and believe I sent a copy to you and other members of the subcommittee.

Senator BARTLETT. You did send a copy to me and I must confess I have not read it yet but in a few days I am going to be on an airplane for a long while which will take me to a State where there will be no opportunity whatsoever to examine the shipbuilding industry and I intend to read your report on that flight.

I would like to ask you now: Mr. Barer alluded to the chart given to the committee by Mr. Logan the other day and emphasis was placed upon the long delays encountered insofar as a Maritime Administration is concerned.

Did your studies in Japan reveal that the shipyards and shipbuilders there had any like problems with the Government?

Mr. HOOD. No, sir; by no means. The whole attitude, the whole environment is entirely different in Japan, as I saw it. Shipbuilding is a major part of the Japanese economy, an important factor in its balance of trade. As a consequence, the industry receives extraordinary attention from the Government. The shipbuilding industry is encouraged in a variety of ways, and is in effect a co-partner with Government in the formulation of policy. Financing incentives are also quite good, and Japanese shipyards clearly have the advantage of a paternalistic government.

Senator BARTLETT. You did not observe there the Government red-tape to which objection was made here?

Mr. HOOD. No, sir.

Senator BARTLETT. You told Mr. Barer that there had been difficulty as between the shipbuilders and ship operators in arriving at a satisfactory means of paying construction subsidy directly to the shipyards. I am interested in that. What would the problems be there?

Mr. HOOD. A part of the problem, Senator, is that the ship owners understandably want to make sure that true parity prevails for the ships built in U.S. shipyards. In other words, though a direct shipyard subsidy program would minimize the role of the Government, the ship

operator still wants a voice in the establishment of the subsidy level per contract.

France employs a direct shipyard-subsidy program using a very complicated formula which frankly I don't understand.

Senator BARTLETT. What is it, ship by ship?

Mr. HOOD. Contract by contract.

Senator BARTLETT. Contract by contract.

Mr. HOOD. Yes, sir.

Senator BARTLETT. Whether one ship or a fleet?

Mr. HOOD. Yes.

Senator BARTLETT. I am interested in what you had to say on page 25 regarding the U.S. Navy contract or contracts let to British shipyards.

Mr. HOOD. Yes, sir.

Senator BARTLETT. You said in only four invitations the British yards dropped their bidding from 19 percent above U.S. prices to 1 percent below; then 22 percent below. Finally, 4½ percent below.

Mr. HOOD. That is right.

Senator BARTLETT. And thus received three awards. These were separate transactions?

Mr. HOOD. Yes, separate transactions. These, Senator, you may recall, are a part of the agreement between the United States and the United Kingdom affecting the reciprocal purchase of F-111 aircraft from the United States in return for which we agreed to permit British shipyards to bid competitively on several categories of ships for our Navy.

Senator BARTLETT. And the final price for all these ships was 4 percent below or did it range—

Mr. HOOD. For the last transaction, it was 4½ percent below the U.S. price.

Senator BARTLETT. Did the Navy award any contracts at 19 percent above U.S. prices?

Mr. HOOD. No, sir. That contract was awarded to an American yard, as it should have been.

Senator BARTLETT. You said in the first of the three broad categories you outlined that the construction differential subsidy reduction from 35 to 55 percent could be arrived at by production-oriented construction of austere ships and standardized design. What do you mean by "austere" ships here?

Mr. HOOD. At this moment, Japanese and West German shipbuilders are in this country endeavoring to stimulate interest in their standardized design ships to capture a share of the developing market for Liberty ship replacements. These are the types of ships we had in mind. We recognize, however, that ships being built for the subsidizing operators are much more sophisticated.

Senator BARTLETT. Generally speaking, you think the austere ships would be suitable for the merchant marine we hope to have?

Mr. HOOD. We have to recognize that ships are needed and that the Government is to continue to share in the cost of building and operating ships every effort should be made to develop designs that would minimize that cost.

Senator BARTLETT. Perhaps you covered this while I was absent. Did you express any view as to Secretary Boyd's proposal as to what we should do concerning a reserve fleet by way of monitorization?

Mr. HOOD. No, sir; I did not specifically comment on that. I assume you refer to the 150 Victory ships and the 100 APS's.

Senator BARTLETT. Right.

Mr. HOOD. After Secretary Boyd outlined to us the first version of his proposals, we responded to him and said we considered these reserve fleet reactivations as illogical and uneconomic.

Senator BARTLETT. Mention has been made repeatedly that the U.S.S.R. is building a lot of its ships abroad.

Mr. HOOD. Absolutely correct.

Senator BARTLETT. Its own shipyards are busy.

Mr. HOOD. They are operating, according to all estimates, at nearly 100 percent of capacity. I don't think that reliance on the shipyards of other countries will continue once their goals are achieved in terms of size and quality of their merchant fleet.

Senator BARTLETT. Are they building more shipyards in their own country?

Mr. HOOD. I don't know that they are building more shipyards, but they are modernizing many of their older facilities.

Senator BARTLETT. This is a question relating to that that I specifically wanted to ask you. I have heard this and I don't know whether it is true or not, that Russia does not customarily, if at all, pay in cash for the ships it buys abroad but makes payment by way of goods.

Do you have any information relating to that?

Mr. HOOD. There was an article in one of the trade publications in recent months, Senator, indicating that a Russian shipyard had taken a contract to build some ships for a Greek owner in a barter type of arrangement. This was done even though it meant utilizing facilities within Russia while they in turn were awarding contracts for their own ships to other nations.

Senator BARTLETT. As you see it, if we build abroad we pay in dollars.

Mr. HOOD. Yes, sir. We made a suggestion some years ago, Senator, that ship construction should be coordinated in some way with the foreign aid program but it did not get very far.

Senator BARTLETT. I know how we could get the gold to pay for anything we wanted abroad if the administration would only listen to me. [Laughter.]

Now, Mr. HOOD, when the last witness has been heard by this subcommittee, the subcommittee is going to be in a position where it will have to meet and hopefully come out with a new program. What we know now is that there are widely divergent views as to what ought to be done, centering around construction abroad and an independent maritime agency.

What if the committee divorced foreign construction and independent agency from a draft proposal and later had information, from whatever source, that if this bill were to pass the Congress that it would be vetoed? I don't suspect any notice of veto would be given in advance but I am just making this assumption.

What, in your judgment, in such a circumstance, should the committee do? We need guidance. We need education. We need help. You have a great problem. All of you are engaged in the maritime industry. Our hour of truth is approaching likewise.

Mr. HOOD. Well, Senator, I would hope that having once made the decision, as you outlined it, the subcommittee would stick to it regardless of any suggestions of a veto, primarily because the maritime situation has become so critical from the standpoint of need for ships that something has to be done and I don't believe that administration would indefinitely fail to take cognizance of that need.

Senator BARTLETT. Do you have anything further?

Senator GRIFFIN. No.

Senator BARTLETT. If you care to, and if not, it will be understood, do you have any comment to make on the independent maritime agency?

Mr. HOOD. An independent agency is perhaps an ideal organizational position for the maritime problem, but I have always viewed that as kind of a secondary problem. I think that, once a policy and a program are enunciated, this problem will take care of itself.

Senator BARTLETT. I think it was Paul Hall who testified the other day who made the recommendation that we engage in an exclusive domestic program insofar as shipbuilding is concerned for 2 years and then reexamine the entire situation to see if our needs are being met.

I hope I quote Mr. Hall correctly. What would you say to that?

Mr. HOOD. Mr. Chairman, my answer would be that several of our members, in their own speeches in recent days, have said, "Give the American shipbuilding industry the chance to demonstrate that it can fulfill the needs before you resort to foreign building." However, I don't believe that capability could be demonstrated in 2 years. Preparation of designs and awards of contracts would take that long.

Senator BARTLETT. Mr. HOOD, you made a powerful and helpful statement. The committee thanks you.

Mr. HOOD. Thank you, Mr. Chairman.

Senator BARTLETT. Tomorrow the committee will meet at 9:30, a very late hour, and we will hear Congressman Reinecke, of California, Alfred Segal and Joseph Curran, and insofar as the committee is aware, that will conclude the list of witnesses unless some pop up at the last moment and Mr. Barer tells me I am wrong, we have some more left, but we will assign later hearing dates.

The committee will be in recess until 9:30 tomorrow morning.

(Whereupon, at 11:10 a.m., the subcommittee was recessed to reconvene at 9:30 a.m., Thursday, June 29, 1967.)

(The following letter was subsequently received for the record:)

GRACE LINE, INC.,
New York, N.Y., August 8, 1967.

HON. E. L. BARTLETT,
Chairman, Subcommittee on Merchant Marine and Fisheries,
Committee on Commerce, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I should like to submit for the record a response to the statement made by Mr. Edwin M. Hood, President of the Shipbuilders Council of America, before your Committee on Wednesday, June 28, during hearings on "The Present and Future of the United States Merchant Marine."

You will recall at the time of my appearance before your Committee on June 1, I submitted a time-bar graph showing the difference in construction time for comparable vessels between United States and foreign shipyards. In response to a request by Committee Counsel for an explanation of this time difference, Mr. Hood stated in his June 28 testimony that the construction time of a vessel built in U.S. yards was stipulated by the operators and had nothing to do with the efficiency of U.S. shipbuilders.

As a U.S.-flag operator, I want to state categorically that there is not one shred of validity in this statement by Mr. Hood. As owners, we are interested

in getting delivery of our ships at the earliest possible date after the award of the building contract. Shipbuilders in the United States are not faced with the competition from foreign or even domestic sources and as a result display something of a cavalier attitude in their dealings with U.S.-flag owners in regard to deliveries.

In fairness to the U.S. shipbuilder, however, I must repeat what I stated on June 1, i.e. that a great deal of the problem of protracted construction schedules is caused by the three-party contracts required for subsidized shipbuilding in United States yards. Because the U.S. Maritime Administration, the owner, and the shipbuilder are all parties to shipbuilding contracts, the procedure for building ships is subjected to interminable review, endless hearings, bureaucratic seeing and costly duplication of work. I sincerely believe that if the Maritime Administration could be eliminated as a third party to shipbuilding contracts, U.S. shipbuilders could probably achieve in time delivery times equal to the best of foreign yards.

In the case illustrated in my testimony before your Committee, Grace Line was put at a grave competitive disadvantage because of the excessive time delay in obtaining delivery of its six Lucia-class vessels. Our competitor, CSST, awarded ship construction contracts almost a year after we did and obtained delivery of all four new ships before we received delivery of our first. As we can well appreciate, I am sure, the effect on our competitive posture of a competitor who has striven to duplicate the essential design features and components of our new ships and who has them in full operation almost a full year before we were able to have our six vessels fully in service. Regardless of what defense the Shipbuilders Council makes, I think you will readily recognize that U.S.-flag operation is significantly hampered by this situation.

Sincerely,

H. R. LOAN

COMMENTS ON HOOD JUNE 28 STATEMENT

Increase Maritime Industry Productivity

Mr. Hood makes a good case for exactly the kind of program DOT has been advocating for maritime. He would minimize the use of high cost U.S. labor and maximize the use of low cost abundant capital. If the Department can count on Mr. Hood's support in this area something might be worked out in the shipbuilding area.

Shipyard Industry Productivity Guarantee

Hood also includes some very substantial potential savings in the shipbuilding area. If he were willing to go for some system of insuring these savings through bids or foreign construction if the bids were too high some deal might be worked out.

The Real Effects of Foreign Competition p. 1-4

Mr. Hood like most observers must interpret the domestic economic consequences of foreign competition on the shipyard industry. The domestic shipbuilding industry like all other domestic industries is separated from its foreign competition by distance, immigration and other barriers. It has no such protection from other domestic industries, however, and in the absence of artificial support from the Federal Government other more successful domestic industries would drain away its resources if labor management and capital. The question of shipyard support by the Government then resolves into a question of the degree to which successful domestic industries should be asked to support with their taxes an industry which has not been able to assemble a competitive mix of economic factor inputs which would enable it to attract and hold factor inputs at United State competitive factor cost relationships.

Hidden Federal Subsidies to Other Industries

The shipyard industry criticizes the Federal Government support of the aerospace industry (p. 4) yet not a single shipyard complex saw fit to bid on the FDLS contract. The FDLS system has been effectively strapped by the conventional shipyard industry yet this is exactly the kind of system which would have permitted the shipyard industry to compete for economic resources on equal terms with the aerospace, automobile, computer, coal, soybean and other successful U.S. industries.

Illogical Case for Artifical Support for Shipyard Worker Standard of Living

The U.S. standard of living is the highest in the world because worker productivity is the highest in the world.

If all U.S. workers' productivity declined overnight by half, no possible Federal subsidy could raise overall real standards of living back to the pre-decline level. The shipyard industry asks special treatment in that efficient industries are asked to yeild part of their real productivity to equalize the deficient real productivity of the shipyard industry.

Argument that Other Industries Enjoy a Larger Domestic Base than Maritime Industry

Mr. Hood argues that maritime industry is unique in that it has no safe domestic base. On p. 6 he notes that we have 50 percent of civil aviation miles flown and 52 percent of motor vehicles in use in the world. He goes on on p. 11 to show that we have 25 percent of the world's ocean trade volume. While this is not as high as avaition and motor vehicles how big must the base be? The U.S. has by far the largest ocean-borne

trade of any Nation in the world and therefore has the same kind of domestic base as any other U.S. industry.

Argument that Construction Differential Subsidy is Costless

The argument that the construction-differential subsidy is costless (p. 14) because of the economic activity and taxes it generates would be true only if you could assume that the economic resources used by the industry would otherwise be entirely unemployed. This is not the case in a relatively full employment economy which we have. Shipyard workers are basically industrial laborers who would shift to employment in other industries at approximately the same rate of earnings. The income taxes assessed against their income as the result of employment in non-subsidized industry would be a net gain to Federal revenues.

Cost-Benefit Analysis

The "cost-benefit" analyses are based on invalid assumptions (pp. 15-21). It assumes no alternative uses for shipbuilding industry resources when in fact these are actually superior alternative uses. It assumes "positive" balance of payments gains when no such measure exists. There are real economic advantages in international trade. We export goods and services whose real economic inputs under U.S. economic factor cost relationships are lower than the required real inputs for the goods and services we import. The real standard of living in both importing and exporting countries are thus raised by mutually beneficial international trade. The real balance

of payments effect of buying ships abroad would be a plus 50 percent (the current construction-differential subsidy) not a minus 10 percent as the "cost-benefit" assumes.

Boyd Proposal Criticism

The only effect on inland waterways operators of permitting foreign-built equipment to operate on the inland waterways would be a one-time write down of their capital investment in equipment if foreign-made equipment proved less costly as replacements for existing equipment. Their rate competitive position would be improved vis-a-vis railroads because of lower capital costs.

The barge and towboat construction industry could be quite adversely affected however there were exports of \$10,000,000 worth of barges, tugs, towboats, and dredges in 1964. There have also been exports of deep sea oil drilling rigs. At least some parts of the marine construction industry are cost competitive on the world market. The U.S. barge and towboat construction industry because of its large scale of operations should be able to compete effectively on the world market.

Shipyard Prices

Perhaps the shipyard industry should advance some scheme to test their "belief" that costs could be reduced 20-30 percent by multiple series construction and improved procurement procedures (p. 25).

There is no connection between spot charter rates and the capital cost of ships and the argument is irrelevant (p. 26). There is a direct relationship between the long-term charter costs and the capital costs of

ships because long-term charter rates must include the cost of capital.

Mr. Hood's comment on the need for a long-term stable rate of operations at a volume high enough to get some real economies in output per worker are certainly welcome (p. 27). What is lacking through the whole statement is any indication of how the Government can be assured of a reasonable chance of achieving these objectives under current institutional arrangements.

Shipyard Facilities

Facilities to construct 600-foot container ships and 37,000 DWT tankers are probably obsolete for the container ships and are certainly obsolete for tankers (pp. 28-29).

Most container ships will probably be in the range of 800-1000 ft. ships in the future and tankers will be at least 80-100,000 DWT.

The proposition that practically all the net payments for ships would be added to foreign exchange reserves or converted into gold (p. 36) would assume that shipbuilding dollars are somehow unique and would be used only in a way to worsen U.S. balance of payments problems.

Ship construction dollars would be treated the same as dollar earnings from Honda Motorcycles, Rhine Wine, Swedish Glass, and U.S. tourists; most of the earnings would be used to finance additional imports of goods and services from the U.S. on current accounts.

American Merchant Marine Institute, Inc.

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July 26, 1967

Honorable Alan Boyd
Secretary of Transportation
FAA Building, Room 800-W
800 Independence Avenue, S. W.
Washington, D. C.

Dear Alan:

I am enclosing a copy of the statement which I made on Tuesday immediately following your testimony, together with a copy of the colloquy which followed. I am also enclosing a copy of a story on my testimony as well as yours from the Journal of Commerce of Wednesday, July 26.

It may be that you have already seen these materials but I believe they are of significance.

Sincerely,

RALPH E. CASEY

Enclosures

OFFICE OF SECRETARY
OF TRANSPORTATION
EXECUTIVE SECRETARIAT

1967 JUL 27 AM 9 49

U.S. DEPT.
OF TRANSPORTATION

STATEMENT OF
RALPH E. CASEY
PRESIDENT, AMERICAN MERCHANT MARINE INSTITUTE
ON BILLS TO ESTABLISH AN
INDEPENDENT MARITIME AGENCY
before the
COMMITTEE ON MERCHANT MARINE AND FISHERIES
U. S. HOUSE OF REPRESENTATIVES

July 25, 1967

Mr. Chairman and members of the Committee, my name is RALPH E. CASEY, President of the American Merchant Marine Institute. Although in my previous appearances before this Committee, I have outlined the nature of our organization, I want to stress the fact that our membership is composed of 37 companies operating ships of all types -- passenger, dry cargo, tankers, and bulk carriers. Eight of our companies receive operating-differential subsidies, but all the rest are in the non-subsidized category.

You will recall that I testified before this Committee last year on similar bills and at that time favored the enactment of legislation to establish the Maritime Administration as an independent agency in the Executive Branch of the Government. The most compelling reason I advanced for this view was that it seemed a necessary first step in the long-delayed effort to revitalize the American merchant marine.

You will recall too, I am sure, that when these hearings took place last year there were many who felt that we were fighting a losing battle to keep Maritime out of the Department of Transportation. But we were desperate. We had no program. The Administration seemed unwilling to recognize the desperate situation in which we found ourselves. All that had transpired was the submission of two reports -- the Task Force Report on

the one hand, and the Report of the President's Advisory Committee on the other. The Institute felt that a sounder approach could be found than was contained in either report but no one in Government seemed sufficiently interested to find a solution.

It has long been my view, and the view of my principals, that the real problems facing the merchant marine can be solved by an Administration and a Congress working together to implement with necessary funds a sound maritime program based on our well-established maritime policy, and that this can be accomplished by a Maritime Administration located almost anywhere in the Executive Branch of the Government.

I have said before that a Maritime Administration without maritime funds is nothing -- no matter how independent it may be; and that a Maritime Administration with funds is something -- no matter where it is.

Early this year, the Secretary of Transportation discussed with many groups an entirely new program to revitalize the merchant marine. This program met the approval, generally, of the American Merchant Marine Institute. An integral "part of this package" involved the transfer of the Maritime Administration to the Department of Transportation. We accepted this condition in approving the program. As I have stated, the original position was founded primarily upon the need for a sound, progressive and adequate program for revitalizing our decadent merchant fleet. It was our thought that the necessary time and attention to work out such a program could only be found in an agency devoted solely to the problems of the

American merchant marine. However, recognizing that if the program now proposed by the Secretary of Transportation were to be submitted to the Congress with the full support and endorsement of the President of the United States, and if it were enacted into law, it could well form a solid foundation upon which to build a new and well-balanced merchant fleet under the American flag. Hence, it is our considered judgment at this time that we should support the transfer of the Maritime Administration to the Department of Transportation.

In this connection, however, it should be explained that we do feel that a degree of independence within the Department of Transportation should be maintained. Therefore, we support such transfer on the condition that its status within DOT will be along the lines of the bill approved by the Senate during the last session of the Congress, but amended to give the operator the right of appeal on adverse Maritime Board determination to the Secretary of Transportation or to the courts.

There are some who believe that establishing an independent agency would remove maritime activities from the entire budgetary process applicable to all agencies in the Executive Branch of the Government. This is not so. Fund requests would still have to be funneled through the Budget Bureau in the Executive Office of the President. And, if any version of these bills is passed, over the strenuous objections of the Administration, and if the President should feel compelled not to veto the bill when it reaches his desk, Gentlemen, I believe we will have won a battle and lost the war.

As one of the sponsors of these bills testified, "no one can force the Administration to ask for or spend money it does not want. I know that Congress cannot restore our American-flag service or maritime industry if the Executive Branch is unwilling." Mr. Chairman, we must be realistic. Back in Boston, we used to say, "You can't fight City Hall!" This is what we are attempting to do if we pass these bills over the objection of the Administration. We would have an independent agency that was persona non grata with the President. This, in my judgment, would not be in the interest of the long-range welfare of the maritime industry.

I must point out that whether you agree or disagree with the program which the Secretary of Transportation has outlined, it involves the expenditure of more Federal funds than has ever before in the history of the United States been proposed by any responsible Federal official, except in time of outright war. The five-year program calls conservatively for the expenditure of over 3 billion dollars. We in the Institute feel this type of proposal is deserving of the most serious and deliberate consideration. Certainly, we express the hope that a new maritime program will not be scuttled by another hassle over the issue of dependence or independence of the agency administering maritime activities.

Thank you.

Mr. Chairman, I have necessarily kept the statement short, because I believe this issue has been thoroughly explored by the witnesses pro and con, and I merely subscribe to the proposition that unless the Congress and the Administration work together, then the maritime industry cannot obtain the kind of support and revitalization we need.

The Chairman. Mr. Ashley.

1 Mr. Ashley. I don't have any particular questions, Mr.
2 Chairman.

3 I must say that I think you make a short but persuasive
4 statement, Mr. Casey, persuasive to me, particularly, in its
5 concluding remarks, which were concerned with the long-range
6 picture, and we are in a position here to be very destructive,
7 as well as constructive.

8 I think that you underscore that point quite effectively.

9 You do say that previous to the proposal submitted by Mr.
10 Boyd that the Administration has been silent, and has not
11 exerted much effort to develop a program.

12 In all fairness to Mr. Nicholas Johnson, and I think we
13 have to make one exception, don't we?

14 Mr. Casey. Well, Nicholas Johnson's ideas were basically
15 contained in the Task Force Report, which met with very little
16 acceptance by anybody in industry, as tending to give us the
17 kind of a program which he thought in the long run would be
18 one which would revitalize the American merchant marine.

19 You will remember that we have come a long way from the
20 Task Force recommendations, when Secretary Boyd outlines the
21 kind of program he is outlining now.

22 Mr. Ashley. I could not agree with you more, but there
23 is a difference between acceptance and those efforts in those
24 days. The efforts were there, and that perhaps in a sense
25 was a starting point. The rejection of those ideas led us

1 into other areas and other directions.

2 Would you not agree with that?

3 Mr. Casey. Yes, I would.

4 In other words, I would have to modify my statement to the
5 effect that they made an effort by one of the people charged
6 with the merchant marine, but the effort, in our judgment, fell
7 far short of what we thought should come forth.

8 Mr. Ashley. Of course.

9 Thank you, Mr. Chairman.

10 The Chairman. Mr. Downing.

11 Mr. Downing. Mr. Casey, you always deliver a cogent
12 statement, and one to the point.

13 We have come a long way since Congress first started react-
14 ing to the inaction of the Administration.

15 You will agree with that?

16 Mr. Casey. Yes.

17 Mr. Downing. We now have some sort of a program, not
18 what most of us want, in its entirety, but at least a program.
19 We are on our way.

20 My only concern is that you may be jumping off the ship
21 before it docks. I wish you would stay on it a little while
22 longer.

23 Certainly you don't agree with the proposal which would seek
24 to revitalize those idle ships in our Reserve Fleet?

25 Mr. Casey. Mr. Downing, you picked out the one aspect

1 of the program about which we have some serious doubt. That
2 is, the remodeling of the 100 Victory type troop ships.

3 However, in an area of this kind, if the military says
4 that the expenditure of the funds that has been called for in
5 this program is going to be well spent in putting those ships
6 in a Reserve Fleet condition, while we would hope that the
7 Administration would take that money and put it to new ship
8 construction, again, I have been told by the Secretary of
9 Transportation that this is not an if/or situation, that if
10 that money is not spent to remodel those ships, that the money
11 goes out of the program, and is not going to be spent for new
12 ship construction.

13 I have to take some of these things in the way in which
14 they are put to me, and I am not going to quarrel with the
15 Administration when they say this.

16 I think it is a shame now that we are at loggerheads with
17 the Administration and the Congress over a program that is
18 designed to help the shipbuilding industry far more so than any
19 program which has ever been put forth by the Administration
20 before, and help the ship operators, and they are, of course,
21 above all others, that are needing help at the present time, and
22 by reason of one or two aspects of this program, the thing is on
dead center.

24 I think it is a very disillusioning situation.

25 Mr. Downing. I think you may be in error as to the

1 Secretary and the Reserve Fleet program.

2 In his speech in Baltimore, he said, on page 12:

3 "Let me point out here that even if we don't use these
4 funds to revitalize our Reserve Fleet, they would not be avail-
5 able for other maritime programs."

6 Mr. Casey. That is what I meant to say.

7 Mr. Downing. I did not understand.

8 Mr. Casey. We would not get the money if we don't use it
9 for this purpose.

10 Mr. Downing. Does building foreign bother you at all?

11 Mr. Casey. When you say "bother me," the fact that this
12 is holding up the program bothers me. I will say that.

13 I believe that what has been put forth is a reasonable,
14 feasible, sensible proposition.

15 While some of the Members tried to indicate that Secretary
16 Boyd has been inflexible on this, he has not been inflexible.
17 Originally the proposal was to build foreign, even before the
18 appropriations for construction subsidy were exhausted here.
19 They retreated then to the point that they would exhaust all
20 the appropriation before they would be able to build abroad.

21 At that time, it was 15 ships in the United States, and
22 then sufficient ships built abroad to rebuild the fleet. Then
23 they retreated once more, to having a hearing process so that
24 nobody who built ships at American prices would be hurt in the
25 process.

Then they increased the 15 to 30, and the recent movement was that they would limit the number of ships built abroad in the first five years to some percentage of the ships built in the United States.

I think they have made a lot of movements. The trouble is that the people who are opposing it made no movements.

Mr. Downing. The people who oppose it made no movements?

Mr. Casey. I am talking about the shipyard workers, the shipbuilding industry who have insisted that there be no scintilla of building abroad under any circumstances, no matter how many ships there might be, but wanted to insist that all the ships be built here in the United States.

This to me is a completely intractable position.

Mr. Downing. I think that is all, Mr. Chairman.

The Chairman. Mr. Dow.

Mr. Dow. Yes.

Mr. Casey, you have made a very capable statement.

Why do you say it is a completely impracticable position?

Mr. Casey. Intractable, inflexible.

Mr. Dow. I see.

You would not object, in other words, if all the ships are here, and we had many foreign. You are interested in a substantial fleet that you people can operate.

Mr. Casey. Exactly, sir, and in fact, I might go one step further, that I don't believe that we ought to get mixed

1 up in arithmetic and figures about how many ships are going to
2 be built here, and abroad.

3 We are interested in a strong American-flag merchant fleet
4 and we are down to the point where 665 ships are over 20 years
5 of age.

6 In determining how many ships are built here, and how many
7 abroad, I think we ought to get off the dime at this moment,
8 and provide for something that meets the Administration's
9 approval, and get a program started.

10 The first ships to be delivered under this program will
11 take two or three years, and I would like to find out whether
12 in the course of the next five years the prices that we pay in
13 this country as compared to the prices abroad, and the delivery
14 schedule compared to the deliveries ^{abroad} ~~before~~ is not a standard
15 that we should have before us.

16 They have now provided that in five years the Congress
17 would have to reenact this building abroad, after five years,
18 another point that they retreated on.

19 Mr. Downing. If you stick around, you may get others.
20 Just because you got your goal, you jumped off. You are
21 interested in a strong merchant marine fleet. You don't care
22 where it comes from. I can understand that interest. You
are representing your interest, when you accomplish that.

24 Mr. Casey. And I will go one step further, to say that
25 my people would prefer to build their ships in the United States.

1 Mr. Downing. I think so.

2 Mr. Casey. And there has been some question raised as to
3 this: Under a 150 ship program built in the United States in
4 the next five years, everyone seems to assume that all the
5 ships that the Administration, Secretary Boyd, has talked about
6 will be built. After all, it is going to take some operators
7 with an interest in building them, if they are ever going to
8 be built.

9 Unless someone does something to straighten out that labor
10 situation in New York, I doubt they ever will be built.

11 Mr. Downing. Thank you, Mr. Chairman.

12 Mr. Dow. Thank you, Mr. Casey, and Mr. Chairman.

13 The Chairman. Thank you very much, Mr. Casey.

14 We will recess until tomorrow. Our witness tomorrow will
15 be Mr. Paul Hall, representing the Seafarers International
16 Union.

17 The meeting will recess until tomorrow.

18 (Whereupon, at 12:20 p.m., the committee adjourned, to
19 reconvene at 10:00 a.m., Wednesday, July 26, 1967.)
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The Journal of Commerce

AND COMMERCIAL

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NEW YORK, WEDNESDAY, JULY 26, 1967

From AMMI's Casey

Boyd Ship Plan Defended Strongly

By ROBERT F. MORISON

Washington Bureau

WASHINGTON, July 25 — A powerful U. S. flag shipping group made a strong plea to Congress today to give "serious and deliberate consideration" to the much criticized maritime plan of Transportation Secretary Alan S. Boyd and not cause a new program for the merchant marine to be "scuttled by another hassel" over where the Maritime Administration should be placed.

Ralph E. Casey, president of the American Merchant Marine Institute, told the House merchant marine subcommittee that whether its members agree or disagree—and they overwhelmingly disagree with Mr. Boyd—the secretary's ideas involve "the expenditure of more federal funds than has ever before in the history of the United States been proposed by any responsible federal official, except in time of outright war. The five-year program calls conservatively for the expenditure of over \$3 billion."

Mr. Casey, who followed Mr. Boyd to

the witness chair after that administration official responded to two hours of, at times, unfriendly questioning, also said the administration had made concessions and that Mr. Boyd was "not inflexible."

"I think they've (Mr. Boyd and the administration) made an awful lot of movement. The trouble is the people who oppose this have made no move at all . . . they are completely intractable," Mr. Casey said.

One of the chief critics of Mr. Boyd's ideas is Paul Hall, president of the Seafarers International Union, who will testify tomorrow. Mr. Hall was expected to endorse an independent MA and no foreign building — both of which views are strongly supported by most of the subcommittee's members.

Will Urge Johnson to Act

Mr. Boyd once again said he would urge the President to submit a program along the lines he has outlined repeatedly once he, Mr. Boyd, is convinced there is enough agreement in the industry and in

(Continued on Page 26)

Long Look at Boyd Plan Urged

(Continued from Page 1)

Congress to give its passage a reasonable chance. That has not satisfied the members. They repeatedly have demanded to know why a specific program in legislative form was not set up to allow Congress "to work its will."

He pointed out that he believed that under the Constitution "the executive branch does not have to submit a program unless it is reasonably sure it will be adopted."

At that point, Reps. Alton Lennon (D-N.C.), a severe critic of Mr. Boyd's, and Rep. Thomas L. Ashley (D-Ohio) about his only defender on the subcommittee, clashed. Rep. Ashley seemingly impatient at Mr. Lennon's questioning, pointed out that there has been "nothing to stop" Mr. Lennon from introducing a bill the past two years to try to carry out his own ideas.

Rep. Ed Rinecke (R-Calif.)

aroused Mr. Boyd by saying he, Mr. Boyd, was "just as guilty" of "criminal" conduct as those in industry he had accused of being unyielding.

Mr. Boyd, shedding the usual deferential approach to Congress, told Rep. Reinecke he did not "look with kindness" on such an accusation. The matter, more or less, was dropped.

Mr. Casey, who reminded the subcommittee that Mr. Boyd had not only increased to 30, from an earlier 15, the number of subsidized ships a year to which he was willing to commit funds, but also had gone on record favoring additional safeguards, a five-year cutoff and a ratio of domestic - to - foreign when it came to allowing foreign building.

Mr. Casey admitted that AMMI had "some serious doubts" over that part of the plan to upgrade some 100 AP-5 ships in the reserve fleet. But he pointed out that "if the military says . . . the funds are going to be well spent" and "if the funds are not going to be spent for new construction," as Mr. Boyd has tried to make clear, then "I'm not going to quarrel with the administration."

Foreign Ship Purchases

The prospect of some foreign ship purchases for operation under U. S. flag, he said, was not a serious problem for him, but the "fact that it's (that issue) is holding up the program bothers me."

Mr. Casey said 665 of the slightly under 1,000 ships in the U. S. flag merchant fleet are 25 years old or older and that underscores the need for tonnage.

Mr. Boyd's ideas, Mr. Casey said, "could well form a solid foundation upon which to build a new and well-balanced merchant marine under the Ameri-

new policy-related ground in his second day before the subcommittee. However, he did comment on the following:

1. Containerization — If East Coast longshoremen make good their threats to pack and unpack containers, "if that is true, it'll kill containerization on the East Coast." Labor's objections and fears were not "unfounded" to maritime. It is the "collision between labor and jobs."

2. If MA remains outside DOT, "I cannot say" for certain whether there would be a new maritime program. It "would make me pause" because "I have always assumed maritime to be part of transportation." And "Yes I would be less concerned" about maritime if MA was left outside his agency.

3. Possible "tax incentives" for shipbuilders — "I don't see much point to increasing subsidies and adding tax incentives on top of that."



OPERATING SUBSIDY

Briefing Outline for the Secretary

September 14, 1967

* * *

Present Aids

1. Operating-differential subsidy equalizes the costs of wages, subsistence, maintenance and repair, and insurance with those presumed to be paid by foreign competition. (Title VI)
2. Tax subsidy defers normal tax liability of subsidized contractors on earnings or capital gains which are subsequently re-invested in merchant ships. (Title VI, Section 607 (h))
3. Mortgage insurance reduces the cost of debt-financing and amount of equity required. (Title XI)
4. Guaranteed revenue assures a certain cargo base to operators by preferring them government-sponsored transportation requirements. (Title IX, Section 901(b); Act of 1904 [Defense cargo]; and P.R. 17 [Ex-Im Bank Cargo])

Shortcomings of Present Direct Aids

1. Operating-differential subsidy
 - a. Disregards all opportunity to overcome competitive disadvantages except in the wage and insurance factors (does not really relate to need)
 - b. Causes operator to mimic competitor's practices (inhibits innovation)
 - c. Maximizes government involvement in business judgement and minimizes private decision and ingenuity (distorts risk and reward)

- d. Penalizes the efficient and rewards the inefficient
(protection for the weak)
- e. Perpetuates and accentuates reliance on government largess
(palliates the symptom -- fails to cure the disease)

2. Tax shelter

- a. Is contrary to national monetary management policies
(discriminatory)
- b. Is unknown, uncontrollable, hidden, and not related to
need (irrational)
- c. Contradicts investment incentive (stagnates venture capital)

Alternative Aids

1. Capital subsidy

- a. Government construction and subsequent sale to private enterprise
- b. Government ownership and subsequent charter to private enterprise
- c. A lump sum payment for a "life-cycle" project arrived at
by bidding

2. Cost parity

- a. Equalization of factor costs
 - (1) Selected factors of production (present system)
 - (2) Institutional substitute for judgemental determination --
subsidy index system (variation of (1) above)

3. Enterprise subsidy

- a. Parity of opportunity (income support)
 - (1) Revenue incentive system (calculate need as at present
but make payments based on performance)
 - (2) Opportunity incentive system (relate need to U.S. economic
costs and world market income)

The "Experimental" System

Selected approach:

1. Calculation of subsidy requirement
 - a. Determine unit production costs assuming U.S. economic base (price), "state of the art" of equipment, and the transportation system (productivity standards)
 - b. Relate unit production costs to the opportunity for income per unit offered by the market (freight rate)
 - c. Provide government subsidies to make up the difference (parity of opportunity)
2. Method of payment of subsidy
 - a. Direct recipient's behavior by applying aid to a standard of performance as free from distortion as possible

AN EXPERIMENTAL SUBSIDY PROGRAM

2/9/68
9/24/67
Sam W. Lott?

I. Need and Opportunity

There is a need for developing a new approach for ship operating subsidy because it is our judgment that the present system is at least partially responsible for the growing subsidy cost and the increasing gap between our national objectives and what we have been able to accomplish.

There is a unique opportunity at this time for such a program. With additional carriers added to the subsidized class it will be possible, working with them, to experiment with new approaches without interfering with or forcing present operators to change systems except on a voluntary basis.

II. Objectives

Achieve the aims of the Merchant Marine Act of 1936 and:

1. Meet the total economic needs of the operators,
2. Give carrier managements stronger and more direct profit-and-loss incentives to modernize, reduce costs, and maximize revenues,
3. Minimize governmental interference in the operation of the companies to the maximum extent possible, and
4. Place subsidy determination on a current basis and minimize administrative detail.



A. Direct Aids Used

1. Operating-differential subsidy payments are designed to pay the difference between the cost of certain expenses (wages and subsistence of crew, insurance, vessel maintenance and repair) and the estimated cost of the same items if the ships were operated under foreign registry. (Title VI)
2. Tax subsidy defers normal tax liability of subsidized operators on earnings or capital gains that are subsequently re-invested in merchant ships. (Title VI, Section 607(h))
3. Mortgage insurance reduces cost of debt financing and amount of equity required. (Title XI)
4. Cargo preference increases revenue base with government-sponsored shipments. (Title IX, Section 901(b); Act of 1904 [Defense cargo]; and P. R. 17 (Ex-Im Bank Cargo))

B. Unsatisfactory Results Achieved

1. Operating subsidy quadrupled in a dozen years (1951-63).
2. U. S. flag participation declined from 47% to 8.5% 28% in same dozen years.
3. Procedure is slow, cumbersome, with the effect of holding operators' accounts open for periods as long as 10 years.



C. Reasons for Unsatisfactory Results of Present System

1. Does not provide adequate or the correct profit-and-loss incentive to operators to increase competitive economic efficiency and decrease dependence on Government support.
2. Is unbusinesslike in providing no cost controls or dollar targets. EX-100-2
3. Does not relate subsidy payments to full need --
Omits commercial revenues, and carrier deficits are the difference between commercial revenues and costs.
Selects items of expense that are only part of total costs (representing 44% of total vessel operating expenses in 1965).
Selects items that do not remain in a constant percentage of total expenses.
4. Omits effects of productivity increases by taking into account only expense items, not expense per unit of output.
5. Requires information on cost "parity" for foreign operators that is difficult to obtain.
6. Involves government in what should be private managerial judgment, ingenuity, and risk-taking.



In attempting to correct the deficiencies of the present system, we are exploring a number of alternative approaches and methods. Some of these which have been examined on a preliminary basis are:

A. Cost-differential Subsidies

These methods are essentially the type used now, attempting to equalize only the cost factors.

1. Select certain factors of production only (present system).
2. Expand the present system to incorporate more factors in a subsidy cost index.

B. Capital Subsidies

These systems attempt to equalize capital costs.

1. Government construct ships and subsequently sell them to private operators.
2. Government own and subsequently charter to private operators.
3. Government make lump sum payments arrived at by bidding for a "life cycle" project.

C. Enterprise Subsidies

These systems are based on providing incentives to the operator enterprises to increase commercial revenues, or decrease operational expense, or both.

1. Devise a revenue incentive system, calculating need as at present but scaling payments based on revenue achievement.



2. Design an opportunity incentive system, relating enterprise need to both U. S. production costs and the revenue that the market will produce.

V. An Experimental Subsidy Program

Although our research has not progressed to the point where we have fixed on a particular approach it is our current thinking that a plan of the type outlined below is a promising possibility.

This proposal would, in essence, establish a "price list" that the government would pay -- in the form of subsidy -- for the services it desired.

This would be done by grouping the operators into broad classes having similar characteristics and establishing cost and revenue standards applicable to all operators in the class. These standards would be determined in advance by the government working with the industry and would be based upon the recent past experience of the class.

Standards would be designed to provide each carrier in the class the opportunity to earn a fair return on its investment. The formula is based on the assumption that the government will realize maximum results for the subsidy dollar with minimum interference with normal business decisions when management is encouraged to make its decisions primarily with profit in mind.

In effect, each operator would be in competition with the rest of the class. To the extent that an operator's costs are



below or its revenues above the class standard it would earn more than the standard return. Conversely, higher costs or lower revenues would reduce the return below standard. There would be no recapture as under the present subsidy methods.

The standards established for the class would be periodically reviewed on the basis of the actual results of the class and adjusted accordingly. As costs are lowered and/or revenues maximized the standards would be adjusted accordingly and the subsidy bill reduced or additional services underwritten. It is important here to recognize that the standards are adjusted on the basis of change in the operations of the entire class of operator not with individuals within the class.

B. Procedural Steps

1. Devise a cost formula reasonably descriptive of the class of maritime operators, based on U. S. price levels, equipment, and transportation system productivity.
2. Establish revenue standards by frequency of service that reflect valid significant differences in operating various vessels and trade routes.
3. Pay the operator the difference between (1) and (2) for sailings eligible for subsidy.
4. Include an element to automatically reduce subsidy for growth and to reflect variations in traffic and revenue due to cyclical factors



such as reducing or increasing subsidy by \$1 for each \$10 increase or decrease in the revenues over the base year.

5. Control total subsidy bill by establishing a maximum number of sailings eligible for subsidy support. Sailings in excess of the maximum could be performed at the operator's option but without subsidy payments.

Since the approach is based on a consideration of the total need of the carrier, there would be no necessity for supplemental tax or preferential cargo subsidies. It also would eliminate the need for the difficult and expensive task of estimating and compiling foreign wage costs.

The approach is bottomed on the assumption that costs for all operators in a class are describable within tolerable limits by the same mathematical curve and that there is a basic relationship between traffic volume and number of sailings that is within management control. Statistical data has not yet been analyzed to validate these assumptions. However, preliminary analysis indicates that the proposal is feasible in the liner trade and probably in the bulk trade. A similar method has been successfully used in determining airline subsidies since 1961.

September 29, 1967





April 23 1968

Testimony as printed in Hearings, Gulf of Mexico 2nd Series
House Subcommittee on Merchant Marine
Long-Range Maritime Program Series 90-27 at
pp 65-222

Analysis of American Maritime Association (AMA)
Testimony on H.R. 13940 (new maritime program)

The AMA states that it is an association of unsubsidized companies, but our view (and the general view) is that it speaks for Paul Hall (Seafarers International Union).

The AMA recommended a number of amendments to the bill which we state hereafter in the order in which they appear in the bill submitted with their testimony, rather than the order in which they are discussed in their testimony.

1. Amend the bill to authorize appropriations to pay operating subsidy and provide that in the expenditure of such appropriations preference shall be given to operators who are presently unsubsidized before making any allocation of funds beyond present contractual commitments to present subsidized operators. This authorization for appropriations is not of any importance since the appropriation is to liquidate amounts for which we are already contractually committed, and presumably Congress will always be willing to pay such debts. The amendment, however, would limit our authority to contract further with presently subsidized operators. We would need an exception for contracts that are terminating and for contracts that would introduce a new subsidy system. With such exceptions, we could probably accept this amendment.

2. Amend the bill to provide that the amounts authorized for construction of ships shall not be used to construct nuclear ships. Our understanding is that it was never intended that they should be. We could accept this amendment, therefore, even if we do not oppose the provisions of the bill authorizing aid in the construction of nuclear ships.

3. Amend title V of the Act to provide for computation of the construction subsidy in a way similar to the gross revenue system for computation of operating subsidy which was recommended by the Interagency Task Force. At present the subsidy is computed as the excess of the bid of the shipbuilder building the vessel over the estimated cost to the purchaser of building the vessel in the lowest cost foreign shipyard. The AMA amendment would compute for a base period the difference between the American and foreign cost of materials and labor on merchant ships built in American yards during the base period. It would then compute the ratio of this difference to the gross revenue earned during the base period by such shipyards from such construction and state this as a number of cents per dollar of gross revenue. This is the amount of subsidy per dollar of gross revenue earned by the shipyards in the next year that would be paid to them as subsidy.

This method of computation excludes overhead and profit which are included in the present method of computing the subsidy. To the degree overhead and profit are included in the shipyards bid, therefore, they would have to be paid by the ship buyer.

The testimony indicates that it is contemplated all qualified American yards would be subsidized for every merchant ship it builds, though their amendment seems flexible enough to authorize limitation of the subsidy.

There is no provision in the amendment for national defense features and no limitation on the kind of ships that would be subsidized. They could be sailing ships. The Government would have nothing to say about the ships; it would just pay the subsidy.

The amendment would not allow negotiated pricing.

The way operating subsidy is computed under the 1936 Act and under the gross revenue system of operating subsidy proposed by the Inter-agency Task Force Report, overhead and profit are not subsidizable items.

In view of the foregoing, we should give serious consideration to supporting this amendment, with modifications to provide for defense features for limiting the subsidy, and for our right to determine the kind of ships that will be subsidized. We would anticipate that the Committee of American Steamship Lines and some other ship operators will strongly oppose it.

4. Amend the bill to provide a 12 year minimum age for the trade-in of ships. Since it is unlikely we would want to trade-in ships less than 12 years old, we could accept this amendment.

5. Amend the bill to provide that tankers built with construction subsidy can be operated only in foreign trade. Under section 506 of the Act, construction-subsidy ships can operate to a limited extent in domestic trade, but a pay-back of subsidy is required. We could accept this amendment.

6. Amend section 805(c) of the Act to provide that in lieu of the \$25,000 limit on salary that can be taken into consideration for subsidy accounting purposes, the limit be an amount the Secretary determines to be reasonable. We could accept this amendment.

7. Amend the new title X (aid for ~~nuclear~~-powered ships) to remove the provision that would require the owner to put the vessel up for sale if it is tied up by an inter-union dispute. We recommend opposing title X. This would eliminate the necessity for this amendment.

8. Amend title VI to authorize payment of operating subsidy to contract carriers and to provide that contracts renewed or entered into after enactment of the bill shall provide that the subsidy shall be calculated by the gross revenue system, excluding revenue from Government cargo. The subsidy would be calculated by determining for a 5 year base period the average annual subsidized costs of all carriers serving a related trade was incurred in commercial carryings, and what part of their average annual gross revenue was derived from commercial carryings and shall express this as cents of operating subsidy per dollar of gross commercial revenue. During the ensuing 5 year period each operator would be paid this number of cents per dollar of gross commercial revenue. This is the system recommended by the Interagency Task Force except that that system did not exclude revenue from Government cargo, but instead would have terminated cargo preference. Since it was recommended by the Interagency Task Force, we ought to be able to accept it, but there might be some problem with the exclusion of revenue from Government cargo. We think the subsidized operators could be expected to give strong opposition to it. Even if we accept this amendment, we might want alternative authority to use Aldock's "need" system, or a system under which we would charter new ships in, and then charter them out at competitive bidding.

9. Amend section 607(b) of the 1936 Act to prevent subsidized operators from using their reserve funds for the purchase of contract carrier vessels. We could accept this.

10. Strike out title XIV (tax deferment) and in lieu thereof amend section 511 of the Act to authorize tax deferment of earnings for all operators in foreign and domestic trade. Our understanding is that because of treasury's position we must oppose both. Under title XIII of the bill, the Secretary could in his discretion allow tax deferment for liners in foreign trade but not for contract carriers in foreign trade. If there is to be no tax deferment for either, we have to have an operating subsidy system that would include an allowance for taxes. Contract carriers cannot compete with Pan Hon Lib ships which pay no income taxes to anyone unless the American flag ships have either tax deferment or a tax allowance.

11. The bill would amend section 901 of the Act to require partial pay-back of construction subsidy for any vessel that carries Government cargo. This is in conformity with the AJA amendment to exclude revenue from Government cargo from operating subsidy.

12. Amend the 1904 Act requiring supplies for the Army, Navy and Air Force to be carried in vessels of the United States so as to define "vessels of the United States" as only those American flag vessels that have coastwise privileges. This is like H.R. 163 which we recently testified against, and there was a good deal of industry opposition to it. The bill looks dead. A similar Senate bill died after hearing in the 88th or 89th Congress. We could probably work something out on this such as giving first preference to vessels as defined in the amendment.

UNITED STATES GOVERNMENT

Memorandum

SUBJECT: Maritime Hearings

FROM: Scott B. Harvey *SBH*

TO: M. Cecil Mackey

Mr. Sitton
 DEPARTMENT OF TRANSPORTATION
 OFFICE OF THE SECRETARY

DATE: May 22, 1968

*House Merchant Marine & Fisheries Committee
 Little Hearings Site by
 Lord Sec. 'long Party
 maritime program
 p686
 In reply refer to Ser 90-27
 Administratively Restricted*

At Paul Sitton's request I attended the hearings before the House Merchant Marine and Fisheries Committee on maritime policy. Jim Gulick had been called by the Committee to testify despite suggestions by C. R. Smith that Secretary Boyd was the Administration spokesman and that Secretary Boyd would be "ready, willing and able" to testify at the Committee's request. Gulick said that he was in no position to speak.

It would be an understatement to say that the Committee was unhappy. The questions generally covered the following points:

1. The issue of MarAd's role and that of DOT. Gulick took the position that Secretary Boyd had been designated by the President as the Administration's spokesman for maritime policy. MarAd in this regard provided information and comment when it was requested and participated in some of the policy discussions. The Committee's nearly unanimous reaction was that MarAd had apparently become just an "arm" of DOT despite the Congressional determination that it should remain in Commerce.
2. The unanimity of opinion on the Administration proposal. Gulick was repeatedly asked to react to the proposal. He responded that it was an Administration proposal--a consensus of sometimes divergent views within the Executive Branch--and that as such, he supported it. The question of consultations with industry was responded to by Gulick to the effect that he understood industry and labor had been consulted with extensively over the past year and one-half without consensus and that as a result, the Administration elected to send up its own proposal.

3. The role of the Committee and Secretary Boyd's actions. Nearly all Committee members felt that Secretary Boyd had gone back on his word, particularly regarding foreign construction (Carl Davis replied that the Administration had never agreed to drop foreign construction, that discussions had been only on a "package"). The issue of Congress' role in maritime policy was uppermost in the Committee's mind. The Bentley story on the impact of spending cuts on ship construction angered the Committee. Garmatz suggested that not informing the Committee prior to the Sun story indicated a lack of "confidence" and "respect" for the Committee. Garmatz ended the hearing with the comment that Secretary Boyd had alienated the Congress from the Administration and that his actions would not do the Administration's surcharge proposal any good.

In general the Committee does not appear to be in the mood to call Secretary Boyd. A couple of members suggested that the Committee immediately pass the Garmatz-Magnuson Bill in executive session.

cc: Secretary Boyd

✓ Mr. Sitton

Mr. Dye

By Farrell Lines Official

Boyd Maritime Stand Attacked

By GEORGE PANITZ

The head of a subsidized American ship line charged yesterday that recent proposals by Transportation Secretary Alan S. Boyd to curtail aid to the ocean vessel industry have shown that neither he nor his agency should be given control over the fate of the merchant marine.

James A. Farrell, Jr., board chairman of Farrell Lines, said that the Boyd attacks on subsidies for American ships have caused a reversal of an earlier view that the Department of Transportation be allowed to take over shipping policy from the Federal Maritime Administration. Farrell Lines had previously

endorsed Secretary Boyd's suggestion that the Maritime Administration be part of the Department of Transportation instead of its present location in the Department of Commerce," he said.

"However, in view of Secretary Boyd's most recent utterances, we do not believe that either he or a deputy would grant to ships the necessary funds for efficient operation."

Separate Administration

Speaking to cadets and guests at the 112th graduation exercises of the State University of New York Maritime College at Fort Schuyler, he added that Farrell Lines will now support proposals to establish the Maritime Ad-

ministration as a separate entity of the federal government.

Mr. Farrell, whose shipping company is a key element in United States trade with Africa, Australia and New Zealand, indicated that while irritated by Mr. Boyd's views, he was not pessimistic about the future of American - flag shipping. The merchant marine is not likely to be totally lost as long as the industry can retain the support of many leaders in Congress, he said.

Cautioning the 125-man graduating class to "harden yourselves against the temptation to be discouraged by irresponsible mouthings" directed against the industry, Mr. Farrell said that many problems of the merchant marine are the result of a national confusion over policy.

The 1936 Merchant Marine Act, which established subsidies for companies such as Farrell Lines and others to compete against foreign lines, must be retained as the basis of maritime policy for the U. S., he said.

Conceding that the law should be updated and amended in part, Mr. Farrell added, however, that Mr. Boyd's view that support be given to shipping only to the extent that it provided some backing for defense is faulty.

Validity of Routes

"It seems to be quite forgotten that the strictest requirements of the 1936 act are to assure the validity of essential trade routes and only secondly to provide shipping to serve as war auxiliaries," he said.

While objecting to Mr. Boyd's proposals on subsidies for the merchant marine, Mr. Farrell said that the transportation secretary was correct in urging changes in present law so that American owners could buy ships in foreign countries and to use them without restriction under American flag.

"If the American shipyards cannot provide better delivery than is their current practice and if there is to be insufficient construction funds available for building at home, then provision must be made for American-flag owners to build abroad and to place such ships under the American flag for offshore operations and have them covered by the remaining provisions of the existing 1936 Merchant Marine Act," Mr. Farrell said.

He also indicated that Mr. Boyd's proposal to phase out subsidies for passenger liners is a proper stand since subsidizing "pleasure cruising" is like subsidizing recreation resorts in the Poconos, Adirondacks and Miami. The only subsidy for passengers should be where this is consistent or complimentary to cargo service, he added.

Mr. Boyd's Shipping Program

The nation's shipping program, despite heavy Government subsidy, is in deep trouble. The merchant marine is expensive, inefficient and uncompetitive. The remedy does not lie in providing \$300 million a year in fresh subsidies, as Congress is contemplating. It is in taking a cold look at the strengths and weaknesses of American shipping and coming up with a realistic blueprint for its survival.

Alan S. Boyd, Secretary of Transportation, has done just that. He recognizes that the industry is ailing and that fundamental changes are needed to put things right. He recommends getting rid of the costly subsidies for passenger ships, establishing new and more innovative operating subsidies, and basing Government support for shipowners on security rather than on commercial needs. The total cost would be less than half of what is now being spent.

These are painful proposals for an industry and for unions that have come to depend on Government subsidy. They are also painful to many an American citizen who loves the sea and who prefers to travel on it rather than above it when he goes abroad. The trouble is that this age of mechanized efficiency has little time for such amenities of life as the grace and comfort of seaborne passenger transportation, and little willingness to pay for it.

But, quite apart from the reduction in cost to the taxpayer, Mr. Boyd's proposals attempt to restore realism to the nation's maritime policy in order to make possible a more competitive fleet.

While the opposition to Mr. Boyd's proposals is strong and vigorous, it is being colored by the illusion that the nation's shipping interests warrant a perpetual subsidy from the public purse for their private enterprise.

There is no justification for the charge that the Administration's plan would destroy the American merchant marine. The new program specifically calls for funds to build ships for defense purposes and for an expansion in research and development outlays. If the plans to encourage American ship operators to buy abroad are accepted, actual expansion of the merchant fleet is probable.

The appeal of the new plan is that it will cut the cost of public subsidy while making private operators more efficient. To be sure, these objectives involve changing the rules of the game for the maritime industry. But the Administration is saying that there can be no real growth in shipping unless the industry is forced to operate competitively.

Wrong-Way Congress

The upside down sense of priorities that rules on Capitol Hill has rarely been displayed more revoltingly than in two actions taken on the same day last week by the House Appropriations Committee.

The \$13 million budget recommended by the Johnson Administration for enforcement of the equal employment opportunities provisions of the Civil Rights Act of 1964 was cut in half, presumably for reasons of Federal economy. But no such frugal husbandry of the public purse was evident when the committee dealt with appropriations for the greedy lobby that keeps the domestic shipbuilding industry afloat despite its recklessly high costs. The committee voted to double the more than \$100 million appropriation that the White House had proposed for new construction in the merchant marine, an industry which, as noted above, has been made scandalously uncompetitive in world commerce by the slothful practices of labor and management.

The report of the President's Advisory Commission on Civil Disorders has reinforced the already abundant evidence that racial bias in jobs and promotions is a major threat to American stability. The Equal Employment Opportunities Commission is the chief watchdog against such discrimination. At the start of the new federal fiscal year in July, the jurisdiction of the Commission, under the able chairmanship of Clifford Alexander, is being extended to many thousands of smaller companies.

This extension not only increases the number of businesses the Commission must police by 250 per cent, but adds even greater complexities of enforcement. Congress has told the Commission that it wants all complaints of racial discrimination processed within 60 days—a not unreasonable requirement if Negroes are to retain faith in the agency's worth.

But the Congressional slash in the streamlined budget requested by the Administration condemns those who seek the Commission's help to wait as long as two years for final action. No one can expect the agency to retain credibility on that basis.

The price will be paid in a further erosion of the trust the disadvantaged place in white society to address itself responsibly to rectification of the abuses that ultimately explode in riots. The right and necessary course for the House is to restore the Equal Employment Opportunities Commission's full appropriation when it votes on the committee's recommendation tomorrow. The place to economize is on the overfat shipbuilding subsidy.

"I'm Something Like Robin Hood — I Take From
The Poor And Give To The Rich"



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THE WASHINGTON POST

A Great picture
of Ed Hood !!



21 JUN 1968

DOD "Charges & Answers"

QUESTION: The war in Vietnam has strained U.S. shipping resources to the breaking point. We could not meet the shipping needs of another emergency.

ANSWER: Because of the war in Vietnam, the Department of Defense (DOD) requirements for general cargo shipping have tripled. We are now supporting our troops and allied troops in Vietnam as well as continuing to support our forces in Europe, Korea and elsewhere at their pre-Vietnam levels. The increases in requirements and how they were met are shown in the following table.

DOD GENERAL CARGO MOVEMENTS--WORLD-WIDE
(in millions of measurement ton-miles)

	Average Qtr FY65	FY66				FY67			
		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Lift	12,670	25,045	23,304	24,776	29,700	33,794	33,517	37,596	39,489
Ratio to Average Peacetime Qtr.	1.00	1.98	1.84	1.96	2.34	2.67	2.65	2.97	3.12
Incremental Lift Over Base Qtr.	BASE	12,375	10,634	12,106	17,030	21,124	20,874	24,926	26,819
Source of Incre- mental Lift (%)									
US Flag Sub.	-	36.6%	26.3%	19.4%	21.6%	18.5%	17.1%	17.8%	21.2%
US Flag Unsub.	-	36.4	35.3	41.8	35.5	38.8	32.3	34.6	39.1
MSTS Nuclear	-	0.4	1.1	-0.8	0.9	0.5	-0.2	0.5	-
NERF-USA	-	11.5	29.3	36.4	32.3	34.0	37.6	38.0	37.8
Foreign Flag	-	15.1	7.9	3.3	9.6	8.2	13.2	9.1	1.9
		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

FY68 on
page following

Victor has strained U.S. shipping resources to
We could not meet the shipping needs of another

the war in Vietnam, the Department of Defense for general cargo shipping have tripled. We support our troops and allied troops in Vietnam as well as our forces in Europe, Korea and elsewhere at levels. The increases in requirements and are shown in the following table.

GENERAL CARGO MOVEMENTS--WORLD-WIDE
(millions of measurement ton-miles)

[illegible]

The National Defense Reserve Fleet (NDRF) ships have provided over 33% of the required increase in capability, the unsubsidized operators over 40% and the subsidized operators about 20%.

Even so, there is more capability in each of these fleets which could be called upon to meet additional requirements. As shown in the next table, during the first half of FY68, DOD used about 443 notional general cargo ships, or about 40 percent of the total potential general cargo capability in the U.S. fleet (active and reserve).

General Cargo Capability of the U.S. Fleet
and its Utilization by DOD

<u>Source of Capability</u>	<u>Actual Ships^{a/}</u>	<u>Notional Ship Capability^{b/}</u>	<u>Notional Ship Capability Used by DoD in 1st Half of FY68</u>	<u>Percent Capability Used by DoD</u>
Total Private Fleet	<u>619</u>	<u>635</u>	<u>304</u>	<u>47.8%</u>
a. Subsidized Fleet	313	351	104	29.6
b. Unsubsidized Fleet	306	284	200	70.4
MSTS Nucleus Fleet	43	33	33	100.0%
NDRF Fleet	<u>541</u>	<u>417</u>	<u>106</u>	<u>25.4%</u>
a. Quality Ships	254	183	106	57.9
b. Useable Liberty Ships	187	125	-	-
c. Convertible Troopships	100	109	-	-
TOTAL ALL U.S. FLEET	1,203	1,085	443	40.8%

a/ As of March 31, 1968.

b/ Because of the many and diverse ship types varying in size and speed, a standard measure of capability is used; such is the notional ship. This ship is defined as having the following characteristics: size or bale cube equal to 15,000 measurement tons or 600,000 cubic feet; speed equal to 15 knots; loading and unloading time equal to five days.

A second war on the scale of the Korean war, should it break out while we are still in Vietnam and still supporting our other worldwide deployments, would require about 260 more notional general cargo ships. Although we would have to use almost 90% of the privately-owned active fleet or breakout some less efficient Liberty ships and convert some troopships (at a cost of \$3.4 million per ship), the requirement could be met from U.S. resources alone.

CHARGE: There is a shortage of tankers. Past policies have left us weak and unprepared so that we cannot meet defense tanker requirements today.

ANSWER: The Vietnam war has doubled our requirement for tanker sealift. In FY1965 the Military Sea Transportation Service (MSTS) moved 17.7 million long tons of petroleum, oil and lubricants (POL) an average of 3350 miles (or a total of 59.3 billion long ton-miles). Today the worldwide MSTS tanker requirement is 122 billion long ton-miles annually.

MSTS is today meeting defense tanker requirements without difficulty by using the 26 tankers in the MSTS nucleus fleet, 50-55 U.S. flag tankers (or about 25% of the private U.S. flag fleet) and about 25-35 foreign flag tankers. We chartered these relatively small foreign tankers because U.S. tankers of comparable size were not voluntarily offered even though an ample supply exists. For example, only 18.5% of these small (10-25,000 deadweight tons (DWT)) U.S. flag tankers are now being used by DOD.

Even though the foreign tanker owners know that U.S. tankers have not been made available in the quantity needed, we are now chartering the foreign tankers at only 35-40% of the U.S. charter rates. Thus, we now know there is enough competition among foreign tanker operators so that they cannot conspire to set artificially high rates.

The tables below shows: (1) Current DOD use of the U.S. tanker fleet and (2) the size and flags of registry of the foreign tankers we are using.

DOD USE OF U. S. TANKER FLEET

(As of April 1, 1968)

Tanker Size Category	Inventory of Private U.S. Tanker Fleet		Use by MSTs		% Use by DWT
	No. of Tankers	Total DWT (in thousands)	No. of Tankers	Total DWT (in thousands)	
10-25,900 DWT	155	2943	17	336	18.5%
26-35,900 DWT	73	2273	27	826	36.3
36-50,000 DWT	21	1003	7	322	32.0
50,000+ DWT	<u>5</u>	<u>394</u>	<u>1</u>	<u>67</u>	<u>17.0</u>
Total	254	6613	52	1581	23.9%

FOREIGN FLAG TANKERS ON CHARTER TO MSTs

(As of April 1, 1968)

<u>Notional Flag</u>	<u>No. Ships</u>	<u>DWT (in thousands)</u>
Greece	6	110
United Kingdom	3	57
Norway	13	282
Italy	1	19
W. Germany	1	18
Liberia	5	129
Panama	3	100
Japan	1	21
Sweden	<u>1</u>	<u>25</u>
Total	34	761

CHARGE: The National Defense Reserve Fleet (NDRF) is inadequate. The ships are rust buckets and cannot be manned. Privately-owned ships cost less.

ANSWER: NDRF ships have provided the surge capability to meet current defense needs just as they did in the Korean war. Since July 1965, over one-third of the increased DOD general cargo shipping requirements has been filled by NDRF freighters. At one time 172 NDRF freighters were in operation for DOD. As of April 1, 1968, the number has decreased to 145.

These NDRF ships have suffered mechanical, breakdowns and sailing delays due to crew unavailability. Some have been very costly to operate. As a group, however, these ships have performed well in comparison with privately owned vessels. For example:

Breakdowns

During the 18 month period July 1965 to December 1966, the NDRF ships had an in commission rate of 95%; by comparison, chartered vessels from the private fleet had an in commission rate of 97%.

	<u>NDRF</u>	<u>Private Charters</u>
Number of Potential Voyage Days Available	45,350	62,638
Number of Days Lost Due to Mechanical Breakdowns	2,249	1,904
Percent Days Lost Due to Mechanical Breakdowns	5%	3%

Crew Shortages

The seagoing labor force generally can man our NDRF ships without difficulty because at any time there are more men in the labor force than there are jobs. The Maritime Transportation Research Board Study, "Manpower Status of the U.S. Flag Oceangoing Merchant

Marine-An interim Report" showed that there are between 1.42 and 1.56 men in the seagoing labor force for each job on the privately-owned U.S. flag vessels (for the study period April 1962-March 1963).

	<u>Number of Jobs</u>	<u>Number of Men Employed</u>	<u>Men per Jobs</u>
Deck Officers	5899	9,021	1.53
Engineering Officers	6512	10,766	1.65
Radio Officers	1251	1,774	1.42
Staff Officers	582	830	1.43
Unlicensed Personnel (Skilled)	28,624	44,180	1.54
Unlicensed Personnel (unskilled)	<u>15,580</u>	<u>24,340</u>	<u>1.56</u>
Total	58,448	90,911	1.56

Men not actually on the job are on vacation, are sick or are between jobs. For example, during the year April 1962 - March 1963 the average annual employment under articles for officers was:

Deck Officers	179 days
Engineer Officers	188 days
Radio Officers	202 days
Staff Officers	198 days

The average annual employment under articles for the entire unlicensed work force was 182 days broken down as follows:

	<u>Skilled</u>	<u>Unskilled</u>
Deck Department	186 days	148 days
Engine Department	192	144
Stewards Department	192	160

Ships that are activated from a reserve status can be manned without unmanageable difficulty by better organization of the work force (i.e., reducing the imbalance between jobs and men) and by providing incentives for the men to reduce the amount of vacation time they normally take. However, the effect of these actions may be reduced if the emergency requires a prolonged use of the activated ships.

	<u>General Cargo Ships Used by DOD</u>	
	<u>NDRF Ships</u>	<u>Private Charters</u>
<u>July 1965 - December 1966:</u>		
Number Potential Voyage Days Available	45,350	62,638
Days Lost Due to Crew Unavailability	608	155
Percent Days Lost	1.34%	0.25%
<u>May 1966 - January 1968:</u>		
Number Potential Voyage Days Available	91,711	104,146
Days Lost Due to Crew Unavailability	1,498	504
Percent Days Lost	1.63%	0.48%

As the table shows we have recently experienced somewhat more sailing delays because of crew unavailability than we did in 1965 and 1966, though the delay rate is still quite low. We have had to make some short-handed sailings (usually without a junior deck or engineer officer) but most NDRF sailings have been made with full complements. Short handed sailings are acceptable as long as they are the exception and not the rule. The table below shows the difference in a normal and a short manning scale for a Victory class cargo ship.

	<u>Normal</u>	<u>Short</u> <u>a/</u>	<u>Minimum Provided</u> <u>by Coast Guard</u> <u>b/</u>
Deck Officers	5	4	4
Engineer Officers	6	4	4
Radio Officers	1	1	1
Purser	1	-	-
Unlicensed Deck Dept.	14	11	9
Unlicensed Engine Dept.	11	8	6
Steward Dept.	<u>10</u>	<u>7</u>	<u>(7)</u>
Total	48	35	31

a/ Minimum acceptable.

b/ Provides only enough men to man the watches on a 24-hour basis and to meet minimum safety-of-life-at-sea requirements; no stewards are included in the statement of minimum crew size.

Costs

Today's NDRF cargo ships are old (23-25 years) and are less efficient to operate than the newer, more modern freighters. In addition, they are expensive to breakout of mothballs when needed. However, the NDRF ships are very cheap to maintain when there is no emergency and their capital costs (rehabilitation and conversion) are very low in comparison with the U.S. prices for new ship construction. For these reasons they offer a low cost way to meet emergency shipping requirements. Our experience has shown that it has been desirable to accept the larger costs of using less efficient ships in an emergency if those ships are much less costly to maintain when you don't need them.

For example, the 10-year cost to the Government (reactivation cost plus the peacetime cost of preservation) for the NDRF ships that have been used to meet recent defense requirements was about \$97 million (of which \$90 million was for reactivation alone). If this \$97 million had been spent for paying operating subsidies to private shipowners, it would have supported only 20 percent as much sealift capability as the NDRF ships have provided.

Furthermore, although not as efficient as some modern cargo liners, the NDRF ships used to meet recent defense requirements have been only \$90 million more expensive than if we had bought equivalent capability from U.S. flag berth liners (i.e., the common carrier general cargo ships). (See the following table)

NDRF SHIP COSTS AND PRODUCTIVITY DURING THE 30
MONTH PERIOD JULY 1965 - DECEMBER 1967

Activation Cost	\$ 90.0 million
Operating Cost ^{a/}	<u>361.1</u> million
Total Cost	\$ 449.1 million
Total Productivity	66,751 million measurement ton-miles
Cost per 1000 meas. ton-miles	\$ 6.72
Cost per 1000 meas. ton-miles that DoD pays for using private liner vessels	5.37
Cost Difference	1.35
Total Increased Cost of Using NDRF Ships instead of liner ships during the 30 month period	\$ 90.1 million

^{a/} Does not include cost when ship is put into a reduced operating status because of a temporary excess capability.

CHARGE: Foreign flag ships owned by either U.S. or foreign citizens and manned by aliens are unreliable. We cannot count on them in an emergency to move defense or urgently needed civilian cargoes. The Effective U.S. Controlled (EUSC) concept is worthless.

ANSWER: DOD must use U.S. flag ships (Cargo Preference Act of 1904). Even in emergencies, foreign ships may only be used when no U.S. flag vessels are made available. For these reasons we have not used much foreign flag shipping. However, when we have been forced to turn to this market, there have always been enough foreign flag ships offered to meet our needs. For example, during the critical early period of the Vietnam buildup, when we did not know how much shipping we would need and for what length of time we would need it, we asked for all offers. In response, there were 39 more foreign flag cargo ships offered for hire than U.S. flag ships.

AVAILABILITY OF GENERAL DRY CARGO VESSELS

Time Period	Foreign		U.S.	
	Number Offered to MSTs ^{a/}	Number Chartered by MSTs	Number Offered to MSTs	Number Chartered by MSTs
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 to MSTs.

Foreign flag tanker owners have also been ready to lift DOD cargoes. Just before the Arab-Israeli war of one year ago, an MSTC solicitation for tankers resulted in 138 offers by foreign tanker operators; only six were needed. As of April 1, 1968 we were using 34 foreign flag tankers (24 from NATO countries, 8 from Liberia and Panama, and one each from Japan and Sweden) because the U.S. tanker fleet was not voluntarily offering enough capability to satisfy our requirements.

Crews can tie up shipping by refusing to sail, and their reasons may be political as well as economic ones. However, this is the exception rather than the rule; basically ships go where their owners want them to. This is true because in international shipping labor as well as management and capital is an international resource. Seamen of many different nationalities may be working on the same ship. On many English ships most of the officers are English; however, the majority of the crew may be Pakistanis, Indians, Hong Kong Chinese, Italians, Greeks, etc. It is reported that on Norwegian ships (the third largest merchant fleet in the world) more than 25% of the crew members are foreigners. Since the supply of labor is well diversified and since good paying jobs are desired, it is virtually impossible for crews to dictate on any significant scale whether or not ships will carry U.S. civilian or U.S. military cargoes.

Effective U.S. Controlled (EUSC) fleet ships are owned by foreign affiliates of U.S. companies and registered under foreign flags. We believe that in a full scale national emergency they will be as available as U.S. flag ships to meet either military or civilian requirements. The owners of these vessels are contractually committed

to the service of the U.S. in time of emergency, in return for U.S. war risk insurance. This is a definite incentive since most marine insurance policies provide no protection against war risks. Furthermore, since the vessels in this category are registered under either the Panamanian, Liberian, or Honduran (PANLIEHON) flags, and since these countries unlike major maritime nations permit ownership by foreign natural or corporate citizens of vessels under their flags, and since they do not prohibit pledges by owners of vessels under their flags to the service of other nations, the contractual commitment is felt to be secure.

There are stronger economic reasons for believing these ships will be made available when needed. These ships belong to major U.S. oil companies and to major steel and aluminum companies. They are used to import to the U.S. the raw materials (crude oil, iron ore, bauxite, etc.) needed by these U.S. industries. The U.S. companies which own the ships need them to haul their own cargoes which are a very large part of our own emergency cargoes. The table below shows the predominately tanker and dry bulk character of the EUSC fleet:

SHIPS REGISTERED UNDER THE LIBERIAN, PANAMANIAN AND
HONDURIAN FLAGS AND DEEMED BY THE NAVY DEPARTMENT
TO BE UNDER EFFECTIVE U.S. CONTROL
(As of June 30, 1967)

<u>Type of Ship</u>	<u>No. Ships</u>	<u>Deadweight Tons</u> <u>(in thousands)</u>
Tankers	268	10,875
Dry Ore Carriers	100	3,217
Freighters	68	677
Combination Freighter/Passenger	8	60
TOTAL	444	14,829

WORKING PAPERS

It has not been necessary to take emergency actions to get these EUSC ships nor to make any specific appeals to their owners. We have been able to satisfy our current needs by using only voluntary contracts. Moreover, these EUSC ships are much more useful for meeting emergency civilian needs than defense needs because:

a. There is no military need for dry bulk carriers.

b. Most of the EUSC tankers are designed to haul crude oil efficiently; this means very large tankers; the military need is for smaller product carriers.

c. There is not much general cargo freighter capability in the EUSC fleet, and there is virtually no new building of these ship types. Yet these are the ships which carry our ammunition, food, tanks, trucks, etc.

21 JUN 1968

CHARGE: Without an immediate and massive fleet renewal program for our merchant marine, we face certain ruin.

ANSWER: Much of the private U.S. flag fleet is old and may not be operable at reasonable cost through the mid-1970's. However, there is enough new private shipping which when combined with ships in the National Defense Reserve Fleet (NDRF) can meet most defense needs. We do not need to rush into an expensive, wasteful building program. Although we do need more new ships, our most urgent need is to restructure the maritime programs to lower the very high price we pay for merchant marine support.

As of March 31, 1968 there were 264 privately owned U.S. ships of 15 years or less in age. The total reaches 303 ships if ships currently under construction are added. Because these new ships are much more productive, their capability is almost half that of the current fleet though in numbers they constitute less than one-third of the current private fleet.

PRIVATELY OWNED U. S. FLEET

	<u>Current Fleet ^{a/}</u>			<u>Ships Under 15 yrs. in Age and Ships Under Constr.</u>		
	<u>Ships</u>	<u>DWT (in thous)</u>	<u>Notional Ships</u>	<u>Ships</u>	<u>DWT (in thous)</u>	<u>Notional Ships</u>
General Cargo Ships	619	7110	635	183	2610 ^{b/}	280 ^{b/}
Tankers	254	6615	400	120	4261	265
Dry Bulk Carriers	59	1074	50	-	-	-
TOTAL	932	14,799	1,085	303	6,871	545

^{a/} Excludes 14 passenger ships, 26 minor tankers and 13 special product carriers.

^{b/} The newer general cargo ships are shown to have only 37% of the DWT as the current fleet but 44% of the notional ship capability. This is explained by the fact that the newer ships are much faster (20 to 23 knots) and have more modern cargo handling gear which reduces turnaround time and increases total productivity. A comparison of new tankers with older ones on a DWT basis is not too inaccurate because new tankers are not much faster than older ones (16.5 knots versus 15 to 15.5 knots).

However, these newer ships by themselves will not be sufficient to meet future national security requirements for up to 535 notional general cargo ships, 150 notional dry bulk carriers, and 485 notional tankers. (See requirements in table below.)

Shipping Capability Required to Meet National Security Needs
(In Notional Ships)

	<u>Defense Needs</u>	<u>Non-Defense Civilian Needs</u>	<u>Total</u>
General Cargo <u>a/</u>	460	75	535
Dry Bulk Carriers <u>b/</u>	0	150	150
Tankers <u>c/</u>	260	225	485

a/ A notional general cargo ship is defined to have the following characteristics: 15,000 measurement ton (600,000 cubic feet) bale cube; 15 knot speed and a 5 day load and 5 day unload time.

b/ A notional dry bulk carrier is one which has a 22,000 DWT lifting capacity and a 15 knot speed.

c/ A notional tanker is one which has a 16,000 DWT lifting capacity and a 15 knot speed (roughly a T-2 type tanker).

We can meet these needs by (a) upgrading the NDRF and (b) building new ships for the active private fleet.

Today's NDRF, although made up of old World War II built ships, can provide substantial general cargo shipping capability in the near-term. On December 31, 1967 there were 1,277 ships in the NDRF but only 541 (including 149 in operation for DoD) were useable as cargo ships. Of these 541, about 269 (or 243 notional ships) can be adequately and economically preserved for use into the mid-1970's and in some cases to 1980. These 269 ships include 169 Victory cargo ships and 100 AP-5 troop transports which can be converted into cargo ships.

Thus, the existing new private fleet and the NDRF are not enough; we must add new dry bulk carriers and tankers. (See table below).

Projected Shipping Requirements and Capabilities
(in notional ships)

	<u>General Cargo</u>	<u>Tankers</u>	<u>Dry Bulk Carriers</u>
Projected Requirements	535	485	150
Projected Capabilities			
a. New Private Ships Today	280 ^{a/}	265 ^{a/}	-
b. Upgraded NDRF	243 ^{a/}	-	-
c. Total	523	265	-
Additional <u>Notional</u> Ships Needed	12	220	150
Additional <u>Actual</u> ships Needed	6 ^{b/}	95 ^{c/}	75 ^{d/}

- a/ By 1980 we will have to start replacing these ships.
- b/ New general cargo ships being built today have a notional ship value of 2-2.5.
- c/ Assumes new tankers will have an average size of 37,000 DWT; these are primarily product carriers and not the supertankers which move crude oil.
- d/ Assumes new dry bulk carriers will average 45,000 DWT.

However, building and operating this new tonnage is costly. To support the current fleet costs the taxpayer and the consumer about \$650-\$700 million annually in direct and indirect subsidies and social costs. This cost could be reduced by more than half if operating subsidy systems are changed and the costly prohibitions on foreign ship construction are removed. Moreover, merchant marine reforms could bring about two other effects:

1. Reduced unit subsidy costs could make support of a larger fleet a more attractive alternative. That is, it may become worthwhile to support a fleet that is larger than that needed for emergency requirements alone if the subsidy cost can be reduced.

2. Reducing the heavy dependence of merchant marine support on the annual appropriation process and thereby reducing the heavy involvement of the government in the operations of the merchant marine should stimulate more private initiative. The current interlocking methods of government support inhibit free entry into the industry and inhibit new ideas and fresh management approaches.

CHARGE: Two out of every three U.S. soldiers in Vietnam went there by sea. We will soon need foreign ships to carry our troops because U.S. passenger ships are getting old.

ANSWER: Airlift is the primary form of DOD troop and passenger movement because it can rapidly deploy our forces, because it conserves valuable manpower which would otherwise be lost in lengthy transit, and because today it can go virtually anywhere we may require.

However, for some limited cases we need to retain the option of delivering troops by sea; supporting commercial passenger ships is the most expensive way to meet these needs.

Use of Passenger Ships by DOD

As the following table shows, airlift was used during July 1965 - December 1967 to make:

over 88% of DOD's worldwide passenger/troop deliveries

over 86% of DOD's Southeast Asia passenger/troop deliveries

over 79% of DOD's Vietnam passenger/troop deliveries.

DoD PASSENGER/TROOP MOVEMENTS
(passengers in thousands)

	Worldwide All Origins/ All Destinations			U.S. to Southeast Asia			U.S. to Rep. of Vietnam		
	Air	Sea	Total	Air	Sea	Total	Air	Sea	Total
Jul 65 - Dec 65	811.7	172.3	984.0	173.6	83.3	256.9	65.9	71.9	137.8
Jan 66 - Jun 66	950.2	134.1	1084.3	251.1	18.5	269.6	148.2	14.6	162.8
Jul 66 - Dec 66	1161.5	152.0	1313.5	348.0	77.0	425.0	222.9	76.4	299.3
Jan 67 - Jun 67	1207.5	109.2	1316.7	300.4	32.3	332.7	191.0	31.2	222.2
Jul 67 - Dec 67	1442.6	106.7	1549.3	380.5	21.2	401.7	221.4	20.6	242.0
Month Totals	5573.5	674.3	6247.8	1453.6	232.3	1685.9	849.4	214.7	1064.1
%	89.2	10.8	100.0	86.2	13.8	100.0	79.8	20.2	100.0

During the first six months of the Vietnam buildup just over 50% of the troops moved to Vietnam went by sea, but they were all moved by military troopships. In fact, during this 30-month period less than 10% of DoD's passenger/troop movements by sea were via commercial ships; yet 90% of passenger/troop movements by air were via commercial aircraft.

This relatively small use of commercial passenger ships and relatively large use of commercial aircraft are due to the fact that commercial aircraft can be rapidly and cheaply accommodated to the movement of troops and can be quickly diverted to the area of need.

Passenger ships operate on fixed routes from which they cannot be quickly removed and these ships have*luxurious furnishings that are costly to remove when lifting troops. The table below shows the planned DOD use of commercial passenger ships in FY1969; it is representative both in number of passengers and the origin/destination patterns of the use of these ships during the 1960's.

PLANNED DOD USE OF US COMMERCIAL PASSENGER SHIPS

<u>Areas of Operation</u>	<u>Number of Passengers</u>
Between New York and Europe	15,750
Between New York and South America	1,100
Between San Francisco and Hawaii, Japan, the Philippines and Australia	<u>9,300</u>
TOTAL	26,150

Economics of Passenger/Troop Sealift

It is much cheaper to maintain a passenger sealift option for DoD with military troopships than with commercial passenger ships. The 16 military troopships have a total emergency capacity for 50,000 troops. They do not have to be fully operated to be ready when we need

them and cost about \$20 million annually to maintain when not needed.

The 13 U.S. flag subsidized passenger ships have a total emergency capacity for 23,000 troops, and the government must pay over \$50 million annually in operating subsidies to maintain them.

For the routine movement of troops sealift is too expensive because it wastes manpower. For example, if the 16 military troopships were used fulltime to move troops between the U.S. and Southeast Asia their annual operating cost would be \$64 million. The cost of chartering equivalent airlift capability would be \$76.4 million. However, the use of airlift would save 19,000 man-years by reducing the number of troops in the pipeline. This amounts to a manpower savings of \$95 million (assuming the cost of one man-year is \$5,000).

CHARGE: The Department of Defense wants to build its own merchant fleet, the Fast Deployment Logistics (FDL) ships. This program is a boondoggle which will undercut the historic role that the privately-owned merchant fleet has always played as our fourth arm of defense.

ANSWER: The Department of Defense supports a merchant marine that will meet its peacetime and emergency requirements for shipping. DOD has needed, needs today and will need in the future a substantial amount of commercial sealift. The DoD owned sealift capability (the MSTs fleet) consists of 27 cargo ships, 42 LSTs, 6 aircraft ferries, 13 small special cargo vessels, 26 tankers and 16 troopships. Twenty of the 26 tankers are contract operated for DOD by private companies. The MSTs fleet is providing less than 8% of the total cargo lift required today.

The Fast Deployment Logistics (FDL) ship program has been proposed by DOD to provide, together with our C-141 and C-5A airlift fleet, a rapid deployment capability. Because it takes time to assemble from trade routes, commercial shipping cannot provide quick response capability in sizeable amounts we need. Additionally, the FDL has been designed to efficiently store the bulky, outsized wheeled and tracked vehicles and helicopters that our land forces will possess in the 1970s. It will be able to store them for prolonged periods of time under dehumidified conditions. It will be able to discharge its cargo over-the-beach (without ports) with embarked lighterage in less than 20 hours. It will permit the retention of unit integrity at the brigade level for the early deploying forces. It has been said that the FDL program is a boondoggle because they will serve a questionable purpose and may never be used. In fact, because the FDLs together with airlift will be able to move our

land forces more rapidly, they will increase the effectiveness of the land forces. Should our land forces never have to be used again, the FDLs will never have to be used. What we are buying, however, is military preparedness.

It has also been argued that commercial ships could be designed to do these jobs. However, if commercial ships were equipped for these missions and held in readiness for quick response, then they would be FDLs, not commercial ships.

The FDL will not be used as a point-to-point cargo vessel in competition with private shipping; to do so would nullify its ability to perform its designed mission. However, there is a definite need for shipping to move the cargoes necessary to sustain the forces once they are deployed. These jobs and the carriage of DoD's peacetime cargoes can best be done by the merchant marine.

In the mid-1970s DOD will require up to 460 notional general cargo ships (about 250 of the modern C-5 type freighters) and up to 260 notional (T-2 equivalent) tankers (about 175 tankers of the 25,000 DWT size) in addition to its own programmed forces. The DOD supports a merchant marine which will make this amount of emergency shipping available to meet its emergency needs.

CHARGE: The Soviet Union is burying us at sea; its goal is to dominate the world's sea lanes.

ANSWER: The Soviet Union's merchant fleet is not now nor will it become a threat to our commerce or the dominant force in world shipping.

The facts are:

1. The size of the Soviet merchant fleet has more than doubled since 1958, yet today it possesses only 4.7% of the total world's merchant marine capability.

MERCHANT FLEETS OF THE WORLD
OCEANGOING SHIPS OF 1000 GROSS TONS AND OVER
(as of December 31, 1966)

	Number of Ships	Total Deadweight Tons (in millions)	Percent of Total by DWT
Total World	17,110	219.9	100.0%
U.S. (Private)	965	15.0	6.8%
NATO (Except U.S.)	7,605	98.0	44.6
Sweden	443	6.1	2.8
Japan	<u>1,406</u>	<u>20.6</u>	<u>9.4</u>
Subtotal	10,449	139.7	63.5%
Liberia	1,429	35.3	16.1
Panama	<u>571</u>	<u>7.1</u>	<u>3.2</u>
Subtotal	2,000	42.4	19.3%
USSR	1,343	10.3	4.7%
Warsaw Pact Countries	389	3.2	1.5
China (Communist)	180	1.0	0.5
Cuba	<u>40</u>	<u>0.3</u>	<u>0.1</u>
Subtotal	1,952	14.8	6.7%
Other Countries	2,749	23.0	10.5%

2. The Soviet fleet is relatively new; about 58% of the total

been constructed in non-Soviet shipyards and over 40% in non-Communist shipyards. Hence, the USSR is taking advantage of low cost construction opportunities and in the process is giving substantial business to the world's shipyards.

3. We estimate that the Soviet Union will continue to build its fleet and reach 13.7 million DWT by 1970 and 16-18 million DWT by 1975; however, the total world fleet is also expanding at about the same rate and the Soviet share of merchant shipping will increase to no more than 5% in 1975.

4. Current Soviet merchant ships are on the average slower and much smaller than the rest of the world's merchant ships. Even the merchant ships it has under construction or on order today are smaller and less efficient for use in intercontinental ocean borne foreign trade than are the ships of the principal maritime nations. The average size of the typical USSR freighter is 45% smaller than the average freighter being constructed for the principal maritime nations; for dry bulk carriers and tankers the comparable figures are 46% and 81%. If the Soviet Union's intent is to control the world's commerce by forcing out of business the commercial ships of other nations, it is building the most inefficient ships for this purpose.

5. A more logical set of reasons for the Soviet Union's building these ships are:

a. Many of the USSR's ports and those of its COMECON partners are not too deep or well equipped. Smaller and less capital intensive ships are more economical for this trade.

b. The USSR is expanding its coastal shipping as a substitute for a large network of roads and railroads. Shipping may be more

economical than these other modes for much of the domestic traffic, particularly at this stage of the Soviet Union's economic development.

c. Freighter shipping is used extensively by the Soviet Union in regions to transport timber and minerals from Siberia; here again the ports are relatively underdeveloped and shallow. In addition, since the distances to be travelled are short and a larger percentage of the time is spent in port, smaller ships may be more economical than larger ones.

Certainly this large merchant fleet gives the Soviet Union more self-sufficient mobility. The ships could be diverted at any time to move military or civilian assistance cargoes to its allies or to countries in which it is trying to establish a political and/or military influence. However, this potential use of the Soviet Union's merchant fleet is not a threat to our commerce or to world shipping. Putting more U.S. flag ships into commercial service does not counter this potential use of the Soviet Union's merchant marine.

Comparative Data on USSR Merchant Ships
and the Worlds Merchant Ships ^{a/}

As of December 31, 1965 - Current Fleet

	<u>Combination Pass/Cargo</u>			<u>Freighter</u>		
	<u>Average</u>			<u>Average</u>		
	<u>Age</u>	<u>Gross tons</u>	<u>Speed</u>	<u>Age</u>	<u>DWT tons</u>	<u>Speed</u>
World	19.7	8315	15.8	15.3	7787	13.1
U.S. Pvt'ly Owned	13.7	15037	19.6	17.4	11382	15.9
USSR	24.4	5388	14.6	15.2	5888	12.6

	<u>Bulk Carrier</u>			<u>Tanker</u>		
	<u>Average</u>			<u>Average</u>		
	<u>Age</u>	<u>DWT tons</u>	<u>Speed</u>	<u>Age</u>	<u>DWT tons</u>	<u>Speed</u>
World	9.9	16088	13.0	14.0	25134	14.3
U.S. Pvt'ly Owned	20.3	18333	12.8	15.5	24211	15.1
USSR	10.5	5238	11.8	8.1	14875	13.3

New Construction Deliveries in 1965:

	<u>Avg. Freighter Size in DWT</u>	<u>Avg. Bulk Carrier Size in DWT</u>	<u>Avg. Tanker Size in DWT</u>
World	8,373	30,317	46,121
U.S.	14,000	none	46,000
USSR	7,313	none	23,480

^{a/} Source: "The Soviet Merchant Marine"

U.S. Dept. of Commerce (MARAD)
December 1967.

WORKING PAPERS

Vessels (1000 Gross Tons & Over) Under Construction and/or On Order as of 30 June 1966

	<u>Total World</u>	<u>USSR</u>	<u>Soviet a/ Bloc</u>	<u>Principal Maritime b/ Nations</u>
<u>Freighters:</u>				
No.	1,042	403	114	356
Total DWT	7,942,000	2,169,000	688,000	3,467,000
Avg. DWT	7,621	5,382	6,035	9,739
% of World by No.	100.0%	39.0%	11.0%	34.0%
% of World by DWT	100.0%	27.0%	9.0%	44.0%
<u>Bulkers</u>				
No.	490	7	24	271
Total DWT	18,753,000	158,000	480,000	11,285,000
Avg. DWT	38,271	22,571	20,000	41,642
% of World by No.	100.0%	1.4%	4.9%	55.3%
% of World by DWT	100.0%	0.8%	2.6%	60.2%
<u>Tankers</u>				
No.	441	130	8	180
Total DWT	23,537,000	1,891,000	196,000	13,564,000
Avg. DWT	53,371	14,546	24,500	75,355
% of World by No.	100.0%	29.5%	1.8%	40.8%
% of World by DWT	100.0%	8.0%	0.8%	57.6%

a/ Bulgaria, Communist China, Czechoslovakia, East Germany, Hungary, Poland, Rumania.

b/ France, West Germany, Greece, Italy, Japan, Netherlands, Norway, Sweden, U.K., U.S.A.

CHARGE: The cost of supporting an adequate U.S. merchant fleet is relatively modest; as a nation we can afford to pay it.

ANSWER: The cost of subsidizing the U.S. merchant marine is not small. Under current subsidy systems and programs we will pay as taxpayers and consumers about \$6.6 billion over the next ten years to support the U.S. merchant marine. However, only 35-40% will be paid in direct subsidies; the remainder will be hidden in indirect support and protection programs. These hidden subsidies make it difficult to determine the true resource cost to support this industry.

If reforms to reduce unit subsidy costs are not made, the \$6.6 billion cost will probably grow larger. Today there is much agitation to increase direct subsidies (up to \$300 million annually in construction subsidies alone) and to broaden the application of tax exempt capital reserve funds (raising the annual tax loss to the Treasury to \$30 million) and to increase the scope of cargo preference by requiring that certain percentages of commercial cargoes be imported only on U.S. flag ships.

The subsidy is by no means small. Therefore, we must clearly determine how much shipping we need and the least cost way to subsidize it.

The table below and the discussion following it show in detail the estimated costs of each type of subsidy support.

<u>Subsidy Programs</u>	<u>10-Year Subsidy Cost (In \$Millions)</u>
1. Construction Differential Subsidies (CDS)	\$ 715.0
2. Operating Differential Subsidies (ODS)	<u>1725.3</u>
a. Freighters and Combination ships	1360.0
b. Passenger Ships	365.3

3. Tax Loss to Government on Capital Reserve Funds	100.0
4. Non-Defense Cost of Cargo Preference	1098.7
5. Defense Cost of Cargo Preference	235.1
6. Required Defense Payments for Passenger Vessel Service	75.0
7. Cost to Economy of Cabotage Laws	<u>\$2430.0</u>
a. Prohibition on Foreign Ship Construction	1280.0
b. Prohibition on Foreign Ship Operations	1150.0
8. Government Payments for Health Care of Merchant Seamen and for Operating of Merchant Marine Academies	<u>200.0</u>
TOTAL Subsidy Cost for U.S. Private Fleet	\$6579.1

Construction Differential Subsidies (CDS)

The government pays the full difference between U.S. and foreign ship construction costs. The ten year CDS shown here would build 78 ships over the next ten years. These ships when added to those previously subsidized or under subsidized construction today will produce a subsidized liner fleet of 227 vessels (350 notional ships) in the late 1970's. The estimated construction subsidy per ship is \$9.17 million.

Operating Differential Subsidies (ODS)

a. Freighters and Combination Passenger/Cargo Ships

For certain ships in foreign trade the government pays the difference between U.S. and foreign ship operating costs. The estimate shown is based on paying ODS for 2616 ship-years at an average cost of \$520,000 per ship-year.

b. Passenger Ships

Thirteen of the fourteen U.S. passenger ships receive operating subsidies. We currently pay over \$50 million annually for these 13 ships.

However, some of these ships will be phased out over the next ten years and only six will be left in FY73. The estimate shown is based on paying ODS for 104 ship-years at an average cost of \$3.51 million per ship-year.

Tax Loss to Government on Capital Reserve Funds

The 1936 Merchant Marine Act allows the ship operators who receive operating differential subsidies to place a portion of their before-tax income into either of two tax-free reserve funds. These funds are tax free as long as they are used to build new ships; they are tax-deferred if used for other purposes. The Treasury Department has estimated that this tax law results in an annual loss in tax revenues of about \$10 million.

Non-Defense Cost of Cargo Preference

By law at least 50% of government impelled cargoes must be shipped on U.S. flag vessels. This law provides the means for subsidizing many U.S. foreign trade operators who do not receive a direct operating subsidy. This indirect subsidy derives from the fact that the rates charged to the government are enough to cover full U.S. costs plus a profit and that these rates are higher than those the government would need to pay foreign flag operators to move the same cargoes. (However, the law does not allow the government to discriminate between those U.S. operators receiving a direct subsidy and those who do not. Since the operating subsidy payments are not reduced when these government cargoes are carried in subsidized ships, the subsidized operators receive a "double" subsidy when they carry these cargoes.) In 1964 the Maritime Administration estimated that these rate premiums for non-Defense Cargo preference shipments totalled \$87.4 million--\$9.2 million to the liner fleet and \$78.2 million to the tramp fleet. The projected increase in these costs are based on an estimated 2% per year

increase in the cargoes to be carried and an estimated 2.5% per year increase in the indirect subsidy rate because of an increasing efficiency gap between foreign and U.S. vessels.

Defense Cost of Cargo Preference

Cargo preference laws require that all defense cargoes be carried on U.S. flag ships when available and that at least 50% be carried on privately-owned U.S. flag ships (typically 75-80% of DOD cargoes move on privately-owned U.S. ships). These DOD preference cargoes are another source of support for the unsubsidized U.S. ships since the rates DOD pays will cover full U.S. costs and provide a profit. However, the subsidized liners are again not excluded from carrying these cargoes and again they receive full operating subsidies even when carrying full loads of DOD cargoes on their normal sailings. DOD cargo revenues are a large portion of total revenues for both subsidized and unsubsidized operators as shown below for 1964 (before the Vietnam war escalated);

Freight Revenues Received by U.S. Flag Liner Operators in CY1964 (In Millions of Dollars).

	<u>Subsidized</u>	<u>Four Major Unsubsidized</u> ^{a/}	<u>Total</u>
<u>Outbound Revenues (Total)</u>	<u>\$418.0</u>	<u>\$163.6</u>	<u>\$581.6</u>
Commercial	\$199.6	35.0	234.6
DOD	98.5	61.6	160.1
Other Gov't	119.9	67.0	186.9
<u>Inbound and Foreign to Foreign Revenues</u>	<u>\$225.8</u>	<u>\$ 55.6</u>	<u>\$281.4</u>
Commercial	199.2	43.1	242.3
DOD	19.1	6.9	26.0
Other Gov't	7.5	5.6	13.1

^{a/} These are the only non-subsidized operators for whom total revenue data was available; however, they did account for over 70% of the total government generated revenue for non-subsidized operators.

The cost to DOD of this cargo preference subsidy is estimated as follows:

(a) Assume each unsubsidized vessel requires about \$525,000 per year in indirect operating subsidies - this is equivalent to ODS payments for the directly subsidized ships. Since there are some 94 unsubsidized liner operators in foreign trade, the total indirect subsidy would have to amount to \$50 million annually.

(b) Since 48.5% of their government revenues come from DOD, they receive about \$24 million in indirect subsidies from DOD (assumes proportionality).

(c) But in 1964, subsidized operators received the same rates as unsubsidized operators in carrying DOD cargoes; hence, since the subsidized operators receive 63% of DOD revenues and the unsubsidized operators 37%, the total cost to DOD of these indirect subsidies (and overpayments) was \$64.8 million (\$24 million $\div$.37 = \$64.8 million).

(d) The number of unsubsidized liner ships will probably be reduced over the next 10 years and this may eliminate part of the cause for higher prices to DOD for cargo services. The estimate of \$231.5 million is based on the assumption of reduced costs to DOD for sealift as the unsubsidized operators are phased out.

Required Passenger Vessel Purchase

Congress has required DOD to spend \$7.5 million annually for passenger movements on U.S. passenger vessels. Because airlift is a more efficient way to move people, this forced expenditure has little or no value to DOD and would not be made in the absence of the requirement.

Cabotage

A. Foreign Ship Construction Prohibition

Foreign built ships cannot be used to carry domestic U.S. oceanborne trade (coastal, inter-coastal or to offshore states and territories). Therefore, the ship operators in these trades must use only U.S. built ships and must pay full U.S. prices since there is no construction subsidy for these ships. Because the more expensive U.S. built ships must be used, the freight rates these operators charge are higher than would be the case if foreign built ships were allowed to be used. These higher costs are passed on to U.S. shippers in higher freight rates and ultimately by consumers in higher prices. Currently about 250 to 300 ships (freighters, dry bulk carriers and tankers) operate in these trades. If these operators could buy their ships at world market prices, their annual capital costs (amortization plus interest) would be about \$128 million less and they would pass these on to the shipper (assuming there is a competitive market). This estimate understates the social cost because it neglects the fact that if the rates could be lowered, more cargoes would be shipped because it would then be economical to do so.

B. Foreign Ship Operation Prohibition

Foreign flag ships cannot be used in the domestic trades as defined above. Because it costs less to operate foreign ships, if these trades were opened to free competition the freight rates would be driven down. These reductions would save U.S. shippers about \$115 million annually. Again this social cost is understated because lower rates would mean more cargoes shipped.

WORLDWIDE PAGES

Health Care of U.S. Merchant Seamen .

The Public Health Service provides free medical care to U.S. merchant seamen; in 1966 this program cost \$21 million. However, the number of seamen is declining and this cost should decline during the next 10 years.

Operation of Maritime Academies

The U.S. government operates the U.S. Merchant Marine Academy at Kings Point and contributes to the cost of operating 5 state maritime academies. These academies produce the new merchant marine officers needed by our merchant marine. Annual U.S. government expenditures are between \$5 and 6 million.

CHARGE: Reduced operating costs on U.S. ships can only be achieved at the expense of the seaman, i.e., by cutting his wages.

ANSWER: About 80% of the annual operating subsidy paid for each U.S. freighter (\$520,000 per ship per year) makes up the difference between U.S. and foreign crew costs. Reducing this large element of the subsidy cost can be accomplished by reducing crew sizes, and not by cutting the seaman's standard of living. As in other U.S. industries which have substantial foreign competition, the higher U.S. standard of living can be maintained and competition can be strong if a way is found to make the U.S. work force much more productive than its foreign counterpart. Unfortunately, we have not been able to do this. As the tables below show:

- (a) About 73% of the wage costs in U.S. freighters are subsidized.
- (b) About 80% of the total operating subsidy is paid to equalize wage costs.
- (c) Subsidy costs as a percent of subsidizable costs have not decreased over the last 20 years, even on the newer ships.
- (d) The average crew size of modern freighters is about the same as the average crew size of a World War II freighters.

ESTIMATED OPERATING DIFFERENTIAL SUBSIDY FOR
U.S. SUBSIDIZED OPERATORS

1965
(in millions of dollars)

	<u>Operating Costs</u>	<u>Estimated Subsidy ^{b/}</u>	<u>Subsidy as % of cost^{b/}</u>
Wages (including fringe benefits)	\$241.4	\$176.2	73%
Subsistence	23.0	5.3	23%
Insurance:			
Hull and Machinery	16.4	3.1	19%
Protection and	28.1	17.5	62%
Repairs and Maintenance	42.9	13.7	32%
Subtotal Subsidized Cost Elements	<u>\$351.8</u>	<u>\$215.8</u>	<u>61%</u>
Other Vessels Expense	67.2	0	0
Total Vessel Expense ^{a/}	\$419.0	\$215.8	52%

^{a/} Refers only to direct operating expenses of vessel; does not include port expenses, cargo handling costs, capital costs and overhead.

^{b/} The percentages applied to obtain subsidy costs are average rates for the years, 1955-59, the most recent for which final figures are available.

OPERATING SUBSIDY COSTS OF FREIGHTER VESSELS

BY VESSEL TYPE (1965)
(in millions of dollars)

	<u>World War II Types</u>			<u>Post World War II Types</u>		
	<u>Victory</u>	<u>C-2</u>	<u>C-3</u>	<u>C-4</u>	<u>C-4(new)</u>	<u>C-4(new) Automated</u>
Total Subsidizable Costs	\$9.4	\$65.7	\$55.1	\$28.4	\$29.6	\$4.5
Estimated Subsidy Accrued	6.1	39.2	35.1	19.7	20.0	2.8
Subsidy as % of Subsidizable Costs	64%	60%	63%	70%	67%	63%

AVERAGE CREW SIZES FOR FREIGHTERS IN U.S. MERCHANT FLEET

	WW II Types			Post World War II Types				
	<u>Victory</u>	<u>C-2</u>	<u>C-3</u>	<u>C-3</u>	<u>Automated</u>	<u>Mariner</u>	<u>C-4</u>	<u>Automated</u>
Average Crew Size	46	46	49	47	42	57	54	42

The price paid for large crew sizes is not limited to the direct wage costs but is also reflected in:

(a) Higher ship construction costs, since there is a need for more accommodations (additional room, furniture, a larger galley, larger hotel service systems, added life saving devices etc.).

(b) The indirect wage costs since larger crews need more cooks to feed them.

(c) Larger food and supply costs.

(d) Larger protective and indemnity insurance costs.

(e) Greater insurance costs for the added accommodations (hull and machinery insurance).

One detailed study of the Mariner class cargo ship showed that substantial cost reductions could be obtained by automation and work rationalization (such as designing ships for less shipboard maintenance and more inport maintenance by special port maintenance crews). The following table compares alternative manning levels with the current level and shows the estimated net annual savings associated with each alternative:

	<u>Current Practice</u>	<u>Alt I</u>	<u>Alt II</u>	<u>Alt III</u>	<u>Alt IV</u>
Deck Officers	7	5	5	5	4
Unlicensed Deck Ratings	14	10	3	3	3
Total Deck Dept	21	15	8	8	7
Engine Officers	10	6	6	5	3
Unlicensed Engine Ratings	12	7	4	0	0
Total Engine Dept.	22	13	10	5	3
Stewards Dept.	<u>11</u>	<u>8</u>	<u>5</u>	<u>3</u>	<u>3</u>
TOTAL CREW	54	36	23	16	13
Est. Annual Savings ^{a/} (in thousands \$)	BASE	\$319	\$445	\$389	\$371

^{a/} Net savings after allowing for the annualized capital costs of more automation.

Alternative I requires no capital expenditures for automation; it is merely the result of rationalization of shipboard work.

Alternative II yields the largest savings today; it provides for automated boilers, mechanized mooring devices and no shipboard maintenance.

Alternative III, which adds complete bridge control, and Alternative IV, which provides for computer control of ship operations, are not as efficient as Alternative II, since the added capital costs are not offset by large enough reductions in operating costs. However, if the cost of labor continues to increase, these latter two crew levels may soon become the most economical. (Since 1965 when this study was completed, wage costs on U.S. ships have increased by over 30%).

Up to this point only U.S. ship crew sizes have been discussed. However, since the operating subsidy is based on the difference between U.S. and foreign operating costs it is instructive to review what has been happening to the crew sizes on foreign ships. Even in Japan where wage rates are very low relative to the U.S. ship owners have been reducing crew sizes.

In 1961 the Japanese ship the KINKASAN MARU (a 10,000 DWT cargo liner) was built to operate with a crew of 43; later familiarization with the automated equipment made possible a reduction by 3. Now the ship is operated with 40 men. In 1962, a 12,000 DWT cargo liner was built to be operated by 28 persons. Examples of changes in Japanese ship manning practices are shown in the table below:

	Cargo Liner (10,000 DWT)		Tanker (60,000 DWT)	
	Non-Automated	Automated	Non-Automated	Automated
	1961	1965	1961	1965
Deck Officers	6	5	5	5
Unlicensed Deck Ratings	14	11	15	9
Total Deck Dept.	<u>20</u>	<u>16</u>	<u>20</u>	<u>14</u>
Engine Officers	6	4	7	4
Unlicensed Engine Ratings	12	7	14	7
Total Engine Dept.	<u>18</u>	<u>11</u>	<u>21</u>	<u>11</u>
Stewards Dept.	<u>9</u>	<u>6</u>	<u>8</u>	<u>5</u>
TOTAL CREW	47	33	49	30

These crew reductions on foreign ships combined with the relatively low cost of foreign labor points up the need for the U.S. to act now in coming to grips with the shipboard manning issues. In the absence of action, ship operating subsidies will escalate.

CHARGE: U.S. merchant ship construction prices are NOT twice as high as foreign prices.

ANSWER: The President of the Shipbuilders Council of America has stated that U.S. built ships are not twice as expensive as foreign built ships. Yet, the Vice President of Matson Navigation Company told the House Merchant Marine and Fisheries Committee that Matson could not build the two containerships it has on order at Bethlehem Shipbuilding without construction subsidy and that his company could buy these ships for less than half the U.S. cost and get faster delivery from Japanese shipyards. Today Moore-McCormack Lines is suing the U.S. Government because the Maritime Administration paid a 52% construction differential subsidy on some recently built ships; Moore McCormack wants a 55% construction subsidy.

The following table shows the construction subsidies paid between FY 1958 and FY 1966 for U.S. built cargo ships:

(in millions of dollars)

<u>FY Year</u>	<u>No. of Ships</u>	<u>U.S. Price</u>	<u>Est. Foreign Prices</u>	<u>Const. Diff. Subsidy</u>	<u>Subsidy Rate</u>
1958	15	\$ 165.7	\$ 87.1	\$ 78.6	47.4%
1959	14	138.9	73.2	65.7	47.3
1960	13	169.1	86.3	82.8	49.0
1961	31	299.2	151.6	147.6	49.3
1962	13	128.5	65.1	63.4	49.3
1963	18	205.3	98.5	106.8	52.0
1964	15	155.7	71.3	84.4	54.2
1965	14	167.9	78.3	89.6	53.4
1966	<u>17</u>	<u>258.5</u>	<u>117.6</u>	<u>140.9</u>	<u>54.5</u>
TOTAL	150	\$1688.8	\$829.0	\$859.8	50.9%

The construction subsidy rate has moved steadily upward (not down) since 1958. Under the current construction subsidy system the U.S. government is today paying 55% of the construction cost of new "privately-owned" ships.

U.S. shipbuilders contend that U.S. ship construction prices could be reduced and that foreign prices would be higher if they had to produce to U.S. specifications. If true, the U.S. government's share of the cost would be lower since that share is the difference between the U.S. and foreign construction costs.

U.S. ship construction prices could probably be reduced by 15 to 20 percent if designs were standardized and if ship construction contracts were based on constructing 10-15 ships at a time versus 3 to 5 as at present. The larger contracts would enable shipbuilders to take advantage of learning curve economics and also to modernize some of their facilities. Such reductions in the price of ships would lower the construction subsidies by the full amount of the price reductions. One way to achieve this result would be to pay construction subsidies directly to the shipyards thereby motivating them to design, produce and market standardized ships. A program of this type could reduce the traditional American preference (except for the war years) for custom built ships.

It may be that foreign costs are underestimated today, although many U.S. ship owners who have actively sought foreign bids for their designs do not believe so. The only way to really test this proposition and to introduce more competition would be to allow some U.S. flag ships to be built in foreign yards. Until this happens, the arguments of U.S. shipbuilders just won't stand up and the only hard facts will be what the U.S. government pays in construction subsidies.

CHANGE: The plan to separate ship construction and ship operating subsidies does not make sense. We must build in U.S. shipyards all the ships that are to be registered under the U.S. flag.

ANSWER: In no other country in the world are the fortunes of the ship construction and ship operating industries so closely tied together as they are in the U.S. Some foreign countries provide operating subsidy support for their active fleets. Some foreign countries provide construction subsidies to their shipyards (whether or not the ship is sold to a citizen or to another foreigner for registry in another country). Other countries provide capital subsidies to shipowners (whether or not he purchases a ship in a domestic or foreign yard. The U.S., however, will pay operating subsidies only on U.S. constructed vessels. The U.S. will not permit a U.S. flag but foreign built ship to work in its domestic coastal trade. The U.S. does not pay construction subsidies to U.S. shipyards for vessels they might be able to sell abroad.

Alone among major maritime nations, the U.S. does not recognize that its competitive advantage in building ships may be very different from its competitive advantage in operating ships. For example, the table below shows, for two recent years, the picture of world merchant ship building--the countries in which the ships were built and the intended countries of registry.

WORLD DELIVERIES OF NEW MERCHANT VESSELS IN 1965 AND 1966
(Tonnage in Thousands)
COUNTRY IN WHICH BUILT

	No. Ships	1965 DWT	% by DWT	No. Ships	1966 DWT	% by DWT
<u>Total</u>	<u>606</u>	<u>16,221</u>	<u>100.0%</u>	<u>706</u>	<u>19,416</u>	<u>100.0%</u>
Japan	195	7,364	45.4%	243	9,556	49.2%
United Kingdom	69	1,603	9.9	58	1,397	7.2
Sweden	54	1,987	12.2	39	1,751	9.0
W. Germany	43	1,239	7.6	60	1,516	7.8
Norway	30	707	4.4	32	607	3.1
France	19	696	4.3	14	445	2.3
Italy	18	356	2.2	16	748	3.9
Denmark	18	260	1.6	21	722	3.7
United States	13	246	1.5	13	197	1.0
Netherlands	13	152	0.9	17	382	2.0
All Other Countries	134	1,611	9.9	193	2,095	10.8

REGISTRY FOR WHICH BUILT

	1965			1966		
	No. Ships	DWT	% By DWT	No. Ships	DWT	% By DWT
Total	<u>606</u>	<u>16,221</u>	<u>100.0%</u>	<u>701</u>	<u>19,416</u>	<u>100.0%</u>
Liberia	74	3,407	21.0%	62	2,994	15.4%
Norway	86	3,203	19.7	80	3,233	16.7%
Japan	74	2,516	15.5	120	4,288	22.1%
United Kingdom	76	1,913	11.8	54	1,419	7.3%
USSR	65	929	5.7	110	1,027	5.3%
Sweden	18	457	2.8	23	745	3.8%
W. Germany	21	440	2.7	N/A	N/A	N/A
France	9	346	2.1	16	422	2.2%
Denmark	19	319	2.0	23	589	3.0%
Italy	15	296	1.8	12	538	2.8%
United States	13	246	1.5	13	197	1.0%
Netherlands	7	171	1.1	12	528	2.7%
All Other Countries	129	1,978	12.2	153	3,436	17.7%

Japan is the dominant merchant ship builder (accounting for 45-50% of total world deliveries) but about 60% of her construction is for export. Norway, which has the third largest merchant fleet in the world constructs in her own shipyards less than 20% of the tonnage she adds to her fleet. Each year 15-20% of the world's new ship construction is being registered in Liberia (almost exclusively by large corporations buying the new large dry bulk carriers and tankers), yet not a single one of those ships has been built in Liberia. The USSR which has been registering about 5.5% of the world's new tonnage, has been building only 35% of the increment to its fleet in its own shipyards.

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Today's law do not prevent U.S. citizens from buying foreign built ships; rather the laws effectively prevent these ships from being registered in the U.S. merchant fleet. In fact, since World War II, U.S. companies and their foreign affiliates have purchased 1,115 oceangoing ships totalling 35 million deadweight tons in foreign shipyards. This is more than twice the tonnage in the privately-owned U.S. flag fleet today.

CHARGE: Without government construction subsidies to build merchant ships in U.S. shipyards, tens of thousands of jobs in the U.S. shipbuilding and repair industry would vanish.

ANSWER: Four percent of U.S. shipyard workers are engaged in building new ocean going merchant ships. In no sense is the health of the industry dependent on merchant ship construction.

Approximately 60-66% of the value of work done by private shipbuilding and repair firms is for the U.S. Navy, as the following table shows.

VALUE OF WORK DONE BY PRIVATE FIRMS IN THE
CONSTRUCTION OF NEW SELF-PROPELLED SHIPS^{a/}
(in millions of dollars)

<u>Calendar Year</u>	<u>Total</u>	<u>Military Ships</u>	<u>Non-Military Ships</u>	<u>Military as % of Total</u>
1963	\$ 925	\$682	\$243	74%
1964	1019	739	280	73%
1965	1018	741	277	73%

VALUE OF REPAIR WORK DONE BY PRIVATE FIRMS^{a/}
(in millions of dollars)

<u>Calendar Year</u>	<u>Total</u>	<u>Military Ships</u>	<u>Non-Military Ships</u>	<u>Military as % of Total</u>
1963	\$ 499	\$222	\$277	44%
1964	535	205	330	38%
1965	712	377	335	53%

^{a/} Does not represent dollar volume of sales of the firms.

These figures overstate the dependence of the industry on purely merchant marine work. This is shown by looking at employment data. About 110,000 production workers were employed in private shipyards as of the end of 1966; they were distributed throughout the shipyard facilities as follows: ^{a/}

	<u>Facilities</u>	<u>Production Workers</u>	<u>Percent of Total Production Workers</u>
A. Private Yards (able to construct vessels 475 ft. and above in length)	22	75,400	68.3%
B. Private Yard (able to construct vessels between 300-475 ft.)	5	11,200	10.1%
C. Private Repair Yards (no new construction)	<u>52</u>	<u>23,800</u>	<u>21.6%</u>
	79	110,400	100.0%

^{a/} About 25,000 additional workers are employed in privately-owned boatyards.

New ocean-going merchant vessels can be built in the 22 facilities in Group A. However, over the last ten years, only 11 have participated in the subsidy construction program, and only five are working on subsidized contracts. As of December 1966 the production workers in these 22 yards were employed on the following projects:

PRODUCTION WORKERS IN 22 YARDS
ABLE TO CONSTRUCT LARGE VESSELS (475 FEET AND ABOVE IN LENGTH)

<u>Projects</u>	<u>Employment in Thousands</u>	<u>%</u>
Navy	<u>53,100</u>	<u>70.4</u>
New Const/Conversion	<u>38,100</u>	
Repair	<u>15,000</u>	
MARAD	<u>7,300</u>	<u>9.7</u>
New Const	<u>7,300</u>	
Conversion/Repair	0	
Other Private Ship Work	<u>12,300</u>	<u>16.3</u>
New Const	<u>5,900</u>	
Conversion/Repair	<u>6,400</u>	
Non-Ship Work	<u>2,700</u>	<u>3.6</u>
TOTAL	<u>75,400</u>	<u>100.0%</u>

As of December 31, 1966, 43 ocean-going merchant ships were under construction; of these, 41 were being built under the MARAD subsidy program. Thus, the construction of large merchant ships employed about 7,300 production workers out of a total of 110,400 in private shipyards (or 7%).

If the production workers at Naval shipyards are included (a grand total of about 194,000 workers), the percentage of this total engaged in the construction of new ocean-going merchant ships drops to 4%.

CHARGE: A small merchant marine program will throw hundreds of thousands out of work and onto the public welfare roles.

ANSWER: Technological change and modernization will reduce the need for U.S. merchant seamen. No realistically achievable expansion in the merchant marine can even hold constant the number of jobs in this industry. The application of automation which can be temporarily retarded but not prevented will greatly reduce shipboard employment.

However, these changes do not have to cause personal hardships. Because the U.S. seagoing labor force is old, reductions in the labor force can be undertaken now without throwing today's workers out of jobs. Rather changes can be accomodated rapidly through attrition. Age and attrition data developed in the Shipboard Manpower study done by the Maritime Transportation Research Board in 1962-63 are displayed below. According to these estimates about 50% of the active seagoing labor force will be reduced through attrition by the early 1970's.

COMMERCIAL SEAGOING WORK FORCE OF THE U.S. MERCHANT MARINE ^{a/}

<u>Job Category</u>	<u>Total Active Labor Force (1962-63)</u>	<u>Average Age As of 1963</u>	<u>Percent of Seamen Entering Work Force Since Jan 1953</u>	<u>Estimated Year that 1963 Work Force Will Be Reduced by 50% Through Attrition</u> ^{c/}
Deck Officer	8,194	46.9 years	13%	1970
Engine Officer	11,472	47.6	9	1972
Radio Officer	1,784	49.1	6	1970
Staff Officer	888	43.5	25	1970
Unlicensed Deck Ratings				
(a) Skilled	21,036	43.6	25	1972
(b) Unskilled	13,818	36.0	50	1972
Unlicensed Engine Ratings				
(a) Skilled	17,399	45.9	20	1972
(b) Unskilled	5,820	38.4	40	1972
Stewards Department				
(a) Skilled	13,818	49.0	22	N/A
(b) Unskilled	14,130	45.0	34	N/A
Total Unlicensed.	78,370 ^{b/}	44.0	30	
Total Active Labor Force 100,708				

^{a/} Includes Great Lakes shipping.

^{b/} The total active unlicensed labor force is 78,370 and is fewer than the sum of the figures given in the table because of seamen who worked in several different categories during the year in which the study was made.

^{c/} Attrition projections based on trend observed during the period 1959-1963.

Even if the number of ships (about 1000) is held constant (and this is unlikely because new ships are so much more productive), the use of automation will reduce the total number of seagoing jobs by about 31,000.

The largest reductions will be in the unlicensed categories. The table below shows an estimate of the changes in jobs and relates these to changes in the work force.

	1962 - 1963		After Automation	
	Jobs and Estimated Work Force Aboard Privately Operated Ships		Jobs and Estimated Work Force Aboard Privately Operated Ships ^{b/}	
	<u>Jobs</u>	<u>Work Force</u>	<u>Jobs</u>	<u>Work Force</u>
Deck Officers	5,899	9,021	5,500	8,415
Engine Officers	6,512	10,766	6,600	10,890
Radio Officers	1,251	1,774	1,251	1,774
Stall Officers	582	830	582	830
Unlicensed Deck Dept.	14,783	23,588	3,300	5,280
Unlicensed Engine Dept.	13,102	19,852	4,400	6,688
Steward's Dept.	16,319	25,080	5,500	8,415
Total	58,448	90,911	27,133	42,292

a/ Includes about 1,100 oceangoing ships of 1,000 gross tons or more and excludes Great Lakes ships.

b/ Based on 1,100 ships and an economically efficient manning scale of 23 - 25.

Although a 23-25 man crew is used to show the effect that automation can, and eventually will, bring, it is much more likely that crew sizes will be reduced in steps (not abruptly). Crew sizes of 23-25 will probably not be prevalent in the U.S. fleet until the late 1970's or early 1980's; however, ship designs being discussed today could be crewed with as few as 15 seamen.

We will probably experience a period where larger, more productive ships replace current ones (but not on a one-for-one basis; in fact, the number of ships in the world's merchant fleet has declined over the past few years even though trade has been increasing) and crew sizes are reduced gradually. These actions, together with the ageing/attrition process will prevent hardships for the seamen in the industry.

CHARGE: The Merchant Marine Act of 1936 states that we should carry a substantial portion of our foreign trade; today we carry 7%, it should be 30%.

ANSWER: U.S. flag ships carry only 6-7% (by weight) of its commercial, oceanborne foreign trade; yet, U.S. flag ships carry over 20% of the value of that trade. The reason for this apparent inconsistency is that the U.S. carries a substantial portion of the high value liner trade which accounts for only 12-13% of the tonnage but for 70% of the value. U.S. flag ships carry very little of the low value dry and liquid bulk cargoes.

U.S. FLAG PARTICIPATION IN THE
OCEANBORNE FOREIGN TRADE

<u>Year</u>	<u>Weight (millions of long tons)</u>	<u>Value (billions of dollars)</u>	<u>% Carried in U.S. Flag Ships</u>	
			<u>by weight</u>	<u>by value</u>
1965:				
Liner	50.2	\$22.5	22.6%	27.8%
Non-Liner	169.9	6.5	4.8	6.3
Tanker	128.4	3.2	6.1	9.1
Total	348.5	\$32.2	7.9%	21.6%
1966:				
Liner	51.0	\$24.5	22.5%	30.4%
Non-Liner	206.0	8.2		
Tanker	147.0	3.4		
Total	404.0	\$36.1	7.2%	
1967:				
Liner	50.2	\$25.4	21.5%	29.7%
Non-Liner	185.4	8.4	2.9	4.5
Tanker	151.2	3.2	3.5	5.1
Total	386.7	\$37.0	5.6%	21.8%

Liner operators are the common carriers of oceanborne trade. This is a scheduled operation over defined routes. The cargoes they carry consist mostly of manufactured and semi-manufactured goods. Non-liner operators fall into two categories: (1) The unscheduled operators who pick up full shipload cargoes when and where they are available and (2) the dedicated operators who carry the cargoes for a single shipper. This latter category includes those ship operators who have long term charters with one shipper or the proprietary, self-owned fleets of the shippers themselves. Non-liner cargoes consist mainly of wheat, grain, coal, iron ore, bauxite, phosphate rock, timber, scrap metal etc.; these are commonly known as dry bulk cargoes. Tanker operators also fall into the same two categories as the non-liner operators. However, they carry liquid bulk cargoes, mostly crude oil. This trade is heavily imbalanced and the importing of crude oil predominates. Less than 12% (by weight) of our total commercial oceanborne foreign trade tanker cargoes are export cargoes.

These dry and liquid bulk cargoes have accounted for most of the growth in world and U.S. trade; estimates of future trade show the growth rate of the bulk cargoes for exceeding that of the liner cargoes.

U.S. OCEAN BORNE FOREIGN TRADE
(in millions of long tons)

	<u>1950</u>	<u>1967</u>	<u>% Growth 1950-67</u>	<u>Projected 1980</u>	<u>Projected % Growth 1967-80</u>
Liner	35.1	50.2	43%	63	25%
Non-Liner	31.3	185.4	492	300	62
Tanker	51.1	151.2	196	200	32
Total	117.5	386.7	229%	563	46%

It has been suggested that the U.S. should subsidize a larger U.S. fleet in order to capture a larger portion of its oceanborne foreign trade. In addition to the question whether the benefits of undertaking this plan are worth the added subsidy costs, there are the questions of feasibility, impact on American owned foreign flag ships, and potential retaliation by foreign operators and governments and the attendant political costs. To see what might happen one must look at who carries our trade today; this is shown in the following table based on 1963 data.

MAJOR CARRIERS OF U.S. OCEANBORNE FOREIGN TRADE
(% of trade carried by weight)

Liner - General Cargo

<u>Country of Ship Registry</u>	<u>Imports</u>	<u>Exports</u>	<u>Total</u>
U.S.	25.7%	31.3%	29.2%
Norway	13.7	12.3	12.8
Japan	10.0	12.1	11.3
W. Germany	6.4	5.8	6.0
U.K.	6.7	5.5	6.0
Netherlands	6.2	5.3	5.7
Sweden	6.1	3.8	4.7
Denmark	3.1	2.7	2.8
All Others	<u>22.1</u>	<u>21.2</u>	<u>21.5</u>
	100.0%	100.0%	100.0%

Non-Liner Dry Bulk

U.S.	3.9%	6.2%	5.2%
Liberia (EUSC)	35.1 (25.6)	14.8 (3.6)	23.7 (13.3)
Norway	18.8	15.8	17.1
Greece	6.4	13.7	10.5
U.K.	9.1	6.4	7.6
Italy	3.7	8.7	6.5
All Others	<u>23.0</u>	<u>34.4</u>	<u>29.4</u>
	100.0%	100.0%	100.0%

Tanker - Liquid Bulk

U.S.	2.3%	21.5%	4.4%
Liberia (EUSC)	41.9 (26.7)	18.9 (8.6)	39.3 (24.7)
Norway	17.8	31.1	19.2
Panama (EUSC)	13.1 (8.4)	3.1 (1.4)	12.0 (7.6)
U.K.	7.4	4.2	7.1
All Others	<u>17.5</u>	<u>21.2</u>	<u>17.9</u>
	100.0%	100.0%	100.0%

From these data we can see that:

1. U.S. flag ships do carry a substantial portion of our liner trade, more than twice that carried by any other nation. The supply of liner shipping is well distributed with no single foreign country having a dominant position. There is a definite balance in this trade with each country carrying about the same percentage imports as exports. From the first table (on page 1) we know that the U.S. ships carry the higher value cargoes in this trade (i.e., in 1967 they carried 21.5% by weight and 29.7% by value).

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Thus, any attempt to increase the U.S. flag share by weight would mean carrying less valuable cargo. Since there is a direct relationship between value and freight rates, the additional cargo that we may carry by a larger fleet will not be as profitable. It should also be noted that this general cargo liner trade is the one in which the international shipping conferences establish rates and set many of the terms of service. A unilateral push by the U.S. government to subsidize its operators to increase their share of this trade could trigger a collective response by foreign operators.

2. Norwegian ships carry between 13 and 19% of our trade (by weight) in all three trade categories. Norway depends heavily on the revenues it receives from merchant shipping; its net foreign exchange earnings from shipping pays for about one-third of Norway's imports, and over 90% of its merchant fleet is engaged in trade between foreign countries. In 1962 Norway's gross national product was \$5.9 billion and its shipping earnings accounted for 10% of its GNP. In 1963 Norway's imports were \$1.8 billion, its exports \$1.1 billion. Without the earnings it can make by freely selling shipping services, its standard of living could be appreciably reduced. Hence, since Norway is so dependent on shipping revenues and since these are primarily earned in carrying trade between foreign countries, we would expect Norway to be greatly effected by an attempt by the U.S. government to subsidize U.S. competition. We should therefore expect retaliation either in terms of price warfare (which could hurt our operators more because of their weaker position) or in terms of a disruption in our close political ties (Norway belongs to NATO).

3. In the tanker trade, U.S. owned ships under foreign registry are very large carriers of our trade. Ships in the Effective U.S. Controlled fleet moved over 35% of our tanker imports. In total, it is estimated that U.S. owned foreign flag ships under all registries carried over 55% of our petroleum imports. Thus, in attempting to increase the U.S. flag share of this market, we would be competing largely with U.S. owned companies. Also these tanker movements are primarily for the account of U.S. oil companies who in turn own most of the U.S. owned foreign tankers. What would be the advantage of undertaking a larger U.S. flag participation policy? It would merely divert U.S. resources from the jobs in which they are more efficient to jobs in which they are less efficient.

4. Again in the non-liner dry bulk trades, U.S. owned ships in the EUSC fleet carry over 25% of our imports. We do not have an estimate of what the total U.S. owned foreign flag fleet carries. Most of the bulk cargo imports are raw materials needed by U.S. industry. For example, of the total 61.2 million long tons of dry bulk imports in 1963, 39.7 million long tons or 65% were iron ore and bauxite. These cargo movements have to be scheduled to fit into the smelting and other refining processes; hence, there is a need to tightly control the shipping which perform these movements. The U.S. companies for whose account these movements are made control this shipping by either owning (under foreign flag) or long-term chartering the required ships.

The dry bulk exports consist primarily of coal (42%) and agricultural products such as wheat, corn, soybeans, etc. (41%). We may be able to increase the U.S. flag share of this dry bulk export trade, but again for what purpose?

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WOMAN PAPERS
CHARGE: Without a large U.S. flag merchant marine our trade will be crippled and freight rates will soar.

ANSWER: It is important to note that this charge is vocally made by U.S. shipowners and maritime labor, not by U.S. shippers. Why don't shippers complain?

In the non-liner (principally dry bulk) and tanker portions of our oceanborne trade (which together account for 87% of the trade by weight and 30% by value) most of the cargoes move in shipload lots. Chartering full ships is the principal way to procure shipping and much of the chartering is done on a long term basis. The world long-term charter market is very competitive because large corporations which need to move these bulk, raw material commodities can themselves build their ships and operate them and thereby check any gouging practices.

However, in the liner trade (13% by weight and 70% by value) cargo is moved in less than shipload lots on common carrier ships which sail on regular schedules between specified ports. Rates and in some cases the types and frequency of service are determined by legally sanctioned international shipping conferences in which U.S. and foreign liner operators are members. It is argued that if we do not possess a large U.S. liner fleet (today our liner fleet carries over 20% of this cargo) to serve our "essential trade" routes, then:

1. Freight rates set by the international shipping conferences will discriminate against U.S. shippers because there will be inadequate representation of U.S. interests in these conference rate setting meetings.

2. Frequency of service will be inadequate.

3... There will be inadequate service to smaller U.S. and overseas ports.

4. Costly interruptions in service will occur when foreign flag liners decide to switch from one route to another.

In fact, because of the way we now administer our subsidy laws, U.S. liner service is the least flexible liner service.

1. Today there are 34 essential trade routes. ^{1/} Service on each is controlled by at least two conferences (one for outbound traffic and one for inbound). In 1964, 96% of the total liner tonnage (excluding military cargo² but including all other government impelled cargo) moved over these routes; also, 98.6% of the cargo carried by U.S. subsidized operators moved over these routes.

2. The U.S. subsidized liners, who carry the largest share of our commercial liner cargoes, are severely constrained in serving these routes. For example, to receive operating subsidy, a U.S. liner operator must make a specified number of sailings over the routes assigned to him; these are specified in terms of a minimum and maximum number of annual sailings. When a subsidized U.S. liner operator wants to change his routes or frequency of service, a detailed administrative hearing must take place, often taking several years. This restricts competition among U.S. flag carriers and it reduces their ability to compete with foreigners.

3. Usually the specific ports to be served on the routes are determined by the U.S. operators and are based on the profitability of cargo flowing through them. We find that the smaller U.S. ports are

^{1/} If routes 5, 7, 8, and 9 (all serving the U.K. and Continent from U.S. North Atlantic coastal region) are combined, there are only 30 routes.

predominantly serviced by foreign flag carriers. Less than 7.5% of the voyages undertaken by U.S. subsidized operators touch ports not served by foreign flag lines. Moreover, on only three of the 34^{1/} essential trade routes has a U.S. operator initiated the service.

Foreign flag operators have no governmental restraints on competition and can and do provide service where there is an economic demand for such service.

4. No single foreign country carries more than 13% of our liner cargoes. There is a reasonably competitive, well distributed source of shipping services, and foreign flag operators, who are free to switch from one trade route to another, can be more effective checks on the restraining practices of shipping conferences than subsidized U.S. operators.

5. By restricting competition among U.S. subsidized carriers, (only eight of 30 major routes^{1/} are served by more than one subsidized operator), the trade route system severely restrains the extent to which U.S. subsidized operators compete for U.S. Government cargoes, which are reserved for U.S. operators by our cargo preference laws. Because of the rigidity (operators can not freely change routes), the system acts as a device whereby a large portion of U.S. government liner cargoes is parcelled out among the subsidized lines, i.e., each operator is virtually guaranteed the government business on his route. Only the unsubsidized U.S. liner operators (who are at a decided disadvantage because they do not receive operating or construction subsidies) can check the natural monopoly tendency to boost prices on these cargoes because

^{1/} If routes 5, 7, 8, and 9 (all serving the U.K. and Continent from U.S. North Atlantic coastal region) are combined, there are only 30 routes.

they alone can move from trade to trade unhindered. Prior to the introduction of competitive bidding for DOD cargoes (exclusively reserved for U.S. flag ships) all U.S. liner operators (subsidized and unsubsidized) who carried DOD cargoes were joined into two conferences (one for the Atlantic/Gulf and one for the Pacific port regions) which negotiated rates with MSTs. Cargoes were apportioned in proportion to the frequency of service that each carrier provided over the trade routes during the previous 3 months. The same rates were paid to unsubsidized and subsidized operators alike.

The subsidized operators continued to receive operating subsidy even if they were 100% loaded with DoD cargo, even though the subsidy was designed to help him compete with the lower cost foreign liner operators who are not allowed to carry DoD cargoes. Since the rates paid were enough to cover the full U.S. costs of the unsubsidized operators and provide them a profit, this practice amounted to a "double subsidy" for the subsidized operators. Further, it gave the incentive to subsidized operators to concentrate more on DoD cargoes than on the commercial cargoes and hence to reduce their effectiveness in serving commercial U.S. trade. In calendar year 1964 over 23% of the outbound freight revenues earned by U.S. subsidized liners came from DoD cargoes; approximately 50% of their outbound revenues came from all Government impelled cargoes. For the four largest unsubsidized liner operators, over 37% of their outbound freight revenues came from DoD cargoes and over 78% came from all Government impelled cargoes.

However, the question remains, "Are U.S. shippers being served adequately at competitive rates (as competitive as the conference system will permit)?" In the absence of specific complaints from U.S. shippers, the answer can only be surmised. There are indications, however, that the absence of a large national flag merchant marine will not cripple a country's trade, least of all the U.S. trade.

1. Since foreign trade is much more important (as a % of GNP) to the economies of the countries with whom we trade, since shipping services are also more important to these economies (as a % of GNP) and since the supply of liner shipping services is well distributed among countries, there is virtually no risk that foreign shipping would be withdrawn from U.S. trade to the extent of disrupting the flow of U.S. oceanborne commerce.

2. There is no evidence that countries, such as Australia, which are completely dependent on foreign shipping pay higher ocean freight rates than countries carrying their own trade or are unable to obtain adequate shipping in time of international crises.

In fact, Joseph ^{Curran} ~~Gunan~~, President of the National Maritime Union, confirmed this view when in testimony before the 88th Congress he said, "The seamen's strike today on American flag ships (does not) in any way injure the welfare of the country because most of the shippers of this country are using foreign flag bottoms anyway."

CHARGE: Just as we have gone from wood to steel, from sail to steam, we must today move on to nuclear power. It will restore strength to the U.S. merchant marine.

ANSWER: Strengthening the merchant ^{marine} should mean increasing its overall economic profitability either by reducing total costs and/or broadening its markets by introducing new services. However, to many of the advocates of the use of nuclear power for merchant ships, strengthening the merchant marine means increasing the profits of the private operators by having the government pick up a larger share of their costs. For example, one prominent shipping executive states we should turn to nuclear power because it can cut fuel costs by 50%. But left unsaid are the facts that:

(a) Today the cost of oil fuel is unsubsidized. Thus any program which cuts these costs cuts the costs of the private operator. But these cost reductions do not come free. Rather they must be bought through investments in research and development and through paying the higher capital costs of the nuclear power plant.

(b) Private operators would like to have the government pick up all these extra costs. A proposed piece of legislation would: (1) provide government funds for the research and development work (2) use government funds to pay the full cost difference between nuclear and conventional power plants - this in addition to the normal 55% construction subsidy (3) reduce the cost of nuclear fuel cores to the private operator by subsidizing the fuel lease rate.

Curiously enough, these advocates of nuclear power have not even proposed that the government will share in its benefits. The government will share only in its costs. Proponents of the SST program

(which merchant marine enthusiasts like to cite as an example of how the air industry gets its "share") have at least worked out a formula whereby the government could get its money back, admittedly at a low interest rate. The nuclear merchant mariners have offered no such formula.

It is true that the potential owners of nuclear ships will put up some money and take some risk, but how much? Their share of the capital costs will be limited to 45% of the construction price (not counting the capital cost of the nuclear steam generating system, which the government will pay for in full). They will finance this share by either (a) using tax free funds from their capital reserve account, or (b) obtaining bank financing through mortgages insured under Title XI of the 1936 Merchant Marine Act, so that if the program flops, the government pays off the entire mortgage. Thus, how much private money is actually being risked? In effect, less than 4% of the total investment cost of the nuclear ship. This means that for a nuclear powered merchant ship costing \$35 million, the amount of private capital being invested at risk will be \$1.33 million. Not a bad risk if the benefits don't have to be shared with the creditors.

Leaving aside the vested interests for the moment, is there any reason to view nuclear propulsion for merchant ships as a worthwhile investment of this nation's resources (assuming an honest and fair sharing of costs between the government and private industry could be worked out)?

The case for nuclear power is based on the facts that:

(1) The capital cost per unit of power output falls as total power output increases. The table below shows this effect:

Cost of Nuclear Steam Generating Systems for Merchant Ships a/ b/

<u>Power Output Levels</u>	<u>Cost (in Millions of Dollars) c/</u>	<u>\$/Unit of Power Output</u>
20,000 Shaft Horsepower (SHP)	\$5.9	\$295/SHP
75,000 SHP	8.0	\$105/SHP
140,000 SHP	11.0	\$ 79/SHP

a/ A completely erected and tested reactor system which is capable of supplying steam at specified conditions and in sufficient quantities. Does not include the power conversion system (i.e., the closed-cycle steam turbine with either direct geared or electric drives).

b/ Does not include the cost of the nuclear core.

c/ Average cost for a buy of 12 where the cost of the 12th unit is about 82% of the cost of the 1st unit. Based on January 1966 pricing estimates.

(2) Because the investment in the nuclear core is substantial, the nuclear fuel cost is very sensitive to the utilization rate and to the interest charges. The table below shows this effect:

Fuel Cost (in Mills per Shaft Horsepower-Hour, SHPH) a/

	<u>Utilization Rate</u>		
<u>Interest Rate</u>	<u>40%</u>	<u>55%</u>	<u>70%</u>
5% per year	2.55	2.41	2.34
7% per year	2.83	2.62	2.50
10% per year	3.30	2.96	2.81

a/ The table shows a 41% variation in nuclear fuel costs. Some have claimed that nuclear fuel costs could get down to 1.5 mills per SHPH (the most optimistic estimate). In commenting on various maritime reactor proposals the Oak Ridge National Laboratory suggests nuclear fuel costs ranging from 2.31 to 2.78 mills per SHPH for pressurized water reactors.

The fuel costs in today's conventionally powered ships are about 3 to 3.3 mills per SHPH. Thus, the question is whether the lower nuclear fuel costs will offset the higher initial capital investment. In the table below are several examples showing the present value of the difference in fuel costs (conventional versus nuclear power) over a 25 year ship lifetime.

Present Value of the Savings in Nuclear Fuel Costs
Versus Conventional Fuel Costs a/

<u>Power Plant Size</u>	<u>Interest Rate</u>	<u>Utilization Rate</u>		
		<u>40%</u>	<u>55%</u>	<u>70%</u>
20,000 SHP	5%	\$748,000	\$1,210,000	\$1,650,000
	10%	0	290,000	535,000
75,000 SHP	5%	\$2,790,000	\$4,470,000	\$6,200,000
	10%	0	1,090,000	2,090,000
140,000 SHP	5%	\$5,220,000	\$8,450,000	\$11,600,000
	10%	0	2,090,000	3,820,000

a/ Based on 25 years and the indicated interest rate. Assumes conventional fuel costs at 3.3 mills per SHPH and nuclear fuel costs shown in previous table.

Thus, only for very high power requirements, very high utilization rates and the lower interest rate (5%) does the nuclear fuel's lower cost begin to offset the high initial capital costs. For example, at 75,000 SHP, 70% utilization rate and 5% interest, the present value of the nuclear fuel savings is \$6.2 million; yet the cost of a 75,000 SHP nuclear steam generating system is \$8.0 million. For the 20,000 SHP system the present value of the nuclear fuel savings is \$1.65 million, and the initial capital cost is \$5.9 million.

It is also well to note that even the largest and fastest (23-25 knots) merchant ships today do not have power plants in excess of 35,000 SHP; most are less than 20,000 SHP. Only if you want very fast speeds from very large ships do power requirements approach 75,000 SHP, as is shown below.

Power Requirements for Various Ships (in SHP)
Size in Displacement Tons

<u>Speed</u>	<u>17,000</u>	<u>20,000</u>	<u>25,000</u>	<u>30,000</u>	<u>35,000</u>
20 Knots	14,000 SHP	15,000 SHP	17,000 SHP	19,000 SHP	22,000 SHP
25 Knots	35,000	36,000	38,000	41,000	50,000
27 Knots					70,000
30 Knots					105,000

In addition, today's merchant ships spend 50-55% of their time in port and hence get relatively low utilization. With the wider use of container-ships and hence faster turnaround times utilization could increase to 60-65% of time spent at sea under full power. On very long journeys such as from New York to Japan (12,000 miles one-way) up to 75% utilization may be attainable. However, the market for large, very fast ships on routes such as this one is limited to 4 to 5 ships.

Since it would cost the government up to \$150 million in research and development alone (not including the additional subsidy support previously mentioned), it would be a very poor investment of this country's resources to proceed with a nuclear ship program at this time. It would make more sense to invest research funds in trying to develop more efficient and less costly nuclear steam generating systems in the lower power ranges where there is a larger potential market.

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CHARGE: Government merchant marine subsidies are designed to benefit the nation, to service its vital needs, and not for the benefit of the shipping companies and the maritime workers.

ANSWER: The charge states what ought to be the case. However, as in any government program which has been in existence for some time, there develops a set of vested interests. The merchant marine is no exception. We find the shipbuilders, shipowners and the maritime labor union organized into lobby groups which not only tell us of the national benefits provided by their industry, but also tell us on what terms we must buy these benefits, what prices we must pay, and how much we must buy.

Because the Government is the sole supporter of the industry we find these vested interests organized to press continually for increased subsidies and/or increased protection. This has been the experience since the beginning of the century. The government has also been well organized to respond to their requests. For example, there is one Congressional committee responsible for this industry, the House Merchant Marine and Fisheries Committee. In the Senate, the merchant marine is reviewed by a subcommittee of the Senate Commerce Committee. At the present time, the Maritime Administration is in the Department of Commerce. However, many maritime interests are lobbying for legislation to create an independent Maritime Administration which they believe will best serve their wishes.

One of the truly remarkable aspects of the merchant marine lobby is its strength, even though it is not a large sector in the U.S. economy and even though the labor force employed therein is not large.

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Two factors account for this strength: (1) the absence of another competing private group (i.e., the truck and rail interests doing battle in public contribute to a fuller public understanding of the issues) and (2) the pyramiding of power that the maritime lobby has been able to achieve.

Maritime Labor

Firm data on the work force and on union affiliation is difficult to obtain. The best survey was undertaken by the Maritime Transportation Research Board during 1962-63. Its findings grouped by labor union affiliation are shown below:

EMPLOYMENT ABOARD PRIVATELY OPERATED SHIPS
April 1962 - March 1963

<u>Union Group</u>	<u>No. of Men Employed</u>
1. International Org. of Masters, Mates and Pilots (MMP)	7,345
2. National Marine Engineers Beneficial Assoc. (MEBA)	8,465
3. Brotherhood of Marine Officers (BMO)	980
4. Marine Staff Officers Union (MSO)	272
5. Staff Officers Assoc. of America (SOA)	459
6. American Radio Assoc. (ARA)	1,019
7. Radio Officers Union (ROU)	658
8. National Maritime Union of America (NMU)	38,303
9. Seafarers International Union of North America (SIU)	30,069
Unaffiliated ^{a/}	9,033
Great Lakes ^{b/}	12,242
Total ^{c/}	102,310

^{a/} Unions unaffiliated with the major 9 unions.

^{b/} These men are shown in this group but most are affiliated with the major unions.

^{c/} Total is less than sum of Union Groups Totals (108,845) because some men worked in more than one Union Group.

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Another survey shows a total of 131,000 union members. The difference may be explained as follows: The survey results shown include only those members who worked during the survey period and only those members who worked on privately-owned ships.

These unions, all associated with the AFL-CIO, are further organized into major groups. The AFL-CIO Maritime Committee headed by Joseph Curran, President of the NMU, and the AFL-CIO Maritime Trades Department headed by Paul Hall, President of the SIU. The Maritime Trades Department is a major force in labor since it has 33 affiliated unions (most non-seagoing) with a total membership of about 5,000,000. In addition, Paul Hall leads an organization of 32 Port Maritime Councils in the principal ports of the U.S.

At times these unions also receive support from the International Longshoremen's Association (ILA) on the Atlantic-Gulf Coasts with 62,000 members and the International Longshoremen's and Warehousemen's Union (ILWU) in the Pacific Coast with 60,000 members.

A further source of strength comes from the positions held by Paul Hall and Joseph Curran within the Executive Council of the AFL-CIO.

Ship Owners

All but one of the 14 subsidized shipping companies are organized into the Committee of American Steamship Lines (CASL). The subsidized operators own about one-third of all the ships in the U.S. fleet including 313 freighter vessels and 13 of the 14 U.S. passenger liners. Almost 100% of all freighters constructed since 1953 are owned by these companies.

The owners of the remaining two-thirds of the private U.S. merchant fleet do not receive direct subsidies but are supported by indirect subsidies and laws protecting them from foreign competition. These shipowners are organized into several groups. The most important group which represents them is the American Maritime Association, a labor-management group strongly influenced by Paul Hall. Other groups are the American Tramp Shipowners Association and the Association of Independent Tanker Owners.

Shipbuilders

All major shipbuilders in the U.S. belong to the Council of American Shipbuilders. Over two-thirds of the value of shipbuilding and repair work, done in private U.S. yards, is for the Navy, and only about 10% of the labor force employed in shipbuilding and repair work is for merchant marine programs administered by the Maritime Administration. Thus the Navy work sustains this industry and gives it its economic (hence political) importance. The industry uses this strength to lobby for merchant marine programs.

In assessing the maritime lobby's strength it is important to note that there has been only one recent major issue which it opposed unsuccessfully, that concerning the Effective U.S. Controlled fleet. In this case permission was granted to permit the foreign registry of some U.S. owned ships on the condition that the owners would make them available to meet U.S. emergency needs when the requisitioning authority of the 1936 Merchant Marine Act was invoked. Most of these ships (owned principally by large oil and steel companies importing crude oil and iron ores) were

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built in foreign yards for use under Liberian and Panamanian registries. In addition, the National Labor Relations Board ruled that U.S. maritime unions did not have jurisdiction over the crews. In this case the merchant marine lobby was confronted by other strong private lobbies--the oil and metals industries. In most cases, however, there is no strong, organized, private interest which can act as a countervailing power to the merchant marine lobby.

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