

SELECTED MARITIME POLICY

PAPERS

PART II

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PART II

MARITIME POLICY DEVELOPMENT PRIOR TO DOT

Memorandum of April 22, 1964, outlining basic directions for Maritime Policy Development

Memorandum of July 11, 1964, describing 10 year program for development of merchant marine

Memorandum of November 1964 (?), outlining Maritime Program

Letter of January 12, 1965, to Shipbuilders Council of America re: President's State of the Union Message January 1965

Letter of January 15, 1965, to NMU and others re: State of the Union Message of January 1965

Memorandum of June 17, 1965, from Council of Economic Advisors analyzing Maritime Advisory Subcommittee Report

Memorandum of October 6, 1965, outline for Maritime Advisory Committee meeting of October 7, 1965, (following leak of Task Force Report)

Memorandum of December 9, 1965, to Mr. Califano, reaction to his outline of a Maritime Program

Memorandum of December 14, 1965, transmitting Secretary of Labor reactions to Califano proposal

Memorandum of August 11, 1966, BOB analysis of merchant marine development as influenced by status of MARAD

Letter of August 26, 1966, to the President, joint recommendation of Secretaries Connor and Wirtz for a Maritime Program

Memorandum of October 25, 1966, by BOB, summary of current and proposed Maritime policies and options available

Memorandum of November 11, 1966, for Director of the Bureau of the Budget
Commerce "White Paper" on Maritime Policy

Memorandum (undated) by Department of Justice outlines
Maritime legislation since 1936

APPENDIX TO PART II

United States Flag Passenger Service (analysis in Spring of 64)

A Comparison of Subsidy Costs on New and War-Built Ships
(analysis June 1, 1965)

Proposed Procedure for Review of Subsidy Support for Collective
Bargaining Agreements (analysis August 23, 1965)

Discussion Draft of Maritime Advisory Committee Report

UNITED STATES GOVERNMENT

U.S. DEPARTMENT OF COMMERCE
MARITIME ADMINISTRATION
WASHINGTON, D.C. 20235

Memorandum

TO : Maritime Administrator

DATE: April 22, 1964

FROM : Ira Dye

SUBJECT: Improving the Merchant Marine

1. In my opinion there are three basic things that are needed to improve the merchant marine.

a. A clear statement of government policy with regard to the merchant marine.

This should state objectives for the future in terms of size (related to trade or requirements) and balance (in terms of types of service). This policy statement should be agreed upon and fully supported by the government departments with the primary interest (Commerce, Defense, State, Bureau of the Budget, plus Agriculture and Interior). It should have the support of the Congressional committees that have an interest (Joint Economic Committee, Senate Interstate and Foreign Commerce, House Merchant Marine and Fisheries, The Armed Services Committees). It should have the concurrence and support of the sectors of the private community having an interest (the maritime industry itself, exporters and importers, labor in its national AFL-CIO sense).

b. A marked improvement in productivity in terms of cargo moved per dollar costs. This will require improved and radically new ships and systems on one hand, and a strong urge (or at least a willingness) on the part of both management and labor to take full advantage of new systems and technical improvements. This will require heavy capital inputs, both public and private, but the availability of capital is one of our basic advantages over the foreign competition and we should use this advantage. The potential benefits of improved systems must be realized in increased productivity without being siphoned off into excessive job buy-offs or into overhead. Although a stony road, this productivity increase is the only road to a truly competitive position with respect to our foreign competitors.

c. A solution to the basic labor-management problems of the industry.

A good share of these problems stem from three phenomena:

1. The distorting effect of the cost-parity subsidy on the collective bargaining process;

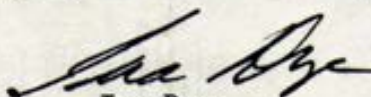
2. The fragmented nature of the unions coupled with the diverse and often contradictory interests of the operators; and,
3. The strong political position of both maritime labor (including longshore and shipyard, of course) and management. This position is far stronger than either their numbers or their position in our economy would normally warrant.

The solution of the management-labor problem will probably be the toughest thing of all to achieve. The bulk of the problems would disappear, however, if the three phenomena listed above were eliminated or radically altered.

2. Depending on how these three basic items are broken up and how they are stated, they can serve as a statement of the problems of the industry or a listing of objectives. On the attached chart they are used to show a set of objectives stated in matrix form: Going from general to specific objectives in the vertical columns and from "time now" to "time future" in the horizontal rows. The objectives shown, although reasonable objectives, are in my view, only examples; the actual objectives in specific terms would be arrived at after consideration of the "alternative consequences of various policy actions" currently being outlined in Program Planning.

3. The central problem of the industry, in my view, is the lack of a productivity advantage to offset our cost disadvantage: We have 1964 costs coupled to 1938 productivity. In order to meet our foreign competition we will have to increase the tons carried per dollar of costs. The three basic items on page 1, when phrased as problems, contribute to this central problem: Lack of a coherent government policy, low productivity itself, and labor-management problems.

4. Alternative solutions and their consequences would depend largely upon the amount of funds available both for government and for private investment. Use of funds to bring about expansion of the fleet to meet our expanding trade, using more productive, competitive systems to capture the cargo, would also bring to pass an expanded building program, stable or perhaps expanded employment, and reduced government aid per unit of production. Although I think there is a reasonably direct relationship between public/private fund input and results on the above desirable consequences, our past analyses of some fleet expansion alternatives indicate that there is probably an optimum range of government aid at around \$500-\$700 million per year which would give sharp increases in these desirable items over present levels and would satisfy most requirements (emergency and trade leverage) criteria.


Ira Dye

OBJECTIVES

NEAR TERM
1964

MEDIUM RANGE
1965 - 1967

LONG RANGE
1968 - 2000

1A
OUR OBJECTIVE IS
TO DEVELOP AN
AGREED UPON AND
SUPPORTED SET
OF OBJECTIVES

2A
OUR OBJECTIVE IS TO
DEVELOP AND IMPLEMENT
PROGRAMS TO REVITALIZE
AND EXPAND OUR
MERCHANT MARINE

3A
OUR OBJECTIVE IS TO
DEVELOP A MERCHANT
MARINE CAPABLE OF
FULLY MEETING ALL
NATIONAL NEEDS

1B
OUR OBJECTIVE IS
TO DETERMINE WHAT
REQUIREMENT LEVELS
ARE VALID, AND TO
DETERMINE FROM A
STUDY OF THE TRADE
AND A CONSIDERATION
OF ALTERNATIVE
CONSEQUENCES (TIME-
PROJECTED), WHAT WE
SHOULD SHOOT FOR IN
TERMS OF CAPABILITY
TO MOVE OUR TRADE

2B
OUR OBJECTIVE IS TO
ESTABLISH PROGRAM
LEVELS TO BRING ABOUT
FLEET EXPANSION AND
BALANCE* RELATED TO
THE PROJECTED FUTURE
OF THE TRADE, AND
SUFFICIENT TO MEET
EMERGENCY REQUIREMENTS

3B
OUR OBJECTIVE IS TO
DEVELOP A HIGH QUALITY AND
BALANCED MERCHANT MARINE
AND SUPPORTING INDUSTRY FACTORS
CAPABLE OF HANDLING;
1. THE COMMERCIAL REQUIREMENT
TO MOVE A LARGE FRACTION OF
OUR TRADE FOR RATE-CONTROL
AND EXCHANGE-EARNING REASONS
2. THE EMERGENCY REQUIREMENT
FOR SHIPPING -
MILITARY LOGISTICS
NEEDS OF WARTIME ECONOMY
3. COLD WAR NEEDS, TO
DEVELOP + IMPRESS LDC's +
TO SHOW OFF MODERN U.S.
MARITIME TECHNOLOGY + POWER

C
OUR OBJECTIVE IS
TO:

1. MAKE THE MOST
OF THE PRESENT AID
SYSTEMS TO ENCOURAGE
PRODUCTIVITY INCREASES

2. INTENSIFY AN
AGGRESSIVE CARGO
PROMOTING CAMPAIGN

3. TO DEVELOP DATA
FOR USE IN ATTACK ON
LABOR-MGT PROBLEMS

4. COMMENCE PHASE-OUT
OF PASSENGER & OTHER
UNESSENTIAL & UNPROFITABLE
SERVICES

5. COMMENCE WORKING
TOWARD FLEET BALANCE
BY SUPPORTING WORKABLE
INDUSTRY PROPOSALS FOR
BUILDING MODERN BULK
CARRIERS

ETC.
(THESE ARE JUST
EXAMPLES)

2C
OUR OBJECTIVE IS TO:

1. RE-STRUCTURE THE SYSTEM
OF GOVT AIDS TO INCREASE
PRODUCTIVITY & TO REMOVE THE
THE WARPING EFFECT THE PRESENT
SYSTEM HAS ON COLLECTIVE
BARGAINING.

2. EXPAND FLEET TO MEET
EXPANDED CARGO DEMAND

3. WORK ON INCREMENTAL
SOLUTIONS TO LABOR-MGT
PROBLEMS BY PATIENTLY BUT
RELENTLESSLY TAKING EVERY
OPPORTUNITY TO TALK PEOPLE
INTO THE RIGHT DIRECTION,

4. RE-PROGRAM PASSENGER
FUNDS INTO BULK CARRIERS

5. INITIATE DEVELOPMENT
OF ADVANCED GEN'L CARGO
SYSTEMS - EXPRESS SHIPS
AND MODERN PORT/CARGO
HANDLING

ETC.

3C
OUR OBJECTIVE IS TO
DEVELOP A MODERN
COMPETITIVE (OR NEARLY
COMPETITIVE) MERCHANT
MARINE, WELL BALANCED,
ALL SECTORS ON AN
EQUAL BASIS AS REGARDS
AVAILABLE GOVT AIDS,
WITH A CAPABILITY TO
HANDLE ^{BY AIRCRAFT} ABOUT X% OF
OUR TRADE AND FULLY
CAPABLE OF MEETING ALL
EMERGENCY-TYPE REQUIRE-
MENTS, OPERATING UNDER
PRIVATE ENTERPRISE,
HIGHLY PRODUCTIVE,

ETC.

* BALANCE = HAVING THE QUANTITY OF
VARIOUS TYPES OF SHIPS (BULK, GENERAL CARGO,
TANKER), RELATED TO THE SIZE OF
OUR TRADE IN BULK, GENERAL & LIQUID CARGOES

NOTE: THE WHOLE MATRIX ASSUMES ^{FOR THIS EXAMPLE} THAT THE SET OF
OBJECTIVES DEVELOPED IN 1A ARE THOSE SHOWN
IN THE REST OF THE SQUARES

A Proposed Ten-Year Program for a More Adequate and Economic
American Merchant Marine and Maritime Administration,
U. S. Department of Commerce

1965-75 Guidelines and Goals

Purpose: The purpose of this document is to set forth some broad policy guidelines and goals for improving the American merchant marine and the Maritime Administration's role in that segment of our economy. ~~Its contents are general and abstract by design, and are in no sense intended to substitute for the specific programs needed to implement these general guidelines.~~ The document has been prepared and is offered in response to requests from the industry and the Maritime staff for such general direction, in the belief and hope it will be of some little assistance to those engaged in detailed planning and day-to-day administration of present programs.

It generally represents the thinking of top policy and administrative staff in Maritime at this time.

I. A More Adequate and Economic American Merchant Marine

1. We need an expanded American flag merchant fleet adequate in size to support our growing and balanced industrial economy and export trade, to project our image and aid our friends abroad, as a part of our potential functional access to and control of that 4/5ths of the earth's surface that is ocean, and as support for our military efforts at home and abroad and our civilian economy in time of national emergency.
2. We need a merchant marine that expands as our trade needs expand, and that is relatively proportionate in capacity to our total tonnage imports and exports of petroleum, grains, coal and ores, etc., as well as general cargo.
3. We need a merchant marine replacement program for all types of ships that will produce highly competitive ships in terms of the relatively low capital and high labor costs in our economy: generally large, fast, highly mechanized ships that can be operated with the minimum manning technology permits.

4. We should provide government assistance for American merchant ship operations (recognizing both the labor-cost disadvantages of American ship operators and the desirability of maintaining American maritime labor capability) that is keyed to encourage increased commercial cargo carrying (rather than American-foreign cost differentials).
5. We should strive to create a system of government assistance to merchant shipping that minimizes government participation in or review of shipping companies' business decisions, and maximizes companies' profits from efficiency, cost-cutting and increased revenues.
6. Maritime unions should be encouraged to accept early retirements with adequate pensions, closed rolls, upgrading and retraining, greater job security, and higher annual wages, in exchange for reduced membership rolls, reduced manning, liberalized work rules, and increasingly merged ratings, job descriptions, contract expiration dates and bargaining, and even unions.
7. The government's investment in passenger ship construction and operation should be reallocated to the extent benefit cost analysis demonstrates freight operations would be more economic.
8. The government's investment in the contract carriage (tramp) fleet (such as Department of Agriculture grain shipments 50% on American ships) should be reallocated by means of a system that will make it possible for that fleet to be consolidated and operated by financially responsible owners at competitive world rates under obligations to undertake a ship replacement program.
9. The dependence of Alaska, Hawaii and Puerto Rico upon shipping should be recognized with programs providing adequate service at reasonable rates to those areas.
10. We must maintain a minimal shipyard capability for national defense needs and to maintain a balanced industrial economy. However, merchant ships provide a relatively small portion of shipyard work, and we should strive to obtain merchant ships as economically as possible: in low cost foreign yards at owners' option, or, to the extent our commercial economy or national defense needs require the building of merchant ships in United States yards, in economical standardized models with limited subsidy that incents efficiency and low costs.

II. A More Adequate and Economic Maritime Administration,
U. S. Department of Commerce

1. The Maritime Administration should be organized to emphasize substantive programs (rather than skill functions), and place responsibility for those programs in single individuals to the extent possible.
2. The agency should develop a supply of administrative or managerial skill in agency personnel with generalized experience and management training.
3. The agency should endeavor to offset the number of employees who have been unable to experience more than one type of job over many years of service by rotation among Washington jobs and with the Districts, by encouraging early retirements, and by reorganization substituting lower rated openings to be filled by as highly qualified young people as available for the higher rates jobs that will be vacated.
4. Marad should be very selective in hiring only the best qualified persons available (young and well educated).
5. The agency should strive to simplify its regulation of shipping companies' operations in an effort to perform its functions with as few persons as possible.

Nov 64 ?
1967?

MARITIME PROGRAM FEATURES

PRESENT PROGRAM NEEDS CHANGE

• FLEET BADLY UNBALANCED

	<u>WE CARRY</u>	<u>OUR TRADE IS</u>
PACKAGE	30%	15%
BULK	5%	85%

• PASSENGER SHIPS NOT ESSENTIAL TO DEFENSE AND ARE HIGHLY UNECONOMICAL

- 13 OF 316 SHIPS ABSORB 25% OF TOTAL
OPERATING SUBSIDY

- GOVERNMENT PAYS \$250 FOR EACH
PASSENGER CARRIED

• OPERATING SUBSIDY SYSTEM THWARTS EFFICIENCY

- NO INCENTIVE TO INCREASE PRODUCTIVITY
- PUTS BIAS ON COLLECTIVE BARGAINING

• CARGO PREFERENCE IS INEFFICIENT AND COSTLY

- \$ 700,000 FEDERAL COST PER OVERAGE SHIP

• CONSTRUCTION (SHIPYARD) SUBSIDY SYSTEM OBSOLETE

- NOT RELATED TO NATIONAL NEED FOR
SHIPYARD CAPACITY
- NO PRESSURE FROM FOREIGN COMPETITION

PROPOSED PROGRAM MEETS THE NEEDS

• BUILDING MODERN BULK SHIPS PROVIDES BALANCE

• AID TO PASSENGER SHIPS PHASED OUT. RELEASED FUNDS APPLIED ELSEWHERE

• COMPETITIVE INCENTIVE SYSTEM REPLACES PRESENT OPERATING SUBSIDY

- NEW SYSTEM EXTENDED TO BULK SHIPS
AND ADDITIONAL FREIGHTERS
- REDUCES GOVERNMENT ADMINISTRATION

• CARGO PREFERENCE IS PHASED OUT AS NEW BULK SHIPS ARE GIVEN INCENTIVE AID

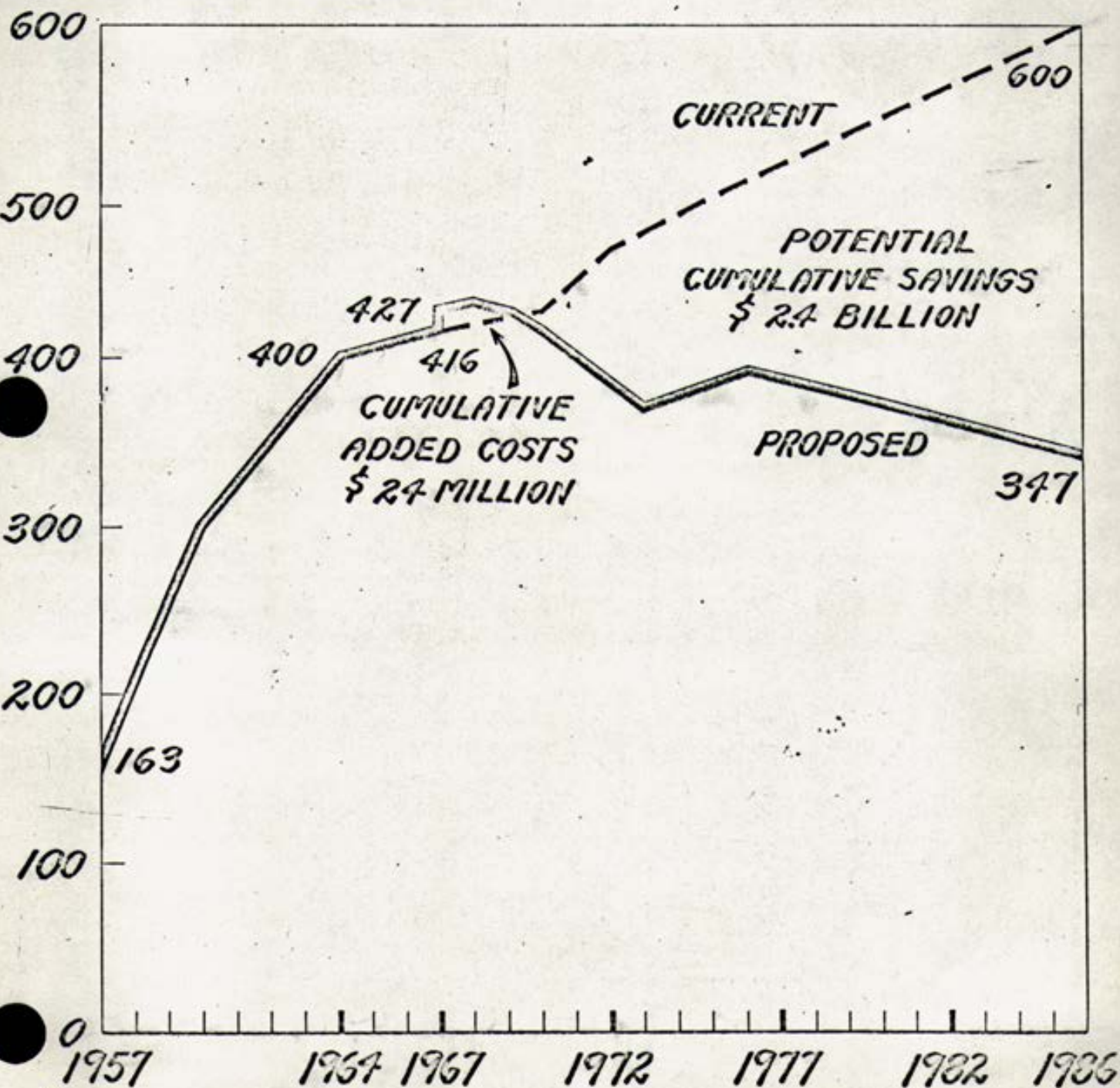
- POTENTIAL COSTS OF \$ 300,000 PER
MODERN SHIP

• SHIPYARD SUPPORT RELATED TO DEFENSE NEEDS AND INCREASED INCENTIVE

- FOREIGN CONSTRUCTION PERMITTED
AFTER U.S. SHIPYARD NEED MET
- SUBSIDY PROGRESSIVELY REDUCED

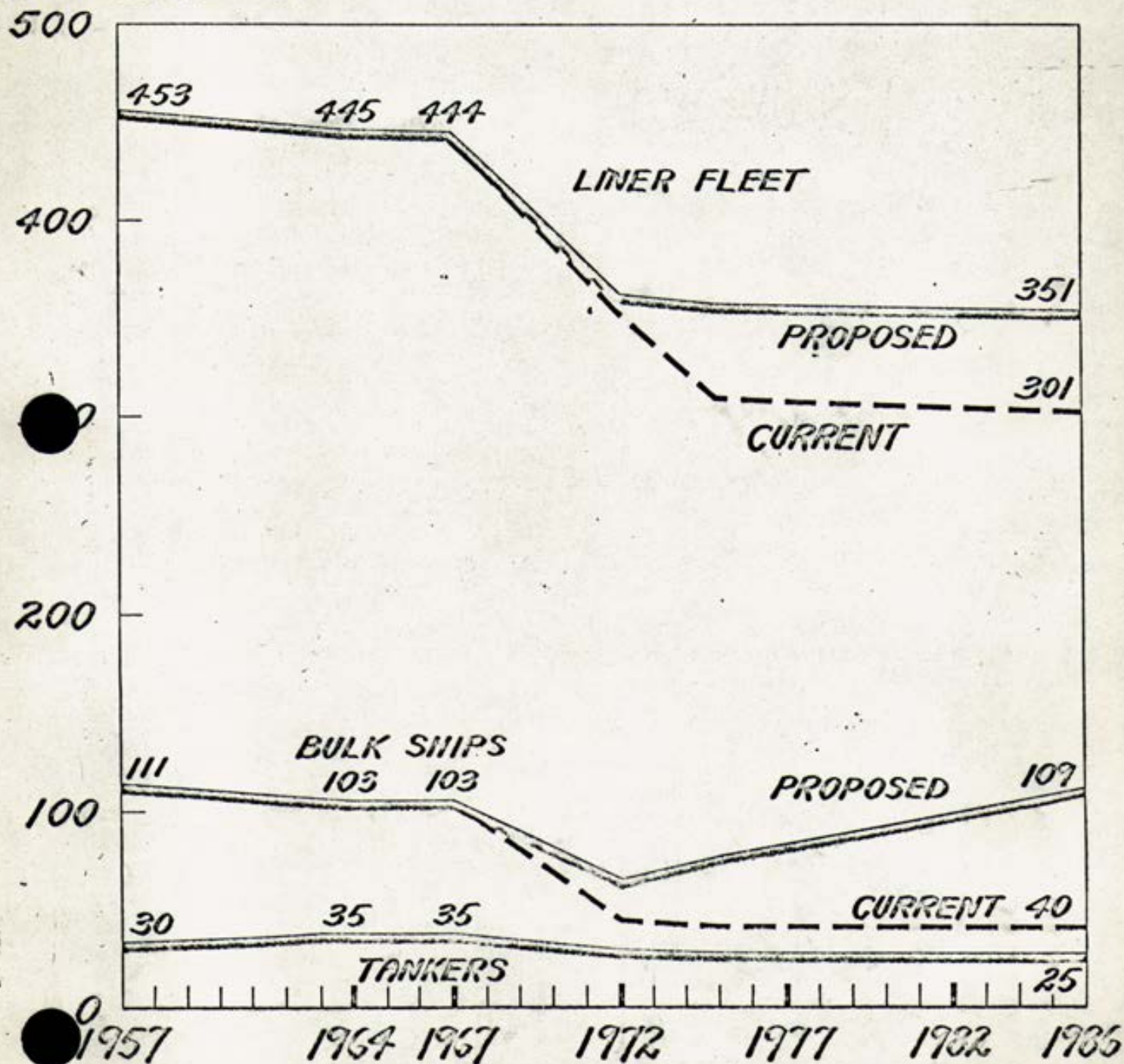
**DOUBLE SHIPPING CAPABILITY IN
20 YEARS AT \$70 MILLION LESS
PER YEAR THAN PRESENT COST**

MILLIONS OF DOLLARS



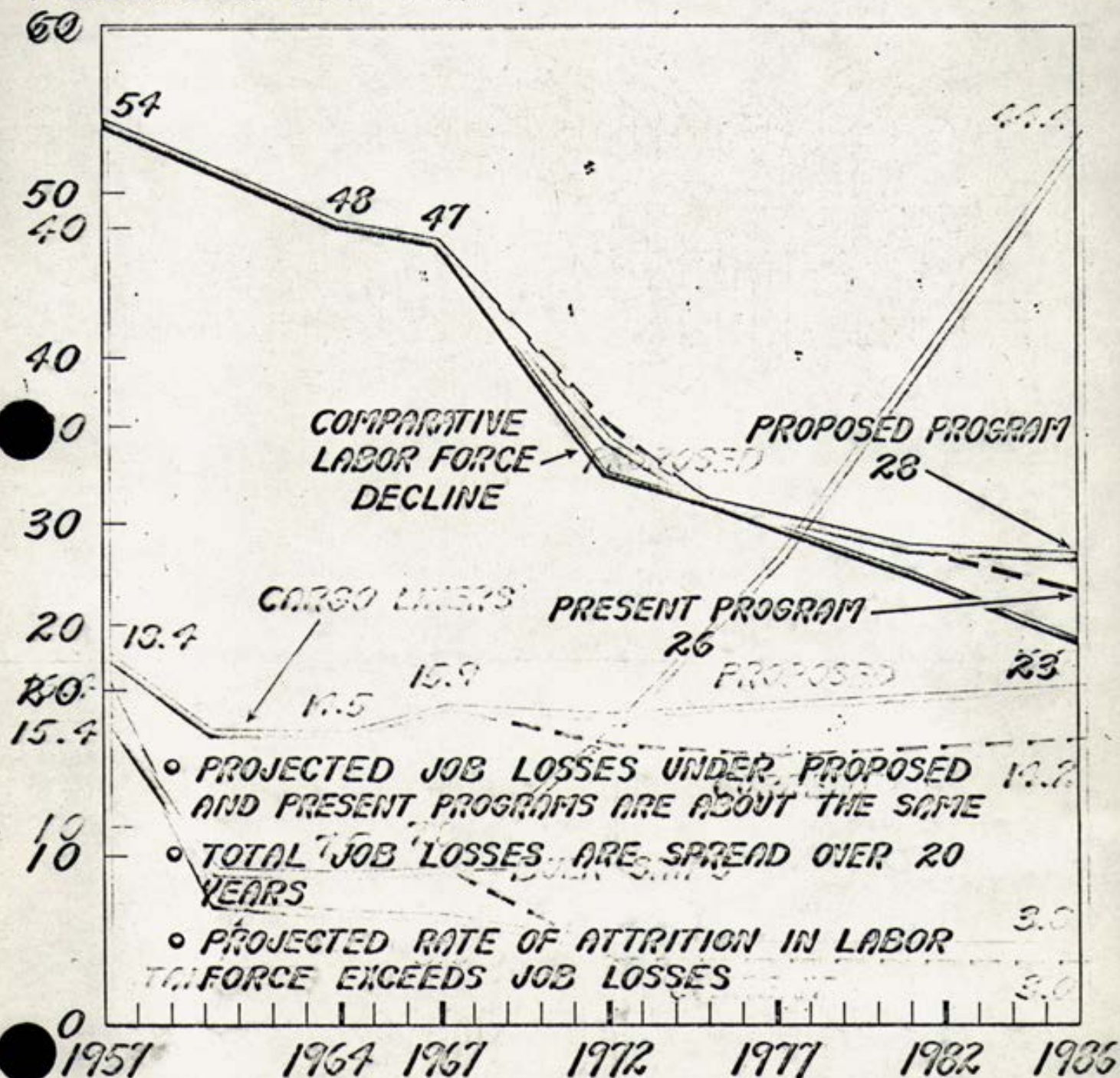
NUMBER OF SHIPS IN FOREIGN TRADE FLEET

NUMBER OF SHIPS



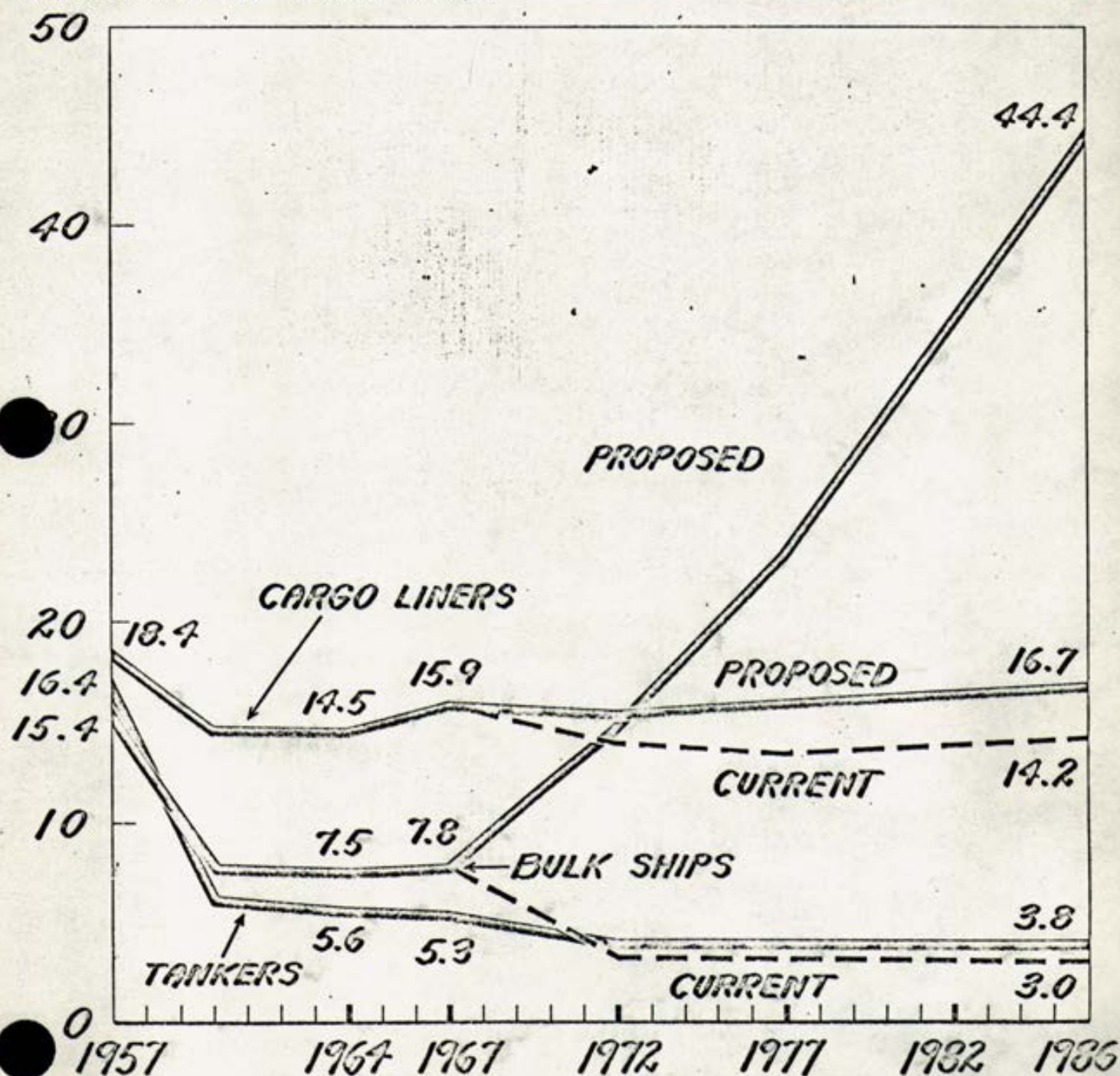
LABOR NUMBER OF SHIPBOARD JOBS

THOUSANDS OF JOBS



ANNUAL PRODUCTION OF FOREIGN TRADE FLEET

MILLIONS OF LONG TONS



C O P Y

C O P Y

January 12, 1965

Dear Mr. Hood:

The President has asked me to thank you for and reply to your letter of January 6.

He has indicated by his State of the Union reference to "a new policy for our merchant marine" his awareness of the importance of and need for strengthening and reform of our maritime industry, and he appreciates your support.

You have expressed concern regarding recent reports that "the Maritime Administration intends to introduce a radical plan whereby subsidized shipping companies would be permitted to order their ships from foreign shipyards rather than U. S. shipyards."

The President wishes me to assure you that any new policy proposed by him will represent the views of many agencies and departments of government, in addition to the Maritime Administration. It will also take into account the views of American maritime management and labor, shipyard owners and workers.

The President is fully mindful of our national security shipbuilding capability needs, and you may rest assured that as new policy will be proposed which does not fully take account of these needs.

Sincerely yours,

Myer Feldman
Counsel to the President

Mr. Edwin M. Hood, President
Shipbuilders Council of America
1730 K Street, N. W.
Washington, D. C. 20006

January 15, 1965

Dear Mr. Curran:

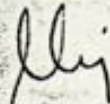
I appreciate receiving your telegram of January 7, 1965 dealing with U. S. Maritime policy.

Any new policy proposed must be based upon the need for a strong merchant marine. We intend to take into account, before reaching any conclusion, the views of your committee as well as those of maritime management, shipyard workers and shipyard owners.

I understand that meetings are being arranged for an exchange of views with you.

It is our common objective, I know, to reverse the trend to which you refer in your telegram. Out of the discussions with all the interested groups, I am confident a new policy will be developed which will be in the best interests of the Nation.

Sincerely,

 "LBJ"

Mr. Joseph Curran
President
National Maritime Union of
America, AFL-CIO
346 West 17th Street
New York 11, New York

✓ cc: Nicholas Johnson, Maritime Administrator

Attached: list of addressees

LBJ/MF/kay

List of Addresses

Mr. Thomas W. Gleason
President
International Longshoremen's
Association, AFL-CIO
17 Battery Place
New York 4, New York

Mr. Paul Hall
President
Seafarers International Union of
North America, AFL-CIO
675 4th Avenue
Brooklyn 32, New York

Mr. Joseph Curran
President
National Maritime Union of
America, AFL-CIO
346 West 17th Street
New York 11, New York

Mr. Joseph P. Glynn
Secretary-Treasurer
Radio Officers Union
1440 Broadway, Suite 1568
New York, New York

Mr. William R. Steinberg
President
American Radio Association
270 Madison Avenue, Room 206
New York, New York

Mr. John J. Grogan
President
Industrial Union of Marine and
Shipbuilding Workers of America
City Hall
Hoboken, New Jersey

Mr. Russell K. Berg
President
International Brotherhood of
Boilermakers
New Brotherhood Building
8th Street at State Avenue
Kansas City, Kansas

Mr. Jesse M. Calhoon
President
National Marine Engineers
Beneficial Association
17 Battery Place - Room 1930
New York 4, New York

Mr. Charles M. Crooks
President
International Organization of Masters,
Mates and Pilots
17 Battery Place
New York 4, New York

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 17, 1965

June 17, 1965
Bees
This is an extremely important document. Please file where we can find it.

GARDNER ACKLEY, CHAIRMAN
OTTO ECKSTEIN
ARTHUR M. OKUN

MEMORANDUM FOR CAPT. IRA DYE

Subject: Comments on Maritime Advisory Subcommittee Report

"We have reviewed the Subcommittee Report and, upon evaluation, consider it deficient in many respects. For one thing, the application of a formula for transporting a certain percentage of bulk commodities in American flag vessels simply goes in the wrong direction. Such action would further rigidify a cargo preference approach which does not rest on sound economic grounds. Moreover, in referring to "minimal subsidy," the Report gives no indication or back-up material indicating the magnitude of such a program. We could recite many more such examples.

We are offered proposals that have obvious costs to the Federal Government with no clear evidence of benefits to the public interest. It is also distressing to see the industry offer no hope of ever being self-sustaining in any facet of world competition - which is tantamount to an admission that there is no economic justification for a U. S. Merchant Marine.

On the other hand, there are a few areas in which the Report may open promising lines of discussion. The proposal to determine manning prior to ship construction appears to possess merit. Also, while we prefer reliance on general programs to aid displaced workers, we should be interested in any specific proposals to provide "interim" relief to displaced seamen." Also, other possibilities of using government funds to provide incentives for major productivity gains deserve a sympathetic hearing.

It appears to us that the discussion with the Maritime Advisory Committee will be hampered by dealing with only one Subcommittee report, treating only one aspect of the Merchant Marine. The Maritime Advisory Committee will be likely to want specific commitments on bulk ships, while these can be made only in the context

of a full maritime program.

A handwritten signature in cursive script, appearing to read 'Arthur M. Okun', written in dark ink.

Arthur M. Okun

Honorable John T. Connor
Secretary of Commerce

October 6, 1965

Maritime Administrator

Maritime Advisory Committee

Dear Mr. Secretary:

Here is a draft of your opening remarks for tomorrow morning's
Maritime Advisory Committee meeting as prepared by Art Friedberg
in accordance with our discussions this morning.

Sgd. Nicholas Johnson

Nicholas Johnson

cc: Mr. Alan S. Boyd ✓
Under Secretary for Transportation

Draft-AWFriedberg:jbh 10/6/65

Opening Comments of
Secretary of Commerce John T. Connor
Eighth Maritime Advisory Committee Meeting
October 7, 1965

Gentlemen, I would like to call to order the eighth meeting of the Maritime Advisory Committee. You, no doubt, have many questions concerning Under Secretary Boyd's Interagency Task Force report and I would like to tell you right now that it was and remains our intention that Under Secretary Boyd give you a complete presentation of the Task Force report this morning. I know this report is the foremost topic which you would like to discuss but I think it would be most profitable if you would hold your comments until Under Secretary Boyd has completed his presentation this morning. We will have the entire afternoon for open discussion and comments on the report.

I would like to stress that this report is being submitted to me by the Interagency Task Force as the product of their effort, and their effort has included full consideration of all the material prepared and presented by the members of the Maritime Advisory Committee.

There has been no change in my original intent which was to have your full advice and comments before I forward a policy document to the President for his consideration. The unfortunate release to the press of one of the Task Force's working documents

was a disservice to the country, to the Maritime industry, and to this Advisory Committee. I hope that Under Secretary Boyd's presentation this morning will clear up a number of the misconceptions which have arisen since the unfortunate release of two weeks ago. (9/23/65)

Before we begin with Under Secretary Boyd's presentation, however, I would like to give you a report on the status of the subcommittee reports which remained outstanding as of the last meeting.

You will recall that Dr. Malott's subcommittee, which included Mr. Berg and Mr. Andreas, has presented its report recommending policies on the expansion of subsidy to the presently unsubsidized liner segment of the fleet, and we discussed this at our last meeting. Dr. Malott has since distributed to you the clarification which was requested at that meeting.

Secondly, there is the subcommittee chaired by Professor Healy, with Mr. White, Mr. Hall, and Mr. Gleason as members. This committee was to recommend policies on American owned Panamanian, Liberian, and Honduran ships, including the advisability of an oil import quota. Mr. White and Mr. Hall of this subcommittee have distributed to you their individual reports. It was not possible for this committee to reach a consensus. On the subject of an oil import quota, you previously received documents from the

State Department bearing on the impact of this on our international treaties. Mr. Joseph Kahn has also prepared some very interesting material which you will find in the manila envelopes before you.

Mr. Guerin chaired a third subcommittee with Mr. Rand and Mr. Curran as additional members, to recommend policies on shipboard automation and crew reduction, including aids to displaced labor. I have received a telegram from Mr. Guerin (who is unable to be here today) in which he states that his subcommittee has drafted a report which has the basic concurrence of all members but has not received full approval and therefore has not been submitted.

In going over the record, I find that these last areas are ones which have been least discussed, and I would particularly like to have comments and recommendations from you. Perhaps, Mr. Curran, and Mr. Wierda, who is here representing Mr. Rand, can give us an oral report later.

Taking things in order then, I would like to have whatever comments you may wish to make on these subcommittee reports, including the discussion by Mr. Curran and Mr. Wierda of their subcommittee activities, and then I will turn the meeting over to Under Secretary Boyd.

Now then, before we begin, are there any comments or further corrections to the transcript of the last meeting? You all have

received a set of corrections prepared by Mr. Hall, Mr. Andreas, and Mr. Johnson. These are now a formal part of the record.

. . .

Do any of you have a statement on the reports prepared by Mr. White or Mr. Hall?

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I would like to ask Mr. Curran for a comment on the activities of his subcommittee on automation, manning, and aid to displaced seamen.

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Does anyone have any other comments on any of the subcommittee reports?

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Under Secretary Boyd will now present to you the Interagency Task Force Report. Again I will urge you to let him complete his presentation and we will reserve the entire afternoon session for your comments on this report.

DEC 9 1965

MEMORANDUM FOR

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

I have reviewed the paper you sent with your memorandum of December 8 on the subject of maritime policies. I feel that the analysis of the current situation, the description of the current proposals, and the identification of the areas of agreement and contrast are accurate and comprehensive. The alternatives which you propose cover what I consider to be the reasonable range of possible programs for the Administration.

I am enthusiastic about the proposed program which is set out on page 4 of the memorandum. In my view, this is an excellent job of preserving important principles of the Maritime Task Force report while combining them with the significant modifications necessary to gain support necessary for acceptance of the overall program. I have specific comments on only two points. First, item 3 of the suggested program calls for an increase from 5 to 10-15 new bulk ships per year with 50% of the ships to be built abroad. This should be set up initially as a five-year program with review and evaluation at the end of that time and not left completely open-ended.

Second, item 5 proposes an increase in the number of cargo liners under subsidy. I assume, from the \$700 million figure for the total program, that this means making the ⁸⁵ cargo liners not currently under subsidy eligible to receive subsidy, that it includes the additional ships which would be built in U.S. shipyards as well as abroad, and that the new bulk cargo ships would be eligible for operating subsidy. On these assumptions, I agree with the proposal.

15/ Alan S. Boyd
ASB

Alan S. Boyd

MMackey:arb 12-9-65

cc:
Mr. Boyd
✓ Mr. Bridwell
File
Chron

Administratively
Confidential

EYES ONLY

THE WHITE HOUSE
WASHINGTON

December 9, 1965

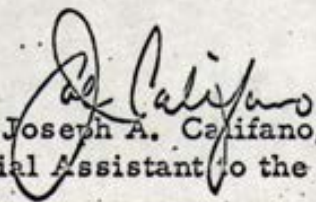
MEMORANDUM FOR

Secretary Wirtz
Secretary Connor
~~SECRETARY~~
~~Chairman~~ Boyd
Administrator Johnson
Director Schultze

The attached paper summarizes the various maritime proposals. The "suggested program" at the end of the paper is one possible approach, based on all of the materials received to date.

I would appreciate your tentative, personal comments in writing by the close of business tomorrow, followed by your final comments by noon on Saturday.

I know you appreciate the need for keeping the matter closely held.


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

Enclosures

Determined to be an
administrative marking

By AP On 4/7/2016

Administratively
Confidential
EYES ONLY

~~Confidential~~

December 8, 1965

MARITIME POLICIES

The Current Setting

Federal Costs Rose Sharply -- Federal subsidy payments to the maritime industry have gone from \$65 million to \$400 million in the past 16 years. But this sharp increase has been accompanied by a drastic reduction in the percentage of U.S. foreign trade carried (only 9% in 1964) and no increase in fleet capacity.

Ships are Old -- 700 of the 975 ships in the active fleet are of World War II vintage and must be scrapped within the next several years. (At present subsidy rates, replacement in U.S. yards would cost \$4.5 billion.)

Labor Strife -- A major shipping and longshore strike occurred this year. 9 of the 23 Taft-Hartley injunctions involved the maritime industry.

Dependence on Government Cargoes -- the fleet receives about 60% of its revenues (\$650 million in 1964) from hauling Government sponsored cargo, much at premium rates.

High Passenger Subsidies -- Passenger liner subsidies are about \$50 million for 13 ships (about \$250 per passenger.)
per year

The Debate -- Tangible and Intangible Issues

Against the development of two basic positions --- the Interagency Maritime Task Force (Boyd, Nick Johnson, Schultze, CEA) and the Maritime Advisory Committee (an industry-labor group with public members) -- there rages a heated debate over the course a maritime policy should take. At issue are jobs, budget outlays, prestige, tradition, pride, the efficiency of U.S. ships, the future of U.S. shipyards, passenger liners, and crew sizes. The conflict in Viet-Nam injects fuel to the fire.

There is common agreement on one fundamental: That U.S. policy must be shaped to provide the country with a strong, and efficient Merchant Marine. The critical issue is how.

Administratively
~~Confidential~~

Determined to be an
administrative marking
by AP on 4/17/2011

~~Confidential~~

The Competing Proposals

The Interagency Task Force questions the basic assumptions underlying our Merchant Marine policy. It would:

- . Restructure our operating subsidies by adding incentives to reward efficiency and penalize poor economic performance. But more efficiency means smaller crew sizes.

- . Eliminate cargo preferences (the costly requirement that U.S. tramp ships haul 50% of Government cargoes), and substitute a straightforward and less costly direct subsidy.

- . Sharply reduce construction of subsidized ships in more costly U.S. yards, by confining construction to "national Defense" levels, and placing more work in yards overseas.

- . Eliminate monopoly trade routes and inject competition.

- . Eliminate passenger liner subsidies because no defense requirement exists.

- . Build modern bulk cargo vessels to replace old Liberty ships in our tramp fleet.

- . Costs would drop by \$10 million next year (to about \$390 million) and level off at about \$375 million by 1985. Fleet capacity by then would be doubled; Jobs would drop from 47,000 to 27,000. (Jobs under current policy would drop to about 27,000 also, but the report assumes an expanding economy with alternative jobs for those displaced).

The Maritime Advisory Committee tends to support and expand existing policies and would:

- . Maintain cargo preferences, and extend them to 75% of Government cargoes, possibly embracing oil imports.

- . Keep construction of all ships in U.S. yards with Government subsidies.

Administratively
~~Confidential~~

. Retain subsidized passenger ships.

. Increase the number of subsidized ships to carry at least 30% of U.S. foreign trade.

. Build even more modern bulk cargo vessels

Costs would go up \$200 million in 1967 (to about \$600 million) and rise to \$800 million, double the present costs, by 1985. Employment would decline from 47,000 to 38,000 by 1985; Fleet capacity would increase seven-fold, an amount greater than our potential market share.

The Areas of Agreement

Both the task force and the advisors committee would

-- Emphasize increased research and development.

-- Develop a modern dry bulk carrier fleet (Bulk carriers are the ships we now need in view of our growing bulk trade. The task force recommends 5 such new ships per year; The advisory committee seeks more).

-- Increase the number of cargoliners under subsidy.

The Alternatives

Option 1 -- Continue the Present Program. This is patently unsatisfactory since the fleet will decay under it and costs will rise.

Option 2 -- Adopt the Interagency Task Force Report in total. This will be politically difficult (The strong opposition is from Labor, the shipyard industry, Merchant Marine sponsors in Congress, the subsidized lines and there is not that much counterpressure to steam this through. Most features will require changes to the law. Viet-Nam will be raised as the key issue).

Option 3 -- Adopt the Maritime Advisory Committee Report. This is simply too expensive and doesn't really come to grips with the problem.

Option 4 -- Adopt a Mixed Program, building on the areas of agreement.

~~Administratively~~
~~Confidential~~

4

Suggested Program

The main theme would be the need for a modern, efficient Merchant Marine. This need is now particularly acute in view of Viet-Nam. Its main features are:

1. Expand research and development, particularly into cargo handling facilities and construction.
2. Revitalize the national defense reserve fleet by accelerating the replacement of old ships, with construction abroad of ships above the 15-17 per year now being built in the U.S.]
3. An increase from 5 to 10-15 new bulk ships per year, with 50% of the ships built abroad. 5 yr
4. A restructuring of the operating subsidy to reward efficiency and penalize poor economic performance.
5. An increase in the number of cargoliners under subsidy. under the same means approx
6. Permit passenger liner subsidies to continue under current contracts and phase out when these contracts expire.
7. Eliminate monopoly trade routes.
8. As the new, more efficient bulk ships come into operation, eliminate premium rates under cargo preferences but retain preferential routing.

Comment:

The net effect of the suggested program would be to achieve some of the principal objectives of the task force and to fragment the opposition (the foregoing plan would probably be supported by all Maritime Industry-Labor groups except shipyards and shipyard labor.) Its cost would be about \$500 million or \$100 million more than the current program.

~~Administratively~~
~~Confidential~~



SECRETARY OF LABOR
WASHINGTON

December 14, 1965

Memorandum for Honorable John T. Connor

I thought you would be interested in seeing this memorandum which I sent to Mr. Califano yesterday.

W.W.W.
W. Willard Wirtz

TF file
Don's line!!

December 13, 1965

MEMORANDUM FOR MR. CALIFANO

Maritime Policy

I suggest that the purpose of the present round of maritime policy development be recognized as being to achieve the most needed improvements in the present program rather than to establish a whole new policy.

- * The Task Force recommendations call for revision of the Merchant Marine Act of 1936, and for the elimination of any defense considerations from the standards for the maintenance of the U. S. merchant marine. Such legislative surgery is not a practicable possibility at the present time.
- * The frontal attack on the present situation by Mar. Ad. and the Task Force has unquestionably brought basic issues and questions to the surface; but it has also hardened positions which it is now going to take time to soften.
- * There are very important improvements which can be made without major legislative change.

I suggest a program based on these points:

1. Labor relations; jurisdictional disputes; manning scales.
 - * It should and can be insisted that all maritime unions and associations accept the President's proposal (now being implemented in specific form) for the resolution of disputes over manning and related issues.
 - * Construction subsidies should be conditioned upon prior labor-management agreement on manning scales.

2. The development of a U. S. fleet of approximately 870 ships by 1975. (Compared with 789 proposed by the Task Force; and 1,009 proposed by the Maritime Advisory Committee.)

- * Continue present cargo liner replacement program.
- * Extend construction subsidy to 70 cargo liner vessels to replace and modernize existing non-subsidized cargo-liner fleet of 100-130 vessels.
- * Extend construction subsidy to approximately 125 high-speed automated bulk carriers.

3. Operating subsidies; cargo preference.

- * Continue operating subsidies to presently subsidized cargo-liner fleet and presently subsidized passenger ship fleet.
- * Extend operating subsidies to ^{presently unsubsidized} enlarged cargo-liner and automated bulk carrier vessels indicated in Point 2, above.
- * Restructure the operating subsidy to reward efficiency and penalize poor economic performance.
- * Phase-out premium rate aspect of cargo preference as new high-speed automated bulk carriers come into operation -- retain preferential routing -- all military and aid cargoes to be carried ultimately at world rates.

4. Refer to Maritime Advisory Committee for further consideration and recommendations by July 1, 1966 questions of:

- * Domestic shipping (both construction and operation).
- * U. S. Flag shipping quota on import of petroleum.
- * Long-range passenger ship construction and operating subsidy.
- * U. S. policy with respect to Flag of Necessity vessels.

5. Expand research and development, particularly into cargo handling facilities and construction.

Comments

- * The subsidy cost of the program suggested here could be kept at the present level (about \$400 million) for another year, or even lowered slightly (with respect to construction subsidies) in view of over-all budgetary pressures. It would then rise to a 1975 level of about \$600 million. This compares with a Task Force figure of \$360 million and an Advisory Committee figure of \$650 million, by 1975. The \$600 million figure (by 1975) would represent an increase in the present figure comparable to the prospective increase in the GNP, and a lesser increase than that expected in U. S. foreign trade.
- * The principal difference (although there are others) between this proposal and that contained in your Memorandum of December 9 is that your proposal contemplates enlarged foreign construction of ships which would then receive U. S. operating subsidies.
 - Your suggestion of "fragmenting the opposition" (by dividing the maritime and the ship-building unions) does not accord with my own strong impression of an irrevocably united front here.
- * What the proposal here comes down to is the suggestion that the things to do first are to get the labor relations difficulties straightened out, lay a firm basis for effective automation, and expand the bulk carrier fleet. Then the other points can be explored, and pressed where this seems appropriate.

Secretary of Labor

Construction subsidy

Existing general cargo (17/year)	\$ 114.3
New subsidized liner replacement (2/year)	42.0
Bulk carriers (15/year)	105.0
Traffic	11.0
	<u>281.3</u>

Operating Subsidy

Bulk carrier subsidy (350/ship)	43.8
Passenger subsidy	43.2
Combos	12.7
Liner - TF level of 335 ship (.6/year)	195.0
+ 30 additional vessels (.6/year)	18.0
	<u>312.7</u>

TOTAL 281.3 - CDS
312.7 - ODS
594.0

594.0

\$402.5 million

1966 cost

- 78.4

less Cargo preference rate

324.1

97.2

+ 3% / year escalation to 1975.

#421.3

1966 costs translated to 1975 costs.

42.0

70 liners at 1.6 / year ODS

45.8

125 bulkers at .350 / year ODS

185.0

15 bulkers ODS at #7

54.0

9 liners not under subsidy at #6 ODS / ship

#676.1

- 75

increased productivity of reduced ODS

#601.1

9/12/64

The Performance of the U.S. Merchant Marine Under an
Independent Agency vs. an Agency Within the
Department of Commerce

The relatively strong position of the U.S. Merchant Marine in world shipping in the immediate post-World War II years was not a result of the organizational status of the agency of the Federal Government handling maritime affairs. The simple fact was that the rest of the world had very few ships available with which to compete in international trade. In addition, during this period U.S. Government shipments under the Marshall Plan constituted a very large portion of the U.S. foreign trade and most of these cargoes were reserved for U.S. ships.

Immediately after World War II the United States had the only sizeable merchant fleet available for international commerce. Merchant fleets and shipyards of other maritime nations had been devastated by the war. As a result there was little international competition in ocean shipping and the United States was able to dominate the scene. As other nations began to rebuild their bombed out shipyards and construct ships, international competition returned and the U.S. level of shipping, reflecting natural competitive forces, decreased.

This trend is shown by the following statistics:

In 1946 U.S. ships carried 65% (by tonnage) of our foreign commerce. By 1950 the portion had dropped to 42%. Thus, during this four-year interval the U.S. portion declined by 23 percentage points even though maritime programs were administered by an independent agency. If the performance under the independent agency had been repeated after maritime programs became part of the Department of Commerce in 1950, the U.S. portion would have been reduced to 0% by the end of 1957.

The U.S.-flag portion of our total international commerce has remained relatively constant (about 10%) since 1959. The decreases that have occurred have taken place largely in the bulk and petroleum trades. U.S. liner vessels now carry approximately 33% of our total liner (i.e., general)

cargo. This exceeds the portion carried in 1947 by 8 percentage points. Also, liner cargoes now constitute 72% of the dollar value of our foreign commerce. Therefore, on a value-of-cargo basis, the level of U.S. vessel participation in our foreign commerce is approximately 24%, which is more than twice as large as the 8% to 10% level computed on the basis of tonnage.

Bureau of the Budget

August 11, 1966



THE SECRETARY OF COMMERCE
WASHINGTON 25, D. C.

August 26, 1966

1966 AUG 26 PM 1 25

457-5238
copy - Lowell

Dear Mr. President:

Secretary McNamara, Secretary Wirtz and I have, as you requested, reviewed the maritime policy situation, particularly as it is presented in the Report of the Maritime Advisory Committee.

We respectfully recommend, unanimously and strongly, that there be no representation of an Administration position regarding the details of this Report at the present time.

We accordingly limit our advice to the general approach taken in the Report.

On the basis of Secretary McNamara's advice, which incidentally is strongly opposed in the Congress, the evaluation of the recommendations in the Report cannot, at least at this time, properly include strong reliance on considerations of "national defense." (This is one basis for the Maritime Act of 1936. The Advisory Committee expressed "grave misgivings about the adequacy of the present fleet" from a military standpoint, but did not base its recommendations on defense considerations.)

Secretary McNamara expresses no view regarding the evaluation of the Advisory Committee's Report so far as the broader policy considerations in the Maritime Act ("to promote the commerce of the United States," and "to provide shipping service on all routes essential for maintaining the flow of . . . domestic and foreign water-borne commerce at all times") are concerned.

Secretary Wirtz and I (with Secretary McNamara expressing neither approval nor disapproval) commend this view to you:

1. In general: The Maritime Advisory Committee Report and Recommendations represent a constructive basis for further evaluation, but we think right now that they go too far, particularly in view of budgetary considerations.

2. In particular:

(a) The Advisory Committee concludes that a U. S. flag fleet capable of carrying at least 30% (the present percentage is 8.5) of our foreign commerce by 1985 is a proper objective. We agree.

(b) Regarding General Cargo Liner Service: The Committee reaffirms the parity concept of operating subsidy, the essential trade route concept, and existing steamship conference practices. It would

extend subsidy support to about 100 additional ships in liner service, and would double the construction of general cargo liner ships (taking it to 30 to 35 ships a year).

We would recommend leaving the relevant legislation (regarding operating subsidies, etc.) as it is; but would recommend improvements in the administration of these laws.

We do not support doubling the construction of general cargo liner ships, but do recommend an increase in ship construction of up to six to nine ships a year, for a total of about 20 to 25, if overall appropriation policy permits.

Nor do we recommend any commitment at this time with respect to extending subsidy support to about 100 additional ships.

(c) Regarding Dry Bulk Carriers: The Committee recommends a construction program to be started immediately, to build toward a capacity to carry 30% of this cargo by 1985; all ships to be built in U. S. yards with construction subsidies, and to receive operating subsidies under long-term contract (replacing present cargo preference "hidden subsidies.")

We agree with the 30% objective, to be met by building of ships in U. S. yards, on a subsidized basis.

The question of operating subsidies versus cargo preference requires further consideration, along with other possibilities.

(d) Regarding Tankers: The Committee recommends alternative programs, including possible mandatory import quotas or operating subsidies. We do not agree with the proposal for quotas or subsidies.

(e) Regarding Passenger Ships: The Committee proposes further study of the support level for passenger ships. We agree.

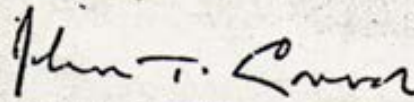
(f) Regarding Labor Relations: The Committee recommends (i) agreement on manning prior to new construction (with arbitration, if necessary); (ii) collective bargaining negotiation or arbitration to be binding for subsidy payment purposes; (iii) a permanent tri-partite labor-management council in the industry.

We agree in general with qualification regarding finality of bargained (or arbitrated) settlements so far as subsidy payments are concerned.

In conclusion, and recognizing the possible desirability of some fairly broad statement regarding the Administration's current position on the Advisory Committee's Report, we suggest something along these lines:

"The Administration reaffirms the objectives stated in the Maritime Act of 1936 and will ask, as a matter of high priority, the Secretary of Transportation and the Maritime Administrator to give sympathetic consideration to the Report of the Maritime Advisory Committee as a basis for developing a new maritime program."

Respectfully,


John T. Connor

The President
The White House

COPY to Secretary McNamara
Secretary Wirtz

OCT 25 1966

SUMMARY OF CURRENT AND PROPOSED
MARITIME POLICIES

*prepared in 608
referred to DOD 100C for comment*

I. Current policy

The U. S. flag fleet in foreign trades is currently subsidized through a number of techniques. The purpose of the subsidies is to provide for the national defense and to insure the carriage of a substantial portion of U.S. foreign trade on U.S. flag ships. Subsidies are also paid to permit construction of U.S. merchant ships in U.S. yards and justified on grounds of national defense requirements.

- Operating subsidies are currently paid on approximately 300 cargo liners (including 27 passenger or passenger/cargo combination ships).
- Construction subsidies are paid on about 15-17 new ships per year as replacement for the subsidized liner fleet (in 1967 only 13 new starts are provided in the budget).
- Cargo preference for P.L. 480, Defense, and AID cargoes, at rates substantially above the world market, provides the chief support for an additional 100 "non-subsidized" liners and 100 tramp ships in the bulk carriage trade. (About 50% of the outbound revenues of the subsidized fleet are also derived from Government cargoes under cargo preference provisions.) Almost all of the nonsubsidized fleet consists of rapidly obsolescing vessels.
- Additional assistance is provided the merchant marine through
 - (a) certain tax privileges relating to tax-free reserves for ship replacement;
 - (b) ship mortgage insurance, and
 - (c) Federal support for the National and State Merchant Marine Academies.

*add USCG ?
CoG ?*

The total ten-year system cost of these subsidies (1966-1975) will amount to \$5.8 billion. Within this ten-year total, annual costs will tend to rise each year.

The major consequences of continuing to follow current policies are:

- (1) By 1975 most, if not all, of the nonsubsidized fleet (100 liners, 100 tramp bulkers) will have disappeared.
- (2) By 1975 the productive capacity of the subsidized fleet will have increased moderately, but will be below (by 10%-15%) DOD estimates of "requirements" for national defense purposes.
- (3) Because the operating subsidy pays the difference between U.S. and foreign operating costs on a ship-by-ship basis, there are few incentives for U.S. management to improve efficiency. Foreign ship productivity and costs, however, are improving and should continue to improve relative to those of the U.S. flag fleet under existing subsidy techniques.
- (4) Employment in the foreign trade merchant marine will continue to decline -- by about 25% over the next ten years.

II. Interagency Maritime Task Force recommendations

Under these recommendations national security would be the sole justification for subsidy. However, recommended measures for improved efficiency should increase the leverage of the U.S. fleet on world cargo rates.

The Task Force recommendations would:

- Restructure the operating subsidy to reward efficiency -- subsidy would no longer be tied to specific cost differentials.

- . Provide operating subsidies for an additional 40-50 cargo liners.
- . Provide operating subsidies for large modern bulkers -- up to 35 by 1975 and 60 by 1985.
- . Phase out cargo preference and rely on operating subsidies.
- . Allow overseas construction of U.S. flag ships, to the extent that domestic construction and support of U.S. shipyards is not required for national defense purposes.

The ten-year systems cost of merchant marine subsidies under these recommendations would be \$5.1 billion. (The cost estimates assume that only ships in excess of 15-17 per year are built abroad. If these 15-17 were also built abroad, after a finding that their construction in the U.S. is not required on grounds of national defense, the ten-year costs would be reduced to \$3.7 billion.)

The major consequences of adopting these recommendations would be:

1. a subsidized fleet sufficient to meet DOD defense requirements in 1975;
2. increased operating efficiency in U.S. flag ships -- including incentives for the purchase of more productive ships.
3. replacement of the current aging tramp fleet with a smaller number of modern bulkers, whose aggregate productivity would exceed that of the current tramp fleet;
4. approximately the same decline in merchant marine employment (25%) as forecasted under present policies;
5. the building of some or all of U.S. flag ships abroad.

III. Maritime Advisory Committee recommendations

The Committee interprets the 1936 Act to require the carriage of a substantial portion (over 30%) of U.S. water-borne foreign commerce in U. S. owned, manned, and built ships.

The Committee recommends:

- . Extension of operating subsidy to all of the currently unsubsidized liners (100 ships).
- . Construction of 160 bulkers by 1975 (and 290 by 1985), and extension of operating subsidy to these ships.
- . Expansion of the current liner replacement program to 30 ships per year.
- . Retention of current cargo preference and its extension to 30% of U.S. oil imports. In addition, U.S. operators would be given the right of first refusal, at world rates, on all government bulk cargoes.
- . Construction of all ships in U.S. yards.
- . No basic change in the current structure of operating subsidies.

The ten-year systems cost of these recommendations would be \$7.2 billion, with costs rising each year.

The major consequences of these recommendations would be:

1. a build-up in the U.S. flag fleet to the point where by 1985 it carries 30% (by volume) of U.S. foreign trade;
2. a very sharp expansion in the bulk carriage of U.S. flag ships;
3. a slight decline in seafaring employment, but almost a doubling of subsidized shipbuilding employment by 1975.

4. less incentives for improvement in the cost position of U.S. flag ships relative to foreign competition;
5. a significant displacement of foreign shipping. Given the current deterioration of U.S. relative costs, this implies an increase in the proportion of costs borne by the subsidy.

IV. 50-Ship Liner-Bulker Program *Klausner?*

This program, recommended by private sources close to certain parts of the industry, places emphasis on the use of cargo preference rather than operating or construction subsidies.

The program would provide for the building in the United States of 50 additional liners and 35-50 bulkers with neither operating nor construction subsidies. It is possible to construct liners perhaps four times as productive as those currently in service. The same is approximately true of bulkers. The program assumes that

- . the operating economies of large, fast, containerized ships,
- . the construction economies of bloc procurement,
- . ship mortgage insurance, and
- . the guarantee of government cargoes equal to 20% of the capacity of the new ships

would be sufficient to make the program economically viable.

We do not know what the program assumes about the existing operating subsidy and replacement construction program. We presume it implies their continuation.

As presently formulated, the program is particularly addressed to the "nonsubsidized" portion of the industry. Presumably an option to follow the same procedure could be given to the subsidized lines, up to the limit imposed by the availability of DOD, AID and P.L. 480 cargoes to make good on the 20% cargo preference guarantee.

The economic viability of the proposal depends upon the magnitude of realizable operating and construction economies, and the degree to which the rates paid for preference cargo would exceed world rates.

If the program is viable, its major consequences would be

1. an increase in the productive capacity of the U.S. flag fleet; (The new vessels would be smaller in number but far more productive in the aggregate than the current unsubsidized liner and tramp fleet.)
2. substantial incentives for achieving operating economies and using the most efficient technology; (Since no operating subsidies would be paid, ship owners would have to match world competition to sell the 80% of capacity not taken up with cargo preference. This assumes that rates paid on cargo preference would not be automatically adjusted to make up for losses on commercial cargo.)
3. substantial incentives for bloc procurement and standardization of ship design;
4. the assumption of substantial risk -- but little immediate cost -- by the Federal Government through its ship mortgage guarantees;
5. a sharp improvement in the fortunes of the unsubsidized industry (and unions) relative to the subsidized;
6. an overall decrease in merchant marine employment between now and 1975 -- but less than under current policies.

V. Connor-Wirtz program

In a letter of August 26 Secretaries Connor and Wirtz proposed an expansion of the current maritime program. They believe the Maritime Advisory Committee report represents a constructive basis for further evaluation, but particularly in view of budget considerations, goes too far. They agree with MAC interim objective to carry 30% of foreign commerce by 1985; would leave operating subsidy, etc., legislation as is, but improve its administration. They favor an increase in the liner construction program to 20-25 ships per year, if budget constraints will permit. They propose further study of operating subsidies vs. cargo preference as a means of supporting bulkers. They also propose further study of programs of assistance for tankers and passenger ships. The recommendations would tend to maintain the current level of merchant marine employment with costs probably closer to the recommendations of the Maritime Advisory Committee than to those of the Inter-agency Task Force.

* * * *

The attached table represents an attempt to provide a brief tabular comparison of the main features of all five proposals.

TABULAR COMPARISON OF ALTERNATIVE MARITIME POLICIES

ITEM	PRESENT POLICY	INTERAGENCY MARITIME TASK FORCE	MARITIME ADVISORY COMMITTEE	50 SHIP	CONNOR-WIRTZ
Ship construction subsidy	Government pays difference between U.S. and foreign costs; for liners only; current subsidy equals 55% of total U.S. cost. No foreign building.	Retain liner replacement program. Add bulker construction program. Only that number of ships would be built in U.S. yards as determined to be necessary to maintain national security needs for private shipbuilding. Balance could be abroad.	Retain liner program. Add bulker program. No foreign construction.	Assumed to incorporate current program. In addition, 50 liners over 5 years and 35-50 bulkers (no specified delivery schedule) would be built without CDS, under ship mortgage insurance program. New ships would not get ODS, but DOD would guarantee preference cargo for 20% of their capacity.	Retain liner program. Add bulkers.
	15-20 liners/year as replacements for subsidized fleet; but 1967 budget has only 13.	15-20 liners; 3-5 bulkers/year.	30 liners/year; enough bulkers and tankers to carry 30% of U.S. trade.	1. for 20% of their capacity.	20-25 liners/year. Enough bulkers to carry 30% of cargo by 1985.
Operating subsidy	Pays foreign cost differential for crew wages and subsistence, insurance, repair and maintenance.	Restructure subsidy to provide incentives for more efficient operations.	Retain present system.	Retain present system, but suggests some of the 50 new liners might replace some of liners currently on ODS.	Retain present system, but suggests for more efficient operations.
	Averages 300 ships, including passenger vessels. No bulkers or tankers.	Add 40-50 liners. Bulkera: 1970-10 1975-35 1985-60 (in place of cargo preference). Tankers: none	Add 100 liners. Bulkera: 1970-60 1975-160 1985-290 Tankers: 1975-64 1985-91	No change in current situation, except for substitution suggested above.	No change in current situation.

TABULAR COMPARISON OF ALTERNATIVE MARITIME POLICIES--CONT. a.

ITEM	PRESENT POLICY	INTERAGENCY MARITIME TASK FORCE	MARITIME ADVISORY COMMITTEE	50 SHIP	CONNOR-WIRTZ		
Cargo preference	100% military; 50% of other government cargo (chiefly AID and P.L. 480).	Phase out non-military preference. Rely on ODS.	Present policy <u>plus</u> 30% of commercial oil imports.	Present policy. DOD contracts for 20% of new 50 liner capacity for 5 years. Similar contracts on bulkier cargo.	Further study of operating sub- sidy <u>vs.</u> cargo preference for bulkiers.		
Passenger ships	ODS currently paid on ships. \$55 million/year.	Encourage early withdrawal and phase out program.	Continue, but study.	No mention.	Further study.		
Mort- gage insur- ance	Covers 75% of total cost, except 87½% for reconstruction and reconditioning. U.S. built ships only.	No change.	No change.	No change.	No comment. Assume no change.		
Employ- ment:	indicated. <u>1970</u>	<u>1975</u>	<u>1970</u>	<u>1975</u>	Not indicated, but would be close to IMTF on shipboard em- ployment but more than IMTF on ship- yard employment and much less than MAC on both.		
Ship- board	42,300	31,461	39,584	30,755	43,114	39,621	Not indicated, but general implication is to maintain close to current level of employ- ment.
Ship- yard	<u>14,700</u>	<u>14,700</u>	<u>14,700</u>	<u>14,700</u>	<u>42,000</u>	<u>25,900</u>	
Total	57,000	46,161	54,284	45,455	85,114	65,521	

TABULAR COMPARISON OF ALTERNATIVE MARITIME POLICIES--Cont'd.

ITEM	PRESENT POLICY	INTERAGENCY MARITIME TASK FORCE	MARITIME ADVISORY COMMITTEE	50 SHIP	CONNOR-WIRTZ
Fe Cost (mil- lions)	1970 - \$440.0 1975 - 482.2 1985 - 594.0 ten- -5,800.0 year systems cost	1970 - \$387.6 1975 - 363.6 1985 - 376.5 ten- -5,100.00 year systems cost (If all ships purchased abroad, 10-year cost falls to \$3,700)	1970 - \$710.7 1975 - 605.5 1985 - 772.0 ten- -7,200.0 year systems cost	Not indicated; would be less than present policy but more than IMTF and much less than MAC.	Has never been computed but would be closer to MAC costs than to IMTF.

October 25, 1966

OPTIONS AVAILABLE IN DEVELOPING
A FEDERAL MARITIME POLICY

*Prepared in DoB
referred to DoD/DOC for comment*

This paper first outlines the questions which have to be answered in framing a maritime policy. It then puts together five alternative program packages to illustrate the costs and other consequences of various possible decisions with respect to these policy questions.

Questions to be Answered

A sound maritime policy must

- provide sufficient shipping to meet national defense requirements plus whatever non-defense objectives are determined to be desirable from the national interest
- support those requirements in the most efficient possible manner. An efficient private merchant fleet not only minimizes Federal subsidy cost, but also contributes toward another national objective, namely leverage on world shipping rates.

Given these major considerations, the following decisions have to be made in settling upon a maritime policy.

1. The size of the fleet to be supported

The Department of Defense has specified that 460 notional ships must be available to meet peak defense requirements. All of these are liners. The Interagency Maritime Task Force has estimated that another 175 notional ships should be provided to meet emergency civilian requirements -- partly liners, partly bulkers. The total "national security" requirement is therefore 635 notional ships. At the present time the subsidized and unsubsidized U.S. foreign trade fleet consists of 517 notional ships.

One method of meeting these defense requirements is to purchase and "mothball" a reserve fleet while mounting a naval reserve manpower program. DOD studies indicate that this program would be more costly than subsidy support of an active commercial fleet, if the current subsidy program were restructured towards a minimum cost solution. In the remainder of this paper, we do not consider the reserve ship program as an option, and deal only with the subsidization of an active commercial fleet.

It might be desirable to support an even larger fleet for non-defense purposes -- for example, as a way to encourage union acceptance of ship automation. The Maritime Advisory Committee, whose recommendations are the most ambitious yet presented, proposed a fleet sufficient to carry 30% of U.S. foreign trade (by volume). This would require about 1,300 notional ships.

2. Should U.S. flag ships be built in U.S. shipyards?

The current subsidized construction program accounts for only 8% of total Federal outlays for shipbuilding. Moreover, according to Defense estimates, the present and quickly augmentable capacity of U.S. shipyards could meet almost any conceivable emergency. Consequently, there appears to be no national defense requirement for a subsidized merchant ship construction program.

It is possible, however, that, through standardization of design and large quantity purchases, construction costs in U.S. shipyards can be reduced to levels more nearly competitive with the rest of the world. There is already evidence, from the Navy's shipbuilding program that purchases in very large blocks can substantially reduce costs -- though not yet to the level of Japanese competitors.

The cost of the construction differential subsidy might be halved by a policy of large block procurement. Under very optimistic assumptions, U.S. shipyard costs might ultimately be reduced to world levels. Several of the options discussed later incorporate such a construction program.

3. What is the appropriate proportion of liners and bulkers to be supported in the merchant fleet?

All of DOD's 460 notional ship requirement is in the form of liners. The 175 ship civilian emergency requirement consists of both liners and bulkers. Any additional expansion in the fleet, beyond defense and emergency civilian requirements, would presumably be a mixture of both liners and bulkers.

4. What kind of ships will lead to most efficient operations?

At the present time a large containerized cargo liner can be built with roughly four times the productivity of the typical ship currently in the subsidized fleet. The cost of such ships would

be less than double that of such a conventional ship. A substantial part of the DOD's requirements could be filled by such containerized ships. The other part could be filled by vessels like the C-4, which has $1\frac{1}{2}$ times the productivity of a notional vessel. Similarly, large modern bulkers can be built with four times the productivity of vessels in the existing tramp fleet.

These highly productive ships can be manned by smaller crews than current vessels -- 35 versus 45. With productivity four times greater, fuel costs only moderately higher, and with smaller crews, their operating expenses per ton of cargo can be sharply reduced relative to present standards.

With these vessels comprising a substantial part of the U.S. flag fleet, the 635 notional ship defense and civilian emergency requirement could be met with 256 actual ships. Similarly, the 1,300 notional ships required to meet the Maritime Advisory Committee's goal of carrying 30% of U.S. foreign trade on U.S. flag ships could be met with 484 actual ships.

The obvious consequences of replacing current ships with large modern vessels of the type described is a sharp reduction in maritime employment. Any given volume of cargo can be carried with one-fourth the number of ships and crews.

5. Should the current operating subsidies be revised to provide greater incentives for efficient operation?

The current subsidy formula makes up the difference between U.S. and foreign costs for wages, subsistence, repair and maintenance, and insurance. The subsidy calculation is made on a ship-by-ship basis. There is little or no incentive to improve operating efficiency with respect to the specific subsidized cost items. Incurring higher capital costs -- through larger automated vessels -- is penalized, since the added capital costs are not subsidized, while a reduction in labor costs goes primarily towards reducing the subsidy.

Whatever the level at which the merchant marine is supported, it should be given incentives both to adopt modern ship technology and to operate its ships efficiently. That will require a new form of subsidy which

- (a) is based more nearly on average industry performance, thereby rewarding the better-than-average operator and penalizing the laggard, and
- (b) is related to overall performance rather than to specific items of cost, so as not to penalize the adoption of new technology.

6. Should cargo preference be retained, or should operating subsidies be the sole method of supporting the fleet?

Cargo preference has two major disadvantages

- . it tends to hide the true public costs of subsidy
- . it tends to divert the capacity of the U.S. fleet away from the competitive carriage of commercial cargo. (About 50% of the outbound cargoes of the U.S. subsidized fleet are preference cargoes.) In turn this diversion blunts one of the presumed objectives of the subsidy program, the leverage of a U.S. fleet on world shipping rates.

Recently, however, one proposal has been made for using cargo preference in an imaginative way. (See the attached summary of current proposals on maritime policy.) Briefly, under this scheme the Government would guarantee preference cargo for 20% of the capacity of 50 or more large modern vessels. This guarantee, plus the provision of ship mortgage insurance, would take the place of any construction or operating differential subsidies for the vessels involved. As a consequence, the ship owner would have every incentive to maximize efficiency, both in ship procurement and ship operation.

Although this proposal has not been spelled out in detail, rough calculations indicate it might be feasible if the vessels involved had the productivity and cost characteristics described above. It would have to be made clear, however, that the rates on Government cargo would not be automatically adjusted to offset losses in commercial cargo.

Several of the options discussed below incorporate this proposal.

Five Options for Maritime Policy

Five alternative programs have been developed, to trace out the costs and consequences of alternative sets of answers to the issues posed above. This list of options is obviously not exhaustive, but it covers a broad range of possibilities.

OPTION 1.

A Subsidized Fleet to Meet National Defense Objectives at Minimum Cost

A combination of defense and hard-core civilian needs creates a minimal fleet requirement of 635 notional ships. (By 1975 the foreign trade U. S. flag fleet will fall to 420 notional ships if current policy is continued.) The 635 ship requirement would be met with the following program:

- . A substantial part of the liner fleet and all of the bulker fleet would consist of large, modern vessels, with productivity about four times those of current vessels. Consequently, the 635 notional ship capacity would eventually be provided with 256 actual ships.
- . To support this program, about 10-12 large ships a year would have to be purchased abroad in lieu of the current liner replacement program. No subsidy would be offered for construction in the United States.
- . Cargo preference would be phased out as the existing unsubsidized liners and tramp fleet disappeared. The new liners and bulkers would get operating subsidies and compete at world rates for Government cargo.
- . The current operating subsidy formula would be revised to provide incentives for efficient operations. The present subsidy formula literally penalizes efficient decisions, particularly with respect to adding new capital-using technology.
- . To introduce more competition, the present assignment of subsidized vessels to "trade routes" would be changed to much broader "trade areas".

The Federal cost of this option over the next ten years is \$2.9 billion. By the tenth year, when large numbers of the new vessels had been incorporated in the fleet, the annual cost would be only \$128 million.

The cost calculation for Option 1 assumes: (a) half of the subsidized liner fleet's capacity and all of the bulkers will ultimately be made up of large, modern ships with four times the productivity of current vessels, and (b) a crew size of 35, compared to 45 currently and 25-30 technologically possible, and (c) the new containerized liners would cost about 20% more than the C-4's currently being purchased under the replacement program; (d) the cost estimates provide for the gradual phasing in of the new ships, at about 10-12 per year, as a substitution for the current liner replacement program.

OPTION 2

Meeting National Defense Objectives at Minimum Costs Plus Supporting the Development of a Competitive U.S. Shipbuilding Capacity

The new ships contemplated in Option 1 could be constructed in U.S. yards under a program which provided for standardized design and large-scale multi-year contracts. Ten to twelve ships per year are contemplated under the Option 1 replacement program. Several years of the replacement program could be blocked into one or two standard designs. Both existing shipbuilding firms and firms from other industries could submit proposals for large-scale contracts. Standardization, large volume, and the guarantee of continuing work should all provide incentives for substantial innovation and investment in cost-cutting production methods.

At the present time, U.S. shipbuilding costs are 2.2 times those of the lower-cost (Japanese) foreign firms. We have assumed that initially the new construction program would reduce U.S. costs by 25%. This would, in turn, cut the present construction subsidy almost in half. Ultimately, of course, the objective of the program would be the reduction of U.S. shipbuilding costs to world levels.

The cost of this option over the next ten years would be \$3.6 billion. By the tenth year the annual costs would be \$200 million.

OPTION 3

Meeting National Defense Objectives plus Additional Merchant Fleet Capacity Sufficient to Carry a Substantially Expanded Percentage of U.S. Foreign Trade, with Maximum Efficiency in the Resulting Fleet

In addition to meeting a specified level of defense requirements, it may be deemed desirable to increase the size of the U.S.-owned fleet for other reasons -- for example, as a way to encourage union acceptance of ship automation, or because carriage of a larger percentage of U.S. foreign trade is thought to be in the national interest.

Once the decision has been made to support a fleet larger than needed for defense and emergency civilian requirements, there is no obvious target at which to aim, in terms of shipping "requirements". To illustrate the costs and implications of such a policy, we have chosen as an extreme limit the Maritime Advisory Committee's recommended goal of carrying 20% of U.S. foreign trade (by volume) in U.S. flag ships.

This policy would require about 1,300 notional ships, or approximately 484 actual ships in 1950 assuming rapid modernization of the fleet, with a construction program of 38 ships per year.

As in the first two options, we postulate an improved operating subsidy policy for all vessels, and reliance on operating subsidies rather than cargo preference. We also postulate block procurement of ships from U.S. yards. The mix of liners and bulkers approximates that recommended by the MAC.

For the particular mix of bulkers and liners assumed and given the construction cost assumptions listed under Option 2, this program would have a cost of \$5.5 billion during the next ten years. The additional ships would be phased in gradually over these ten years. In the tenth year the annual cost of the program would be \$600 million.

OPTIONS 2a AND 3a

These options meet the same shipping requirements as Options 2 and 3, but substitute a cargo guarantee for the traditional construction and operating subsidy procedures.

If rates on the guaranteed cargo are set to cover the operating and construction differentials, the real costs should be no higher than Options 2 and 3 and perhaps somewhat lower because of the incentive factors introduced into the construction process.

In addition, this approach to subsidy payments shifts the burden of the subsidy to future time periods and from separately identified subsidies in the budget to additional defense and foreign assistance costs.

Only part of the subsidized fleet could be supported under this technique. Government cargoes would be guaranteed in a volume to cover 20% of the capacity of the vessels coming under this particular program. There is not sufficient peace-time cargo to cover all of the capacity in Option 2 and, of course, much less so in Option 3. The remainder of the fleet, therefore, would have to be supported by operating and construction differential subsidies.

* * * * *

The attached table provides a brief comparative summary of the main features of each of the options described above.

Attachment

		Option #1		Option #2		Option #3		Option #2(a)		Option #3(a)	
Policy Objective.....		Defense and hard-core civilian emergency needs. No encouragement to U.S. shipbuilding.		Defense and hard-core civilian emergency needs. Encourage U.S. shipbuilding.		Defense, hard-core civilian emergency needs and peacetime capability for 30% of foreign trade. Encourage U.S. shipbuilding.		Defense and hard-core civilian emergency needs. Encourage U.S. shipbuilding. Substitute cargo guarantees for construction and operating subsidies.		Defense, hard-core civilian emergency needs and peacetime capability for 30% of foreign trade. Encourage U.S. shipbuilding. Substitute cargo guarantees for construction & operating subsidies for part of fleet.	
		construction & operating subsidies for part of fleet.									
Modern Equivalent		Modern Equivalent		Modern Equivalent		Modern Equivalent		Modern Equivalent		Modern Equivalent	
Fleet size:		Fleet size:		Fleet size:		Fleet size:		Fleet size:		Fleet size:	
Defense needs.....		460 Liners - 212 Liner-Cont.		460 Liners - 212 Liner-Cont.		460 Liners - 212 Liner-Cont.		460 Liners - 212 Liner-Cont.		460 Liners - 212 Liner-Cont.	
Hard-core civilian.....		175 Liners - 44 Cont.-Bulkers		175 Liners - 44 Cont.-Bulkers		175 Liners - 44 Cont.-Bulkers		175 Liners - 44 Cont.-Bulkers		175 Liners - 44 Cont.-Bulkers	
Total.....		635 256		635 256		1,300 484		635 256		1,300 484	
Construction.....		No construction subsidy. Assume construction abroad.		Construction subsidy for U.S. construction. Block procurement.		Construction subsidy for U.S. construction. Block procurement.		Provide construction subsidy thru cargo guarantees with higher than world rates to meet Defense & HCE needs. Incentive ODS formula for remainder. U.S. construction. Block procurement.		Provide construction subsidy thru cargo guarantees with higher than world rates to meet Defense & HCE needs. Incentive ODS formula for remainder. U.S. construction. Block procurement.	
Operations.....		Incentive ODS formula, all vessels. Vessels guaranteed for defense use. Trade areas instead of trade routes.		Incentive ODS formula, all vessels. Trade areas, etc.		Incentive ODS formula, all vessels. Trade areas, etc.		Provide operating subsidy thru cargo guarantees with higher than world rates. Trade areas, etc.		Provide operating subsidy thru cargo guarantees with higher than world rates. Trade areas, etc.	
Mortgage Insurance.....		No		Yes		Yes		Yes		Yes	
Cargo preference.....		Competitive bidding. World rates.		Competitive bidding. World rates.		Present form.		In form of guarantees of cargo or space.		In form of guarantees of cargo or space.	

	Option #1	Option #2	Option #3	Option #2(a)	Option #3(a)
<u>Options phased into existing program</u>					
10-year costs ^{1/}	\$2,865 mil.	\$3,563 mil.	\$5,520 mil.	Real costs should be no higher than Option 2, and may be slightly lower because of competitive factors introduced.	Real costs should be no higher than Option 3, and may be slightly lower because of competitive factors introduced.
and may be slightly lower because of competitive factors introduced.					
<u>Program level in tenth year</u>					
\$605 mil. Costs. Real costs should be no higher than Option 2.	Real costs should be no higher than Option 2.	\$203 mil.	\$605 mil.	Real costs should be no higher than Option 2, and may be slightly lower because of competitive factors introduced.	Real costs should be no higher than Option 3, and may be slightly lower because of competitive factors introduced.
<u>Fleet Size</u>					
Subsidized (modern equiv.)	256 ships	256 ships	484 ships	256 ships	484 ships
<u>Jobs</u>					
Crew billets subsidized...	8,960	8,960	22,400	8,960	22,400
Shipyard jobs subsidized...	0	4,200	16,000	4,200	16,000
Total.....	8,960	13,160	38,400	13,160	38,400

10-year costs
Current rates

1/ Excludes costs of Seamen's medical care....
Maritime training.....
Total.....

200 mil.
50 "
250 "

MARITIME OPTIONS

3

Assumptions:

Vessel Productivity

1. Fast new container ships have four times the productivity of a notional liner vessel.
2. New regular liners have 1.5 times the productivity of a notional liner vessel.
3. New bulker ships have four times the productivity of a notional bulker ship.

DOD Cargo Mix

50% is adaptable to containerization.

Urgent Hard-core Civilian Requirements

1. 100% of liner cargo is containerizable.
2. 50% will be shipped in U.S. vessels. Remainder will be shipped in flags-of-convenience vessels under effective U.S. control.

Tanker Fleet

Domestic trades and effective control flags-of-convenience tankers fully adequate to meet all foreseeable future needs.

Ship Construction Productivity Incentives

1. Block procurement of new vessels will reduce construction differentials by 25 percentage points and shipyard labor input by 40%.
2. Incentives resulting from cargo guarantees in lieu of construction subsidy will reduce construction differential by 5 percentage points.

Effect of phasing-in options to existing program

1. Under Options 1 and 2, existing subsidized fleet would continue to operate until end of current contracts - mid-70's. Thus, cost of current program has to be added to new program.
2. No new construction would be undertaken in support of existing program.
3. Construction subsidy under Option 2 would consist of 10 ships per year. New container ships can be phased-in without ODS cost since they can be substituted for older vessels in current subsidized fleet.
4. Construction subsidy under Option 3 would consist of 38 ships per year. New container ships can be phased-in without ODS cost since they can be substituted for older vessels in current subsidized fleet.
5. Construction subsidy averaged at \$10 million/ship.

Mr. Selton



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U.S. DEPARTMENT OF COMMERCE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20230

November 11, 1966

*includes a
program proposal*

MEMORANDUM FOR

Honorable Charles L. Schultze
Director, Bureau of the Budget

Subject: Maritime Policies and Programs

As a basis for your forthcoming meeting with Secretary Connor and others on the Merchant Marine, he has asked me to send you (a) the attached White Paper and (b) a maritime proposal which he believes merits consideration.

Lawrence C. McQuade
Lawrence C. McQuade
Assistant to the Secretary

Attachments

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November 11, 1966

Value of The U. S. Merchant Marine

Premises

This paper seeks to identify the primary benefits to the United States of the U.S. Merchant Marine. It starts with two premises.

1. The U.S. maritime industry is not unique in receiving a subsidy. Rails, air, highways, and inland waterways have all received billions in government support. Agriculture subsidies, tariffs, procurement by the Defense Department in the United States at higher budgetary cost in order to save balance of payments dollars--all are examples of choosing the economically less efficient in order to achieve an acceptable balance among national objectives. By the standards which we apply in a number of other areas of our national economic life, the subsidy factor does not of itself constitute a decisive reason to conclude that the U.S. Merchant Marine fails to give proper value to the national interest if all values are taken into account.
2. The current political facts of life call for some form of government assistance to the maritime industry. The relevant choice for the Administration is among the range of alternatives which are politically achievable. Within this range, we should seek the maximum benefit for the minimum cost, using the term "benefit" in a broad, rather than a narrow context.

Factors to be Weighed

In light of these two premises, the following represent the major factors to be considered in evaluating the broader contributions of the U.S. flag fleet to the national interest:

First, the maritime industry provides jobs and business activity on an impressive scale. For example, the U.S. maritime industry each year provides direct employment for a quarter of a million workers, pays \$1.7 billion in wages and salaries, and contributes \$160 million in Federal and State taxes. Indirectly, through the multiplier effect, it gives employment to an additional 189,000 workers. It pays out over \$100 million a year for supplies, stores, fuel, and repairs. While it

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is difficult to assess precisely, the U.S. shipping industry earns or conserves substantial credits for our balance of payments, estimated between a minimum of \$500 million and a maximum of \$1 billion per year.

Shipbuilding, of course, provides similar employment and multiplier effects upon the economy, including taxes.

The exact measurement of these economic repercussions is, of course, extremely difficult, if not impossible. But the principle is a valid one: money spent to aid the U.S. merchant fleet returns in direct and indirect benefits to the national economy.

Second, U.S. merchant shipping plays a valuable role in the development of new trade for the United States, and all things being equal, is more likely to have a special American concern and interest than would foreign owned or foreign flag lines.

The Farrell Line, for example, has developed an increasingly valuable two-way trade between the United States and South Africa. The development of container services in the North Atlantic, Pacific, and Caribbean has been promoted by American-flag ships and has resulted in a significant increase in this trade, with the prospect of an even greater increase in the future. American flag lines serve over 450 ports throughout the world. In addition, American subsidized lines maintain active offices in foreign countries for purposes of promoting U.S. trade and serving U.S. shippers.

Third, a U.S. Merchant Marine can provide a more effective ocean interconnection to the developing new concept of integrated transportation--one of the most promising areas for reducing the costs of international trade. This requires that all modes of transport, from inland point of origin to inland point of destination, be coordinated into a smoothly flowing operation, designed principally with the convenience of the trader in mind. The U.S. Government will no doubt play a role in the development of this innovation and, of course, would have more leverage through the use of a U.S. flag merchant marine in developing effective, cooperative arrangements.

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Fourth, the existence of a significant U.S. merchant fleet, active and reserve, can have a beneficial effect upon the freight rates which U.S. commerce must bear.

Freight rates in ocean commerce are either highly competitive as among tramp ships, or tightly controlled by liner conference agreements. In either case they are highly responsive to the availability of world shipping. The existence of a United States merchant fleet protects U.S. shippers from runaway rates. For instance, during the Korean War, international freight rates on coal went from \$3.35 a ton in June 1950 to \$14.00 a ton by March of 1951. The release of a large number of ships from the U.S. reserve fleet and establishment by the National Shipping Authority of a rate of \$10.50 a ton thereafter cut transportation costs to that level.

Fifth, the existence of a significant U.S. merchant fleet provides insurance that we can move necessary or desirable imports and exports in situations where various national policies or exigencies may curtail or deny us normally available foreign shipping.*

When the Suez Canal was closed just ten years ago, 223 dry cargo ships and 29 tankers came out of reserve to help hold down soaring freight rates and provide the extra shipping capacity needed for the long haul around Africa.

In Vietnam, in the course of 16 months since July 1965, 161 ships have been withdrawn from reserve, and an additional 136 privately-owned ships (as of the end of August 1966) were being used by MSTs to haul cargoes for this conflict. In the first six months of 1966, the MSTs

*We import from 80% to 98% of many strategic ores--bauxite, manganese, chrome--which are essential to such vital domestic industries as steel and aluminum. One authoritative study predicted that by 1975 we would be importing 74 million tons of iron ore, over twice the estimated imports in 1960, and 3,250 million tons of petroleum products, against 759 million estimated for 1962. Maritime Administration figures project a total of 616 million tons of dry and liquid bulk trade in 1985, against 288 million in 1966.

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nucleus fleet lifted 10% of the cargoes required for Southeast Asia; merchant ships carried the other 90%.

In situations where we are subject to embargo or wish to impose an embargo, our ability to be effective, independent of other nations, is diminished if we do not have our own vessels to which to turn.

Sixth, a significant U.S. merchant fleet, in existence and manned by trained crews, provides insurance of prompt cargo capability in the event of war.

It can be costly and inefficient--perhaps even too late--to begin building a merchant fleet and training crews when a war or similar emergency arises. An operating fleet of modern design, high speed, and large capacity, varied in type to meet different requirements, with efficient cargo handling systems, manned by trained and skilled seamen, can cut back the risks that the country will not have the shipping it may need in such a crisis. Keeping such a fleet in being requires a continuing program of planning and building of new and better ships to replace those that become outdated.

The use of U.S. merchant ships for commercial purposes keeps them and their crews making useful economic contributions while concurrently providing a standby for emergency situations.

The shipbuilding industry, likewise, has standby utility which can be better maintained if kept busy building merchant as well as military vessels.

Seventh, some measure of prestige accrues to the United States from an active merchant fleet.

Eighth, a revitalized U.S. maritime industry is needed if the U.S. participation in expanding world trade is to be assured.

Our oceanborne trade is steadily growing; Maritime figures project a total of 685 million tons by 1985, or double the 1966 figure. World population is also growing. Some public investment coupled with private investment is justifiable and necessary. This growth offers an opportunity to alter the mix and type, as well as conditions of support, if pursued imaginatively.

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Conclusions

1. The case for a U.S. merchant marine of significant size and relative modernity is persuasive if both the economic benefits and the other advantages which accrue to U.S. national interest are taken into account.

2. The foregoing conclusion necessarily rests upon judgments about certain non-measurable factors.

3. Given the political context within which the Administration's maritime policies are likely to be operating, the most helpful course for a U.S. maritime policy would be to recognize the broader range of values (benefits) available through a U.S. merchant fleet and seek to maximize these benefits within a range of government support which is politically acceptable and also tolerable as a budgetary matter.

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Mr. Section

ADMINISTRATIVELY RESTRICTED

November 11, 1966

A PROPOSED MARITIME PROGRAM

U.S. Flag Requirements

1. Emergency: Under a combination of circumstances involving (a) limited war and (b) general mobilization of the domestic economy, U.S. flag shipping requirements for defense and emergency civilian purposes are generally acknowledged to be as follows:

Emergency Shipping Requirements^{1/}

	<u>DOD</u>	<u>Civil Emergency</u> ^{2/}	<u>Total</u>
General Cargo Liners	460	150	610
Bulk Carriers	0	290	290

2. Foreign Trade: The accompanying White Paper describes the national interest in at least maintaining at existing levels, if not expanding, the proportion of our foreign trade carried under U.S. flag.

Fleet Status

Today the foregoing requirements can be met by drawing on both the active and the reserve fleets. If, however, existing maritime programs are continued at their present level, the active and reserve fleets cannot be expected to meet these requirements by the mid 70's. The prospects for the fleet at that time are recapitulated below:

1. Aging Active Fleet: More than 60% of the active merchant marine is 21 or more years old. By the mid 70's these vessels will have been scrapped or will be of marginal utility. The entire tramp segment (now our only bulk capacity) and the unsubsidized liner segment (the most useful and responsive for Defense needs) fall within this age group.

1/ These requirements are net of MSTs and are in notional values.

2/ Established by Department of Commerce and OEP studies.

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2. Decline of the Reserve Fleet: The National Defense Reserve Fleet has been one of the most valuable maritime programs in recent history. It has met "surge level" defense requirements in two limited wars (Korea and Viet Nam) and has protected us against the effects of major international shipping crises on two other occasions (Suez and the European coal shortage of 1956-57). However, it will not be available in the 1970's without revitalization--the bulk of it will have been scrapped.

3. Fleet Imbalance: Although our trade will have become increasingly heavy in dry bulk cargoes, we will have almost no dry bulk capability.

Under existing programs maritime industry and labor have been unable on their own to arrest the decline. Moreover, both have lost confidence in the Administration's intention to improve on the merchant marine. Under these circumstances any attempt to adopt radical policy initiatives can be expected to meet political opposition until industry and labor can attach some credence to the willingness of the government to revitalize the industry.

Realistic Approach Towards Corrective Measures

The current political facts of life, therefore, call for some form of government assistance to the maritime industry. The relevant choices for the Administration are limited to those alternatives which are politically achievable. The program set out below is designed to correct the decline of the fleet so as to meet the U.S. flag requirements by the mid 1970's and at the same time is intended to regain the confidence of maritime industry and labor so as to make possible a climate in which less costly solutions can be explored:

Program

1. Liner replacement--Construct 20 highly productive, competitive cargo liners each year to replace subsidized ships. (This annual level would provide a steady building program in the shipyards.) Construct 25 liners in FY '68 only, to make up for FY '67 level.

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2. Bulk carriers--Construct 5 bulk carriers annually with Government participation in construction costs, creating a bulk carrying capacity within a policy framework that should permit reduction or elimination of cargo preference costs.^{1/}
3. Extend operating subsidy--Foster increased competition by extending an operating subsidy to 50-60 additional liners, subject to statutory procedural requirements. The form and length of any contract to be extended to present or new operators would stress operational flexibility and competitive incentives.
4. Renew the Reserve Fleet:
 - a. Interim:
 - (1) Overhaul and preserve 150 Victory ships upon release from GAA operation in support of Viet Nam.
 - (2) Convert Victory troop transports (AP-5's) to jumboized heavy-lift general cargo liners at rate of 20 per year over five years (as released by Department of Defense) for use in current emergency followed by preservation and placement in the NDRF.
 - b. Long Range: Repurchase subsidized ships at Book Value (8/25 of original value) after 17 years and place in NDRF for 13 years. Replace with new vessels. (First repurchases would occur in 1979.)

1/ Alternatively, construct 5 bulk carriers per year for up to five years at government expense and charter them to operators (on competitive basis) at terms which would provide approximate parity with foreign operating costs, by substituting cheaper capital equipment costs to the operator for operating subsidy.

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Program Costs and Effects

The attached table shows in detail the projected costs and effects of carrying out this program through 1986 under present administrative policies, although less costly initiatives could be introduced at any time.^{1/} The results can be summarized, however, as follows:

1. The total, annual cost of the program, including CDS, ODS, and reserve fleet expenses, would rise from \$283.5 million in 1967 to \$787 million in 1986.
2. The subsidized liner cargo fleet would increase from 285 ships, 3.3 million deadweight tons, with an average age of 14.7 years, to 340 ships, 5.7 million deadweight tons, with an average age of 8-1/2 years--at a 20-year total cost of \$10.1 billion.
3. A modern bulk carrier fleet of 60 ships of 2.7 million deadweight tons would be created--at a 20-year total cost of \$960 million. (This would be \$1.3 billion less than normal cargo preference costs over the same period.)
4. The Reserve Fleet would receive (in the early years) about 100 excellent (though war-age) ships, plus 150 useful general cargo ships. In later years, it would stabilize at 260 ships with an average age of 23-1/2 years. The 20-year total cost would be \$650 million.
5. Employment in the areas affected by the program would increase from 14,100 to 15,200 job opportunities over the 20-year span. Without the program, employment in these areas is expected to decline to 10,800.
6. Trade participation in liner and dry bulk areas would increase as follows:(in millions of tons):

	<u>1967</u> ^{2/}	<u>1986</u>
Liner	28%/14.4 tons	37%/25.6 tons
Dry Bulk	3.6 tons	17.1 tons

^{1/} For example, when the U. S. balance of payments posture has improved, the foreign construction alternative could be reconsidered.

^{2/} Figures reflect diversion of some shipping to MSTs.

ADMINISTRATIVELY RESTRICTED

ATTACHMENT

COSTS & EFFECTS^{*/}

	<u>1967</u>	<u>1968</u>	<u>1976</u>	<u>1986</u>
Ships, Foreign Trade, Private	<u>1/</u>			
General Cargo	285	311	340	340
Bulk	<u>2/</u>	-	35	60
Tonnage (millions dwt.)	3.3	3.7	6.3	8.4
Employment	14,100	15,200	16,000	15,200
Tons carried (millions L. T.)	14.4	16.4	27.4	42.8
Federal Costs (\$millions):				
CDS	138	296	308 ^{3/}	350
ODS	<u>142</u>	<u>173</u>	<u>254^{3/}</u>	<u>379^{3/}</u>
Total	<u>280</u>	<u>469</u>	<u>562</u>	<u>729</u>
NDRF Ships (General Cargo)	427	447 ^{4/}	360 ^{5/}	260
NDRF Costs (\$millions)	3.5	64.0 ^{6/}	4.0	58.0 ^{7/}

*/ Given in terms of actual ships. Notional values approximate requirements set out on page 1.

1/ Excludes 130 non-subsidized freighters which will soon expire. Subsidized liner fleet only.

2/ Excludes 103 war-built general cargo tramps which will rapidly expire.

3/ Includes about \$17 million paid as cargo preference program differentials to the new bulk ships, while saving \$90 million which would have been paid as freight rate differentials in the absence of a new bulk ship program. In 1986 the annual saving would approximate \$130 million. Increased productivity and greater operational efficiency offer the possibility that this financial support may be unnecessary by 1976.

4/ Includes 20 conversions to freighters from AP-5 troopers.

5/ Includes 100 upgraded AP-5's.

6/ Includes \$3.5 million preservation; \$57 million conversions and layup of 20 AP-5's; and \$3.5 million for repair of 75 GAA ships.

7/ Includes \$53 million for repurchase of 20 ships.

*Prepared by
Dept Justice
cira 1966*

MARITIME LEGISLATION AND
LEGISLATIVE POLICY SINCE 1936

SUMMARY: Congress has periodically stated during the past 50 years that our national defense and commercial development require a merchant marine composed of American-built vessels owned and operated by citizens and capable of carrying all of our domestic, and a substantial portion of our foreign, water-borne commerce. These goals are formally expressed in declarations of policy in the Merchant Marine Act, 1936, and the Merchant Ship Sales Act of 1946, and are either expressed or implied in the earlier Shipping Act, 1916, and Merchant Marine Acts of 1920 and 1928.

Implementing legislation extends both direct and indirect aid to the maritime industry. Liner vessels on essential foreign trade routes are eligible for operating subsidies, and both liner and tramp operators are eligible for construction subsidies. However, construction subsidy appropriations presently are sufficient only to assist the fifteen companies receiving operating subsidies.

These two forms of direct aid are estimated to constitute about 40 percent of the total federal aid extended to American vessels in foreign trade, the balance being derived from a variety of legislative programs, the most important of which authorizes transportation of Government cargoes at rates substantially above the world market (cargo preference). 1/

Domestic coastwise and intercoastal vessels are aided through cabotage laws forbidding such trade to foreign vessels. In addition, inland waterway operators whose

1/ While difficult of precise calculation, a recent study estimates cargo preference to have cost \$160 million in 1962, one-fourth of this sum going to directly subsidized vessels. Lawrence, United States Merchant Shipping Policies and Politics, 210 (Brookings Institution, 1966). This is an excellent publication tracing the principal causes of the U. S. shipping crisis with particular attention to the roles played by the shipping industry, Congress and maritime legislation.

tug-and-tow combinations carry almost 10 percent of our domestic commerce 2/ are indirectly aided through navigation improvements authorized in Rivers and Harbors legislation.

Major legislation indicative of congressional merchant marine policy is discussed below.

EXPRESS STATEMENTS OF CONGRESSIONAL POLICY: The Merchant Marine Act, 1936, declares that national defense and the development of foreign and domestic commerce require a merchant marine (1) "sufficient to carry" all of our domestic water-borne commerce and "a substantial portion" of our foreign commerce, (2) "capable of serving as a naval and military auxiliary in time of war or national emergency," (3) owned, operated and crewed by citizens, and (4) composed of "the best-equipped, safest, and most suitable types of vessels, constructed in the United States." (46 U.S.C. 1101) In enunciating this policy, Congress stated that it was basically a reaffirmation "of the national policy announced in the Merchant Marine Act, 1920, reaffirmed in the Merchant Marine Act, 1928." (H.R. Rep. No. 1277, 74th Cong., 1st Sess. 3-4 (1935))

The statement of policy in the Shipping Act, 1920, from which that in the 1936 Act was derived, originated in the Senate Committee on Commerce as a committee-proposed amendment to the House bill (H.R. 10378) subsequently enacted. (S. Rep. No. 573, 66th Cong., 2d Sess. 1-2, 10-11) The Senate report clearly expresses the motivation underlying the policy statement. 3/

2/ American Waterways Operators, Inc., Big Load Afloat--U.S. Inland Water Transportation Resources 2 (1965).

3/ "For many years the amount of our foreign trade carried in ships flying our flag was constantly growing less. It seemed a hopeless task to make any effort to remedy the situation. Everyone was in favor of an adequate American merchant marine. Political platforms vied with each other in declaring for an American merchant marine, built in American shipyards by American labor,

The Merchant Ship Sales Act of 1946 declares a policy (50 U.S.C. App. 1735) almost identical with that in the 1936 Act, so that since 1920 Congress' explicit announcements of maritime policy have been remarkably uniform. They have, however, been primarily directed to ocean shipping, and for evidence of congressional policy toward our coastwise, intercoastal and inland shipping industries, one must look to the cabotage laws which protect such trades from foreign competition (46 U.S.C. 289, 883)

manned by American seamen, flying the American flag and carrying American products to every port in the world. This sounded fine, but it did not bring us a merchant marine. We seemed to be unable to pass any effective legislation, and when the World War began less than 10 per cent of our foreign trade was being carried in American ships.

"The Commerce Committee takes it for granted that every patriotic citizen now wishes to see a merchant marine under the American flag large enough to carry the major part of our own foreign trade and such part of the world's carrying trade as may be commensurate with our wealth, power, and standing among the nations of the world, and that whatever is necessary to bring that about they want done. We need such a fleet, not only for our commercial growth but for the Nation's defense in time of war and the stability of domestic industry in time of peace. We * * * have not permitted differences of details to divide us upon the means to attain this end. No partisan bias has had any place in our deliberations and what we submit is that which we as patriotic Americans believe will attain the great object sought by all. "

"No interests but American interests have been kept in view. We are sure that other nations will look after their citizens and their needs, and if our business is to be cared for, we must do it." (S. Rep. No. 573, 66th Cong., 2d Sess. 1-2 (1920))

MARITIME LEGISLATION INDICATIVE OF CONGRESSIONAL POLICY: Congress since 1920 has had little difficulty in agreeing upon express statements of legislative policy, but its initial attempts at implementing legislation were generally ineffective. Finally, with disclosure of irregularities in the administration of ocean-mail contracts (a form of indirect subsidy authorized by the Shipping Act, 1928) and strong presidential support for controlled, direct subsidy, comprehensive legislation was obtained in 1936. ^{4/} The 1936 Act, as frequently amended, provides a comprehensive scheme of direct subsidy and, together with other statutes, a variety of indirect assistance.

A. Direct aid. The 1936 Act authorizes direct operating and construction subsidies. Recognizing the higher American cost of insurance, maintenance, repairs and labor, operators able to meet the numerous statutory requirements are eligible for "operating-differential" payments--amounts designed to place them on a parity with their foreign competitors. (46 U.S.C. 601-613) And their contractual obligations to replace subsidized vessels as they become obsolete are assisted by "construction differential" payments designed to offset the lower cost of foreign construction. (46 U.S.C. 501-511)

These direct aids are made available only to liner vessels ^{5/} operated upon one or another of the foreign trade routes deemed by the Maritime Administration to be "essential," and since unbridled competition between subsidized operators would dissipate subsidy funds, Congress prohibits subsidizing more than one operator per route

^{4/} A complete history of the congressional interplay preceding passage of the 1936 Act appears in Harvard Business School, The Use and Disposition of Ships and Shipyards at the End of World War II 300-312 (Government Printing Office, 1945).

^{5/} While non-liner operators are eligible for construction subsidies, funds have not been made available for that purpose.

except upon a showing of inadequate service. (46 U.S.C. 605(c)) Congress also effectively controls the extent to which these direct subsidies aid the industry; to date, appropriations have been sufficient to maintain only fifteen subsidized operators.

B. Indirect aid.

(1) Tax deferments: Deposits by directly subsidized operators into capital and special reserve funds required by the 1936 Act, as well as earnings on such deposits, are tax deferred (46 U.S.C. 607). This is estimated to reduce the operators' current tax payments by about \$12 million per year. 6/

(2) Credit aids: Until 1954, the Government granted low-cost mortgages on vessels under Title V of the 1936 Act or purchased under the Merchant Ship Sales Act of 1946. Since then, credit assistance has been in the form of 100% mortgage guarantees under Title XI of the 1936 Act. This aid, available both to subsidized and unsubsidized operators, is estimated to reduce current operating costs by \$8 million annually. 7/

(3) Cargo preference: A 1904 statute (10 U.S.C. 2631) requires all military ocean cargo to be carried on U.S. flag vessels. 8/ A 1954 amendment to the 1936 Act

6/ Lawrence, supra, note 1, pp. 280-209.

7/ Id., p. 209.

8/ In enacting this statute, Congress sought to remedy the then prevailing practice of requiring transportation by the lowest bidder regardless of nationality. S. Rep. No. 182, 58th Cong., 2d Sess. 1 (1904); H. R. Rep. No. 1893, 58th Cong., 2d Sess. 1 (1904). Observing that this practice had led to almost exclusive use of cheaper foreign vessels, the House Committee noted that the proposed legislation "would be far-reaching and beneficial to the nation itself and to the interests of general commerce[,] of the national merchant marine and of the shipbuilding and wage working classes of the country." H.R. Rep. No. 1893, supra, 3. The Committee further observed "that the effect

(46 U.S.C. 1241(b)) requires at least one-half of all non-military, government-sponsored cargo to be similarly transported. 9/ These requirements benefit both subsidized and unsubsidized operators. Following hearings in 1956 on administration of the cargo preference laws, the House

of this act will provide the Government for instant use a splendid fleet of vessels ready for any emergency * * *." Id., p. 6.

9/ In introducing the amendment, its sponsor emphasized (100 Cong. Rec. 4159 (1954)):

* * * that there is nothing savoring of giveaway or of hidden additional subsidies in these proposals. On the contrary, it is my considered opinion that, if enacted into law, they will unquestionably reduce to a marked degree the total of operating differential subsidies that would otherwise be required to place our merchant marine on equal competitive footing with low-wage foreign lines.

A broad application of the 50-50 principle will prove a tonic whose energizing effects would be felt throughout the entire shipping industry of the country. This increase in tonnage thus afforded American-flag vessels, if it does not completely solve, will, in my opinion, at least contribute to the solution of many serious problems now facing our entire merchant marine.

The Senate Committee refused to honor Department of Defense suggestions that the legislation "be held in abeyance until the conclusion of further study of possible direct aids to shipping, stating that "cargoes constitute the most direct aid" and that "the urgent need of the American merchant marine is for cargoes." (S. Rep. No. 1584, 83d Cong., 2d Sess. 6 (1954))

Committee on Merchant Marine and Fisheries rejected any suggestion that cargo preference aid could be replaced by direct subsidies. ^{10/} And, while initially cargo preference attracted foreign-flag vessels to American registry so as to participate in this lucrative program, a 1961 statute declares no foreign-built or foreign-flag vessel eligible for preference cargo for three years following its documentation under the U.S. flag.

(4) Government vessels: The vast Government-owned fleet of merchant vessels which was constructed during World War II led to enactment of the Merchant Ship Sales Act of 1946. After providing for placement of a large number of vessels in a National Defense Reserve Fleet, there to be available in time of war or national

^{10/} The Committee report (H.R. Rep. No. 1818, 84th Cong., 2d Sess. 28-29 (1956)) stated that--

To substitute direct subsidy for cargo preference would be wholly unfeasible and unjustified. In the first place, it would represent a complete departure from the parity principle of the 1936 act. It would involve an outright grant of money to the lines measured by their loss of business to foreign lines upon the repeal of the 50-50 law. * * * So, we could expect repeal of cargo preference to cause a loss of more than four-fifths of United States vessel carryings of aid cargo. * * * The problem of whether a direct subsidy should be made available to United States-flag tramp vessels involves entirely different factors. Such a subsidy would unquestionably render unnecessary the present freight rate differential paid to American tramp vessels [from Commodity Credit Corporation funds via cargo preference]. Since, however, the differential * * * is not hidden or disguised * * *, the question of whether the financial assistance necessary to keep the United States tramp fleet in active operation is charged to one appropriation or another does not impress the committee as being of crucial importance.

emergency, the statute authorized sales to both citizens and allies alike. The attractively low prices specified by Congress resulted in purchase of over 800 vessels for American registry and over 1,000 vessels for foreign registry.

(5) Medical care and training programs: American merchant seamen are granted free medical care by the Public Health Service. (42 U.S.C. 249) In addition, subsidized training of American seamen is available at both Federal (46 U.S.C. 1126) and State (46 U.S.C. 1381-1387) academies. These two programs are estimated to cost \$12 million per year. 11/

C. Other legislation. The 1936 and 1946 Acts authorize Government operation of merchant vessels and private operation of Government vessels. Government operation, through general agents, is a currently important adjunct to our military sealift to the Far East, 161 such vessels being now in operation. Private operation (chartering) of Government vessels was widely practiced immediately following World War II while the shipping industry gradually rebuilt its pre-war fleets. Again, chartering expanded during periods of temporary dislocation, notably during the Suez Canal and Korean incidents.

Rate regulation and supervision of competition is a function of the Federal Maritime Commission acting under the Shipping Act, 1916, as amended. Since that Act applies to all vessels (both U.S. and foreign) operating in our foreign trade, it serves to restrict or prevent foreign competition from unfair practices. Rate regulation of our domestic shipping is a function of the Interstate Commerce Commission pursuant to the Transportation Act of 1940.

11/ Lawrence, supra, note 1, p. 210.



U. S.-Flag Passenger Service: An
Evaluation and Report for
the Maritime Subsidy Board

US FLAG PASSENGER
SERVICE

Spring 1964 ?

THE ISSUES

Over the past decade or so, the entire proposition of providing oceanborne international passenger transport service has been in a state of flux. If a single factor were to be identified as responsible for the rapidly changing conditions, it would in all likelihood be the advent of mass airlift capability. The appearance of this mode on the scene has not only rewritten the definition of overseas transportation services, but has made an indelible mark on passenger transport economics and on military planning.

Whereas traditional overseas transport concepts, and, indeed, the Merchant Marine Act of 1936 itself, have as their roots a modal monopoly, technological advance has destroyed it, and future planning must be conducted in the light of the changed conditions. Maritime Administration passenger service policy, therefore, should be recast in terms of the national needs and benefits as they now appear in view of current and future conditions.

The main issues before the Board in determining a basic policy position for passenger services on the North Atlantic appear to be common to passenger services on other routes as well. These issues seem to resolve themselves into the answers to several questions:

1. Considering costs and benefits in view of present and future economics, is the continued operation of passenger services with federal support warranted?

2. Is there any requirement other than commercial or defense, such as national prestige, which warrants program continuation?

3. Do military sealift transport requirements justify federal financial support, and to what extent?

4. If the national benefits derived no longer seem to justify the costs, are there alternative methods of meeting the needs more economically?

5. Is it politically realistic to either consider, or not consider, a change in policy with respect to U. S.-flag passenger services?

BACKGROUND

Reference No. 1 very completely covers the specific question of the adequacy of existing and potential U. S.-flag passenger service on the North Atlantic. It concludes that there is a sufficient reservoir of passengers to assure a reasonable degree of utilization for a replacement ship for the SS AMERICA. Likewise, it concludes that any new ship placed in the trans-Atlantic service can be expected to achieve a reasonable degree of utilization. It raises doubts, however, as to the prudence of such a venture from a business standpoint.

Although the report notes that economic feasibility is a major consideration in determining the advisability of replacing the AMERICA,

it also recognizes that other factors including national defense, national prestige, and international exchange have an influence on the ultimate decision.

This reference report should be viewed as pertinent background material for the discussion which follows. It is intended not to duplicate the data in the report, but rather to develop complementary data.

ELEMENTS FOR CONSIDERATION

Projected Passenger Demand

Total Requirements

Table 1, Appendix, shows past trends in population, gross national product, and passenger departures from the United States by air and sea. These data form the basis for the statistical extrapolation found in Figure 1, Appendix.

Total population is growing at an almost constant rate and appears as a straight line on the logarithmic scale. GNP is also increasing at a constant rate in the projected period of time of Figure 1 although its growth rate of 3.3 percent exceeds that of population. In the recent past, total passenger departures have increased more rapidly than either population or GNP. From a post-war level of about 1 million in 1950, they have tripled to almost 3 million in 1960. In 1963 they will approximate 3.7 million.

There appears to be only a general correlation between passenger departures and population. Based on past trends this is also true of

departures and GNP with the exponential factor of growth fractionally favoring the passenger curve. If a continuation of this trend is assumed, which seems reasonable inasmuch as the "top side" or "cream" of the GNP both permits additional travel as a luxury and demands it in many respects as a means of sustained growth, the predicted number of departures from the United States will increase from some 4 million in 1965 to about 18 million in 1990. If on the other hand it is assumed that rate of growth will recede to that of the GNP by 1970, then the departures would be estimated more conservatively at 10 million by 1990. Even this figure is more than three times the magnitude of the 1960 level.

It is concluded that there will be a sustained increase in the demand for overseas passenger transport which will justify growth in the services provided to meet it.

Geographic Destinations

Figure 2, Appendix, distributes the past and projected passenger departures by broad area of destination. These are Europe, West Indies, Asia, South America, and all other.

In the 1930's about one-half of all passenger departures were for Europe. By the 1950's this percentage had declined to between 40 and 45. Departures to the West Indies (including Caribbean cruises) have likewise been high, accounting for about one-third of the total. Together, departures to Europe and the West Indies account for approximately three quarters of the transport demand. The relative shares of both, however, appear to be receding, and it is estimated that by 1990 departures

for these two destinations will be about 64 percent of the total; 42 percent for Europe and 22 percent for the West Indies.

Mexico and Asia, on the other hand, will improve their relative positions over the projected time frame. Travel to Mexico is exclusive of the ocean mode, thus it is the growth rate to Asia that is of significance to the merchant marine. Departures for Asia have climbed from 5 percent of the total in 1952 (the year U. S. occupation of Japan ended) to over 7 percent in 1963. It is estimated that they will comprise 11 percent of the total in 1990.

Africa, Asia, and South America will undoubtedly attract more business and vacation travelers from the U. S. in the future. Japan, however, is more reasonably certain in the next 20 to 25 years to experience the kind of economic growth likely to stimulate large volumes of passenger traffic from and to the United States.

Of the projected total passenger demand in 1990 of 18 million, area distribution is estimated as follows: Europe, 7.5 million; West Indies, 4 million; Asia, 2 million; South America, .5 million; and, all other, 4 million.

Thus, it can be concluded that all world destination areas served by passenger ships will experience an absolute increase in passenger traffic although there will be shifts in the rate of growth. Europe will continue its present dominant position, but Asia and Africa will become of increasing importance.

Modal Distribution -- The Market

Excluding the contiguous land masses of Canada and Mexico, international travel from and to the United States is presently limited to two modes, air and ocean. Although advances in the future may alter this through the introduction of such exotic modes as the "Ground Effects Machines" or "space vehicles", it is entirely realistic to consider only aircraft and ships in re-evaluating the passenger transport policy.

Figure 3, Appendix, plots past trends in sea versus air travel and projects the probable future mix to 1990. The relative share of the total moving by sea has constantly declined since the widespread introduction of long-range passenger aircraft in the late 1940's. In absolute terms, however, departures by sea have continued to expand. In 1963 they will about double the 1950 experience. Departures by air in 1963, on the other hand, will be 5 to 6 times the 1950 level.

Air penetration of the passenger transport market has been dramatic and severe. In 1950 the distribution of passengers was about equal between the two modes. In 1963 air departures will comprise slightly less than 80 percent of the total, which itself is almost four-fold as great as the 1950 total.

The principal destinations of passengers by sea from the U. S. are Europe and the West Indies (primarily in cruise service). Both destinations experienced increased sea traffic in calendar year 1962 over 1961. About one-fifth of the total traffic to Europe is by ship, approximately equal to the total destination mix of 20 percent. Sea traffic to the West Indies, including cruises, approximates one-third of the total, attesting the popularity of this mode as a vacation medium.

The trend to increased air participation seems to have leveled off and it appears that future gains must come almost entirely from the general growth in total traffic with only a small share coming from increased penetration of the market.

Two factors would seem to be at work to limit the ultimate participation of aircraft in the two largest passenger markets from the United States, i.e., Europe and the West Indies:

First, ships offer a kind of luxury service not possible with aircraft. This premium service should become available to increasing numbers of pleasure and business travelers from the United States because of the general trend toward lengthened vacation periods and rising real incomes.

Second, aircraft alone cannot provide the recreational facilities available aboard ship in cruise service. Since the Caribbean cruise is a seasonal complement to transatlantic passenger ships, it seems likely the two activities will develop along parallel lines.

An accurate prediction of the relative shares of air departures versus sea departures over the long term is not possible. Based on a review of past trends and the present levels, however, further air penetration of the market will be much slower than in the period since 1948 although it may approximate 85 percent by 1990.

Even if only a conservative 15 percent of European departures travel by ship, the movement to this area will have increased from 345,000 in 1963 to about 1.1 million in 1990. Likewise if sea departures to the West Indies approximate only 20 percent (again allowing for some further air penetration) the workload will have increased from 360,000

in 1963 to 800,000 in 1990. In the Pacific a smaller percentage might travel by ship because of the time and distance, but even 10 percent by sea would increase the lift from 36,000 departures in 1963 to 200,000 in 1990.

Thus, it can be concluded that participation in the market by aircraft is nearing saturation, but that even if it rises to some 85 percent over the next 25 years, the market for passenger ships will be two-and-one-half times as great as at present.

Nature of the Transport Service

Modal Characteristics

Until the advent of aircraft of proficient design and in sufficient number, ships offered the only medium for international overseas passenger transport. Since there was no modal competition, services were geared to demand, which was primarily price oriented. Thus, in all cases ships performed the basic transport function, namely to move the traveler from point A to point B, and only incidentally thereto, provided degrees of quality in which this basic function was performed. Therefore, a ship offered several classes of service ranging from austere "steerage" facilities to luxurious "first-class" accommodations. The differences in services, however, had no effect on the transport function.

In some instances, a premium was placed on speed, and express ships were developed to serve this market. The appeal to this market was mostly "snobbish" in flavor and in national pride and prestige, because the high-speed, blue-ribbon ships did not shave a significant percentage of elapsed time from the regular runs.

Aircraft have changed this picture markedly. A transatlantic flight now performs the transport function in five hours as compared to five days, or a reduction in elapsed time of more than 95 percent. Furthermore, aircraft are not hindered by the barrier at which land meets sea, and may provide a service between major continental cities without necessity for trans-shipment. Thus, they combine both an overland and an overseas transport function in a single mode.

The effect of air service on travel patterns has been profound. Economic growth and evolution, population increases, development of emerging nations, and the greatly increased value of personal services (wages), particularly in the United States and Europe, has clearly separated the basic function of transport from its ancillary functions of luxury, relaxation and grand style of travel.

Today, and for the future, there is a very considerable difference in the kind of service performed by these two transport modes. Ships provide, in addition to transportation, a great volume of personal service, special cuisine, music and entertainment, sporting facilities and other services. Aircraft largely provide transportation despite the fact that much promotional effort is put into food and beverage service (which is directed primarily at intra- rather than inter-modal competition). In any event, the high speed of aircraft is such that time does not permit the production of, or create the demand for, much in the way of services beyond simple transportation.

The market data and participation trends discussed above fully illustrate the differences in demand levels for the types of service

provided by each mode. The major differences in services have been fully established and should be recognized in the consideration of passenger ship policy.

Factor Use

The physical differences between the two modes require, and result in, contrasting resource allocations.

Because of their nature, aircraft require fuel for both forward movement as well as sustained lift in the environment in which they perform. Ships, on the other hand, require fuel for forward movement only. The relative allocation of fuel per passenger mile is much higher for aircraft than for ships.

Aircraft have high fixed costs for ground support; consequently much effort is made to keep them airborne as much as possible. Their production per trip is far less than the superliner; they must make up to twenty trips to equal the ship's production for a single voyage. Maintenance is relatively high.

The most significant difference, however, is in production and utilization of manpower. Aircraft generate large amounts of passenger miles per flight crew member which far exceed superliner production.

An eight-man crew on an intercontinental jet airplane can generate perhaps 30 to 50,000 passenger miles per man in a 6 to 7 hour period depending upon the percentage of passenger accommodations utilized. By contrast, the relatively long periods of time which passengers are aboard ships creates a demand for much service not directly related to

transportation. Included is full hotel service, luxury meal and bar service, entertainment, shopping and others. Because of the long transit time and large crew for operating the ship and providing its personal service, passenger mile production per crew member is very low comparatively. The one-thousand plus crew of a ship such as the UNITED STATES can generate only 3 to 4 hundred passenger miles per man in the same period of time as the aircraft.

Thus, the main differences in factor use between the two modes can readily be seen. Aircraft are capital intensive and labor extensive, whereas ships are the converse. Wage levels, therefore, are relatively insignificant in air transportation but they are of paramount importance to ocean transportation.

Competitive Relationships and Substitutability

The questions arise: Can ships in any way develop the transportation portion of their service to compete more effectively with aircraft and thus recapture some of the market? Is there substantial substitutability between the two modes? The answers to both appear to be no.

Over the years schemes have been developed to provide an austere type of ocean transport with main emphasis on low-cost fares. They have generally been based on the theories that: a) it is possible to reduce costs (by either reducing services or increasing productivity, or both), and, b) there is a demand level for low-cost fares without regard to the time required to perform the service, and to some extent without regard to the conditions of the service. Experience has not borne these theories out.

An idea for a massive ship offering \$50 fares to Europe on a minimal service and cafeteria-style basis in the mid-50's never got off the ground. The British, when considering replacements for the luxury Queens, rejected the austerity idea and instead will produce another luxury liner.

Their relatively slow speed and long time in transit make it virtually impossible for ships to compete with aircraft in the market for pure transportation. Prospective travellers might endure considerable inconvenience for seven hours or so, but not for a week. They will demand the very services which result in high-labor factor costs. These personal services do not lend themselves to automation and because the operation of passenger ships is labor intensive, unit costs and thus fares, cannot be reduced appreciably.

By excluding many of the services from the fares, such as dining and room accommodations which could be purchased separately by the traveler according to his own desires, the cost of transportation would be shown as quite reasonable. This is only illusory, however, for the demand level will be modified by the total "out-of-pocket" costs to the passenger, and not by a consideration of the transport increment only. The passenger divisions of the railroads are even now suffering from such obtuse fare allocation.

One would expect under such conditions that ocean passenger transport would concentrate on large luxury ships and services. They have done and are doing just that. Reference No. 1 confirms the withdrawal of most of the smaller passenger and combination ships from the North Atlantic trade. There are several new passenger ships under construction in Europe, most

to carry 1,200 or more passengers and capable of providing a full range of luxury services.

Conclusion

Ships must concentrate their efforts on luxury type combined vacation and transportation services in order to preserve a share of the international travel market. They cannot compete with air in the pure transportation function.

THE NATIONAL VALUE OF PASSENGER SERVICES

The National Security Requirement

Section 101 of the Merchant Marine Act of 1936, as amended, outlines the basic policy of the United States as regards merchant shipping and its development, maintenance and control as a required national resource. This oft-stated preamble broadly specifies the criteria for establishing a merchant marine and generally states the tasks which it must be capable of performing.

The following thesis is derived from the basic policy of the Act and may form a framework for the delineation of Maritime Administration objectives:

The national security of the United States, taken in its broadest sense, requires that America possess a merchant marine, adequate in size, composition and quality to meet the total national security needs. In this broad sense, national security is taken to include the prosperous operation and growth of the national economy and the ability of the economy to meet the political and economic challenges of the cold war, as well as the

traditional defense-oriented capability of projecting national might.

Justification for replacement, or for additional passenger ships must rest on a national requirement for them, as indeed, must continued federal support for their operation. Beyond this, since the cost of meeting all national requirements generally exceeds the willingness, if not the ability to pay, a cost-benefit value judgement must be made.

In appraising Maritime Administration passenger ship policy, therefore, consideration should be given to the national value of passenger ship services in terms of commercial economics and comparative resource allocations, defense and mobilization potential, and prestige and the national image.

Commercial Value - Comparative Economics

Ideally, from an economic standpoint, national security requires that all commercial enterprise not only sustain itself in the face of competition, but also that it be a net contributor to economic growth and prosperity. The American ocean passenger transport industry has failed to do this. Notwithstanding the inability to make an economic contribution, a national requirement might still exist if there were no alternative capabilities of providing the service. This also is not the case as is amply demonstrated by the overwhelming popularity of aircraft.

Current Financial Status of Passenger Service

Reference No. 4 discusses the current economic status of the

U. S.-flag passenger fleet. To summarize, the 15 passenger ships operated by six companies produced an indicated loss of \$44 million before an estimated subsidy accrual of \$48.7 million in 1962. This is typical of their performance in recent post-war years and losses would have been even greater had not cruise legislation been enacted permitting alternative utilization during slack periods of international travel. They are high-cost, low-productivity units. The federal operating input currently amounts to about \$250 for each passenger they carry. The subsidy accrual for passenger ships is increasing and is estimated at almost \$52 million in calendar year 1964.

Financial results of passenger services are most disappointing. In calendar year 1962 the 15 ships made 206 subsidized voyages. They produced a gross revenue of \$105 million of which about \$81 million was from passengers and the remainder from cargo and mail. Vessel operating expenses were more than \$127 million, or a loss before depreciation, overhead, subsidy and taxes of \$22 million. After estimated depreciation of \$7.8 million (on ships only), and overhead expenses of \$14 million, the financial loss from operations amounted to about \$44 million. The average revenue per passenger was about \$500 including a proration of revenues from other than passenger services. Total estimated expenses averaged more than \$700 per passenger.

Utilization of Passenger Ships

During calendar year 1962, more than 211,000 passenger spaces were occupied from a total availability of 292,000, or a utilization factor

of 73 percent. Such a utilization factor appears to be reasonable and probably cannot be increased appreciably. It compares very favorably with that of foreign competition; is as good or better than most.

Prospects for Improved Financial Results

The greatest potential for productivity increases, and unit cost reductions, as far as merchant shipping is concerned, lies in mechanization of the ships. This is because of the high application of labor resources to the venture. However in the ocean passenger transport service, benefits from this source hold little promise. Of the 6,300 billets comprising the manning on the 15 passenger ships, 4,630, or 74 percent, are steward and staff. Only 26 percent are in the deck and engine departments. But it is the personal services provided by this 74 percent of the complement which attract passengers to the ocean mode, and thus virtually eliminate the application of mechanization techniques to the ship's operating crew. Even here the potential is limited by safety considerations for conditions where it might be necessary to abandon ship and the full services and skills of the deck crews would be required.

As a result, there is little possibility of reducing operating costs and thereby closing the present competitive cost disparity gap. The necessary federal subsidy payment will continue to rise as an increment of the growth in price factors. There is little reason to predict that rising foreign economies will increase foreign wages at a fast enough pace to be of much help in closing the gap.

Balance of Payments Contributions

Although U. S.-flag passenger services make a positive contribution to the balance of international payments, it is not of a significant magnitude. Based on 1960 receipts and payments for ocean transportation as reported in USDC, Balance of Payments, Statistical Supplement to Survey of Current Business, 1963, it is estimated that the total contribution amounts to about \$47 million, i.e., if there were no U. S. passenger ships, the net outflow of exchange would be \$47 million greater. When evaluated in terms of federal support, it means that one dollar of subsidy is required to earn one dollar of foreign exchange. If exchange earnings were the primary purpose of the program, it could hardly be called successful.

Efficiency in Subsidy Use

By way of comparison with the freight services segment of the subsidy program, the passenger services fail to measure up in national economic benefits.

The same six companies which operate the 15 passenger ships also perform freight services. Collectively they operated 179 freighters and made 951 subsidized voyages in calendar year 1962. They produced a gross revenue of \$349 million, all but \$14 million of which was from the carriage of freight. Vessel operating expenses were about \$337 million resulting in earnings of \$12 million, before depreciation, overhead, subsidy and taxes. After depreciation of \$17.6 million and overhead of \$45.4 million, losses amounted to about \$51 million. Subsidy of \$82 million produced a profit of \$31 million before taxes.

Whereas gross revenue from freight operations was three times as great as passenger revenue, profits after subsidy were more than seven times as high. One dollar of federal aid to the passenger fleet generated but two dollars of gross business, but for freighters, one dollar of subsidy generated four dollars of output. Whereas almost \$50 million sustained only 15 passenger ships, a like amount would have sustained approximately 100 freight ships.

Furthermore, mechanization promises to significantly reduce operating costs and subsidy to freighters in the future. Thus the subsidy dollar applied to freight operations in the years ahead should produce greater economic benefits than it now does.

The national benefits from freight services appear even larger when one considers that there is no American flag alternative for them as there is in the case of passenger services with the possible exception of very high-valued cargo in small quantities. The element of trading leverage and flexibility is not inherent in the passenger transport fleet as it is in the freighter fleet.

Summary

The commercial value and economic output of U. S.-flag passenger transport services do not, of themselves, justify federal support at its current level. The national benefits from the financial support of freight services is greater than for passenger services, as is the need.

Defense ValueHistory

Traditionally, American passenger ships have played a significant role in the defense mobilization potential of the United States. Until recently the continued maintenance of the passenger fleet has received the unqualified support of the military establishment. Indeed, the Department of Defense has in the past invested considerable sums in so-called "defense features" for the passenger transports.

The situation has now changed, again in response primarily to the influence of mass airlift capability on military planning. There is little question that in the future greater and greater reliance for troop lift will be placed in aircraft. This is not to say that the flexibility of operations offered by the alternative troop lift capability of passenger ships will eventually disappear. From a logistics standpoint, the existence of a modal choice will probably remain a necessity for some time to come.

It does alter the basis upon which the choice is maintained, however. Without discussing the specifics of current military planning so that this study may remain unclassified, it is possible to examine a few generalities and arrive at some conclusions.

Passenger Ship Availability

The most appealing aspect of the active passenger fleet has been its response time, i.e., the period of time between demand for shipping and its availability. However, as technology has advanced and war

planning has reacted, response time requirements have also changed. As a result, and because the capability reserve of civilian aircraft has increased so rapidly, reliance for immediate response has shifted from the passenger ships to the aircraft. The need for an active passenger fleet has been reduced considerably.

Ships in ready reserve might in many instances be of greater value than active passenger ships because lead time required for conversion to optimum troopers could have been eliminated through pre-emergency alterations. The commercial configuration of the active passenger ships gives a lift capability at only a fraction of their potential. Yet conversion commencing after D-day greatly lengthens their response time and may relegate their value to supporting logistics under certain war conditions if such happen to prevail. Under other conditions their potential might never be utilized.

Defense Cost/Benefit

Military planners are most conscious of cost/benefit relationships and have recently noted that the equivalent, or greater trooplift potential of the SS AMERICA, for example, can be maintained in ready reserve for a small fraction of the cost of operating subsidy. In reviewing the continued need for an active passenger ship capability, the Secretary of Defense has said that federal financial operating support cannot be justified solely on the basis of the national defense requirement. Rather, other considerations such as commercial value and foreign exchange earnings must be additionally present.

Defense Troopship Requirements

Military logistics planning, as of this writing, still includes the passenger ships in its capabilities inventories. It should be noted, however, that such inclusion is not, except in a few specific cases, essential to meeting requirements. Also noteworthy is the recent release by the Navy for commercial alteration and use of 18 C-4 troopers heretofore held in reserve status. Furthermore, the Department of Defense has expressed its unwillingness to support any longer federal financial aid for new passenger ship construction.

With specific reference to the SS AMERICA, revised military requirements will not be available until probably June 1964. Since application for contract extension will be made in early Spring, April or so, a decision will in most likelihood have to be reached without the benefit of the new requirements. The question of replacement will be moot, not only because of lack of Defense support, but because no federal funds will be available either in fiscal year 1964 or 1965.

As regards the national defense requirement for active passenger ships in general, it appears that the need is rather rapidly receding. There is no defense justification for replacement construction of the superliners. Continued operating aids cannot be justified solely on defense considerations but must be supported by the added consideration of other national benefits.

Conclusion

The continued maintenance of an operating passenger transport

capability for national defense requirements is open to serious question. Resolution of the question will necessarily lie in the development of revised military requirements coupled with a cost/effectiveness evaluation of providing capabilities in an active versus a reserve status.

National Prestige Value

Prestige Value Hard to Quantify

Passenger ships presumably have some value as a symbol of national prestige, a necessary part of the image of a rich and industrialized maritime power. Such value, though readily recognizable, is abstract in character and is not easy to quantify in dollars. A calculated judgement, probably tempered with much political flavor, is about the best measure which can be devised.

Public Support of Unprofitable Commercial Activities Usually Lacking

Although Americans are certainly conscious of the national image which their activities and institutions project the world over, and although they take pride in these various activities, they are apparently considerably less than enthusiastic when tax dollars are needed for prestige-producing activities. The country tends to take a pragmatic view that anything which cannot pass the test of private commercial survival is hardly worth saving through public support.

National pride in the existence and operation of the passenger superliners appears to be of more importance than does international prestige. So small and scattered is its influence, and so over-shadowed

by far bigger and more important American enterprises is the U. S. passenger fleet, that it probably goes relatively unnoticed in most corners of the earth. Nonetheless, the fleet is of some real, if immeasurable, prestige value.

Impractical to Try to Measure Prestige Value of Passenger Service

Since it is virtually impossible to determine with any degree of validity what value the American public places on a passenger fleet as an element of pride and international prestige, it is impractical to develop a program therefor. Rather it would seem logical for the Maritime Subsidy Board to make its policy decision on the basis of commercial and defense values. If, as a result of such policy, public support develops and the prevailing mood of the Congress and the general public so demands, a program can be developed and recommended.

SOME POSSIBLE ALTERNATIVE COURSES OF ACTION

Continue Present Policy Unchanged

Such an approach would be relatively easy in the near term but will become more and more difficult as time passes. Unless some unforeseen circumstance occurs, operating-differential subsidy for passenger ships will increase. It is improbable that a commercial requirement can be demonstrated. Defense needs are receding and will not justify an expenditure of the present magnitude for any appreciable period of time in the future. Thus, as time passes the only support for continued aid will lie in prestige value, or in purely political considerations.

It is questionable whether these will be of sufficient strength to warrant maintenance of the status quo.

Withdraw Support of Passenger Services
and
Redirect to Freighter Services

Such a program would be based on a determination that passenger services are no longer necessary in the national interest. A program for the gradual phaseout of federally-supported passenger operations could be developed and implemented along the lines of Reference Memorandum No. 4. This program would save approximately \$300 million in operating subsidies through final termination in 1980 which could be redirected to the establishment and maintenance of additional freight services, particularly for the movement of dry bulks.

Any defense value of the troop lift capability of the passenger fleet could be preserved through purchase from owners and retention in ready reserve or lay-up status.

Withdrawal of Federal Support --
Return of Funds to Miscellaneous Receipts

This alternative follows the second alternative, above, but as an economy measure it does not redirect the released funds to other programs. Instead they are returned to the Treasury as either miscellaneous receipts or reduced appropriations requests.

This has political appeal from an economy standpoint only. It would be obnoxious to labor for it offers no quid pro quo. Further, it

overlooks national needs in the freight services area.

Reduce Passenger Operations
to a
Level Necessary to Retain National Prestige

A level of financial support comparable to the national prestige benefit is not now ascertainable and probably would only be known if and when a move is made to withdraw federal aid to the passenger fleet. However, a brief examination of costs can be made for several alternatives ranging from one to ~~six~~ ships retained strictly for prestige purposes.

Operating Subsidies

Passenger projections indicate three general areas with apparent potential for continued ocean passenger service; trans-Atlantic to Europe including the Mediterranean, the Caribbean (cruise service), and trans-Pacific. Minimum participation in these trades would require the SS UNITED STATES and a similar second ship for the trans-Atlantic trade to northern Europe; two ships similar to the SS CONSTITUTION for the Mediterranean trade; and two smaller ships of about 500 spaces each for the trans-Pacific trade to Japan and the Far East.

Other alternatives than the six ship fleet are: 1) retain only the SS UNITED STATES and try to schedule it opposite some other single on the North Atlantic such as is now done with the FRANCE; 2) keep two ships in the North Atlantic; or 3) keep four ships in the United States-European trade. Estimated cost for each of these alternatives is given below:

<u>Service Area</u>	<u>Estimated Annual ODS for Participation In:</u>			
	<u>SS UNITED STATES Only</u> (1 Ship)	<u>One Service</u> (2 Ships) (\$ million)	<u>Two Services</u> (4 Ships)	<u>Three Services</u> (6 Ships)
<u>Northern Europe</u>	\$8.75	\$17.5	\$17.5	\$17.5
<u>Mediterranean</u>	-	-	10.0	10.0
<u>Far East</u>	-	-	-	5.0
<u>Total</u>	<u>\$8.75</u>	<u>\$17.5</u>	<u>\$27.5</u>	<u>\$32.5</u>

The estimated costs are based on sailings, manning scales, wage rates and subsidy accrual as they prevailed in 1962. No major changes in operating costs or passenger revenue are indicated although a slight gradual increase over the years should be assumed. Ships serving either Northern Europe or the Mediterranean would participate in the Caribbean cruise trade during the slack trans-Atlantic season.

Capital Subsidies

The present and foreseeable economic climate virtually eliminates the availability of private capital to finance luxury passenger ships beyond existing equipment, construction subsidy notwithstanding. Thus, in all likelihood it will be necessary to give a capital subsidy in addition to the construction subsidy, or to build for government account and place in operation under bareboat charter.

Estimated mid-1960 construction costs in U. S. yards are as follows:

<u>Type</u>	<u>Est. Cost</u> (in millions)
2000 passenger ship	\$120
1500 passenger ship	100
500 passenger ship	50

For a fleet of six ships, (two of each type), the total cost would be \$540 million. On the basis of a 20-year replacement program, this would amount to \$27 million per year at mid-1960 prices. This might be reduced by one-third or so through charter hire or private investment if attainable.

Although capital costs could be reduced by at least one half if procurement were permitted abroad as it is for air, rail and truck carriers, it is probably politically impractical to pursue such a course.

Program Summary

The following table summarizes both operating and construction costs for each of the four alternative program levels to indicate the cost of prestige as a national benefit. Capital requirements have been reduced one-third on the assumption that private enterprise will absorb this cost, and replacements are made on a 20 year depreciation base for the three alternatives which assume a replacement program. No capital costs are assumed for the continued operation of the SS UNITED STATES because a replacement decision can be made in the future in this case.

<u>Service Area</u>	Estimated Total Annual Federal Cost for Participation In:			
	SS UNITED STATES	One	Two	Three
	Only * (1 Ship)	Service (2 Ships) (\$ million)	Services (4 Ships)	Services (6 Ships)
Northern Europe	\$8.75 *	\$25.5	\$25.5	\$25.5
Mediterranean	-	-	16.7	16.7
Far East	-	-	-	8.3
Total	\$8.75	\$25.5	\$42.2	\$50.5

*ODS only, assumes no decision on replacement at this time.

SUMMARY

On the basis of the foregoing data the following points appear to be reasonably descriptive of present and future conditions and are pertinent to re-evaluation of Maritime Administration passenger ship policy:

1. Over the next 25 years there will be an increase in total passenger traffic to all foreign destinations.
2. The demand for air transport is close to maturity and there will be only slight additional penetration of the total market. In absolute terms it will approximate four to five times the present level by 1990.
3. The demand for ocean transport services will increase. In absolute terms it will be about two and one-half times the present level by 1990.
4. Ocean passenger transport demand on the North Atlantic is likely to increase from about one-third of a million in 1963 to more than one million in 1990.
5. Passenger ships are unlikely to compete successfully with aircraft in performing the basic transport function. They must concentrate on services combining luxury and leisure with transportation.
6. The most significant difference in factor use between the two overseas transport modes is that aircraft are capital intensive whereas passenger ships are labor intensive. Passenger mile productivity per

crew member is approximately one hundred times greater for aircraft compared to ships.

7. A commercial or politico/economic requirement for passenger ship services cannot be clearly established or demonstrated.

8. The continued operation and replacement of existing passenger ships through federal aid cannot be justified solely on military merits and the defense requirement for an active passenger fleet is receding.

9. The passenger fleet does not make a beneficial contribution to the balance of international payments commensurate with the federal input required to sustain it.

10. The passenger venture under U. S. flag is not economically sound and there is little hope for improvement since the services it performs are not susceptible to the drastic productivity increases needed. Attempted participation in the projected growth of ocean passenger trade cannot be supported as a prudent business venture.

11. Greater benefits from the subsidy dollar lie in its reallocation to freight services.

12. There is a real, though immeasurable benefit from the passenger fleet in the form of national prestige and pride. Its value is not ascertainable, but will be a determinant of congressional and general public reaction. The cost of a program might range from 10 to 50 million dollars annually.

References:

1. Memorandum from Chief, Office of Government Aid to Secretary, Maritime Subsidy Board, dated November 6, 1963, subject, "Existing and Potential Adequacy of United States-Flag Passenger Service in the North Atlantic", with attached report, same subject.
2. Memorandum from Chief, Office of Government Aid to Maritime Subsidy Board, dated June 24, 1963, subject, "... (b) Extension of Contract Termination Date... (re SS AMERICA)....".
3. Memorandum from Secretary, Maritime Subsidy Board to Chief, Office of Program Planning, dated November 20, 1963, subject, "Existing and Potential Adequacy of United States-Flag Passenger Service in the North Atlantic".
4. Memorandum from the Maritime Administrator to the Secretary of Commerce dated August 28, 1963, subject, "Proposed Passenger Shipping Subsidy Policy".
5. Letter from Secretary of Commerce to the Secretary of Defense, dated October 4, 1963, concerning defense requirements for the SS AMERICA and the SS PRESIDENT HOOVER (Confidential).
6. Letter from Secretary of Defense to Secretary of Commerce dated November 4, 1963, in reply to reference No. 5 (Confidential).

TABLE NO. 1

Population, Gross National Product, and Passengers Departing by
Sea and Air
from the United States, 1920-1960, With Projections to 1990

<u>Year</u>	<u>Total Population</u> (Millions)	<u>Gross National Product</u> (Billions)	<u>Passengers</u> <u>Departing</u> <u>By Air and Sea</u> (Thousands)
1920	106.5	70.0	622
1925	115.8	93.6	550
1930	123.2	91.1	734
1935	127.4	72.5	431
1940	133.6	100.6	391
1945	140.5	213.6	186
1950	152.3	284.6	981
1955	165.9	397.5	1583
1960	180.7	502.6	2939
1965	(194.4) ✓	676.3 (610)	4100 (4000)
1970	(209)	(700)	(5200)
1975	(226)	(820)	(6800)
1980	(246)	(965)	(9000)
1985	(266)	(1135)	(12000)
1990	(290)	(1350)	(18000)

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June 1, 1965

A PROPOSED 25-SHIP ANNUAL CONSTRUCTION PROGRAM:
A COMPARISON OF SUBSIDY COSTS ON NEW AND WAR-BUILT SHIPS

SUMMARY AND RECOMMENDATION

This memorandum compares the costs to the Government of

(a) subsidizing the operation of the now obsolete war-built ships;
and (b) subsidizing both the construction and operation of large,
fast, automated replacement ships.

The comparison shows that on the basis of cost to the Government
per unit of carrying capability it is materially cheaper for the
Government to subsidize construction and operation of modern ships
than to subsidize the continued operation alone of obsolete ships.

The facts developed in this comparison show that the ship
replacement program should be increased to and held at a level of
25 new ships annually. While the appropriation now asked from
Congress for fiscal 1966 will provide funds for subsidizing the
construction of about 16 ships, the program should be expanded to
a 25-ship level beginning in fiscal 1967.

We wish expressly to note that this paper is in no sense intended
to suggest the optimum size of the American merchant marine, in terms
of ships or shipping capability. That subject has been, and will be,
evaluated separately. The thesis of this document is that it is to
the Government's advantage to operate and pay subsidy on the newest,
most productive ships possible, however many of them there may be.

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DISCUSSION

The new ships on which this comparison is based are C-4's of the type contracted for by United States Lines in December 1964. More productive ships can and will be built, but these are representative of ships currently being built by subsidized operators: a speed of approximately 23 knots and cargo capacity of 720,000 feet bale cubic and 12,989 tons deadweight. The war-built ships used in this comparison are C-2's, having a speed of 15.5 knots and a cargo capacity of 475,000 feet bale cubic and 10,300 tons deadweight.

On a purely abstract basis one could compare the utility value of the new ships (speed times capacity) against that of the old ships. On a cubic capacity basis, such comparison would show that the utility value of each new ship would be 16,560,000 units (23 knots x 720,000 cubic feet) versus 7,362,500 units (15.5 knots x 475,000 cubic feet) for each old ship. (There would be 20,000,000 units per ship for ships of 25 knots and 800,000 cubic feet, such as are being proposed by some operators, although not yet under construction.) On a deadweight capacity basis, the utility value of each new ship is 298,747 units v. 159,650 units for each old ship. Approached from this abstract basis, each new ship of the United States Lines C-4 design has more than twice the utility value of the old ship from the standpoint of cubic capacity. In most of the United States foreign trade routes, cubic capacity is filled before deadweight capacity, so the cubic comparison is the more meaningful. Even from the standpoint of deadweight capacity, however, each new ship has nearly twice the utility value of each old ship.

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Of course, this abstract comparison does not take port time into account. It represents potential shipping capability. If the ships were steaming 365 days a year, and thus employing their respective speed factors on a year-round basis, the above utility value comparisons would be valid. In fact, technological progress is advancing the industry toward this goal. New techniques and equipment, such as container ships, barge carriers, and port improvements will reduce the port time factor and make steaming speed all the more significant. Nevertheless, the industry is still hampered with significant inefficiencies and delays, and we have therefore taken them into account.

The new C-4's being built for United States Lines are slated for employment in that company's Trans-Atlantic service (Trade Route 5-7-8-9). The old ships now used in that trade spend approximately half of their voyage days in port, and half at sea, the total time resulting in a schedule which requires slightly in excess of six old ships for a weekly service. In contrast, United States Lines expects to be able to make an adjusted weekly service with only four of the new ships - reducing both port time and steaming time by approximately one-third. The reduction in steaming time reflects the increased speed; the reduction in port time reflects tighter scheduling, partial containerization, better cargo gear, and a reduction in number of berths for loading and discharge.

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As noted, United States Lines expects to be able to maintain a weekly service with four new ships in place of the six old ships presently required. This is not an abstract comparison, it is a businessman's judgment, supported by the Maritime Administration staff analysis. It is also, however, somewhat short of the potential doubling of capability explained earlier. Moreover, on a fleet-wide basis, even a 4-for-6 replacement ratio is optimistic, because in other trades it is not possible to achieve the same degree of tight scheduling and control of port time as United States Lines hopes to achieve in the Trans-Atlantic service.

Consequently, we have drawn our comparison between the subsidy costs on six old C-2's and five new C-4's. This assumes that on a fleet-wide basis such a replacement ratio would maintain roughly the same service frequency as now being provided. It should be remembered, however, that each sailing offered by a new ship makes available a larger deadweight and cubic capacity than each sailing offered by the old ship..

For the reasons explained we believe this assumption probably is a conservative - and at the least is a reasonable - basis upon which to posit the 25-ship replacement schedule proposal.

The construction subsidy on the C-4's is based on prices actually bid on the 5-ship group of United States Lines ships contracted for in December 1964, adjusted to reflect an additional \$250,000 per ship to

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cover the cost of automation features in excess of those actually being built into these ships. Operating subsidy is based on the assumed 35-man crew complement, consistent with present Marad staff and industry thinking in connection with generally similar new C-4 vessels such as those programmed for American President Lines, States Steamship Company and American Mail Line.

For the C-2's, no construction subsidy was included. The subsidy cost shown in Table I reflects only the operating subsidy based on a manning complement of 48 men (a current average).

On the premises outlined above, a comparison of the Government subsidy costs as between 5 C-4's and the 6 C-2's works out as follows:

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TABLE I

C-4's

Cost per year - Construction Subsidy
(@ \$6,572,000 per each of 5 ships, 25-year life) = \$1,314,400

Cost per year - Operating Subsidy
(assumes 35-man crew) = 2,182,180

Total Cost Per Year \$3,496,580

Cost to Government per cubic foot of
available space on a weekly service* = \$.0934

Cost to Government per DWT of capacity on
a weekly service* = \$5.18

C-2's

Operating Subsidy
Cost per year for fleet of 6 ships = \$3,057,600

Cost to Government per cubic foot
of available space on a weekly service* = \$.124

Cost to Government per DWT of Capacity
on a weekly service* = \$5.71

*Calculated as follows: $\frac{\text{Annual Subsidy Cost}}{\text{Capacity} \times 52}$

For the 5 new ships, the cost per cubic foot works out as follows:

\$3,496,580, divided by 720,000 cubic feet times 52 sailings annually.
The resulting figure of .0934 represents the subsidy applicable to
each cubic foot of space placed on the berth during the year,
assuming 52 sailings annually.

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The above comparison shows that although from a gross cost standpoint, the Government's subsidy expense is \$3,496,580 for the 5 C-4's, as compared with \$3,057,600 for the 6 C-2's, the Government's cost for each cubic foot of space offered in a weekly service with 5 C-4's is only 76% of the cost incurred with the old ships (and only 91% on a DWT basis).

In short, it is fair to say that the Government actually would be paying materially less per space or weight unit offered on a weekly basis to subsidize both the operation and construction of a new replacement fleet than to subsidize merely the continued operation of the surviving C-2's. At the same time it would be gaining additional advantages flowing from the use of new, fast, and efficient ships.

The facts shown in Table I have great relevance to the replacement program. There were, as of March 15, 1965, 144 ships in subsidized operation which were built prior to December 31, 1945 (i.e., over 20 years old). There are presently under construction 37 new ships. Upon delivery, these 37 ships will have replaced about 41 of the old ships. In addition, for fiscal 1965, there are 9 more ships yet to be contracted for (4 for AEIL, 5 for Delta Lines), and these will replace 9 of the "old ships". There are, consequently, about 94 of the old 20-year life ships for which replacements have yet to be ordered, during fiscal 1966, and following years. Additionally, there are 41 ships having 25-year lives, built in the years 1946 and 1947, for which replacements should be delivered in

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1971 and 1972. There are, therefore, about 135 "old ships" -- i.e., ships older than the "Mariner" and later classes -- for which replacements should be put into operation by 1972.

In addition, our plans for the next five years contemplate bringing under subsidy about 45 now unsubsidized war-built ships. The replacement of these ships brings the total for which replacements should be put into operation by 1972 up to 180 ships.

If we program our replacements on a 5-for-6 basis, it will be seen that the 180 old ships would be replaced by about 150 new ships. The same overall frequency of service would be maintained, but each sailing would offer larger capacity, at a lower subsidy cost per unit of capacity, and with a far greater competitive appeal to the shipper than that possessed by the old ships.

If we were to follow a 25-ship per year replacement program, beginning in fiscal 1967, our schedule for the execution of construction contracts, and for the delivery of the new ships, and the concomitant subsidy costs, would be as follows:

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TABLE II

	New Ships Con- trac- ted for	New Ships De- livered	Old Ships Re- tired From Service	Old Ships in Opera- tion	New Ships in Opera- tion	Operating Subsidy on Old Ships	Construction and Operating Subsidy on New Ships	Total Subsidy (new and old ships)
FY 66	16	<u>1/</u>	<u>1/</u>	135	--	68,796,000	--	--
FY 67	25	<u>1/</u>	<u>1/</u>	180 ^{2/}	--	91,728,000	--	91,728,000
FY 68	25	16	18	162	16	82,555,200	11,189,056	93,744,256
FY 69	25	25	30	132	41	67,267,200	28,671,956	95,939,156
FY 70	25	25	30	102	66	51,979,200	46,154,856	98,134,056
FY 71	25	25	30	72	91	36,691,200	63,637,756	100,328,956
FY 72	9 ^{3/}	25	30	42	116	21,403,200	81,120,656	102,523,856
FY 73	3/	25	30	12	141	6,115,200	98,603,556	104,718,756
FY 74	3/	9	12	--	150	--	104,897,400	104,897,400
Totals		150	180					

1/ Deliveries of new ships and withdrawals of old ships in FY 66 and 67 will be based on construction contracts executed in years up to FY 1965.

2/ This figure assumes that the 45 presently unsubsidized ships would be brought under subsidy in FY 67.

3/ Contracts could be entered into for the replacements of Mariners, or of any additional old ships brought under subsidy beginning in FY 1972.

The net result of a 25-ship annual replacement program -- assuming a strict 5-for-6 replacement ratio -- would be that we would be spending at the rate of about \$105 million annually on construction and operating subsidies for 150 new ships in place of 180 old ships costing about \$92 million annually in operating subsidy -- an increase of about 14%. The return on this 14% increase in Government investment is a 52% increase in the cubic capacity (a 26% increase in the deadweight capacity) with each sailing. For each subsidy dollar spent on the replacement ships, the shipping public receives in return 1-1/3 times as much cubic capacity as it received from the old ships. Obviously, the sooner the Government can attain this level of increased return the better.

CONCLUSIONS

We believe the following conclusions are warranted:

1. The Government actually is able to get better value for its money by the introduction of new and more efficient freight ships in place of the war-built ships, even though such new ships involve both construction and operating subsidies, while the continued operation of the old ships involves only operating subsidy.
2. In addition to the better value redounding to the Government, the Government and the operator realize other advantages by reason of the superiority of the new vessels. These advantages lie in the new ships' superior commercial competitiveness, greater value from a defense

standpoint, and greater effectiveness and prestige as an instrument of national policy. The Government's chances for recapture of subsidy are greatly enhanced by such ships.

3. The advantages inherent in replacing war-built ships with new ships call for a step-up in our replacement program. There is no economy in holding down appropriations for the replacement program. The war-built ships must be replaced eventually, their operation must be subsidized until they are replaced (as a matter of contract obligation), and thus the longer the operation of the old ships is perpetuated, the more it costs the Government.

4. There is, moreover, no economy in holding back appropriations for automation features. Although the cost of such features involves the expenditure of increased CDS funds, this investment is recouped within 4 to 5 years by the savings which redound from lower ODS resulting from the reduced manning aboard such ships.

5. The new ships will be offering shippers 720,000 cubic feet and 12,989 DWT per sailing vs. 475,000 cubic feet, and 10,300 DWT with the old ships. Each sailing with a new ship will offer 152% of the cubic capacity, and 126% of the DWT capacity offered with the old ship sailing. Thus, for proportionately less subsidy expense, we will have on the berth a materially larger merchant shipping capacity, thus materially reducing the cost per weekly unit of space. Such increase in capacity

is essential if the United States is to hold its own, let alone maintain a satisfactory participation in the rising volume of liner carryings in the foreign commerce.

6. The introduction of new ships will result in savings in maintenance and repair subsidy costs. The subsidy for maintenance and repair expense for war-built ships averages about \$35,000 - \$40,000 per ship per year. This is approximately twice as high as the comparable expense for the new replacement ships -- even on a per ship basis.

7. The introduction of the new ships will move the merchant marine in the direction of self-sufficiency. For example, American Mail Line Ltd., in its Annual Report for 1964, shows the operating results for its new Mariners, thus enabling a comparison between these and the old ships in its fleet. On 15 voyages in 1964, the new ships had net terminated voyage revenue (before subsidy and before overhead and depreciation) of \$1,340,000, which was 15.7% of total revenue of \$8,541,000 on these voyages. With the old ships, there was a net terminated voyage loss of \$452,940 (before subsidy and before overhead and depreciation) on 21 voyages having gross revenue of \$11,433,440.

8. This program would be administered under the Maritime Subsidy Board's new proposed statement of general policy applying a productivity standard in selecting new ships to receive construction subsidy (if and when adopted and approved). This proposal would allocate construction

subsidy among competing applicants in such a way as to maximize the shipping capability per operating and construction subsidy dollar. Institution of this new policy will increase further the taxpayer's return on his shipping investment. Its introduction will be eased considerably by the availability of increased construction subsidy funds.

9. To some extent a 25-ship construction program would ease government-management-labor relations regarding the acceptance of reduced crews on new and retrofitted ships. Even though this proposal does not add any additional ships to the fleet (all vessels to be replaced are already scheduled for replacement), it does tend to evidence a government commitment to a stronger, improved American merchant marine. This issue has been discussed elsewhere with regard to the investment of subsidy savings.

We believe that these considerations call for the creation of and adherence to a replacement program of 25 ships annually beginning in fiscal 1967.

A 25-ship program will result in contracting for the replacement of the last of the war-build ships in fiscal 1972, assuming that about 45 more war-built ships are brought under subsidy. After their replacements have been contracted for, the Mariners built in the early 1950's will be approaching their retirement ages, after which the new generation of subsidized ships built in the late 1950's and following years will be coming up for replacement. To the extent that we fall below a 25-ship program, we will be unduly prolonging the removal of the more expensive and less competitive old ships.



UNITED STATES GOVERNMENT

U.S. DEPARTMENT OF COMMERCE
MARITIME ADMINISTRATION

Memorandum

TO : Under Secretary of Commerce
for Transportation

DATE:

AUG 23 1965

In reply refer to:

FROM : Acting Maritime Administrator/
Chairman, Maritime Subsidy Board

SUBJECT: Procedure for Review of Collective Bargaining Agreements
for Subsidy Reimbursement Purposes

The Maritime Subsidy Board, by unanimous vote, and the Acting Maritime Administrator have approved the proposed procedure, subject as above, for publication in the Federal Register subject to your concurrence, which is respectfully requested. Please note that the proposed procedure would be effective upon date of publication but, at the same time, invites written views and comments from any interested person, firm or corporation, with the understanding that such views and comments thus submitted will be considered by the Board in any subsequent amendment or revision of these procedures.

The proposed procedure has been developed as a realistic and practical implementation of "future procedure for approval of subsidy for wages and employee benefits," set forth in the Opinion and Order of the Secretary of Commerce under date of July 23, 1965, in his review of the Maritime Subsidy Board Opinions in Dockets Nos. A-14, A-15 and A-16. On August 13, 1965, the Maritime Administrator, in a memorandum to the Secretary of Commerce, Subject: "Secretary's July 23 Wage Subsidy Review Opinion - Procedures," proposed a procedure almost identical to the attached, which had been approved by the Maritime Subsidy Board for publication in the Federal Register. Because of the strike then ensuing and due to the fact that new collective bargaining agreements were being negotiated with labor by the maritime industry, no action was taken by the Department of Commerce in respect to the Board's proposal for a wage review procedure.

Subsequently, when the strike was settled on August 29, and the new agreements were negotiated, the Maritime Administration began immediately to request copies of the collective bargaining agreements with appropriate information and explanatory data, as required in the procedure outlined in the Secretary's Opinion and Order of July 23, 1965. However, it was not until June 2, 1966, that the staff had collected sufficient data to submit a final staff report on the first of several agreements, namely

Collective Bargaining Agreement between Delta Steamship Lines, Inc., Bloomfield Steamship Company and Moore-McCormack Lines, Incorporated, with the Seafarers' International Union, Atlantic and Gulf, AFL-CIO, for the period June 16, 1964, through June 15, 1968. Subsequently, at a meeting of the Maritime Subsidy Board on July 21, 1966, further action in respect to the staff report was deferred pending the approval and publication of an appropriate wage review procedure. Staff reports on other agreements are in process and it now becomes imperative that a wage review procedure be approved and published in order to avoid unnecessary delay and unreasonable retroactive determinations in arriving at final decisions by the Maritime Subsidy Board.

In the process of developing the attached procedure the Board has reviewed and analyzed the various proposals which have been made since the issuance of the Secretary's Opinion and Order of July 23, 1965, as follows:

1. Procedure herewith proposed.
2. Proposal for Public Hearing made by the then Maritime Administrator in June 1966.
3. Procedure submitted by Counsel for CASL under date of February 18, 1966.
4. Memorandum dated June 23, 1966, from Mr. Scott Harter, to Mr. Lowell Bridwell captioned "Proposal for Public Hearing on Manning Scales."

After examination and review of each of the foregoing proposals, the Board is of the view that the preferable procedure is that embodied in the attached proposal (Item 1 above). The steps provided for therein, originally developed by the Board in August-September 1965, after study and analysis by responsible staff officials, are in keeping with the guidelines set forth in the Secretary's Opinion and Order of July 23, 1965, and are designed to enable the Board to discharge its responsibilities with respect to the determination of wage costs properly eligible for subsidy purposes.

The proposed "Notice of Hearing" (which contemplated such hearing would be held on July 15, 1966) is the proposal of the then Administrator which is designated as Item 2 herein. This proposal is not framed along the lines of a procedure for general application in the consideration of collective bargaining agreements but is directed only to agreements specifically referred to therein, i.e., it was an ad hoc "hearing."

In addition, this proposal makes no provision for utilization of the services of a wage review panel as directed by the Secretary of Commerce. It might also be pointed out that a "hearing" at which the Agency would merely receive the final agreement and data would be of a rather limited value. Very little in the way of intelligent dialogue could be expected until the Board and its staff has had time to study the contracts and supporting papers. The primary value of such a "hearing" would be to publicly demonstrate the deficiency or cooperation of the operators and their unions in furnishing the necessary material upon which the Board must reach a determination. Aside from this, however, the Board questions the effectiveness of the procedure.

In the Board's opinion, the procedure (Item 3) outlined by Counsel for CASL would not be satisfactory. Contrary to the "legislative type" hearing contemplated in Item 1, the Item 3 proposal calls for an "adversary type" of proceeding between the Office of Government Aid and the subsidized operators, which hardly comports with the purposes of a fact-finding review of the labor contracts. It also permits the operators to decline further discussion with or furnishing of data to Government Aid and a unilateral right in the operator to directly request the Secretary for appointment and convocation of a panel. The authority of the panel to consider material in addition to that previously before the Maritime Administration could, of course, result in a "new trial" by the panel. Nor should the Board overlook the fact that by its nature such an adversary type of proceeding is a time consuming and expensive process. Consequently, and notwithstanding the Secretary's statement that retroactivity will not be a factor in future Board determinations, the operators could hardly resist asserting the equity plea based on retroactivity if they are refused subsidy by a panel and Board decision.

The text of the memorandum (Item 4) prepared by Mr. Scott Harvey does not require evaluation in connection with the issues here under consideration. That memorandum apparently is addressed to the question of the desirability of the hearing process and presumably was the result of the proposal in Item 2 on manning scales as they relate to crew quarters for construction-differential subsidy and related matters affecting operating-differential subsidy.

Accordingly, the Board and the Acting Maritime Administrator respectfully request early approval of the attached proposal in order that we may proceed without delay in the exercise of our statutory obligations under an established procedure which, in the words of Secretary Connor (July 23, 1965, Opinion and Order), "will insure that the Department will exercise a balanced discipline in arriving at a final administrative determination of these maritime wage questions," and at the same time, "reduce the time problem" in these and future cases.

cc: General Counsel
Executive Secretariat - 2

J. W. Gulick

TITLE 46 - SHIPPING

CHAPTER II - MARITIME ADMINISTRATION,
DEPARTMENT OF COMMERCE

SUBCHAPTER J - MISCELLANEOUS

[General Order 103]

PART 380 - Procedures

Determination of Subsidizable Manning
and Wage Costs

In accordance with the Opinion and Order of the Secretary of Commerce, issued July 23, 1965, the Maritime Subsidy Board and Maritime Administrator have adopted, effective upon date of publication hereof in the FEDERAL REGISTER, procedures as set forth below with respect to review of collective bargaining agreements for subsidy reimbursement purposes.

Subpart D is hereby added to this part reading as follows:

Subpart D - Determination of Subsidizable
Manning and Wage Costs

Sec.

380.31 Filing of agreement.

380.32 Review by Maritime Subsidy Board.

380.33 Hearings.

380.34 Proposed official determination; written exceptions.

380.35 Final official determination; review by Secretary of Commerce.

Authority: The provisions of this subpart issued under sec. 204,
49 Stat. 1987, as amended; 46 U.S.C. 1114.

§ 380.31 Filing of agreement.

Within ten (10) days after a collective bargaining agreement is reduced to final written agreement, signed and executed, the subsidized carriers or their representative shall submit to the Secretary of the Maritime Subsidy Board a copy of the agreement together with all pertinent supporting information and explanation with regard to the subsidizable character of the wage levels, pension agreements, manning scales, and other relevant features. Any lapse of time between adoption of such agreement in principle and its formalization into a written, executed agreement shall be deemed to be the responsibility of the parties to the agreement.

§ 380.32 Review by Maritime Subsidy Board.

The Maritime Subsidy Board (hereinafter referred to as "Board") will review the information received and request such additional information or explanation of the terms or implications of the agreement as are deemed to be necessary for purpose of analysis under the applicable provisions of the Merchant Marine Act, 1936, as amended (hereinafter referred to as "Act").

§ 380.33 Hearings.

(a) Within thirty (30) days after receipt of the copy of the collective bargaining agreement in question, with such supporting information as may have been obtained, the Board will set down a date upon which the Board will receive oral and/or written views from interested persons, including the staff of the Maritime Administration, under the procedures herein set forth, regarding the

subsidizable level of wages, pension agreements, manning scales and other relevant features of the agreement under review. The Board will receive requests for an opportunity to be heard orally from any interested person, and will grant such requests if, in the judgment of the Board, the request is deemed meritorious. Cross-examination will normally not be permitted.

(b) In its review of such agreements, the Board shall have available to it the written advice of a panel of [three] persons [selected and designated by the Under Secretary of Commerce for Transportation] in such a manner that the interests of the public are adequately represented. It will be the responsibility of the members of the panel on the basis of the views submitted by interested persons and of such other information and materials as may be made available to the panel by the Board, to advise the Board of their views on such issues as the Board may request.

(c) On its own motion, the Board may request the submission of further views from interested persons in the nature of additional information ⁿ of clarification of matters adduced during the first submission of views.

§ 380.34 Proposed official determination; written exceptions.

After the submission of views, including the receipt of advice from members of the panel, the Board will make a proposed official determination in accordance with the applicable provisions of the Act. The parties will be permitted fifteen (15) days within which to file written exceptions to the proposed determination, and requests for oral argument. These requests for oral argument will be considered by the Board based on the merits of the written exceptions and requests.

§ 380.35 Final official determination; review by Secretary of Commerce.

A final official determination will be issued by the Board relative to subsidizable levels of wages, manning scales, and other relevant features of the agreement, which will be subject to review in accordance with applicable procedures under Part 202 of this chapter.

Any person, firm or corporation having an interest in the foregoing may submit data, views and comments, in writing, in triplicate, to the Secretary, Maritime Subsidy Board, Maritime Administration, Washington, D. C., 20235, by close of business on _____.

All data views and comments thus submitted will be considered by the Board in any subsequent amendment or revision of these procedures.

By order of the Maritime Subsidy Board and the Maritime Administrator.

Dated: _____, 1966.

James S. Dawson, Jr.
Secretary

TRANSMITTAL FORM - U.S. DEPARTMENT OF COMMERCE
OFFICE OF THE UNDER SECRETARY
FOR TRANSPORTATION

FORM CD-82
(8-2-60)

DATE 3/30/66

TO : Paul Setton

FROM: Bernard Hyllestad

Attached is a copy of the Board
action re publication in the
Federal Register of a proposed
procedure for review of
Collective Bargaining Agreements
which John mentioned to you
yesterday. We expect to discuss
this today with GC office and
Scott Harvey.

DO NOT USE FOR PERMANENT RECORD INFORMATION

USCOMM-2361-P65

Memorandum

Original

OGC

DATE: September 6, 1966

In reply refer to:

Mr. Alan S. Boyd
Under Secretary
for Transportation

FROM : Daniel F. O'Keefe, Jr. /s/
Assistant General Counsel
for Transportation

SUBJECT: Procedure Proposed by Maritime Subsidy Board for review of Collective Bargaining Agreements.

The Maritime Subsidy Board in an action taken August 23, 1966 approved a "Procedure for Review of Collective Bargaining Agreements for Subsidy Reimbursement Purposes". This action, unless reviewed by the Under Secretary for Transportation, will become final on September 12, 1966. The Board, by its memorandum to you, requests your concurrence in the proposed procedure.

In this memorandum the Board notes that it currently has before it the first of several collective bargaining agreements, that other agreements are in process, and that it now becomes imperative that a wage review procedure be approved and published in order to avoid unnecessary delay and unreasonable retroactive determinations in arriving at final decisions by the Maritime Subsidy Board.

In summary, I recommend the following:

- (1) That you not concur in the procedure proposed by the Maritime Subsidy Board. Attached is a draft memo to the Board for that purpose.
- (2) I am also attaching a proposed procedure which I recommend for your consideration. The substance of this proposal is contained later in this memorandum.
- (3) Whatever procedure you conclude is best, I strongly recommend that you coordinate with the Secretary of Labor prior to any publication by this Department relating to procedures for review of collective bargaining agreements for subsidy reimbursement purposes.
- (4) I have no legal objection to an effective date on the date of publication (as provided in the MSB proposal) since section 4 of the Administrative Procedure Act excludes grant programs from normal rule making procedural requirements. However, in the interests of sound administrative procedure, I recommend that any procedures published be "proposed" and that parties be given at least 15 days to comment. Finalization could then be made promptly, within 30 days, after initial publication. Alternatively, major shipping company and union interests could be consulted after Labor Department review but before publication. If this course were followed, I think an effective date on publication would be appropriate.



I. The MSB Proposed Procedure

The Board's proposed procedure would be effective upon date of publication but invites written views and comments from interested parties for consideration in connection with any subsequent amendment or revision of the procedures.

If finalized, the Board's procedures would be published in the Federal Register. In essence the Board's procedures are as follows:

- (a) The final written collective bargaining agreement, signed and executed by the parties, together with all pertinent supporting information, would be filed with the Maritime Subsidy Board within ten days after signing.
- (b) The Subsidy Board would review the information received and request additional information as necessary.
- (c) Thirty days after receipt of the agreement and supporting information, the Board would set a date for the receipt of oral or written views of interested persons including the staff of the Maritime Administration. Oral argument would be discretionary on the part of the Board and cross examination would not normally be permitted.
- (d) In reviewing the agreements the Board would have available to it the written advice of a three-man panel which would be selected by the Under Secretary for Transportation. The panel, upon request of the Board, would advise the Board of their views on such issues as the Board may request advice. The advice would be based on the views submitted by interested persons plus information and materials as the Board makes available to the panel.
- (e) The Board on its own motion may request further views and information of interested persons for the purpose of clarification.
- (f) The Board would then make its "proposed" determination on the issues. Parties would have fifteen days to file written exceptions and requests for oral arguments. Final decision would then be made by the Board and Secretarial review would be possible under D. O. 117.

II. Differences Between the Proposed Board Procedure and the Procedure Proposed in the Secretary's Opinion in Dockets A-14, 15 and 16.

The Secretary's Opinion in Dockets A-14, 15 and 16 clearly was not meant to be an inflexible mandate to the Board on how to establish a review panel.

The language of the Secretary's Opinion is subject to interpretation. It is fairly apparent, however, that the opinion was proposing a panel of disinterested members which would act as a buffer on controversial issues between the Board and industry and labor. By permitting the review panel sufficient independence, the Board's final decision would be based on a record and procedure which would be designed to emphasize that the final opinion of the Board was not unduly swayed by budgetary considerations. Yet the Board and the Department would retain the ultimate decision.

The Secretary's Opinion, although prescribing a procedure, can be interpreted to allow the Board latitude to depart from that procedure. Listed below is a summary comparison of the Secretary's proposed procedure and the Board's proposed procedure.

Secretary's Procedure

- (1) Within 10 days after reaching any such agreement, the subsidized carriers would submit a copy of the agreement with appropriate information and explanation to the Maritime Administration.
- (2) The Maritime Administration would review the information submitted and would request such further information or explanation of the terms or implications of the contract as are deemed to be necessary for information and analysis purposes.
- (3) MarAd shall refer the collective bargaining agreement and all related information to a wage review panel.

Details of the panel were left unspecified.

The panel will consider the agreement, receive views of interested parties and then make recommendations to the Board concerning subsidy reimbursement issues.

Board's Procedure

- (1) Similar
- (2) Similar
- (3) The Board would review oral and written views of interested parties (which would include the MarAd staff. It is unclear whether this would be available to the parties).

The Board would have available advice of the panel, based on material made available to it by the Board. The advice would be limited to issues on which the Board requests advice. After receiving this advice, the Board could request additional information in the nature of clarification from the parties (including the Staff).

Secretary's Procedure con't.

(4) The Board would make its final decision subject to D.O. 117.

Board's Procedure con't.

(4) The Board would make its decision permitting written exceptions and request for oral argument. The Board's final decision will be subject to review pursuant to D.O. 117.

III. Attached Recommendation as to Procedure for Handling Collective Bargaining Agreements.

Attached is a copy of draft procedures which I suggest in lieu of those proposed by the Subsidy Board. The essential difference between the attached proposal and the proposal of the Subsidy Board is that under the attached proposal the Wage Review Panel would have considerable autonomy to make recommendations to the Subsidy Board on the issues. Thus the Panel would operate more as a buffer between labor, management, and the Government on controversial issues concerning collective bargaining agreements and the effect of such agreements on subsidy payments. The Panel would help protect the Board and the Department should it conclude to refuse to pay subsidy on certain features of the agreement. Under the Board's procedure, the Panel would be considerably downgraded in status and the benefits derived from its position as a buffer would be greatly minimized.

In addition, under the attached proposal, the MarAd staff and the parties would present their views and arguments openly to the Panel. However, I believe the possibility of final handling by the Board without referral to the Panel should encourage parties to make their full case at an early stage. In addition, a time deadline for submission of the Panel's recommendations should preclude undue delay and expense of the Panel's proceedings.

I do not believe that the procedure which I am proposing would conflict with the purposes of a fact-finding review of labor contracts. Indeed, it seems to me it would help to crystallize the facts and arguments on the issues.

In essence, under the attached proposal, the Subsidy Board would consider collective bargaining agreements and, if it had no disagreement with the agreements, would handle the matter finally, without use of the Panel. On the other hand, if issues developed between the Board and the industry, these issues would be submitted to the Wage Review Panel which could hold hearings, obtain necessary information, consider the views of the parties and MarAd staff and make recommendations to the Board. The attached proposal provides time for exceptions to the Panel's decision. The Board would then decide the issues itself, holding oral argument if deemed necessary. Its decision would be reviewable under D.O. 117.

Iv. Coordination with Labor Department

Following Secretary Connor's opinion of last July, I understand the President requested Secretary Wirtz and George Meany to work out a procedure for handling collective bargaining issues in the maritime industry. While this apparently was not accomplished, it still appears that procedures for review of collective bargaining agreements are in a sense still a responsibility of the Secretary of Labor. For this reason, it would appear highly advisable for the Department of Commerce not to publish any procedure on wage review without coordination with the Secretary of Labor.

I am available to discuss this with you.

Attachments

cc: Mr. Bridwell
✓ Mr. Sitton

To: Chairman, Maritime Subsidy Board

From: Alan S. Boyd
Under Secretary for Transportation

Re: Procedure for Review of Collective Bargaining Agreements for Subsidy Reimbursement Purposes.

In reply to your memo of August 23, I have concluded that the Board should not publish its proposed procedures at this time. We are reviewing the matter of procedures now and I will be in touch with you later.

TITLE 46 - SHIPPING

CHAPTER II - MARITIME ADMINISTRATION
DEPARTMENT OF COMMERCE

SUBCHAPTER J - MISCELLANEOUS

General Order 103

PART 380 - Procedures

Determination of Subsidizable Manning
and Wage Costs

In accordance with the Opinion and Order of the Secretary of Commerce, issued July 23, 1965, the Maritime Subsidy Board and Maritime Administrator is considering (changed from MSB proposal) procedures as set forth below with respect to review of collective bargaining agreements for subsidy reimbursement purposes.

Supart D is hereby added to this part reading as follows:

Subpart D - Determination of Subsidizable
Manning and Wage Costs

Sec.

380.31 Filing of agreement.

380.32 Intial Review by Maritime Subsidy Board. (changed from MSB proposal)

380.33 Referral to Wage Review Panel (changed from MSB Proposal)

308.34 Determination by Maritime Subsidy Board (changed from MSB proposal)

Authority: The provisions of this subpart issued under sec. 204,
49 Stat. 1987, as amended; 46 U.S.C. 1114.

§ 380.31 Filing of agreement.

Within ten (10) days after a collective bargaining agreement is reduced to final written agreement, signed and executed, the subsidized carriers or their representative shall submit to the Secretary of the Maritime Subsidy Board a copy of the agreement together with all pertinent supporting information and explanation with regard to the subsidizable character of the wage levels, pension agreements, manning scales, and other relevant features. Any lapse of time between adoption of such agreement in principle and its formalization into a written, executed agreement shall be deemed to be the responsibility of the parties to the agreement.

§ 390.32. Review by Maritime Subsidy Board. (Identical to MSB proposal)

The Maritime Subsidy Board (hereinafter referred to as "Board") will review the information received and request such additional information or explanation of the terms or implications of the agreement as are deemed to be necessary for purpose of analysis under the applicable provisions of the Merchant Marine Act, 1936, as amended (hereinafter referred to as "Act"). (Identical to MSB proposal)

§ 380.32 Initial Review by Maritime Subsidy Board. (changed from MSB proposal).

Within -- days after receipt of the copy of the collective bargaining agreement in question, with such supporting information as may have been obtained, the Board will determine whether the agreement in question presents an issue or issues which the Board considers should be further examined before it finally rules on the agreement for

subsidy purposes. If the Board determines that no such issues are present and that it accepts the agreement in question for subsidy purposes, the Board shall take final action thereon.

§ 380.33 Referral to Wage Review Panel (changed from MSB proposal).

(a) If the Board determines that the collective bargaining agreement in question presents an issue or issues which the Board considers should be further examined before it finally rules on the agreement for subsidy purposes, the Board shall refer the issue or issues of concern to a Wage Review Panel.

(b) The Wage Review Panel shall consist of ____ members appointed by the Under Secretary of Commerce for Transportation in such a manner that the interests of the public are adequately represented. Members shall be representative of the public interest and at least one (two) shall be knowledgeable in maritime affairs⁷

(c) The Maritime Administration and the parties shall make available to the Panel such relevant information as may be obtained.

(d) The Panel may determine its own procedures and may request written views or hold oral hearings. Staff of the Offices of Government Aid assisted by Staff Counsel of the Maritime Administration, may make its views available to the Panel and the parties. After issues have been submitted to the Panel, ex parte communications on the issues with the Board or the Panel by any person (including the parties and the staff of the Maritime Administration) shall not be considered as a basis for any decision or recommendation by the Board or the Panel.

(e) It will be the responsibility of the members of the Panel on the basis of the views submitted by interested persons and such other information and materials as may have been properly obtained by the

Panel, within __ days of referral of issues to it, to make its written recommendation to the Board concerning the issues. Copies of these recommendations shall be served on all persons representing views before the Panel.

§ 380.34 Determination by the Maritime Subsidy Board (changed from MSB proposal)

(a) The parties and staff of the Maritime Administration will be permitted fifteen days within which to file with the Secretary of the Board, written exceptions to the Panel's recommendations, and requests for oral argument.

(b) The Board, on its own motion, may request submission of further views in the nature of additional information to clarify matters in the Panel's recommendation. Copies of all material submitted to the Board shall be served on all parties.

(c) A final official determination will be issued by the Board relative to subsidizable levels of wages, manning scales, and other relevant features of the agreement, which will be subject to review in accordance with applicable procedures under Part 202 of this chapter.

Any person, firm or corporation having an interest in the foregoing may submit data, views and comments, in writing, in triplicate, to the Secretary, Maritime Subsidy Board, Maritime Administration, Washington, D. C., 20235, by close of business on 15 days from publication

By order of the Maritime Subsidy Board and the Maritime Administrator.

Dated: , 1966.

James S. Dawson, Jr.
Secretary

Paul Sitton

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MARITIME POLICY AND PROGRAM
of the
UNITED STATES

Report and Recommendations of the Public Members of
the Maritime Advisory Committee, submitted to the Full
Committee for its Consideration.

November 22, 1965

final draft
Nov 25, 1965

INTRODUCTION

Marine Price

The basic theme of this report is the renewal and expansion of the American Merchant Marine. The report proceeds on the firm conviction that the security of the United States and the free world, the continuing development of our foreign and domestic economy and the importance of our balance of payments require a healthy expanding shipping industry under the American flag. We are also convinced that an expanded merchant fleet lies completely within the capabilities of the United States.

Before presenting proposals to accomplish these objectives, some historical review of the committee's terms of reference is appropriate.

The Tenets on which the MAC has Proceeded

In Section 2, under the title, "Functions of the Committee," the Executive Order directs the MAC to consider "policies and practices" of government, labor, and management for "strengthening the trade, national defense, manpower, and labor relations programs of the maritime industry."

At the first meeting of the MAC on August 10, 1964, the Committee adopted unanimously a resolution declaring that "the public interest, with respect to the merchant marine, requires the fullest practicable development of an adequate balanced American merchant

marine--American-owned, citizen-manned, and American-built--to serve as an auxiliary to our Armed Forces in any emergency--to carry a substantial portion of our water-borne foreign commerce as intended by the Merchant Marine Act of 1936."

In reaffirming the policy and pledging ourselves to the development of programs designed to effectuate the "public interest in a strong American Merchant Marine" as "clearly stated in the Merchant Marine Act of 1936," we had specific reference to the preamble to that Act and to the Declaration of Policy contained in Section 101.

The preamble is a masterpiece in brevity. It states that the Act is designed "to further the development of an adequate and well-balanced Merchant Marine to promote the commerce of the United States, to air in the national defense, to repeal certain former legislation, and for other purposes." (Underlining supplied).

The Declaration of Policy in Section 101 sets forth the essential elements that must be considered in connection with the determination of the kind of a merchant marine we want. It cites two basic reasons for a national maritime policy and these are (1) national defense, and (2) development of the foreign and domestic commerce of the United States. In pursuance of these two objectives, the Declaration of Policy states that the merchant marine should be sufficient to carry our domestic water-borne commerce and a "substantial portion" of the water-borne export and import foreign commerce, and also "to provide shipping service on all routes essential for maintaining the flow of such domestic

and foreign water-borne commerce at all times." In pursuance of the objective of national defense, the Declaration of Policy indicates that the merchant marine shall be "capable of serving as a naval and military auxiliary in time of war or national emergency." It also states that the merchant marine should be "owned and operated under the United States flag by citizens of the United States insofar as may be practicable." With regard to shipbuilding, it indicates that the merchant marine shall be "composed of the best-equipped, safest, and most suitable types of vessels, constructed in the United States," and as to personnel, that the merchant marine shall be "manned with a trained and efficient citizen personnel." (Underlining supplied.)

The degree to which the merchant marine achieves the objectives of the Act is the measure of the fleet's stature and status. Therefore, some observations with respect to the two principal objectives are essential.

(1) National Defense

In a statement to the MAC at the meeting on May 17, 1965, the Secretary of Commerce said that "existing ships under the American flag are adequate to meet presently established requirements for services by the Military." He also said that the 1,000 priority ships in our reserve fleets, the approximately 450 ships owned by Americans under foreign flags, and the ships under the NATO alliance must be taken into account for defense and commercial purposes. We recognize that our national defense needs are of a classified nature. Therefore, we cannot be aware

of the merchant tonnage requirements projected by Defense for emergencies of varying magnitudes.

Despite the reassurances given to the Committee, it has grave misgivings about the adequacy of the present fleet. The current emergency in Vietnam has created justifiable doubts. Well over 90 percent of the supplies transported to South Vietnam are carried in ships' bottoms, and as of now the demand for ships is so great that there are not enough American flag vessels available to fill the gap.

Some vessels have been activated from the reserve fleet, and substantial numbers of fast cargo liners have been placed on this run to bolster the supply capability of Government vessels. Still more are needed and an urgent call has gone out from the Military Sea Transportation Service to shipowners to provide more vessels to meet the rising demands of the Vietnam theater. On the one hand, we find the government chartering, in addition to those U. S. flag vessels directed to Vietnam service, foreign flag ships for Vietnam supply purposes. On the other hand, we see the Federal Maritime Administration granting permission upon a yet indeterminate scale for U. S. flag subsidized lines to charter foreign bottoms in one case of a 22 year old Liberty in order to maintain cargo service upon regular runs. We find instances also of foreign charters, in at least two cases already loaded with U. S. Vietnam supply cargo, refusing to sail to this destination.

Although the basic justification of the maintenance of a reserve fleet is that it is for defense purposes, the role of this fleet in the present

limited crisis is far from clear. One is entitled to ask why the reserve fleet vessels are not broken out to a greater extent to serve the military needs, particularly when there are some 120 Victory type vessels available in that fleet. Undoubtedly the cost of effective reactivation or adaptation of these ships is considerable, and, as you pointed out at a MAC meeting, over time the ships in the reserve fleet became less adequate to meet emergency requirements. A careful study of the composition of this fleet and its adequacy for cargo handling is needed.

Good suggestion

In determining capacity of our fleet to meet the defense needs of the country, the government includes the 450 ships owned by Americans under foreign flags. These ships, known variously as "flags of convenience", "flags of necessity", "Panlibhon flags", or "runaway flags", are registered with other governments. They will be referred to in this report as "flags of convenience." The Committee appreciates that the owners of these ships are committed to making them available to the United States in the event of a national emergency; the ships have been committed to the "effective control of the United States." But these ships are manned by foreign seamen, and the allegiance of these crews, particularly in the event of a major conflict, might lie elsewhere. To the extent that this situation might develop, such ships could well be lost to this country. Indeed, Admiral Wilfred A. Hearn acknowledged at the MAC meeting on June 21, 1965, that the Department of Defense considered only the usefulness of the ships and not the seamen aboard. Thus, the concept of "effective control", if valid at all, is highly

questionable. The United States can ill-afford to base a major part of its defense on well-intentioned commitments with a marked absence of any assurance that they are capable of fulfillment at a time of crisis.

The MAC has been told by Secretary of Commerce that the requirements for essential civilian shipping needs in the event of an emergency were in the process of development but were not yet available. Therefore, we are not able to judge the adequacy of existing fleet for this purpose. It is relevant to note, however, that in World War II, coastwise shipping alone increased fourfold.

Recommendation:

INSOFAR AS MILITARY OR ESSENTIAL CIVILIAN REQUIREMENTS ARE CONCERNED IN TIMES OF NATIONAL EMERGENCY, WE HAVE MADE NO ESTIMATE OF THE SIZE NECESSARY TO SUPPORT ADEQUATELY OUR NATION'S MILITARY AND CIVILIAN ESTABLISHMENT. WE ARE UNITED IN THE CONVICTION, HOWEVER, THAT RELIANCE CANNOT BE PLACED ON FOREIGN FLAG VESSELS, WHETHER UNDER SO-CALLED EFFECTIVE UNITED STATES CONTROL OR NOT, TO MEET THESE REQUIREMENTS IN TIME OF WAR OR EMERGENCY.

(2) Foreign and Domestic Commerce

Title I of the 1936 Act states that the merchant marine shall be "sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times." (Underlining supplied).

In direct contradiction to some theories now being advanced, the Act predicates the need for ships directly upon the commerce of the country. The framers of the Act entertained a most accurate concept of the true nature of commerce. Commerce is the flow of goods from one point to another. It may be created by any number of factors, from the buying and selling in the normal marts of trade to the movement of cargoes under Public Law 480 to the demands of the military in normal times for the transport of supplies. All of these constitute the commerce that the Act seeks to serve.

In the current public discussions about merchant marine policy there is a tendency on the part of some people to reduce the issue simply to the quantitative number of ships. This concept is erroneous. The objective of the Act is not and never was merely to create a certain number of ships in vacuo. Rather it is to provide sufficient U. S. flag vessels to insure that our people can trade competitively in the markets of the world and to carry a substantial portion of the resulting commerce.] X

In his statement on May 17, 1965, the Secretary of Commerce affirmed that we want to carry a "substantial portion" of our trade in American ships and said this was necessary "to assure the availability and utilization of United States-flag ships, and to assure that American business has available to it the kinds and qualities of service necessary for trade expansion, and to assist in our balance of payments program." He also said that "we must have an amount of United States-flag shipping

sufficient to assure that those foreign flag ships upon which we must rely will provide good service to American shippers at reasonable rates." There is likewise the need to carry government generated cargoes. At times he also emphasized the need for American ships for national prestige as well as full employment.

These remarks aptly summarize the goals we take into account in determining our trade needs. In brief, we want to carry a "substantial portion" of our trade for the benefit of the American economy. This will provide the kinds and qualities of service necessary for trade expansion and assure that those foreign ships we use will provide good service at reasonable rates. We likewise need American ships for government generated cargoes. A strong merchant marine will also help our balance of payments. It will provide employment. It will add to American prestige. We have always been a sea-going nation. This is hardly the time to stop. This is why the Merchant Marine Act of 1936 specifically stated a "substantial portion" of our cargo should be carried in American ships.

Although our commercial need for American-flag merchant ships is impossible of precise definition, it is evident that:

A. The continuing decline of the American Merchant Marine is inimical to the interests of the United States.

B. The American Merchant Marine is required by law to carry a "substantial portion" of our export-import commerce. This is a sound requirement. While the term "substantial" is not susceptible

of exact determination, it is clear that our merchant marine is not now carrying a sufficient portion of our export-import commerce.

The dictionary defines "substantial" as "considerable" or "large." It would seem, moreover, that "substantial" must mean more than half. When the Merchant Marine Act of 1936 was passed, we were carrying approximately 26 percent of our export-import cargoes in American ships. The act was passed for three primary reasons: (1) The so-called incentive subsidies, given by indirect methods, had failed, (2) new ships were not being built, and (3) we were dissatisfied by this low percentage of cargo participation. After passage of the Act, our percentage rose to 28 percent in the next several years. After the post-war boom, the decline began. The last year for which figures are available, namely, 1964, show that we dropped to an all-time modern low of 9.1 percent of our water-borne off-shore foreign trade or 30,597,700 short tons out of a total of 333,582,300 tons. The only segment of the American Merchant Marine that managed to improve its relative position in 1964 was dry cargo liner shipping engaged in regular service on fixed trade routes. The subsidized liners can, because of this performance, be considered relatively successful. The other two major segments--dry cargo tramp shipping transporting bulk shipments in irregular service and tanker shipping--registered proportional declines. Dry cargo liners, which in 1963 carried 27.8 percent of the nation's general cargo trade, transported 28.4 percent in 1964. Dry cargo tramps dropped from 5.6 percent in 1963 to 5.3

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percent in 1964, while tanker shipping in 1964 handled 5.4 percent of international oil movements as against 5.8 percent in 1963.

Even though it may be difficult as a matter of statutory construction to define the term "substantial," we believe that it is useful and necessary to set some reasonable national goal to seek in the immediate future. From the record, we conclude that anything less than 30 percent of our foreign commerce is clearly insubstantial. From there we must move up. But we cannot raise our percentage above 30 until we have at least attained that goal. As indicated above, only our dry cargo or berth liners come anywhere near 30 percent.

This seems to suggest that despite any deficiencies in our dry cargo liner programs and policies, we must be doing something right. In contrast, our tramps, which carry only 5 percent of the bulk tonnage (accounting for about 85 percent of our exports and imports), obviously need help. The proposals which follow are designed to achieve that objective as well as to secure what we have and to build thereon through increased efficiency and productivity.

The recommendations of the public members will be discussed under the following general headings: (A) United States Subsidized Liner Cargo Service, (B) Unsubsidized Liner Cargo Service, (C) Dry Bulk Carriers, (D) Liquid Bulk Carriers, (E) United States Passenger Ships, (F) Ship Construction, (G) Labor Relations, (H) Flags of Convenience, and (I) Concluding Comments.

UNITED STATES SUBSIDIZED LINER CARGO SERVICE

We are concerned here with our maritime policy as it relates to cargo ships in liner service; a separate section will discuss the passenger liners.

Any discussion of this branch of the American Merchant Marine must start with the clear, unequivocal finding that the subsidized liner services are as of now approaching the objectives of the 1936 Act in carrying a substantial portion of the U. S. Commerce. In so finding, however, we must add that their present share should be considered a minimum and most probably should be increased to a goal of 50%. *why*

In 1962, based on tons of general cargo, the liners carried 34% of our export-import commerce. In 1964 this figure had declined somewhat, but it still approximated 30% of total liner cargo. In the past decade the volume handled has ranged from 30% to 40%. Very often the accomplishments of this segment of the privately-owned U.S. flag vessels share of the national import-export commerce is as low as 8% to 9%. The very low over-all figure is simply because the non-liner dry cargo vessels and the tankers under American flag, without benefit of subsidy, have lost out badly to foreign competition.

It is evident that the relatively high success of the liner service fleet is attributable to the operating subsidies available to them pursuant to the 1936 Act. (Construction subsidies, also available, are very significant. These will be discussed under (F) below.)

The subsidy policy in effect during the past 29 years has been based on the parity principle. It contemplates that, by subsidizing the excess that American operators must pay above foreign costs, these operators will be enabled to compete with the low-cost foreign operators. Not all operating expenses are eligible for reimbursement under the Operating-Differential Subsidy (ODS) program. At present the expense categories covered are wages for officers and crew, their subsistence, insurance costs, and maintenance and repair costs not covered by insurance. The ODS rate is defined by the government as follows:

"...operating-differential subsidy rates represent the percentage by which the fair and reasonable cost to a U. S. operator of operating a U. S. flag vessel with a U. S. crew exceed the estimated fair and reasonable cost to a foreign operator of operating the same vessel with a foreign crew under the registries of the substantially competitive foreign countries."

Recommendation

THE PUBLIC MEMBERS RECOMMEND THAT THE PARITY CONCEPT OF OPERATING SUBSIDY PAYMENTS BE CONTINUED.

This recommendation is based on two reasons: (1) The concept has proved its worth in providing us with an efficient, modern liner service, and (2) no one has been able to come forth with an alternative subsidy approach that can be shown to be more effective or even equally as effective as the present system. That some form of subsidy must be continued is generally acknowledged.

With respect to the first reason, it has already been shown that the liner service has competed effectively in foreign commerce. Moreover, the American cargo liner fleet includes more fast ships than any fleet in the world, and this trend will continue as the current vessel replacement program is carried into the early 1970's. The subsidized lines are building new ships at the rate of approximately 17 per year and the production of higher speed liner ships (19 knots or more) is about 75% of the entire world production. The new ships contain many of the most advanced technical concepts of cargo handling, including containerization and unitization.

In assessing the success of the subsidized liner program under the Act, one must consider that, although the Act was passed in 1936, the subsidy provisions did not become fully operable until the mid-1950's. World War II and the post war digestion in commercial use of the war time fleets intervened to delay the full application of the subsidy program to the provision of a fully modern fleet. This fleet began essentially with the Mariner type hull in the mid-1950's. Since then we have acquired a fleet of approximately 117 new vessels. In the short span of 10-11 years, because of the operation of the subsidy program, the liner cargo service has moved rapidly toward the goal stated under Item (d), Title I of the Act: That the merchant marine shall be "composed of the best equipped, safest, and most suitable types of vessels constructed in the United States and manned with a trained and efficient citizen personnel." The construction and operating differential

subsidies are found to have been very successful.

The second reason - the absence of any demonstrably superior subsidy concept - is advanced after a careful study by the public members of the various alternatives suggested in recent years. Inevitably, the greatest attention was given to the provocative notion suggested in the Interagency Maritime TaskForce that the cost parity feature of the present system be maintained, but that the method of payment be related to the individual operator's gross operating revenue. It is emphasized that this proposed change is intended to "provide incentives for greater efficiencies and for more productive and competitive operation," that the present system provides the American operator with "little incentive to hold down his subsidizable costs, as cost increases are borne by the Government." The Interagency Task Force is to be commended for its diligent search for ways to improve upon the present system. We believe, nevertheless, that its search has yielded an inferior substitute. This report cannot possibly set forth in analytical depth the many weaknesses of the proposed alternative (just as the Task Force Report, presumably for reasons of readability and brevity, was sparse in developing the alleged strengths of its proposal). The public members would like to submit at a later date a more detailed analysis. Suffice it to say here that the Task Force suggestion would gamble national assets of great value (the liner services and the national commerce) by subjecting them to a radical and completely theoretical approach, the soundness of which is impossible

of measurement in advance.

These weaknesses are quickly evident: (1) The so-called incentive subsidy, when coupled with other recommendations of the Task Force, would provide a splendid haven for the predatory, profit seeker. It would encourage an operator to abandon certain trade routes when cargo activity was down and seek the more lucrative routes irrespective of the public interest. This would have nothing to do with real efficiency. (See below comments on Trade Routes); (2) The operators would concentrate on the high rate cargoes and avoid the less desirable rate cargoes with the consequent harmful impact on the ability of our traders to ship; (3) it ignores the impact of cyclical fluctuations in this industry. As in any such industry, the earnings in peak years are (or should be) to provide a cushion for the lean years. The language of the Task Force report implies that in the depressed years the real depth will be acknowledged, but that in peak years an arbitrary ceiling could be imposed. Perhaps this was not intended, but this inference may be derived from the report; (4) the subsidy rates would be set at certain values for a period of "three to five years". This leaves most uncertain the assurance of continued government support, and could be an incentive to avoid imaginative ventures; (5) what is most puzzling about this concept is that the subsidy would be received when it was least needed, i. e., during periods of high gross revenues; it would come in the form of windfall profits and would engender public reprobation and, in all probability, encourage unrealistic labor

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demands; (6) the recommendation evidently proceeds on the assumption that present freight rates, now somewhat lower than usual, will continue. With the pressure of increased cargo trade, however, the condition of surplus capacity may disappear with a resultant upward adjustment in rates. Gross revenues could then rise considerably (at a rate in excess of relative cost changes), and under the suggested formula an unwarranted subsidy escalation could occur at the expense of the taxpayer. Other defects in the proposal have been suggested, but their validity requires further study.

The public members believe that the so-called cost parity concept in its present basic form is far more preferable. We are realistic enough to know that the present approach has been subject to many criticisms, some valid, some exaggerated. We know that the most important part of subsidy money is a function of the extreme differential between American and foreign labor costs. This was the main reason advanced by President Roosevelt, in his message to Congress in 1936, for the end of "subterfuge" subsidies and the granting of "a subsidy by its right name." He spoke of the need to cover the differential between American and foreign companies in "operating ships" and in "building ships." One of the most frequently, certainly the most bromidic, of the criticisms of the present cost-parity subsidy program is that American flag liners are excessively passive and yielding at the bargaining table. It is said that they give in to unreasonable union demands, secure in the knowledge that most of the negotiated

labor cost increases will be absorbed by the government (the U. S. taxpayer). It is said further that Union leadership is tempted to be irresponsible in exploiting the public treasury through the intermediary of the liner operator.

As with any sweeping generality, this one is likely to contain some elements of truth and falsity. In any event, Secretary of Commerce Connor has established a procedure that should eliminate the risks of improvident settlements insofar as they make "unreasonable" demands upon the public treasury. (This is discussed under Section G, Labor Relations). To the extent the present allegations are true, the remedy lies less in the revision of the subsidy concept than it does in improving administrative controls contemplated under the 1936 Act. In recent years it cannot be said that the subsidized liner operators have capitulated readily to Union demands. On the contrary, they have been forced to fight the battle for an economical settlement, sometimes after the unsubsidized liners, tramp operators, or tankers, in the interest of day-to-day survival, have yielded under threat of strike.

There can be no question that the industry is faced with a variety of unlicensed and licensed unions, engaged at times in serious conflict between and among themselves. There are also conflicts between and among groups of shipping companies. Much of the attack on the subsidy concept has been engendered by the public impatience with the conduct of the parties. The strong recommendation that the present cost-parity

subsidy approach be continued is accompanied by an equally strong recommendation that labor and management in this industry improve their bargaining procedures, as discussed below (Section G). The subsidy can be justified only by reference to the public interest, not by reference to any special interest groups.

We recognize that some of the conflicts have resulted from the maritime policy of the government itself. The present policy creates a group of "haves" and "have-nots". Our recommendations are designed to eliminate gradually this destructive distinction.

Two additional matters involving the liner service are relevant:

(1) the adherence to prescribed trade routes and (2) the use of the conference system.

(1) Trade Routes

At present the liner service requisite for a subsidy is that the service must be over an "essential" trade route. As of 1960, for example, there were 33 essential trade routes established by the Maritime Administration; fifteen subsidized operators plyed these routes in competition with other American and foreign bottoms. In addition, as a condition for receiving subsidy, the operator must meet certain service requirements as defined by the Maritime Administration. These include sailing itinerary, frequency, and the number and type of vessels to be employed.

Recommendation:

THE PUBLIC MEMBERS RECOMMEND THAT
THE ESSENTIAL TRADE ROUTE CONCEPT BE
CONTINUED AS PART OF OUR NATIONAL
MARITIME POLICY.

The essential trade route concept is the key to the guarantee of regular sailings that permits the commercial interests of one area of the country to trade on even terms with another area in any given market. Foreign trade today is a highly complicated matter, embracing all functions of the manufacturing or processing of goods through the combination of domestic and ocean transport to ultimate delivery to the purchaser. Production schedules must be determined in precise relation to shipping dates, thus requiring that stable ocean shipping commitments must be made weeks or months in advance, at stable ocean rates. The competitive price of the goods abroad is a combination of the price at the factory plus costs of transportation to the foreign buyer. Any trader in making his advance commitments must know that he can rely upon his ocean transport at stable rates and assured dates.

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The only assurance United States exporters and importers have of vessel availability on reasonably guaranteed schedules and at fair and equitable freight rates is to be found in the liner services as they are conceived and operated today.

The trade route concept is not unlike the franchise granted to every domestic public utility and transportation system, which in

the public interest, must guarantee adequate service. This committee has considered carefully the implications of the abandonment of such a policy. It concludes that such action would be inimical to the basic goals of the 1936 Act. Absent this requirement for liner service subsidy, the profit motive would become the dominant criterion for determining which ports or countries are to be served by U. S. flag ships. There would be shifting from one trade area to another solely for the temporary purpose of maximizing profits. The high volume trade routes would be pursued, and, in the process, we would find our flag ships competing not only with foreign flag vessels but also with each other. In effect, we would be making super-tramps out of our liner vessels. The notion of free competition in an industry such as this may be consistent with the 18th century doctrines of Adam Smith, but it is not consistent with the 20th century concepts that in some industries a form of limited competition best serves the national interest. Nor is it consistent with Secretary Connor's statement that our policy must assure "that American business has available to it the kinds and qualities of service necessary for trade expansion."

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A few illustrations of the adverse effects of a "roam-as-you-wish" policy will highlight its impracticability: (a) at the present time, the volume of trade to South America and Africa is relatively low. If immediate profit alone is to determine service to and from ports, any businesslike firm is likely to ignore these ports of call in favor of the

more profitable Asian and European ports. Yet the need for the United States to develop closer associations with other countries of the world is most great in the developing countries that will be neglected. The Department of State must acknowledge this fact, (b) an abandonment of the trade route concept will penalize that liner operator of the United States, who was willing to undertake losses or forego profits for the purpose of slowly building up a trade relationship for the future time when the import-export volume would warrant the investment expended.

Another area to which the essential trade route concept is absolutely vital is that of the United States ports. Relying upon the guarantee of ocean service which the subsidy program and the essential trade route concept provide and compel, the ports of the United States have poured huge sums into the provision and development of facilities. As of 1963 the total investment by U. S. ports in their facilities amounted to \$4,500,000,000 of non-Federal public investment, all predicated upon the assurances of continued dependable ocean services that in the ultimate rest upon the guarantee of our nation through the essential route concept that such services shall be provided. These very considerable investments could be jeopardized by the repudiation of the concept. Moreover, absent the assurance of reliable service from U. S. flag liners, the local port groups will be reluctant to invest additional money for new and automated facilities increasingly demanded by modern cargo handling techniques. It would be ridiculous to ask the ports to go to their voters

for bond authority or to seek other capital sources, such as revenue bonds, for capital funds when all they can offer is the tenuous hope of continued flag service uncompelled by the competitive impact of guaranteed U. S. flag service under the essential route concept.

The affirmation of the trade route concept is accompanied by a recognition that, at times, a liner service may be able to maximize the utilization of his ships by having more freedom in selecting ports of call and routing. This goal, however, can be achieved by realistic administrative judgment on the part of the government agency involved, and more careful thought should be given to this need.

Wise administrative decisions are not easy to make. Therefore, there is often the temptation to substitute inexorable rules to avoid the need for judgment. This Committee does not believe that the abandonment of trade routes for our liner operators is preferable to the occasional inadequacies of government decisions as to trade routes and service requirements. On the contrary, it would be an action contrary to the public interest.

(2) The Conference System

The Shipping Act of 1916, as amended, specifically exempts ocean carriers from the anti-trust laws to permit them to engage in the conference system. When a steamship line operating as a common carrier elects to join a "conference", it must accept the transportation rates and other conditions of the carriage of goods or passengers that

are set by the joint conference members. Normally a separate conference is established for inbound and outbound cargo moving over the same trade route.

Inevitably the results of some conferences have come under attack. Some critics have said that the rates discriminate against U. S. exports, yet the record shows that our relative export surplus is as great, or greater, now than it has ever been, with the exception of the war years and the years immediately thereafter (1942-1949). In a technical note on "Competition in World Shipping", prepared at the Harvard Business School, it was concluded that:

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"Almost all students of the shipping industry agree that conferences are both necessary and desirable."

The report goes on to quote from a special study of Daniel Marx, Jr.,

International Shipping Cartels: A study of Self-Regulation by Shipping Conferences: (1953).

"The basic purpose of shipping conferences is to minimize losses, or to maximize profits. Historically, it seems that most conference agreements were prompted by the necessity of stopping or at least of avoiding, the insanity of cutthroat competition which is so apt to occur in industries characterized by increasing returns and decreasing costs. In short, the conference system provides a method for the self-regulation of an industry, most of which is subject to multiple jurisdiction of several sovereign nations with disparate legal codes and diverse commercial practices."

In the absence of a supernational regulatory body, Marx finds this form of self-regulation to be desirable.

To the trader the existence of a stable and reliable rate structure is an absolute necessity. He must have it if he is going to compete in the world markets. The Conference system is the only assurance of it that he has. Without it he is the victim of day-to-day rate fluctuations, destructive of long-term and sound trading commitments.

The ports of the United States rely on the Conference system for the reasonable parity of rates necessary to them and to the trading areas they represent. Without it there is no assurance to anyone that the man shipping to London from Atlantic Coast Port A on the basis of today's rates will not find himself completely proscribed by tomorrow's rates from Atlantic Coast Port B. The Conference system has grown painfully through the years, constructed by the minds most experienced and knowledgeable in the complexities of ocean transportation and trade. To anyone even cursorily familiar with the threat of rate wars, the dilution of the Conference system is a dismal prospect.

The public members conclude that the Conference system is the only system yet devised to provide protection from rate wars and to insure rate stability so necessary to the nation's commerce. We believe that the Federal Maritime Commission, as now constituted, is adequate to the task of protection against discrimination and has been doing a commendable job. The decision as to liner conference membership should remain in the hands of knowledgeable steamship operators

whose interests are concomitant with the protection and promotion of our commerce.

Recommendation:

WE RECOMMEND THAT THE PRESENT BASIC ARRANGEMENTS FOR PARTICIPATION BY AMERICAN FLAG LINERS IN CONFERENCES BE CONTINUED. ANY CORRECTIVE MEASURES, IF SUCH ARE DEEMED NECESSARY, SHOULD BE INSTITUTED ONLY AFTER A THOROUGH STUDY OF THE PROBLEM BY A SPECIAL GOVERNMENT COMMISSION CREATED FOR THIS PURPOSE.

- B -

UNSUBSIDIZED LINER CARGO SERVICE

At present there are six unsubsidized American companies that are operating approximately 100 liner cargo ships. These companies receive no direct subsidy from the government. The Malott Subcommittee report stated that there has been virtually no renewal of this fleet in the last twenty years and "we are fast approaching the point where these ships will be lost to the American flag, either through transfer of registry or obsolescent old age." These companies take the position that it would be financially impossible for them to replace their present fleet.

The public members believe that the demise of this portion of our fleet would have a very detrimental impact on the commerce of the United States.

Why

Recommendations

(1) WE RECOMMEND THAT A UNITED STATES CONSTRUCTION PROGRAM BE PLANNED TO PROVIDE FOR THE REPLACEMENT OF THE TOTAL DEAD-WEIGHT TONNAGE AND CUBIC CAPACITY REPRESENTED BY THE EXISTING UNSUBSIDIZED LINER FLEET. THIS PROGRAM SHOULD BE UNDERTAKEN AS SOON AS POSSIBLE FOR THE PURPOSE OF COMPLETING THE REPLACEMENT WITHIN FIVE TO EIGHT YEARS.

(2) WE RECOMMEND THAT SPECIAL FINANCIAL ARRANGEMENTS BE DEVELOPED BY THE GOVERNMENT FOR CONSTRUCTION SUBSIDY THAT WILL MEET THE PROBLEM OF TRANSITION. HOWEVER, SUCH ARRANGEMENTS SHALL BE DESIGNED TO AVOID GIVING AN UNFAIR ADVANTAGE TO THESE OPERATORS OVER THE PRESENTLY SUBSIDIZED OPERATORS.

(3) FULL OPERATING SUBSIDY SHOULD BE EXTENDED TO THESE COMPANIES IMMEDIATELY, PROVIDED THEY COMMIT THEMSELVES TO A FAIR AND EQUITABLE EXPEDITED VESSEL REPLACEMENT PROGRAM REFERRED TO IN RECOMMENDATIONS (1) AND (2).

(4) AS A CONDITION FOR RECEIVING OPERATING OR CONSTRUCTION SUBSIDY, THE COMPANIES INVOLVED MUST (a) SUBJECT THEMSELVES TO ALL THE REGULATIONS THAT APPLY TO PRESENTLY SUBSIDIZED LINER CARGO OPERATORS AND (b) DIVEST THEMSELVES OF ALL FOREIGN FLAG OPERATIONS.

The unsubsidized liner fleet constitutes an integral part of the American Merchant Marine. These 100 vessels are included in the consideration by government officials as to the adequacy of existing ships to meet "presently established requirements for services by the military." In the Introduction of this report the adequacy of American flag ships for defense needs was challenged. But, as the Malott report

states, quite apart from this challenge, it is reasonable to infer from government estimates that if these 100 unsubsidized liner ships were lost to the United States, then the American fleet clearly would no longer be adequate. It is important for us to retain the capability of these vessels.

Furthermore, these liners are important to the commerce of the United States. Of the 33 trade routes now established, 21 are served by two or fewer American carriers; on five of the 21, at least one of the American liners is an unsubsidized carrier. Of the remaining 12 essential trade routes, six have two or less subsidized lines serving them; four of these six are also served by two or more unsubsidized liners and the other two by one unsubsidized liner. These liners also service the six trade routes on which there are three or more subsidized lines. It is apparent that these ships are active in serving American ports and in promoting the import-export commerce of the United States. It is also evident that their elimination would have a substantial impact upon the competitive situation of the 15 subsidized lines.

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subsid

The efficacy of our subsidy program, discussed under (A) above, is proved beyond any doubt by the plight of the unsubsidized liners. The close relationship between operating subsidy and the ability to replace ships, thereby insuring an efficient, modern fleet, is clearly demonstrated. These companies are unable financially to

replace these ships by building in American shipyards, and some assert that they cannot even plan for replacement at the substantially lower foreign shipbuilding costs. The result is a rapidly aging fleet. Nearly all are over 20 years of age, have an average deadweight tonnage of 10,000 tons, an average cubic capacity of 500,000-550,000 cubic feet, and an average speed of only 16 knots. They are in sharp contrast to the modern, efficient fleet being developed under the replacement program of the subsidized liners.

There is an urgent need to honor the applications of these companies for coverage under our subsidy program. Failure to do so will mean the loss of these American vessels. We reject the view that the remedy rests in the expansion of the presently subsidized fleet. Extension of operating subsidy, however, must be accompanied by an expedited program for the subsidized replacement of these vessels. This is essential to minimize the financial burden of operating subsidies, which would be high, given the larger manning scales and lower productivity of these old ships. More important, it is essential to insure continuity of efficient service. We believe that a special construction program, with some ad hoc financing features, should be developed to effect the transition.

What

The program for the unsubsidized liners should not be developed to the detriment of the subsidized fleet. Thus, the construction program recommended should in no way interfere with the vigorous replacement

activity now in progress for our subsidized fleet. Nor should the special financing arrangement give the unsubsidized operator any long-range advantage over the present subsidized operator. Finally, these operators should be subject to the same conditions and regulations that are now applicable to the subsidized group.

- C -

DRY BULK CARRIERS

The unsubsidized U. S. bulk carrier operators have suffered considerably because of foreign competition. Both the dry bulk and liquid bulk commerce handled on American bottoms has dwindled almost to the point of extinction. The present section will discuss only the dry bulk carriers; the liquid bulk or tanker recommendations are covered in Section D. In addition, there are some observations applicable to both groups in Section H, Flags of Convenience.

In the period 1951-1964, the volume of dry bulk cargo imports and exports has increased by 132%. Our exports increased from 47 million long tons to almost 80 million tons, and our imports increased even more sharply, from approximately 22 million tons to over 61 million tons. The exports have consisted largely of grain, coal, phosphate rock and other fertilizer products; the volume of exports was stimulated considerably after the enactment of Public Law 480 in 1954. The imports have been principally unprocessed ores (iron, bauxite, gypsum or plaster rock) and sugar.

Yet during this period of substantial growth in dry bulk cargo, the amount handled by American bottoms decreased from 37% in 1951 to less than 6% in 1964. Our serious deficiencies in dry bulk capacity are matched by the qualitative deficiencies in the fleet.

There is a very simple explanation for this alarming reduction in our dry bulk shipping capability: under government policy neither construction nor operating subsidies have been available to these operators. The Merchant Marine Act permits the payment of construction subsidy on non-liner vessels, but this authority has never been utilized by the Maritime Administration. As recently as 1962, Secretary of Commerce Hodges supported the denial by Marad of a Bethlehem Steel Company application for construction subsidy to build two bulk carriers in the United States. In any event, the applications for construction subsidy have been rare, because of the high unsubsidized operating cost that would attach to such U. S. manned vessels after their entry into service. Under the 1936 Act, operating subsidies cannot be given to bulk cargo vessels. As a consequence, this growing trade has been dominated by foreign flag vessels, many of which are actually owned by American citizens and operated under the "flags of convenience" concept." Much of our so-called proprietary dry bulk cargo is handled by Panlibhon flag ships.

The survival of the few American bulk carriers we have has been based on our cargo preference program. Public Law 664 (1954)

provided that at least 50 percent of the aid cargoes of the United States were to be carried by U. S. flag vessels. The cargo rates were to be "fair and reasonable rates for U. S. flag commercial vessels." As a consequence, the bulk cargo rates have been higher than world market rates because of the higher U. S. vessel costs. It is this law and other related regulations (all defense cargo must be handled on American bottoms) that has maintained what non-liner dry cargo fleet we have.

The public members believe that if the American Merchant Marine is to carry a "substantial" portion of our export-import commerce we must undertake immediate measures to revitalize the dry bulk carrier fleet. Our present capacity is wholly inadequate, and it is imperative in the national interest to reverse this trend.

Recommendations

- (1) THAT THE GOVERNMENT COMMIT ITSELF TO A CONSTRUCTION PROGRAM THAT WILL INSURE, OVER A REASONABLE PERIOD OF TIME, THE ATTAINMENT OF UNITED STATES DRY BULK FLEET CAPACITY TO HANDLE 30% OF THIS IMPORT-EXPORT COMMERCE.
- (2) THAT THESE VESSELS BE BUILT IN UNITED STATES SHIP YARDS WITH PROVISION MADE FOR A CONSTRUCTION DIFFERENTIAL SUBSIDY.
- (3) THAT THE DESIGN OF THE BULK CARGO VESSELS BE AS STANDARDIZED AS POSSIBLE TO INSURE THE LOWEST POSSIBLE COSTS OF SHIP CONSTRUCTION BUT AT THE SAME TIME TO INSURE MAXIMUM PRODUCTIVITY AND EFFICIENCY FOR COMPETING IN THE WORLD MARKET.

In this connection it is urged that representatives of the shipping industry, shipbuilding industry, and the government confer to formulate a design program. This matter will be discussed further under (F) below.

(4) THAT TO MAKE CERTAIN THAT NO DISPUTES OVER MANNING AND RELATED QUESTIONS INTERFERE WITH THE PROMPT INTRODUCTION OF THESE SHIPS INTO SERVICE AFTER THEY ARE BUILT, WE RECOMMEND THAT THE APPLICATION FOR THE CONSTRUCTION OF EACH VESSEL INCLUDE A SIGNED STATEMENT BY THE SHIPOWNER APPLYING AND ALL OF THE UNIONS REPRESENTING THE EMPLOYEES INDICATING THAT THEY HAVE AGREED ON THE MANNING AND STATING THE ARRANGEMENTS THAT WILL PREVAIL. SINCE THERE IS THE POSSIBILITY OF CHANGES IN THE COURSE OF CONSTRUCTION WHICH MIGHT INFLUENCE THE MANNING, WE LIKEWISE PROPOSE THAT THE SHIPOWNER AND ALL OF THE UNIONS AGREE THAT ANY DISPUTE ARISING THEREFROM, IF NOT SETTLED THROUGH COLLECTIVE BARGAINING, SHOULD BE SUBMITTED TO ARBITRATION FOR FINAL AND BINDING DETERMINATION. IT IS IMPERATIVE THAT THE SAME ARBITRATOR OR BOARD OF ARBITRATION BE USED FOR ALL OF THE UNIONS SO THAT NO CONFLICT CAN DEVELOP BETWEEN OR AMONG ANY OF THEM. IT IS LIKEWISE IMPERATIVE THAT THE GOVERNMENT ACCEPT THE DETERMINATION OF THE PARTIES IN COLLECTIVE BARGAINING OR THROUGH ARBITRATION AS BINDING INsofar AS SUBSIDY PAYMENTS ARE CONCERNED. THIS SUBJECT IS DISCUSSED MORE FULLY UNDER SECTION G BELOW.

(5) THAT THE PARITY PRINCIPLE OF OPERATING SUBSIDIES BE EXTENDED TO AMERICAN FLAG DRY BULK CARRIERS CONSTRUCTED UNDER THIS PROGRAM.

We recognize that the computation of such subsidy cannot be on the same basis as that used for general cargo liner service. These

ships operate on a world market and do not necessarily cover a fixed trade route. A special study should be undertaken promptly to determine how the parity approach to subsidy can be applied most equitably and economically to these carriers.

(6) THAT THE GOVERNMENT SUPPORT BE MADE AVAILABLE FOR THE CARRIAGE OF PROPRIETARY CARGOES AS WELL AS FOR OTHER DRY BULK CARGOES.

(7) THAT OPERATING CONTRACTS TO BE EXECUTED WITH QUALIFIED CARRIERS SHOULD BE FOR A 20-YEAR PERIOD AND SHOULD INCLUDE PROVISIONS FOR VESSEL REPLACEMENT AND SHOULD ALLOW WORLD-WIDE TRADING PRIVILEGES.

(8) CARGO PREFERENCE LAWS SHOULD BE CONTINUED. HOWEVER, RATE DIFFERENTIALS NOW PAID ON THE TRANSPORT OF GOVERNMENT SUPPORTED BULK CARGOES SHOULD BE PHASED OUT AS NEW VESSELS ARE CONSTRUCTED AND PLACED INTO SERVICE.

This recommendation requires further explanation. Under our present cargo preference laws half or more of the ocean-borne cargo financed by the United States government must be carried on American flag ships. This regulation, to which there are few exceptions, applies without regard to whether the ships are subsidized or nonsubsidized, liners or tramps. As the law has been administered, the percentage has been held to the bare minimum. The cargo preference laws have been attacked as costly and discriminatory. It is estimated that the cost to the government for the handling of government-generated cargoes at United States rates is approximately \$80,000,000. As the new ships

are built and as operating subsidies are applied, it may reasonably be expected that the operators of these ships should be entitled to government cargo only if they compete at world market rates. They should be in a position to do so. However, if they are required to compete at world market rates, there is absolutely no reason why all government generated cargo should not be offered first to American flag ships. The net effect will be a substantial saving that will offset a portion of the extended construction and operating subsidies.

There is a tendency on the part of some critics of the cargo preference provisions to combine indiscriminately routing preference and rate preference as if they involved the same thing. Our recommendations contemplate the gradual elimination of rate preference, which is a cost to the U. S. taxpayer. Routing preference at the going world rate should be expanded. It is the common practice of all maritime nations to reserve for their own ships the bulk of the cargo generated for their own account by the governments involved.

(9) THAT THE ADMINISTRATION OF THE CARGO PREFERENCE LAWS BE PLACED IN THE HANDS OF THE MARITIME ADMINISTRATION.

- D -

LIQUID BULK CARRIERS

The problems of the American liquid bulk carriers are very similar to those of the dry bulk carriers. As the Kheel Subcommittee

report states, "with respect to tankers engaged in foreign trade, we are presently faced with the virtual extinction of the U. S. flag fleet." From 1951 to 1963, the amount of bulk cargo handled in tanker vessels has increased considerably, mostly in the form of imports of petroleum products. In 1951, 45.1 millions of long tons of this cargo were imported; by 1963, these imports had increased to 112.1 million tons. Total imports and exports had increased from 56.2 to 126 million tons in this 13 year period.

Yet in this same period of time the U. S. tanker fleet has decreased to an alarming extent. In 1950 we had 158 U.S. flag tankers in the foreign trade, with a deadweight capacity of about 2 1/2 million tons. By 1964, this fleet had fallen to 33 tankers with a deadweight capacity of only 745,000 tons. Furthermore, most of the few remaining tankers are obsolete. Despite the considerable growth in liquid bulk cargo, our tankers carry only about 4% of the tanker traffic. Most of the surviving tankers rely heavily on the carriage of cargo preference grain, thus aggravating the problem of the dry bulk cargo fleet described above (B).

Again, the explanation of this adverse trend is to be found in the absence of any governmental policy for the direct support of this essential part of our fleet. The sharp disparity of both construction and operating costs between here and abroad has made it impossible for the unsubsidized U. S. tanker operator to compete in the World Market. The

exodus to foreign flags, very often to the Panlibhon "flags of convenience", has been considerable.

Although the Kheel subcommittee report regarded the tanker fleet problem as susceptible to different handling from that of the dry bulk cargo problem, the public members believe that the Maritime Advisory Committee should give careful consideration to the possible extension of the recommendations set forth under (B) above to this segment of the American fleet. The imposition of a requirement that a fixed percentage of our petroleum and petroleum product imports be carried on U. S. flag tankers might be considered as an alternative to be adopted if and when other measures have been rejected as unworkable. The discussion of this alternative is included under (G) below, Flags of Convenience.

This branch of our fleet is vital to our national defense and to our commerce. We cannot afford to be so overwhelmingly dependent upon foreign flag vessels for our supply of this critical liquid cargo. As petroleum imports increased sharply, our government saw fit to apply mandatory controls restricting crude oil imports to 12% of domestic crude production. These restrictions were based on considerations of national security "which make it necessary that we preserve to the greatest extent possible a vigorous, healthy petroleum industry in the United States." Commenting on the "Weak Spot in our Defenses", Rear Admiral John D. Hayes made this comment:

"While the American people and the U. S. naval profession allowed the U. S. merchant marine to decay, world sea-borne trade has been increasing. Since 1951 it has doubled; indeed, the movement by sea of petroleum--the life-blood of modern industrial economy and of modern war--has tripled. Much is heard these days about air movement of troops, and this form of military transport is bound to increase. But the giant jet aircraft that will do this work are insatiable consumers of fuel, which must be transported overseas to their terminals. Airlift, instead of easing the shipping problem, will augment it in the area where we are most vulnerable, the tanker fleet."

Recommendation

WE RECOMMEND THAT THE GOVERNMENT ADOPT ONE OR MORE OF THE SEVERAL ALTERNATIVE MEASURES RECOMMENDED IN THIS REPORT TO INSURE ACHIEVEMENT OF THE FOLLOWING GOAL: THE CARRIAGE WITHIN A REASONABLE PERIOD OF TIME OF AT LEAST 30% OF OUR LIQUID BULK CARGO IN AMERICAN FLAG TANKERS. THE ALTERNATIVES ARE: (1) VOLUNTARY ACTION BY PROPRIETARY CARGO COMPANIES, (2) IMPOSITION OF A MINIMUM IMPORT QUOTA, OR (3) EXTENSION OF THE PROGRAM SUGGESTED FOR DRY BULK CARRIERS.

- E -

UNITED STATES PASSENGER SHIPS

At the present time there are 13 subsidized American-flag ships that are designed primarily for passenger service and for specific trade routes. In addition, we have 15 combination ships in the American fleet that carry significant numbers of passengers, but rely heavily on freight revenues. In this section we are concerned with the former group of ships.

We acknowledge that the subsidization of these ships represents a considerable cost to the United States government and that from the standpoint of their contribution to our national economy they take a disproportionate share of the operating subsidy budget (approximately \$47 million for 13 ships out of a total operating subsidy budget of about \$210 million per year for the more than 270 vessels under operating-differential subsidy contracts). The explanation for this relatively large drain on the subsidy dollar is because of the substantial staff now used on our luxury passenger ships. Even with the subsidy program, some companies are finding the operation of these vessels unprofitable. Therefore, we agree that the operation of our passenger service requires careful review and probably some adjustment if it is to receive the government support given in the past or that will be required in increasing amounts in the future.

However, the public members believe that government policy should be affirmative. They repudiate the suggestion that our departure from the passenger service should be hastened by a policy that tempts operators to discontinue this service in the hope that money saved will be diverted to more profitable commerce. We repeat our conviction that each branch of the merchant marine should be treated separately, dependent upon its own contribution to our national defense and commercial needs.

Despite the great advances in airlift capability for the transport

of troops, there remains a need for vessels that can be used immediately or can be readily converted for this purpose. Again, the present Vietnam crisis provides persuasive illustration of this need even though this is not a critical emergency. Although the subsidy cost is high, this adjunct of our merchant fleet has helped considerably in the balance of payments problem. The almost \$80 million received in passenger revenue represents equivalent savings of foreign exchange, because it may be assumed that most of the passengers would have used foreign ships if U. S. flag ships were not available.

But, in addition to considerations of defense and commerce, the public members unabashedly adopt, as a reason for an affirmative rather than a negative national policy, the national prestige of this country. We adopt and endorse the views expressed by the Maritime Evaluation Committee in its 1963 report to the Secretary of Commerce:

"...certain intangible values implicit in the national prestige, which these ships reflect, must be taken into account. As a leading world power and maritime nation, it is desirable that we have 'blue ribbon' ships carrying our flag in as many trades as possible. Indeed, there is some feeling that our prestige would be seriously damaged if these ships were removed from operations."

We do not agree with the view that our pre-eminence in so many other areas is so great that the contribution made by the U. S. flag passenger liners is relatively insignificant.

Undoubtedly many economies could be effected in the operation of the present passenger ships. Inadequate attention has been given to

the study of the consolidation of shore-side facilities, such as passenger ticket offices, purchases of ship's supplies, promotional advertising and the like. More careful study of ship design is needed. Equally important is the necessity for full cooperation by organized labor to assure the lowest possible manning scales consistent with the safe and efficient operation of the vessel. The reputation for unreliability of service created by the frequency of strikes has diverted many passengers from use of our liners; this reputation must be changed by improvement in the parties' capacity to bargain more effectively. The aforementioned Maritime Advisory Committee, in its 1963 report, urged that a comprehensive investigation should be undertaken of "vessel designs, operating patterns, the market for ocean travel, and related factors, all directed toward developing more competitive and economically justifiable U. S. flag passenger ship operations, with a target date not to exceed 3 years." We do not know if this recommendation has been implemented, but we endorse such immediate action.

Finally, we cannot ignore as part of the problem the phenomenon of the foreign flag passenger vessel that operates almost exclusively from United States ports to cruise areas served by our passenger ships. A careful study should be made to determine whether and under what circumstances these foreign flag operations should be restricted.

Recommendations

(1) THAT A COMPREHENSIVE INVESTIGATION OF THE TYPE PROPOSED BY THE MARITIME EVALUATION COMMITTEE IN 1963 SHOULD BE MADE OF PASSENGER SERVICES WITH A VIEW TO IMPROVING THE COMPETITIVE AND ECONOMIC POSITION OF AMERICAN-FLAG PASSENGER LINES.

(2) THE U. S. TRAVEL SERVICE AND PRIVATE INDUSTRY SHOULD ACCELERATE TRAVEL PROMOTION ON U. S. FLAG SHIPS.

(3) A SPECIAL STUDY COMMITTEE SHOULD BE APPOINTED TO DETERMINE WHAT, IF ANY, REGULATIONS SHOULD BE ADOPTED TO CONTROL FOREIGN FLAG SHIP CRUISING FROM THE U. S. TO AMERICAN CRUISE AREAS.

- F -

SHIP CONSTRUCTION

The 1936 Act specified that as a condition of receiving operating subsidy, the ships must be constructed in the United States. Recognizing that there were very pronounced differentials in cost between shipbuilding here and abroad, the Congress adopted a construction differential subsidy. It is evident from the earlier sections of this report that the public members believe that the construction differential subsidy should be continued and that construction in American shipyards should continue to be a requirement for the granting of the operating differential subsidy.

We are aware that the privately owned U. S. shipyards rely primarily on construction work done for the United States Navy. It is undoubtedly true that government payments for merchant marine construction and repairs amounts to only \$152 million out of a total government

expenditure for all shipyards of more than \$3 billion and that these government expenditures account for 18,500 man-years (per year) of employment out of 210,000 man-years. The implied relative insignificance of this part of government support to our essential shipbuilding capability and employment cannot be allowed to determine whether our present construction policy should be discontinued. These statistics ignore the fact that the work on American merchant ships is extremely important to yards that have not participated fully in Navy work and that the new technology being evolved for merchant ships does not necessarily bear much resemblance to the work being done on ships for the Navy.

As a nation we should commit ourselves to the most efficient, powerful shipbuilding capability that is consistent with our resources. Few people can forget the almost impossible demands on these yards during World War II. In the five year period, 1941-45, our private shipbuilders completed more than 5600 large merchant ships with an aggregate capacity of more than 56 million tons. Although air transport has become an effective alternative, there is no evidence that another major crisis will not compel great demands upon our shipyards.

Just as we have found that a strong United States flag fleet is essential to our defense and commerce, so too do we find that our capability for merchant vessel construction must be kept at a high level. In one form or another, many other countries of the world subsidize their shipbuilding industry.

Recommendation:

WE RECOMMEND THAT THE CONSTRUCTION DIFFERENTIAL SUBSIDY BE CONTINUED, THAT OPERATING SUBSIDY BE GRANTED ONLY FOR U. S. - CONSTRUCTED VESSELS, AND THAT THE EXPANSION OF OUR MERCHANT FLEET, AS CONTEMPLATED BY THIS REPORT, BE THROUGH CONSTRUCTION IN U. S. SHIPYARDS.

For several reasons we believe that the subsidy program now in effect should be revised to provide for the direct subsidization of the shipbuilding industry for merchant vessels, rather than for the payments to be made to the ship operator who seeks construction or retrofitting of vessels. First, this step would acknowledge the government's commitment that the shipyards as such, insofar as merchant ship construction is concerned, are deserving of direct support to enable them to compete in the World Market. Second, it would create a justifiable and realistic interest on the part of the government in the efficiency of our shipyards. There is no question that American shipbuilding techniques are less efficient than those of foreign competitors. In large measure this has been a result of the uncertainty of the future prospects for an American shipbuilding program in American yards. There has been little incentive to introduce more economical innovations. A government-to-shipyard subsidy payment, together with an expansion program now contemplated, would motivate the yards to be more imaginative and businesslike. Third, it would eliminate the need for American ship operators to be involved unnecessarily in the problems



of the shipbuilding industry. The needs of the two industries have a very close relationship from the standpoint of national defense and the interests of national commerce. But the private needs are less closely associated.

Some people have argued that the divorcement of ship construction subsidy from the ship operators should be effected to remove the government from any meaningful interference in the vessel design sought by the operator. This is an ambitious, but unjustified, desire. Once the government is asked to support a merchant fleet in the interests of defense or commerce, it acquires the right to have some voice in the type of vessel to be constructionally and operationally subsidized. The public members believe that the pursuit of standardization as an absolute ideal is not practical; consideration must be given to the adaptability of the hull design to the natural restrictions of the various ports. But this is a matter of sound administrative judgment. Our reasons for direct payment of construction subsidy to shipyards do not include the removal of any government voice in the design of ships to be constructed.

Recommendation

WE RECOMMEND THAT CONSTRUCTION SUBSIDY PAYMENTS BE MADE ON THE BASIS OF DIRECT SUPPORT TO THE SHIPBUILDING INDUSTRY. THIS RECOMMENDATION DOES NOT IMPLY THAT THE GOVERNMENT SHALL HAVE NO DIRECT OR INDIRECT CONTROL OVER THE VESSEL DESIGN SOUGHT BY THE SHIP OPERATOR.

There is one final matter of considerable interest related to U. S. ship construction activity. It does not relate to construction subsidy or to conditions or methods of subsidy payment. It concerns the need for our country to develop the most competitive merchant fleet (liner, dry bulk cargo, liquid bulk cargo, passenger) in the world. There is no better way to justify the government investment contemplated by this report or to recapture the American fleet pre-eminence in the World Market than to adopt measures that will insure our ability to innovate and be in the forefront of technological changes. For example, the potential of the nuclear-powered merchant vessel has yet to be determined; certainly the government sponsorship of the Savannah has given us the opportunity for testing this potential. It is an essential that the government, the ship operators, organized labor, the ship-builders, and such other agencies as might appropriately be included, establish an effective research program for the sole purpose of strengthening our ability to be more efficient and to lead the world in creative ship design, including cargo-handling methods.

This essential effort, in the long run, is likely to achieve remarkable results. The derived efficiencies could reduce considerably the subsidy costs to the government. It could establish a trading and construction capability more closely competitive with our foreign suppliers. In the long run the employment opportunities could easily increase. We recognize that the impact of innovation in the short-run can be injurious to people, but the Guerin Subcommittee report sets

forth specific recommendations to alleviate this problem. We subscribe to these recommendations.

Recommendations

(1) THAT THE GOVERNMENT ESTABLISH A NATIONAL MARITIME RESEARCH FOUNDATION, WITH COOPERATION AND INVOLVEMENT OF ALL SEGMENTS OF THE INDUSTRY, WHOSE GOAL WILL BE THE EXPLORATION OF NEW TECHNOLOGY FOR IMPROVEMENT OF OUR MERCHANT FLEET.

(2) THAT THE RECOMMENDATIONS OF THE GUERIN SUBCOMMITTEE ON THE SUBJECT OF SHIPBOARD AUTOMATION AND CREW REDUCTION, INCLUDING AIDS TO DISPLACED LABOR, BE ADOPTED.

LABOR RELATIONS

It is an understatement to say that the labor relations of the maritime industry are in disrepute. Critics frequently blame government subsidy and other aid programs for this condition. This is an easy substitute for hard thinking on what is really right and wrong with labor relations in this industry.

There are three main areas of potential conflict leading to work stoppages. These must be considered separately. First of all, there are the periodic negotiations of new contracts. Secondly, there are the usual grievance type of disputes arising during the course of the contract for each of the separate bargaining units. Thirdly, there are disputes which overlap bargaining units. We consider these in the order mentioned.

1. Contract Negotiations

There are two criticisms advanced in this area which, on their face, appear in conflict. It is said, for one thing, that the subsidized industry fails to offer sufficient resistance to union monetary demands since the government will ultimately pay practically all of the cost. The other complaint is that the industry is constantly beset with strikes.

Contract negotiations in maritime are different than other industries because of the subsidy and other aid programs. The basic aim, properly, is to encourage collective bargaining without government

interference. Since the government must ultimately bear a major part of the cost, the government cannot be entirely out of the bargaining. The problem is to determine how to protect the government's interest in a fair and reasonable settlement in the public interest while preserving for the parties the right to negotiate their own terms.

The solution to this problem has been achieved although very few people are aware of it. It was in part an outgrowth of the 78-day strike this summer although it was in the making for many years. Ironically, part of the solution evolved out of the untimely Maritime Subsidy Board disapproval of collective bargaining agreements concluded two and more years earlier for purposes of paying Federal subsidy. This was done on July 13, 1965, during the course of the 78-day strike. The reasoning and the timing made it impossible for the shipping companies to proceed with their negotiations until Secretary of Commerce Connor reversed these decisions on July 23, 1965, and set down ground rules for passing in the future on subsidy reimbursements for bargaining settlements. In commenting on this new procedure, involving a review of all settlements by a special wage review panel, the Secretary made these important observations:

"First, it is important to keep in mind that under present law the Department of Commerce has the legal responsibility to determine the subsidy reimbursement for wages and other benefits to be paid to employees of the subsidized operators. This point has not really been brought to a focus because for the most part, in the past, the results of collective bargaining have simply

been rubber-stamped. For obvious reasons, it is not possible any longer to continue to follow this course, and it will not be followed. At the same time, it is important for the Department to establish a procedure which will insure that the Department will exercise a balanced discipline in arriving at a final administrative determination of these maritime wage questions. For example, in arriving at these ultimate decisions within the Department, the concern to reduce or to hold down the maritime subsidy budget should not be the predominant consideration, or appear to be the predominant consideration, to the exclusion of other pertinent factors. It is for this reason that I believe an administrative procedure which, in an orderly and efficient way, places any controversies or contested points before a panel of disinterested members -- is desirable. At the same time, I am not adopting a procedure which places the ultimate official decision in some body outside the Department or which would improperly take this responsibility from the Maritime Subsidy Board. I believe the Maritime Subsidy Board must continue to retain its decision-making responsibility subject to the regularly established Departmental review procedures.

"A further observation is in order. This is a new procedure. This procedure will have a significant impact on the relations of the parties to collective bargaining agreements which are presented to the Department of Commerce for approval for subsidy purposes. But neither management nor labor can rightfully say that the procedure described above constitutes wrongful interference with their private rights in the collective bargaining process or take the position that they will not comply or cooperate. If this were to be the attitude of management, management in effect would be saying that it would not recognize or abide by the laws written by Congress, which laws direct the Department of Commerce to make the determination for maritime subsidized wage purposes as to what is 'fair and reasonable and in the public interest.' If this were to be the attitude of the maritime unions, those unions would in effect be saying they would not recognize or abide by the laws written by Congress, which laws direct the Department of Commerce to make

the determination for maritime subsidized wage purposes as to what is 'fair and reasonable and in the public interest.'

"Furthermore, I must observe that the Department of Commerce should not endeavor to tell the parties during negotiations what specific terms they should write into a collective bargaining agreement. And the Department of Commerce will not negotiate with the parties or attempt to persuade the parties to agree to a specific wage or employee benefits with the understanding that is later binding on the U. S. Government.

"Rather, it has been and will continue to be the responsibility of management and labor to apply their best talents to the process of collective bargaining and to arrive at understandings as promptly as possible, with both parties making every effort to avoid in the first place, or to continue, actions which are inimical to the economic and national defense interests of the United States.

"Further, if there is strong disagreement by any interested party with the decision of the Department of Commerce in a given case, for which redress is denied or is not available in the judicial forum, there quite obviously will always be available recourse to the Congress itself which can make appropriate changes in the applicable laws. The point I am making is that the maritime subsidy laws have not been, and will not in the future be administered arbitrarily or capriciously.

"Neither should the ultimate decision as to how much employees or subsidized operators will receive in wage and employee benefits, ultimately paid by the U. S. taxpayer, be left exclusively to the private parties involved."

These procedures should remove any questions in the future as to whether monetary settlements are "fair and reasonable and in the public interest."

There are other developments which should provide added assurance. In the past, contracts in maritime have expired at different times. Since the unions necessarily bargain in relation to each other, there has been a tendency for each union, as its turn came up, to insist on improvements superior to those previously negotiated. But all of the major contracts expired on June 16, 1965. (The NMU contract had previously been extended for four years with arbitration provisions. This extension did not alter the identity of the contract terminal dates.) In the negotiations, there likewise developed an overall approach to all monetary items. It was to use the guideline figure of 3.2 percent developed by the President's Council of Economic Advisers and to allow each union to apply the 3.2 percent to the benefits it considered important for its members. While there are some administrative difficulties in this approach, experience in other industries has shown that it is the only practical way of negotiating monetary matters in a multi-union industry. This approach assures equality of treatment between and among the unions on a percentage basis which can readily be identified as "fair and reasonable and in the public interest" in any post settlement review. With the guidelines it puts the parties in a position to know in advance what the government will approve for subsidy purposes without the government participating in the bargaining.

There is another development which should bring additional stability of contract to the maritime industry. Nearly all of the major

unions now have or are likely to have contracts without reopenings or with reopenings subject to arbitration which run for the next four years. Consequently, there should be no interruptions resulting from disputes over the monetary terms of the contracts for at least this length of time. With the procedures outlined above for the negotiation of future contract terms, there should not be any serious difficulty with successor contracts when these four-year contracts expire. In our opinion, therefore, no further special procedures are not needed to deal with contract negotiations.

2. Grievance Disputes

All of the major bargaining units have provisions in their contracts for the arbitration of the usual type of grievance. There are permanent arbitrators included in these contracts. The structure is similar to other industries and the procedures in maritime work as well as they do in other industries. We see no need therefore for any additional procedures to deal with the usual type of grievance dispute.

3. Overlapping Disputes

This is the area which undoubtedly has given the maritime industry its reputation for bad labor relations and has injured the passenger and cargo liner companies whose customer loyalty is dependent on continuity of service. In terms of days lost, however, it has not been a significant area. But the disputes have invariably attracted widespread

attention. They have provided fuel for the fires of the industry's critics and in certain areas have impeded the introduction of shipboard automation. Something must be done about them, and something can.

These disputes in the past have involved questions of representation, jurisdiction, manning, and other inter-union relationships. In the case of the SS MAXIMUS, it was representation. In the recent dispute involving the SS RESOLUTE, it was jurisdiction. In Gulf and South American, it was manning. In the disputes involving the SS SAVANNAH and the SS AMERICA, it was inter-union relationships.

In the 78-day strike this summer, the main issue became the question of procedures to deal with manning disputes. This had relevance in connection with the automated ships in existence, those in the shipyards, and ships yet to be designed. There is no significant problem involving manning on the conventional ships.

The settlement provided no procedures for the final resolution of manning disputes. But it does contain a proposal made by the President placing in the hands of Secretary Wirtz and George Meany responsibility for developing such procedures. In his statement, the President said:

"It is clear that an industry wide procedure, or a uniform pattern of procedures, for handling of manning and related issues in the maritime industry has become an absolute necessity.

"I have today asked the Secretary of Labor and Mr. George Meany, President of the AFL-CIO, to undertake the development, with the participation of all unions and associations in the maritime industry, and with such assistance as they find necessary, of

effective procedures for resolving manning and related issues arising from the mechanization and retrofitting of ships.

"The contemplated procedures, to be effective, must provide the fullest practicable assurance that manning and related issues be settled without interruption of operations.

"Such procedures must be based on the concurrence and participation of all private parties whose interests are affected, and must achieve a parity of procedures insofar as interrelated interests are affected.

"I have asked Secretary Wirtz and Mr. Meany to report the results of their undertaking to me, with accompanying recommendation if this is appropriate, at the earliest possible time. I will then take or propose such action as appears appropriate in the light of their report.

"I propose to see to it that this problem, which involves public and private interest alike, is met fully and effectively."

We believe that such procedures can and will be devised. They must be devised to enable the industry to use maximum automation at as fast a rate as technology will permit. With regard to ships to be designed, the problem is readily solved. An agreement on manning from all of the unions can be procured in advance. With regard to ships in service and those in the shipyard being readied for service, a system of voluntary arbitration should be evolved. This would require a common arbitration mechanism with either a single arbitrator or a board of arbitration. A conference to evolve such procedures will undoubtedly be called shortly by the Messrs. Wirtz and Meany and we are confident that their efforts will be successful.

We also believe that disputes involving representation and jurisdiction can also readily be resolved. There are already the procedures of the National Labor Relations Board and the AFL-CIO. With the aid of the Messrs. Wirtz and Meany, these procedures can be adopted to the special needs of the maritime industry.

Other types of overlapping disputes, which are very infrequent though painful, can be covered by the same procedures developed for manning disputes.

Recommendation

WE RECOMMEND THE ESTABLISHMENT OF A
PERMANENT LABOR-MANAGEMENT COUNCIL
IN THE DEPARTMENT OF LABOR

The procedures outlined above should cover all of the various types of disputes which might arise in maritime. But the industry is dynamic. It has keen competition. Automation is changing work requirements and work assignments and complicating union jurisdiction while reducing job availability. These problems are difficult enough to solve by themselves. They become all the more difficult in a declining industry.

Under these circumstances, we believe that an overall Permanent Labor-Management Council should be created in the Department of Labor. It should be composed of 15 members, five public, five industry, and five labor. The public members should include the Secretaries of Labor and Commerce and three others familiar with the problems of

the industry. It should have general supervisory authority to make sure that the procedures outlined above work. It should be available to help modify these procedures as circumstances warrant and to devise new procedures for new problems. It should have general responsibility for the welfare of the industry and it should help promote its growth and expansion.

- H -

FLAGS OF CONVENIENCE

It has been noted earlier that the approximately 450 ships owned by U. S. corporations through foreign subsidiaries and operated under Panamanian, Honduran, or Liberian registry are regarded by the U. S. Navy as being under effective U. S. control. The status of these ships for defense purposes has been discussed.

Essentially these ships are similar to the tramp fleet, composed of bulk carriers: tankers and dry cargo vessels. Of the 456 vessels owned by American citizens as of January 1, 1961, about two-thirds were owned by independent operators, and one-third were owned by major oil, steel, aluminum and other industrial corporations. Tankers accounted for well over half (282) of the total, and, in fact, more than half of all the tankers available to the United States are Panlibhon vessels. Nearly all the ocean-going ore carriers were under the Panlibhon flags. It is also relevant that about 50% of these vessels

were built after 1956 and are modern, efficient ships.

The flags of convenience antedated World War II, but their growth has been principally after the War. Some other maritime nations of the world have also experienced the phenomenon of flags of convenience. For example, the President of the Chamber of Shipping of the United Kingdom, in an address before the Chamber on March 5, 1958, said "some may think that the most important (problem) is taxation. I beg to differ. Our Public Enemy No. 1 is the flag of convenience."

An appreciation of the role of the Panlibhon vessels vis-a-vis American flag vessels can be established by the following table showing their relative participation in United States Trade during 1960:

<u>Type of Service</u>	<u>Panlibhon Flag</u>	<u>U. S. Flag</u>
Dry Cargo, liner	2.1%	30.2%
Dry Cargo, other than liner	34.6%	7.2%
Tanker	57.6%	5.4%
<u>All services</u> (weighted average)	38.7%	10.5%

This table confirms what has been stated above: That where operating and construction subsidies are available, the American flag liners have been able to withstand the competition of the Panlibhon fleet. The American flag tramp fleet (dry cargo and tankers), without benefit of the subsidies provided by the 1936 Act, has suffered considerably from this competition.

The motivation of American owners to transfer ships or to build new ships under foreign registry is very understandable. There

are two principal reasons: (a) to take advantage of the lower labor costs involved in the employment of foreign seamen, (b) the lower taxes to be paid under the applicable laws of the registry countries. The former Maritime Administrator (Donald Alexander) listed seven reasons in testimony before the House Committee on Merchant Marines and Fisheries in 1957, but these two were the most important. Additionally, of course, is the important fact that most of the more recently built Panlibhon vessels have been constructed abroad at much lower cost.

In the deliberations of the Maritime Advisory Committee there were many allegations that the flags of convenience were chiefly responsible for the plight of the American merchant marine. These allegations are valid in the sense that American owners are providing almost ruinous competition to their compatriots by operating under a foreign registry.

But outlawing of these ships in any abrupt manner would not mean the absorption of their business by American flag vessels. Almost certainly this business would go to foreign vessels, many of which would be able to continue under the Panlibhon flags. As a consequence, the American-owned Panlibhon vessels would probably be sold to foreign interests. Thus, the United States would lose the indirect taxable income (when dividends are paid by the subsidiary to the parent corporation) and the dubious advantage of having these ships under the "effective control of the United States." The view that a drastic change in rules would create no more American vessels, no more jobs for American seamen, or for

American shipyard workers is undoubtedly valid.

One cannot legitimately castigate American businessmen for their pursuit of private enterprise, when such enterprise has been countenanced and even encouraged by government policy. The answer instead is in a gradual revision of government policy to accommodate two needs: (a) a reasonable opportunity for the owners of "flags of convenience" vessels to make adjustments in their business arrangements and (b) a restoration of these vessels or their replacements over a period of time to the American flag. These considerations are consistent with the view of an MAC member who recommended that "this Committee proceed with the development of a realistic program which will lead towards the development of an expanded American flag merchant marine." (Mr. Lee White, Minority Report, Subcommittee Re Flags of Necessity Vessels). It is also relevant that the Final Report of the Maritime Evaluation Committee to the Secretary of Commerce (October 31, 1963), contained the comment that "it is generally considered that U. S. registration of these ships would be preferable." The Report stated further: "A long-range approach whereby the EUSC (Effective United States Control) ships and jobs involved can be brought under U. S. flag is therefore desirable, in view of the security requirements for vessels." At the very least, government policy should be redesigned so as not to encourage the exodus of the American shipping operator or investor to the umbrage of a foreign flag.

The recommendations set forth under Section B (Dry Bulk Carriers) are related to the flags of convenience problem. These are designed to insure a stronger U. S. fleet in one of the two areas in which the Panlibhon fleet has made the most serious inroads. However, if these recommendations are accompanied by the proscription that no operator may avail himself of the bulk carrier operating differential and construction subsidy program unless he divests himself of all flags-of-convenience vessels, it is unlikely that a meaningful transition will occur. Therefore, the absolute limitation recommended for the unsubsidized liner operator as a condition for subsidy is not applicable here. Our interests will be better served if the American owners of flags-of-convenience are permitted to avail themselves of a new, vigorous government maritime program, provided their application is accompanied by a commitment to withdraw gradually from flags-of-convenience operation.

Recommendation

WE RECOMMEND THAT THE AMERICAN OWNERS OF FLAGS-OF-CONVENIENCE DRY BULK CARRIERS BE PERMITTED TO APPLY OR BID FOR THE U. S. CONSTRUCTED BULK CARRIERS CONTEMPLATED UNDER SECTION B OF THIS REPORT AND TO RECEIVE OPERATING SUBSIDY FOR SUCH U. S. CONSTRUCTED CARRIERS. HOWEVER, AS A CONDITION OF SUCH GOVERNMENT SUPPORT THE OPERATOR SHALL AGREE THAT THE APPROXIMATELY EQUIVALENT TONNAGE CAPACITY OF THE U. S. BULK CARRIER WILL BE ELIMINATED FROM HIS FLAG-OF-CONVENIENCE FLEET AND, FURTHER, THAT THERE WILL BE NO SUBSEQUENT INCREASE IN HIS FLAG-OF-CONVENIENCE FLEET.

THIS SAME RECOMMENDATION SHOULD APPLY TO THE LIQUID BULK CARRIER FLAG-OF-CONVENIENCE OPERATOR IF THE MAC CONCLUDES THAT THE PROVISIONS OF SECTION (B) SHOULD BE EXTENDED TO THIS SEGMENT OF OUR FLEET.

In Section C (Liquid Bulk Carriers), the public members suggested three alternatives; one of which was the application of the Dry Bulk Carrier recommendations to this branch of the merchant marine fleet. The other two alternatives require discussion.

Recommendation (Alternative)

IT IS RECOMMENDED THAT THE PRESIDENT OF THE UNITED STATES AND THE SECRETARY OF COMMERCE CONFER WITH OUR PRINCIPAL LIQUID CARGO IMPORTING COMPANIES TO DETERMINE WHETHER THE GOAL OF CARRYING 30% OF OUR LIQUID CARGO COMMERCE ON AMERICAN BOTTOMS CAN BE ACHIEVED BY VOLUNTARY ACTION.

Obviously it would be preferable if a 30% crude oil import quota, carried on American ships, could be secured by voluntary action of the companies involved, just as the President and Secretary of Commerce were so instrumental in securing voluntary action to reverse or stem the tide of the adverse balance-of-payments flow. These companies that have turned to flags-of-convenience for economic reasons are not indifferent to our national defense and commerce needs.

In the event that the first alternative fails of endorsement by the MAC and that the second proves unsuccessful, the public members advance the following third alternative recommendation.

Recommendation (Alternative)

THAT THE OIL IMPORT PROGRAM BE AMENDED TO PROVIDE THAT NOT LESS THAN 30% OF ALL PETROLEUM AND PETROLEUM PRODUCTS IMPORTED INTO THE UNITED STATES BE CARRIED BY U. S. FLAG TANKERS, WHERE SUCH VESSELS ARE AVAILABLE AT FAIR AND REASONABLE RATES FOR U. S. FLAG SHIPS.

With respect to this recommendation there is considerable controversy. The public members have reviewed carefully the thoughtful documents submitted by Mr. Joseph Andrea and Mr. Joseph Kahn, members of the MAC, in response to this portion of the Kheel Subcommittee Report. A statement of the American Committee for Flags of Necessity (January 29, 1965) was also considered.

The concept of a 30% "American bottom" import quota is questioned on two counts: (1) that it is a discriminatory measure, absent any evidence that oil imports must depend to this degree on American bottoms or that such a measure would "help in any way to resolve the fundamental problem of the American Merchant Marine." (2) That such a limitation would be in conflict with treaties and programs of the government directed at promotion of international trade and might lead to retaliation by other nations against the United States.

Neither of these arguments is without some merit. Yet neither is persuasive enough, when considered by reference to the national interest, to be allowed to govern. The oil industry, like the shipping industry itself, has special international characteristics. This country was not reluctant, in the national interest, to adopt the 1959 program for mandatory oil import control. It did so in the belief that an excess ratio

of total imports to domestic production could impair the national security. Oil is a very special commodity that warrants this concern. It is not unreasonably "discriminatory" to require that less than one-third of these imports be carried in American-flag tankers. The MAC meetings show that such a requirement would impose little or not additional cost on the American consumer, because the price of oil-derived fuel is based principally on considerations other than foreign import.

The sensitivity of other governments to such a moderate restriction imposed by the U. S. cannot be credited as a serious argument. We note the Department of State's report that the United States government has "consistently opposed the actions of certain foreign governments which have tended to artificially cloak commercial cargoes under the colors of government cargoes." We understand and acknowledge the State Department's constant struggle to develop "non-discriminatory shipping clauses." At the same time, we are mindful that the maritime strength of other nations is advancing rapidly at the expense of the American Merchant Marine and oftentimes because of the over-indulgent, conciliatory attitude of the State Department to placate other nations. We are equally mindful that a treaty of "non'discrimination" in international shipping is meaningful only to the extent that it is enforced. There is some evidence to warrant a question whether governments, referred to in the State Department's report, do not subvert "friendship, commerce and navigation treaties" by exerting pressure on their

nationals to secure shipment on their own vessels for import-export trade. Finally, there is some forceful legal opinion to the effect that the treaty terms, to which the Department of State refers, do not foreclose the adoption of this form of regulatory measure in the national interest.

In summary, one or more of these measures should be undertaken immediately to reverse the trend toward the flags-of-convenience concept.

- I -

CONCLUDING COMMENTS

President Johnson, in his Executive Order creating the Maritime Advisory Committee, said:

"The Committee shall consider such matters of policy and administration of government programs affecting the Maritime industry as it deems to be in the public interest."

The public interest will be served best by a vigorous program of government support for all segments of our merchant fleet and for our ship-building industry. To remain a strong nation in the free world it is essential that these vital parts of our defense and our national commerce be expanded.

In terms of national resources to be dedicated to the rejuvenation of the entire American Merchant Marine, the price is moderate. Projected against the background of a seven hundred billion dollar prospective

national economy, estimates for such rejuvenation range in the order of 1/10 of 1%.

The allocation of national resources in support of the U. S. Merchant Marine, through budgetary and other means, is basically a government decision. We believe however that in consonance with the support given to other industries and areas vital to the public interest, that budgetary considerations should not stifle and retard the progress and development of our maritime establishment.