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MERCHANT MARINE—COAST AND GEODETIC SURVEY LEGISLATION

GOVERNMENT

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HEARING

BEFORE THE

MERCHANT MARINE AND FISHERIES SUBCOMMITTEE

OF THE

COMMITTEE ON COMMERCE

UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

FIRST SESSION

ON


S. 685, S. 1808, and S. 2085

BILLS TO AMEND THE MERCHANT MARINE ACT OF 1936
AND A BILL TO AMEND THE COAST AND GEODETIC
SURVEY COMMISSIONED OFFICERS ACT OF 1948

JULY 10, 1961

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MERCHANT MARINE—COAST AND
GEODETIC SURVEY REGISTRATION

HEARING

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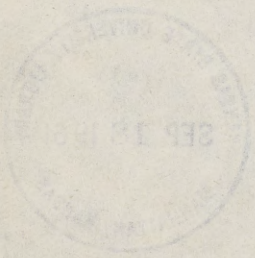
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MERCHANT MARINE—COAST AND GEODETIC SURVEY
LEGISLATION

MONDAY, JULY 10, 1961

U.S. SENATE,
COMMITTEE ON COMMERCE,
SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 5110, New Senate Office Building, Hon. E. L. Bartlett presiding.

Senator BARTLETT. The subcommittee will be in order.

We had four bills scheduled for hearing today, but at the request of the Treasury Department one of them—S. 1936, dealing with admeasurement of small vessels—has been deferred.

Of the three remaining, two are unopposed—or so it says here; we will find out about that—and should not require extended discussion, so they will be taken up first. They are: S. 2085, to extend the time for commitment of vessel reserve funds; and S. 685, to amend the Coast and Geodetic Survey Commissioned Officers Act of 1948.

The third bill, S. 1808, would limit participation by certain vessels in the carriage of cargoes under provisions of the Cargo Preference Statute of 1954, by defining the term "privately owned U.S.-flag commercial vessels" for purposes of that statute. This is a measure of considerable importance to a large segment of our merchant marine, and those interested will be given full opportunity for presentation of their views in support thereof.

(The bill follows:)

[S. 2085, 87th Cong., 1st sess.]

A BILL To amend section 511(h) of the Merchant Marine Act, 1936, as amended, in order to extend the time for commitment of construction reserve funds

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the proviso at the end of section 511 (h) of the Merchant Marine Act, 1936, as amended, is amended to read as follows: "Provided, That until January 1, 1962, in addition to the extensions hereinbefore permitted, further extensions may be granted ending not later than December 31, 1962."

SEC. 2. The amendment made by the first section of this Act shall take effect December 31, 1961, or on the date of enactment of this Act, whichever date first occurs.

Senator BARTLETT. Our first witness will be Mr. H. J. Coyle, vice president and treasurer of the American-Hawaiian Steamship Co., appearing in support of S. 2085.

NOTE.—Professional staff member assigned to this hearing, August J. Bourbon.

**STATEMENT OF H. J. COYLE, VICE PRESIDENT AND TREASURER,
AMERICAN-HAWAIIAN STEAMSHIP CO., WASHINGTON, D.C.**

Mr. COYLE. Thank you, Mr. Chairman.

My name is H. J. Coyle, vice president and treasurer of American-Hawaiian Steamship Co. I am accompanied by Mr. Samuel H. Moerman, general counsel for American-Hawaiian and chairman of its board of directors.

The purpose of the legislation proposed under S. 2085 is to extend until December 31, 1962, the period during which construction reserve funds established under section 511 of the Merchant Marine Act of 1936, as amended, must be expended or committed for new vessel construction.

On April 20, 1959, American-Hawaiian, one of the oldest and, at times, the largest of the intercoastal shipping lines, filed an application with the Maritime Administration for mortgage insurance to cover four container ships for operation in intercoastal trade. During 1960 the company amended its application seeking mortgage insurance for three ships instead of four. On May 10, 1961, the application was denied because another operator has offered to provide vessels without Government mortgage insurance aid. American-Hawaiian is planning an appeal and will seek reconsideration of this denial.

The company has approximately \$11 million in its construction reserve fund which must be committed by December 31, 1961, under present law. The bill under consideration would merely extend briefly the period for commitment to permit further time for consideration by Maritime Administration of the appeal for reconsideration. Moreover, if these funds cannot ultimately be used for the proposed container ships, additional time is required to consider other ships. The Federal income tax that would have to be paid if these funds are not invested in new ships amounts to approximately \$2,500,000. Such tax, if paid, would be lost forever for new construction.

American-Hawaiian was formed in 1899 and pioneered in the American building of modern, large steam freighters, the first four of which were placed in intercoastal trade in 1900. In 1902 the first oil-burning equipment used by an American-flag vessel was installed by American-Hawaiian.

American-Hawaiian continued in intercoastal trade until World War I caused the suspension of its service, and in 1917 the Government requisitioned 18 of the company's fleet in the prosecution of the war. At the time, the company had about 25 percent of the deadweight tonnage of large oceangoing freighters under U.S. registry.

Aside from its own fleet of 26 ships, the company operated for account of the Government during World War I a large number of vessels of other owners. At one period American-Hawaiian had 86 vessels in its charge. During the 2½ years of control by the Shipping Board, ending in late 1919, the regular American-Hawaiian fleet carried a million tons of cargo to the Allied Forces, and at the end of the war brought home 122,361 American soldiers.

After World War I, American-Hawaiian resumed its intercoastal service until 1941 when it was disrupted by World War II, and again

the Government requisitioned the vessels. This time American-Hawaiian contributed 32 large ocean-going freighters, fully manned, in first-class condition, immediately available for national defense. Twenty-two vessels of our fleet were lost or requisitioned for title by the Government during the war.

During World War II, traffic formerly moving via intercoastal steamer was diverted to overland modes of transportation. Appreciating that the reorientation of this traffic would be a costly process for the intercoastal lines which had suffered total destruction of their trade during the war, the Government concluded to reestablish the services using Government-owned war-built ships, employing the former intercoastal lines as agents. Such agency operation began in 1945 and, because of the heavy losses, was discontinued in the fall of 1947.

American-Hawaiian then chartered Government-owned vessels to continue the service without interruption. This arrangement continued until early 1951, when the Government discontinued the chartering of vessels for use in the intercoastal trade. At this point, American-Hawaiian purchased vessels from the Government and, again without interruption, continued the service.

However, in 1953, the company concluded, after long deliberation and careful analyses, that the conventional, break-bulk type of operation was obsolete; that it no longer was capable of rendering a satisfactory service to the public; and that it would not provide a profitable operation. Accordingly, in March of 1953, the company decided to suspend its intercoastal service in order to conserve its assets and to study and consider other forms of transportation.

The present application of American-Hawaiian for vessel mortgage insurance is the result of investigations of new shipping concepts during the past 5 years, and involves the building of three large 24-knot, 60,000-horsepower containerships for the intercoastal trade.

The company is urging the Maritime Administration to review its denial and to grant approval of its application for mortgage insurance on the containerships so that award of contracts for ship construction and construction of trailer equipment can be made. There may be a protracted delay in such determination and therefore, we need the extension of time for commitment of our construction reserve fund.

Senator BARTLETT. Thank you, Mr. Coyle.

Where is the home office of American-Hawaiian?

Mr. COYLE. We are located at 360 Lexington Avenue, New York, N.Y.

Senator BARTLETT. What operations is the company now engaged in?

Mr. COYLE. Temporarily we are using our funds in short-term Government obligations, municipal obligations, and we have recently invested some of the funds in real estate which we feel will be in for a short period of time.

Senator BARTLETT. You are conducting no shipping operations at this time?

Mr. COYLE. We are conducting no shipping operations at all.

Senator BARTLETT. What is the name of the operator who offered to provide vessels without mortgage insurance?

Mr. COYLE. The name of the company is Sea-Land Service, Inc.

Senator BARTLETT. What duration of extension do you seek by means of this bill?

Mr. COYLE. We are seeking an extension of merely 1 year from the end of this year, Mr. Chairman.

Senator BARTLETT. And you desire that primarily so that your appeal may be perfected and action taken upon it?

Mr. COYLE. Yes, sir.

Senator BARTLETT. If the extension is granted by passage of this bill, and if the appeal is subsequently denied, would that mean at the end of the year in question you would have to pay these Federal taxes cited here?

Mr. COYLE. If we did not use the fund for other ships, we would have to draw out the fund and pay \$2.5 million. However, we are considering the possibility of using the fund for other ships if our denial is not reversed.

Senator BARTLETT. And return, in any case, if you can, to the maritime trade?

Mr. COYLE. Yes; these will be American-built ships under the American flag.

Senator BARTLETT. If the application is granted and you build these ships, what trades do you contemplate using them in?

Mr. COYLE. The ships will be used in domestic intercoastal trade, which American-Hawaiian has been engaged in for approximately 60 years.

Senator BARTLETT. Do you have any ships now?

Mr. COYLE. We have no ships now, Mr. Chairman.

Senator BARTLETT. On page 3 of your statement, Mr. Coyle, you said that the agency operation commenced in 1945 and was suspended 2 years later because of severe losses. What do you attribute those losses to primarily?

Mr. COYLE. Principally, Mr. Chairman, to the method of operation, the break-bulk service. It is an obsolete, antiquated method of shipping freight and we feel the only hope for intercoastal freight are containerships.

Senator BARTLETT. That was true between 1945 and 1947 also when these heavy losses were incurred?

Mr. COYLE. Yes, sir.

Senator BARTLETT. And it was true to some extent when you subsequently chartered Government-owned ships for that same trade?

Mr. COYLE. Yes, we made money in the beginning. By 1953 it disintegrated and became so hopeless we just had to quit.

Senator BARTLETT. How large are these ships that you contemplate building?

Mr. COYLE. The containerships, Mr. Chairman, will be the largest, fastest, most efficient freighters ever built. They would be 30,000 deadweight tons in size, capable of carrying 20,000 tons of cargo. Their cruising speed would be 24 knots, but they can make 27 knots. The ships we contemplate are the equivalent of four to five of the World War II built ships because of their speed and size. The length of the ships, Mr. Chairman, would be approximately 900 feet overall, 101-foot beam.

Senator BARTLETT. Is it possible they would be the largest freighter ships in the world?

Mr. COYLE. Dry cargo, yes, Mr. Chairman.

Senator BARTLETT. How much would they cost per vessel, if three vessels were constructed?

Mr. COYLE. These ships, Mr. Chairman, will cost approximately \$21 million each.

Senator BARTLETT. Each?

Mr. COYLE. Yes, sir. We have firm bids from a reputable shipyard to build at those prices.

Senator BARTLETT. Thank you, Mr. Coyle.

Do you have anything to add, Mr. Moerman?

Mr. MOERMAN. No. I would just like to observe, Mr. Chairman, that we are hoping that the Maritime will reverse its denial for the simple reason that the intercoastal fleet is reaching the point of obsolescence, no new keel having been laid for that trade since World War II.

I think this problem of obsolescence is going to have to be solved if we are to have an intercoastal fleet. We are the only company proposing to build new ships for the trade. We are the only company at the present time that has the capital to build new ships. So the continued denial of our application on the present facts means that there is nothing in prospect with respect to new tonnage for the intercoastal trade.

Senator BARTLETT. No other company is in a situation similar to yours, then?

Mr. MOERMAN. No other company, Mr. Chairman, proposing to build new ships and no other company able to, so far as I am able to tell.

Senator BARTLETT. What hurt would be done the taxpayers of the United States if this bill were enacted, if any?

Mr. COYLE. Mr. Chairman, there would be no hurt at all for this reason: The purpose of the section 511 is to encourage new building and the \$2.5 million of contingent tax liability is just that; it is merely a deferred tax. It represents 25 percent of the gains from ships lost or sold, proceeds from which have been deposited in the fund. Now, when we use this money, the \$11 million for new ships, we have no tax base to the extent of the gain realized from the loss or sale of the ships. In other words, of the \$11 million in the reserve fund, approximately \$10 million would have no tax base and we would have to pay the full 52-percent taxes on that \$10 million as against the 25 percent we would pay if we withdrew the fund now. The only reason why we wanted to conserve these funds for ships: it makes that much more money available for ships.

Senator BARTLETT. Would it be correct to say, then, that if this bill were not enacted, the U.S. Treasury would be enriched by the payment at the end of this year in the sum of \$2.5 million and that as a consequence the United States might lose in the sense that there would not be constructed three of the biggest dry-cargo carriers in the world which could be utilized for national defense purposes, if required?

Mr. COYLE. That is correct, Mr. Chairman. The Treasury Department would be further enriched by allowing these funds to be used for ships, not only because of the higher tax rate and the higher taxes they would collect from earnings of the operation of the ships as compared to 25-percent capital gains tax now, but because of the employ-

ment the building of these ships would create and the additional tax income created by the shipyards, crews, longshore labor, and suppliers, we feel, would enhance the Treasury collections considerably.

Senator BARTLETT. And American-Hawaiian would expect to make money by means of this operation or it wouldn't launch it, and that gain would be taxable too?

Mr. COYLE. That is correct.

Senator BARTLETT. Do you know of any opposition to this bill, Mr. Coyle?

Mr. COYLE. No, I do not.

Senator BARTLETT. Mr. Bourbon, do you have any questions?

Mr. BOURBON. Mr. Coyle, of the 50 ships that the Government requisitioned during the two wars, how many, if any, did they turn back to you?

Mr. COYLE. During World War II we contributed 32 ships, and of those 32 we lost 22. Ten were requisitioned for title by the Government; the balance were lost by submarine action or other war casualty. At the end of the war, 10 of those ships were turned back, 10 of the 32, and they were so badly war used and war beaten that we had to dispose of them because they could not operate profitably in any trade.

Mr. BOURBON. So that the \$11 million that you have in your fund now represents the payment from the Government to you for the ships that were lost?

Mr. COYLE. Partly, and partly proceeds from voluntary sales we made of ships. For example, in 1953 when we had to quit intercoastal, we sold our fleet. We sold the balance of the fleet in 1956.

Mr. BOURBON. So the net result of your turning the 22 vessels is that you have enough money now to pay the cost of one of the new vessels that you want to build?

Mr. COYLE. We have approximately \$35 million, which would just about pay for 1½ ships, without Government mortgage insurance.

Mr. BOURBON. What size containers do you plan to carry on these ships?

Mr. COYLE. These containers would be 30 feet long by 8 by 8, and they are approved by the American Standard Association—

Mr. BOURBON. How many would you be able to handle on one of these ships?

Mr. COYLE. Each ship would carry 1,000 containers, each carrying approximately 20,000 tons of cargo.

Mr. BOURBON. Would the vessel be fully automated or partly?

Mr. COYLE. Fully automated, sir. They would have shipboard cranes, approximately four cranes—we had been considering five, but we think four cranes which would roll fore and aft and take these containers in and out of the ship in approximately 3½-minute cycles.

Mr. BOURBON. How long do you think it would take you, then, to make a turnaround in port, come in and unload, and load and be out again?

Mr. COYLE. These ships will not be in port more than 1 day, sir. They will make Los Angeles from New York in 9 days. The round voyage would be approximately 24 days.

Mr. BOURBON. Have your studies indicated that there would be the cargo available for these large ships?

Mr. COYLE. Yes, sir. We know, sir, that there was more than a million tons of cargo moving when Luckenbach curtailed about a year ago, and we need only 800,000 tons of cargo for these ships to break even.

Mr. BOURBON. What types of cargo, besides canned goods, would you expect to carry in these containers?

Mr. COYLE. The principal commodity moving eastbound is canned goods, 85 percent approximately; westbound is general commodities, miscellaneous, manufactured goods, chemicals, just about every kind of commodity you could imagine, general cargo.

Senator BARTLETT. Have you had any conversations with the long-shore groups to learn how they would regard this use of containers?

Mr. COYLE. We have been in touch with the Pacific American Steamship Association, of which we were members, and they have already set up an automation fund on the west coast which we feel we can live with.

Senator BARTLETT. Would you be a party to that?

Mr. COYLE. We would be a party to the agreement.

Senator BARTLETT. How about the east coast?

Mr. COYLE. The east coast are still working out their automation problems, but we don't anticipate that it will be any worse than the west coast and we think we can get along with it.

Mr. BOURBON. How many ships do you know that Sea-Land is putting into this intercoastal service?

Mr. COYLE. They have no new ships, sir; they are putting in old ships.

Mr. BOURBON. How old?

Mr. COYLE. They are all World War II ships, 17 or 18 years old.

Mr. BOURBON. But the prospects would be in a couple of years they would either have to replace those or they would be inadequate for the service?

Mr. COYLE. We think, sir, no matter how much money you spend on an old ship they will not be competitive for the long pull.

Senator BARTLETT. When were you last engaged in the Hawaiian trade?

Mr. COYLE. That goes back prior to World War I, Mr. Chairman. That was not altogether profitable, going all the way, so that after we discontinued the Hawaiian run on our own, we entered into a joint arrangement with Matson Navigation Co., whereby we would take cargo from the east coast to San Francisco, and Matson would take it from San Francisco to the Hawaiian Islands on a 50-50 split of the rate, with a joint rate arrangement. The same way on cargo moving from Hawaii and for the east coast, Matson bringing it to San Francisco and we would take it from San Francisco to the east coast.

Senator BARTLETT. Thank you, gentlemen.

Mr. COYLE. Thank you very much, Mr. Chairman.

Senator BARTLETT. The next witness on this bill will be Mr. Metz, Acting Deputy Administrator of the Federal Maritime Administration.

We are glad to have you here, Mr. Metz, and the committee will be pleased to hear your statement.

**STATEMENT OF ELMER E. METZ, ACTING DEPUTY MARITIME
ADMINISTRATOR, MARITIME ADMINISTRATION**

Mr. METZ. Thank you.

Section 511 of the Merchant Marine Act, 1936, authorizes any citizen of the United States to deposit in a construction reserve fund, for the purpose of constructing, reconstructing, or reconditioning vessels, (1) the proceeds of sale of vessels, (2) indemnities for the loss of vessels, (3) earnings from the operation of American-flag vessels, and (4) earnings made on amounts deposited in the fund.

No tax consequences ensue from the deposit in the fund of earnings from the operation of American-flag vessels or of earnings made on amounts deposited in the fund except that they will not be considered unreasonable accumulations of earnings.

Section 511(c), however, provides that if the taxpayer deposits in the fund the net proceeds of sale or net indemnity for loss of a vessel, no gain shall be recognized to the taxpayer for Federal income tax purposes with respect to such sale or loss if the taxpayer so elects on his income tax return. Thus the gain on the transaction would not be required to be included in the taxpayer's taxable income.

Section 511(d) provides that any vessel constructed, reconstructed, or reconditioned with such deposits of proceeds of sale or indemnity shall lose its basis for depreciation to the extent such deposits consist of unrecognized gain. The income tax of 25 percent on the unrecognized gain is thus deferred and the taxpayer ultimately pays in lieu of this tax—assuming he has sufficient earnings—a tax of 52 percent on an amount of ordinary income equal to the unrecognized gain.

Section 511(g) provides that the deferment of the tax on the proceeds of sale or indemnity will be lost, and the capital gains tax thereon will be come payable, unless the deposit is expended—or obligated for expenditure—for the construction, reconstruction, or reconditioning of vessels within 3 years of the date of such deposit. Section 511(h) provides that the Secretary of Commerce may extend this period for 2 additional years.

The act of December 23, 1944 (58 Stat. 90), added a proviso to section 511(h) to provide that, in addition to the foregoing extension, additional extensions could be granted which would end not later than 6 months after termination of the war. Public Law 586, 82d Congress, 66 Stat. 760, amended this proviso to provide that further extensions could be granted that would end not later than September 30, 1953. Public Law 86-237 provided that until January 1, 1961, further extensions could be granted that would end not later than December 31, 1961, and this is the presently existing provision of the proviso. All extensions granted under this provision would expire December 31, 1961.

The bill would amend the foregoing proviso to provide that until January 1, 1962, further extensions of time in which to expend or obligate deposits may be granted but such extensions shall end not later than December 31, 1962.

At present there are 10 construction reserve funds that have been established under section 511 which contain deposits in excess of \$16,800,000. One of these funds—belonging to the American-Hawaiian Steamship Co.—contains deposits in excess of \$11,600,000, and the

time in which to expend or obligate the fund expires on December 31, 1961. The deposits in this fund were made at various dates between July 9, 1954, and November 21, 1956. The time in which to expend or obligate three other funds with deposits totaling about \$1,180,000 expires in 1962.

We understand that the American-Hawaiian Steamship Co. has under consideration means of employing its construction reserve funds in the construction of new vessels.

At the hearing on the bill that became Public Law 86-237—authorizing the last extension of time in which to expend or obligate these funds—the American-Hawaiian Steamship Co. testified that the tax on their approximately \$11 million of deposits would be approximately \$2,500,000 if the time to expend and obligate these funds elapses before such funds can be invested in vessels. This is 25 percent of a capital gain of \$10 million.

If this \$10 million is invested in ships without payment of the capital gains tax, the ships will lose their basis for depreciation to the extent of \$10 million and American-Hawaiian Steamship Co.—if it makes sufficient earnings with the vessels and if tax rates remain the same—would therefore pay \$5,200,000 in additional ordinary income taxes over the life of the vessels in lieu of the capital gains tax of \$2,500,000.

The Department believes that the extension of time within which to expend or obligate the construction reserve funds involved, for the limited additional period provided in the bill, should encourage the construction of some new modern tonnage by unsubsidized companies, and therefore recommends enactment of the bill.

The Bureau of the Budget advises there is no objection to the submission of this statement from the standpoint of the administration's program.

Senator BARTLETT. Thank you, Mr. Metz.

Your view then, the view of the administration is in general terms that the industry stands to gain more if this bill is enacted than if it is not?

Mr. METZ. There is that possibility, yes, assuming the earnings.

Senator BARTLETT. What is the status of these 10 other construction reserve funds, if you know?

Mr. METZ. Some of them expire, three of them, I think, in 1962; the rest of them are dormant now. There are two by bargelines, and then there is another large one by Bethlehem Steel Corp., and they have under consideration the building of some ore carriers.

Senator BARTLETT. They have to act in a hurry though?

Mr. METZ. No, sir, they made the deposit in April of this year and the time would therefore expire 3 years later or April in 1964. That is one of the more recent ones.

Senator BARTLETT. If a deposit is made, then this limitation doesn't exist?

Mr. METZ. There is no limitation on that particular fund.

Senator BARTLETT. Now have any other companies come to you and expressed interest in constructing new ships?

Mr. METZ. Well, all these companies with the exception of 2 that I said out of the 10, still express interest in it. Two of them, in fact, one of them, we have written; that happens to be the Central Gulf

Steamship Co., has a small balance of only \$87 and a few cents and we have asked them to withdraw it because it has been there and apparently they do not intend to use it.

There is another one, which we haven't yet written to, but that is in the same category. It has expired in 1946 and the money has been allowed to stay there.

Senator BARTLETT. In any case, American-Hawaiian has over \$11 million of a total \$16,800,000 in the reserve fund of 10 companies?

Mr. METZ. That is correct.

Senator BARTLETT. Do you think that if this bill should pass and become law that next year other companies might come before the Congress, asking for further extensions? Do you have any information or any estimate as to that?

Mr. METZ. I am just checking—

Senator BARTLETT. Yes, take all the time you need.

Mr. METZ. There would be possibly three other companies that would undoubtedly come in and ask for an extension, yes. Those are tugboat operators.

Senator BARTLETT. Mr. Bourbon?

Mr. BOURBON. No questions.

Senator BARTLETT. Thank you, Mr. Metz.

Mr. Shapiro, vice president of the American Merchant Marine Institute, will be heard next and finally on the list of witnesses furnished the acting chairman with respect to this bill.

STATEMENT OF ALVIN SHAPIRO, VICE PRESIDENT, AMERICAN MERCHANT MARINE INSTITUTE, WASHINGTON, D.C.

Mr. SHAPIRO. Mr. Chairman, I have a letter endorsing this bill, which is largely reiteration of what has been said. I would like to make it a part of the record and then I would like to make just one very brief point.

Senator BARTLETT. It will be made a part of the record at this point.

(The letter follows:)

AMERICAN MERCHANT MARINE INSTITUTE, INC.,
Washington, D.C., July 10, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: The American Merchant Marine Institute, the largest national trade association representing American shipowners and operators, on all coasts of the United States, favors enactment of S. 2085, which your committee is considering. The necessity for the legislation is to extend briefly, until December 31, 1962, the period during which the American-Hawaiian Steamship Co. construction reserve funds must be committed.

The company is one of the oldest of the intercoastal shipping lines. It was established in 1899, and pioneered in the building of large steam freighters. Its vessels were requisitioned by the U.S. Government in both World War I and World War II. After World War II the company again engaged in intercoastal service, but suspended service in 1953 after it became an unprofitable operation.

After investigating new shipping concepts, the company in 1959 filed application with the Maritime Administration for mortgage insurance to cover four container ships for operation in the intercoastal trade. This application was amended by the company in 1960 to cover three ships instead of four. The Maritime Administration denied the application in May of this year because another operator has offered to provide vessels without Government mortgage

insurance assistance. The company has expressed intent to appeal this determination and ask reconsideration of the denial.

At the present time the company has approximately \$11 million in its construction reserve fund, which under existing law, must be committed by December 31, 1961. The extension time sought by this bill would allow time for the Maritime Administration to consider the appeal. In the event the funds cannot be used for container ships as proposed, the company would need additional time to consider the feasibility of other ships.

Another factor of concern, and one which merits consideration, in this situation, is that the Federal income tax that would have to be paid if these funds are not invested in new ships amounts to approximately \$2,500,000. If this amount is paid, it would be lost for new construction, which is so badly needed to upgrade our aging and reconstruct our fast-fading domestic fleet.

The institute urges favorable consideration and enactment of this proposed legislation, the effect of which would at a very minimum remove a discouragement to the new construction of vessels for the rehabilitation of our domestic fleet.

It is requested that this letter be made a part of the record of S. 2085.

Respectfully,

ALVIN SHAPIRO.

Mr. SHAPIRO. The issue involved in the bill before you is in our opinion rather simple. It is conceivable, depending upon the outcome of negotiations and determinations, that the company involved may move forward with three new vessels for the intercoastal trade.

I believe this committee is adequately aware how vital this may be for the shipbuilding industry, for our domestic fleet and for labor, both in the yards and on board ships. If the company is compelled, through the expiration of present legislation, to withdraw its funds now in reserve under section 511, the tax liability thereon could prove to be an insurmountable barrier to the consummation of this potential program.

It seems to me shortsighted to in fact promote this eventuality by failing to extend present time limitation until current negotiations and considerations are concluded. Under no circumstances can the tax liability be escaped. At the very most, it might be delayed 1 year. But counterbalancing this is the potential shot in the arm this project may prove to be to our total economy.

That is all, Mr. Chairman.

Senator BARTLETT. Thank you very much.

Mr. Bourbon?

Mr. BOURBON. No questions.

Senator BARTLETT. And finally, we have a telegram, the text of which will be placed in the record, addressed to Chairman Magnuson, from L. R. Sanford, president of the Shipbuilders Council of America, and he is for the bill.

(The telegram follows:)

JULY 7, 1961.

Council understands you are holding a hearing Monday July 10 on S. 2085, a bill to extend the time for commitment of construction reserve funds to December 31, 1962. Council desires to reiterate its prior support on a similar bill S.2013 in 1959 and trusts that you will see fit to continue your support of the necessary extension for the reasons expressed by you in the Congressional Record of May 20, 1959. Will appreciate the inclusion of this telegram in the record of the hearing.

(Subsequently, the report of the Comptroller General was received, under date of July 19, 1961, and is included here:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, July 19, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate.

DEAR MR. CHAIRMAN: Your letter dated June 16, 1961, requests our comments on S. 2085, 87th Congress, a bill to amend section 511 (h) of the Merchant Marine Act, 1936, as amended, in order to extend the time for commitment of construction reserve funds.

Section 511 of the Merchant Marine Act, 1936, is intended to provide an incentive for the construction, improvement, or acquisition of American vessels for operation in foreign or domestic commerce of the United States without operating-differential subsidy aid by allowing the operators certain Federal tax benefits based upon the amount and nature of deposits made in a construction reserve fund and their subsequent use for the purposes and within the time limits specified in the act. Under subsection (h) thereof, the Maritime Administrator is authorized to grant extensions of time for the use of such deposits. " * * * but such extension shall not be for an aggregate additional period in excess of 2 years with respect to the expenditures or obligations of such deposits or more than 1 year with respect to the progress of such construction * * *."

Public Law 86-237 (73 Stat. 471), enacted on September 8, 1959, provides that until January 1, 1961, further extensions might be granted for a period beginning June 30, 1959, and ending December 31, 1961. S. 2085 would provide that until January 1, 1962, further extensions may be granted for a period beginning upon its enactment, or December 31, 1961, whichever is earlier, and ending December 31, 1962.

The records of the Maritime Administration indicate that as of June 26, 1961, 10 corporations had deposits of \$16,806,428.79 in construction reserve funds. Of this amount, the American-Hawaiian Steamship Co. had deposits of \$11,645,401.96, which have been held by the company in its construction reserve fund for approximately 5 to 7 years. Six corporations with deposits of \$3,981,051.09 would not be affected by the proposed legislation.

The records of the Maritime Administration also show that the American-Hawaiian Steamship Co. discontinued steamship operations in 1953 and that the company has been planning to resume intercoastal service with new vessels. However, its application for mortgage insurance under title XI of the Merchant Marine Act, 1936, in connection with proposed construction of container vessels, was recently rejected by the Maritime Administration.

Additionally, at a hearing held June 3, 1959, before the Subcommittee on Merchant Marine and Fisheries of the Senate Committee on Interstate and Foreign Commerce, the company testified that the Federal income tax on approximately \$11 million of deposits in the construction reserve fund would be about \$2.5 million if the time to expend or obligate these funds elapsed before such funds could be invested in vessels. In view of the above, it would appear that the American-Hawaiian Steamship Co. would be the principal beneficiary under the bill.

We have no other information relative to the need for this legislation and, since the advisability of permitting further extensions for the use of construction reserve funds would appear to be a question of congressional policy, we make no recommendation concerning enactment of the bill.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

Senator BARTLETT. That is all on S. 2085.

Next, S. 685, to amend the Coast and Geodetic Survey Commissioned Officers Act of 1948, as amended, and for other purposes.

(The bill follows:)

[S. 685, 87th Cong., 1st sess.]

A BILL To amend the Coast and Geodetic Survey Commissioned Officers Act of 1948, as amended, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Coast and Geodetic Survey Commissioned Officers Act of 1948 (33 U.S.C. 853a-853r), as amended, is further amended by:

(a) Adding at the end of section 2 a new subsection reading as follows:

"(e) The total number of officers on active duty as authorized by law may be temporarily exceeded provided that the average number on active duty for the fiscal year shall not exceed the authorized number."

(b) Amending section 6(a) to delete the proviso added by the Act of June 21, 1955 (ch. 172, 69 Stat. 169, sec. 4).

(c) Redesignating section 12 as section 13.

(d) Adding a new section 12 reading as follows:

"SEC. 12. (a) Temporary appointment in the grade of ensign may be made by the President alone, provided such temporary appointment will be terminated at the close of the next regular session of the Congress unless confirmed by the Senate.

"(b) Officers in the permanent grade of ensign may be temporarily promoted to and appointed in the grade of lieutenant junior grade by the President alone whenever vacancies exist in higher grades.

"(c) When deemed necessary or desirable by the Secretary of Commerce to be in the best interest of the service, officers in any permanent grade may be temporarily promoted one grade by the President alone provided such temporary promotion will terminate upon the transfer of the officer to a new assignment, and further provided the number of officers holding temporary promotions under authority of this subsection shall not exceed the whole number nearest 1½ per centum of the total number of officers authorized to be on active duty."

(e) Redesignating section 13 as section 14, striking the word "thirty" and substituting the word "twenty" in lieu thereof.

(f) Redesignating sections 20 and 21 as sections 21 and 22 respectively.

(g) Adding a new section 20 reading as follows:

"SEC. 20. Notwithstanding the provisions of section 209 of the Act of June 30, 1932 (ch. 314, 47 Stat. 405, 5 U.S.C. 73c) when any commissioned officer of the Coast and Geodetic Survey is ordered to make a permanent change of station, one motor vehicle owned by him for his personal use may be transported to his new station on a Government-owned vessel or as otherwise authorized by law. Expenses incurred by virtue of this subsection shall be payable from the appropriation available for transportation of household effects."

SEC. 2. Section 1(r) of the Civil Service Retirement Act, as amended (5 U.S.C. 2251(r)), is further amended by inserting after "the Regular Corps or Reserve Corps of the Public Health Service", the phrase "or, after June 30, 1961, as a commissioned officer of the Coast and Geodetic Survey."

SEC. 3. Section 304(c) of the Career Compensation Act of 1949, as amended (37 U.S.C. 254(c)), is further amended by inserting the words "or as Director of the Coast and Geodetic Survey" after the words "Surgeon General of the public Health Service."

SEC. 4. Sections 2731 and 2732 of chapter 163 of title 10, United States Code, are hereby adopted for applicability to the Coast and Geodetic Survey.

Senator BARTLET. Our first witness is Rear Adm. Charles Pierce, Deputy Director, Coast and Geodetic Survey. We are glad to have you here, Admiral.

**STATEMENT OF REAR ADM. CHARLES PIERCE, DEPUTY DIRECTOR,
COAST AND GEODETIC SURVEY, WASHINGTON, D.C.**

Admiral PIERCE. I am glad to be here, sir.

Mr. Chairman, my name is Charles Pierce and I am Deputy Director of the Coast and Geodetic Survey. Admiral Taylor could

not be here today because he is inspecting six of our ships working in Alaskan waters right now.

Senator BARTLETT. He is on a more important assignment then.

Admiral PIERCE. I think so.

Senator BARTLETT. Yes, especially in those waters.

Admiral PIERCE. I think he was in Kodiak the last time I heard from him. I have a statement, sir, I would like to read.

Mr. Chairman and members of the committee; it is a pleasure to appear here to present the views of the Department of Commerce with respect to S. 685, a bill to amend the Coast and Geodetic Survey Commissioned Officers' Act of 1948, and for other purposes. The commissioned corps of the Coast and Geodetic Survey is one of the seven uniformed services, all of which are paid under provisions of the Career Compensation Act of 1949 as amended. The Coast Guard, one of these uniformed services, is also under the jurisdiction of this committee.

The commissioned officer corps of the Coast and Geodetic Survey is composed entirely of graduate engineers or those college graduates who have taken an equivalent amount of mathematics and natural sciences. We believe only one other service requires an academic degree of all appointees. Competition for recruitment and retention of this class of personnel is very intense.

Since the Korean conflict we have experienced a high rate of resignations among officers with 2 to 4 years experience. At this stage in their career, these officers are just becoming thoroughly familiar with the work of the Bureau, and are qualified for many assignments. This high "turnover" greatly complicates operational planning as we must constantly make changes in proposed assignments to replace those officers leaving the service. In addition the loss of many trained officers imposes a severe financial burden on the Bureau as their replacements must be trained before they are qualified for productive work.

Some of these resignations can be attributed to fulfillment of their military obligation under the Universal Military Training and Service Act. However, we believe a number of these resignations can be traced to the fact that we cannot offer them benefits which are available to the other services.

The purpose of this bill is to improve the efficiency of the corps by providing some of those benefits and to effect certain technical changes which will improve the administration of the corps.

If it is agreeable with the committee, I would now like to go through the bill section by section. I will answer questions as I discuss each section or at the end of the analysis as the committee desires.

Section 1(a) would enact into substantive law a provision that has been included in the annual Appropriation Act whereby the number of officers on the active list as authorized in the Appropriation Act will be an average number rather than a maximum.

Senator BARTLETT. Let us query section by section, if that is all right with you. What does that mean?

Admiral PIERCE. It means we get the majority of the officers when they graduate in June and then we get most of our resignations occurring between June and let us say October, so therefore, we go down from our number of officers and we take very few in from then

until the next June. So, we would be much better off with an average rate rather than a maximum. If we could take in, let's say, 190 to 195 in the fall because we have had a large resignation rate, this would average out because we would have less than our authorized number during the rest of the year.

Senator BARTLETT. How long has this provision been included in the Appropriations Act?

Admiral PIERCE. One year, I believe.

Senator BARTLETT. Just starting?

Admiral PIERCE. Yes, sir.

Senator BARTLETT. What was the case before then?

Admiral PIERCE. We could never exceed 185, so if we lose a large number of officers, let's say, by the fall, we could not recruit 190 to 200 to make up for this.

Senator BARTLETT. You had to wait until the next summer?

Admiral PIERCE. That is right.

Senator BARTLETT. How many officers does the Survey have?

Admiral PIERCE. We are authorized 185 average.

Senator BARTLETT. In the aggregate?

Admiral PIERCE. Active duty, 185.

Senator BARTLETT. All right, you may proceed.

Admiral PIERCE. Section 1(b) repeals the authority to permanently promote ensigns to lieutenant (junior grade) after 2 years service when there are vacancies in the grade of lieutenant (junior grade). Permanent promotions to this grade would be made after 3 years service which is in agreement with the other services.

Senator BARTLETT. Why?

Admiral PIERCE. Because what we want now is authority to promote to lieutenant (junior grade) at any time to have parity with the other services. We have a law now that after 2 years of services, they can be promoted to lieutenant (junior grade) and the other services all promote in a year and a half, so we want to repeal this old law and be allowed—there is another section in here which will allow us to promote at any time to ensign.

Senator BARTLETT. That brings you into conformity with the other services?

Admiral PIERCE. That brings us into conformity with all of the other services.

Senator BARTLETT. Proceed, if you will.

Admiral PIERCE. Section 1(c) is a renumbering section.

Section 1(d) adds a new section, section 12, to the act. New section 12(a) would authorize temporary Presidential appointments as ensign. Such appointments would be made when Senate confirmation cannot be obtained prior to entrance on duty because the Senate is not in session at the time or when the name of the applicant is not known sufficiently in advance to obtain this confirmation. Presently, such applicants are appointed as deck officer. This involves additional paperwork as the applicant must later be separated from that position, reimbursed for accrued leave, and reappointed to the new position. Also, quite frequently an individual is in a travel status at the time of confirmation necessitating new orders which serves to further complicate vouchering procedure. This additional clerical work could be eliminated.

Senator BARTLETT. Mr. Bourbon.

Mr. BOURBON. Admiral, when a man is a deck officer, is he performing his obligations under the Military Service Act?

Admiral PIERCE. He is not. He must perform commissioned service.

Mr. BOURBON. Therefore, such a commission is less attractive to the average man than permanent ensign?

Admiral PIERCE. That is right.

Senator BARTLETT. Otherwise, what is the difference between a deck officer and an ensign?

Admiral PIERCE. A deck officer is a civil service employee.

Senator BARTLETT. Is there any number of temporary Presidential appointments to the grade of ensign that might be made under the provisions of this section?

Admiral PIERCE. I do not believe so. You see, as it stands now, if the Senate is not in session, they have to stay a deck officer until they return and we can resubmit their names, so they are civil service personnel until we can submit them.

Senator BARTLETT. Do you have an established number of ensigns within the officers corps?

Admiral PIERCE. Yes, sir.

Senator BARTLETT. How many?

Admiral PIERCE. About 35.

Senator BARTLETT. That would not be disturbed in any way at all by this section?

Admiral PIERCE. No, sir.

Senator BARTLETT. Thank you.

Admiral PIERCE. New section 12(b) would authorize temporary promotion to lieutenant (junior grade) whenever vacancies exist in any of the higher grades. We have not specified any definite time for service as ensign before promotion to lieutenant (junior grade). It is our intention to follow very closely the schedule followed by the other services. At present, they are, as a rule, making these temporary promotions after 18 months of service, that is in these services. The existing 2-year requirement for us to promote to that grade, when compared to the year and one-half for other services, is inequitable and is a source of discontent to the younger officers.

I think I explained that in the other paragraph.

Senator BARTLETT. Right.

Admiral PIERCE. New section 12(c) would authorize a one-grade temporary promotion of any officer when, because of his assignment, the Secretary of Commerce determines it is necessary or desirable for him to have a higher rank. Such appointment would be terminated upon transfer to a new assignment and not more than 14½ percent of the total number of officers on active duty could be promoted under this subsection. At the present strength of the corps, only three officers could hold such promotions at any time.

Now in that regard, I would like to mention that we have an officer assigned to the geodetic staff of the Air Force at Patrick Air Force Base for sometime. He can do better work if he is the rank of a captain. Now we have an officer assigned right now as a commander. He should be a captain but he has to wait until he gets this rank. If we had this provision, we could make him a captain, which is the degree of responsibility he has at Canaveral.

We had a group working in Ethiopia, some very important work, geodetic work, and we sent a lieutenant commander out there and he did a terrific job, but the people out there queried as to why we gave such responsibility to an officer with this low rank. There was nothing we could do to raise him one grade higher until he came up on the promotion list. These are exceptional cases, but they do occur.

Senator BARTLETT. Why would this limitation of three officers exist?

Admiral PIERCE. Because we do not think we should abuse the privilege and we feel this would satisfy our requirements.

Senator BARTLETT. Is that limitation set forth in the section?

Admiral PIERCE. Yes, the section is just as it reads here. The limitation is set forth and we feel this would be adequate for our needs.

Senator BARTLETT. What if you needed five?

Admiral PIERCE. We could not do it then but we don't foresee that contingency.

Senator BARTLETT. But it might exist; might it not?

Admiral PIERCE. It might in time of real emergency.

Senator BARTLETT. It seems to me the Director should be given administrative responsibility. I am sure it would not be abused, but it is a minor point. Proceed, if you will.

Admiral PIERCE. Section 1(e) renumbers the section and amends it to authorize discretionary retirement after 20 years' service in lieu of the 30 years' service now required. Under existing law our officers may not request voluntary retirement until they have completed 30 years' service whereas officers of all other informed services may request it upon completing 20 years of service. Approval of any request for voluntary retirement, regardless of the years of service, is at the discretion of the President under present law and would continue so under this proposal. Thus, at times when personnel were short, requests could be denied and when stagnation in the line might produce a serious "hump" these requests could be accepted to prevent a "hump" from developing. In spite of the fact that this proposal would authorize voluntary retirements 10 years earlier than now authorized, we believe it will, in the long run, be an economy because it will result in retaining capable officers in the service.

Over one-third of the officers resigning during the 5-year period 1953-57 were in the service 3 to 8 years. For them to have received retirement benefits unless they were involuntarily retired, it would have been necessary for them to remain in the service 22 to 27 more years. If 20-year voluntary retirement had been available, this period would have been reduced to 12 to 17 years. To any young person, the difference between 22 to 27 years and 12 to 17 years is considerable. We further believe the prospects for higher retirement pay will induce them not to request retirement immediately upon completion of 20 years service if they can see that a reasonable steady advancement can be forecast.

Now this paragraph, like the others, is just pointing up the disparity between our services and the other uniformed services. We don't have this voluntary 20-year retirement privilege.

Senator BARTLETT. Well, I think you ought to have equality, but it also seems to me, and this is no time probably to discuss it, but I am going to anyway, that we have ourselves in a terrible box in this country. We make it possible for people in their early 40's in the services,

who have the most to contribute in the years ahead, to leave those services and go into civilian life when their real contribution lies ahead. But the decision has been otherwise, so I do not see why the Coast and Geodetic Survey ought not to have the same privileges.

Admiral PIERCE. Section 1(f) is a renumbering section.

Section 1(g) adds a new section 20 to the act which would authorize the shipment of privately owned automobile by Government vessel or as otherwise authorized when any commissioned officer is ordered to make a permanent change of station. The language of this section is similar to that authorizing such shipments for members of the Armed Forces. While no restrictions are contained in the language of the bill, shipments under this authority would be restricted to or from points outside the 48 States or the District of Columbia to or from the nearest port of embarkation within the 48 States. The approval of Public Law 86-707 authorized similar shipments for civilian employees and, with the existing authority for members of the Armed Forces, we believe commissioned officers of the Coast and Geodetic Survey and the Public Health Service are the only Federal employees not authorized to ship a personally owned automobile at Government expense on such a station change.

Now in regard to this, I might mention a young officer, who was a lieutenant commander, was transferred to Honolulu and he was just getting by financially, as is quite obvious from the pay of a lieutenant commander, and yet he had to ship his own car to Honolulu at his own expense because we don't have the authority. We didn't think it was right and he didn't think it was right, but there was nothing we could do about it.

Senator BARTLETT. Why do you mention the 48 States?

Admiral PIERCE. From the wording it might sound like we were giving authority to ship a car from Washington to Seattle. This is not it. This is oversea shipping we are talking about, outside the United States. We are not talking about shipment of a vehicle within the United States. This is not allowable because it is not classified as household goods. This is only shipment from the United States to oversea points—Alaska, Philippines, Europe, wherever it may be.

Senator BARTLETT. Well, for example, you can drive from Washington to Alaska.

Admiral PIERCE. That is right, but it might be cheaper in the long run, depending on how long it would take him to drive, to ship his car up and fly him up because his pay is worth something.

Senator BARTLETT. It would depend on how young he is, too. Kids drive up there a whole lot faster.

Admiral PIERCE. Section 2 of the bill would amend the Civil Service Act so as to credit service as a commissioned officer of the Coast and Geodetic Survey for the purposes of civil service retirement, the same as now credited for all other members of the uniformed services. This would place service as a commissioned officer of the Coast and Geodetic Survey within the term "military service" for the purposes of the Civil Service Retirement Act on the same basis as it is now credited for purpose of laws administered by the Veterans' Administration.

Senator BARTLETT. I need education on that.

Admiral PIERCE. Well, all of the other services, Army, Navy, Air Force, if a commissioned officer serves with them and then resigns or gets out one way or another and goes to work for the U.S. civil service, he gets credit for his military time when he transfers to the civil service. Now, if we have an officer that—

Senator BARTLETT. He gets credit for his military time?

Admiral PIERCE. Yes.

Senator BARTLETT. How do you mean he gets credit?

Admiral PIERCE. If he has 4 years in the military, he gets 4 years' credit when he goes into civil service.

Senator BARTLETT. Let us say that he voluntarily retired after 30 years of service and was drawing retirement pay from the Coast and Geodetic Survey and then went to work for the Department of Commerce, would this relate in any way to that situation?

Admiral PIERCE. Well, probably not, because he would be under dual compensation law then where he can only earn so much money. This refers mostly to younger people, a younger officer, for instance, stays in 2 or 3 years. We have some who resign from our service when they are 25 years of age and then go into civil service. So if they spent 4 years with us or 3 years with us, they get 3 years of credit with civil service because of this military service.

Senator BARTLETT. They do not get that now?

Admiral PIERCE. From Coast and Geodetic Survey?

Senator BARTLETT. Yes.

Admiral PIERCE. We cannot give it to them.

Senator BARTLETT. But if a boy is drafted and serves 2 years, he gets that credit, does he not?

Admiral PIERCE. Yes, I am sure he does.

Senator BARTLETT. I am quite sure he does.

Admiral PIERCE. I am sure he does, that is right—that is military service.

Senator BARTLETT. I thought everybody did but the Coast and Geodetic Survey does not?

Admiral PIERCE. No credit at all. In fact, we have one boy at the Hydrographic Office who can't get it.

Senator BARTLETT. Thank you.

Admiral PIERCE. Section 3 would amend the Career Compensation Act of 1949 as amended, to authorize a special money allowance of \$1,200 per year to the Director of the Coast and Geodetic Survey. At the present time, the chiefs of the other uniformed services receive an allowance ranging from \$1,200 to \$4,000 per year. The Coast and Geodetic Survey is the only service whose head does not receive this allowance. As in other services the Director is frequently required, by common courtesy, to entertain foreign officials who visit the Bureau. Since there is presently no allowance for this purpose, he is either put to considerable personal expense or placed in the embarrassing position of being forced to shirk obvious social obligations. The Director is a career officer of the service and it is a personal hardship to absorb these extra expenses incurred solely by virtue of his position.

I would like to elaborate on that a little bit. We have an international technical cooperation branch in our service and for the last 15 years we have received people in mapping, charting, and control work that study with us from 6 months to a year, and then we have

a great many visitors from overseas who are heads of these agencies who want to come and visit us for 1 or 2 days. When they do come, it is obvious we want to take them out to lunch and take them to a decent place, and we absorb these expenses.

Well, it gets pretty heavy at times. For instance, we had 12 officers from Taiwan and we entertained them at one time. Well, they came to visit the Bureau, only one thing to do. They were generals, colonels, and so forth and we took them out and paid for it ourselves. I think this is the biggest area I am talking about and foreigners are very sensitive about social obligations.

I know when I have been overseas they bend over backwards to entertain us, so this is a matter, I would call it, a modest luncheon, that is all it amounts to.

Senator BARTLETT. Admiral, would you object if we would sneak in an innocuous little proviso to cover Members of the Congress, too?

Admiral PIERCE. No, I think it would be equally justified, but this is the point here, and as I say, here again, there is lack of parity. Now, this is only for the head of the agency, this is for nobody else.

Senator BARTLETT. Will you proceed, please?

Admiral PIERCE. Section 4 would make applicable to officers of the Coast and Geodetic Survey those sections of title 10, United States Code, which authorize the service concerned to settle a claim for damage to an officer's personal property when the property is damaged, under the same conditions as is now authorized for members of the Armed Forces.

Claims under this section would be limited, most of them resulting from damage to household effects occurring during a change of station move. Any carrier liability or insurance coverage would reduce the claim by that amount. Presently when effects are damaged, the only relief for our officers is action against the mover. In most cases the effects go into storage at one end or the other. Since no one company generally handles the effects from "door to door" the split responsibility often results in the individual being forced to take the loss.

In this regard, I would like to add a point.

This is a very minor point, I don't think we have one claim in 2 or 3 years, but it is still again this particular situation. In other words, I shipped some furniture from here to Seattle, damaged on the way out, I can't get anything out of the carrier even if I have insurance, or I can't get anybody from the movers that move it into the house, so as a result, if you have to have it repaired or no good, you take the loss yourself.

But this is a very minor item from a financial standpoint, very few claims are filed.

Senator BARTLETT. Yes, sir.

Admiral PIERCE. In conclusion, I would like to restate my belief that if we expect to retain officers in the commissioned corps of the Coast and Geodetic Survey the inequities between the various uniformed services must be removed, in other words, we must attain parity with the other services.

In many cases the Congress has recognized the need for parity by including the Coast and Geodetic Survey Commissioned Corps in a number of acts such as "The Servicemen's and Veterans' Survivor

Benefits Act"; "Amendments to the Social Security Act"; "Dependents Medical Care Act"; "The Career Compensation Act of 1949"; and the "Uniformed Services Contingency Option Act."

The establishment of parity between the services has also included loss of benefits for our officers when comparable benefits were lost by members of the other services. Examples of this include repeal of authority for advancement on the retired list of those officers specially commended for performance of duty in actual combat and repeal of authority for emergency care in civilian medical facilities for retired officers.

In regard to this last paragraph, what I am trying to say is, we are only asking for parity in many things, but when they lose a privilege, we feel we should lose it also, we want parity to work both ways.

Enactment of this bill would remove some of the inequities which presently exist between officers of our service and the other services. The Department of Commerce recommends favorable consideration of this proposed legislation.

Thank you, sir.

Senator BARTLETT. Do you have any questions, Mr. Bourbon?

Mr. BOURBON. Admiral, the report of the Comptroller General said that he had no objection to the bill, but he said:

As a technical matter we suggest that section 4 of the bill be revised to amend the provisions concerned to include the Coast and Geodetic Survey rather than to make them applicable by assimilation.

There has been a bill prepared by the Officers' Corps that I think would take care of that, where they say:

Revise section 4 to read: "Section 3-A of the Act of August 10, 1956, as amended, is further amended by redesignating subsection 8 and subsection 9 and adding a new subsection 8 reading as follows:

"Subsections 2731 and 2732, property laws, incident to service."

Admiral PIERCE. I have no objection to that.

Mr. BOURBON. Do you think that will meet the Comptroller's suggestion?

Admiral PIERCE. Yes, sir.

Mr. BOURBON. That is all I have.

Senator BARTLETT. Admiral Pierce, thank you very much. I suppose that a member of the committee ought not to utter judgment after having heard only one witness, but I want to say I am shocked to learn that these discriminations exist. I didn't know about them and I doubt whether 1 American in 50 million did. And for my own part, on the basis of your testimony, I am absolutely convinced and persuaded that this bill ought to become law.

Admiral PIERCE. Thank you, sir. I would like to add, Mr. Chairman, that I have spent 12 years on survey ships in Alaskan waters, so I am pretty familiar with your country.

Senator BARTLETT. That is why you made such a good witness on account of your Alaskan experience.

Admiral PIERCE. It makes seamen, I can tell you that. It makes rough going.

Mr. BOURBON. Admiral, will you be here a little while? There is another amendment on which we would like to have your advice.

Admiral PIERCE. Yes, sir, I will. Thank you.

Senator BARTLETT. Captain Willenbacher, we are pleased to hear from you.

STATEMENT OF FRANZ O. WILLENBUCHER, CAPTAIN, U.S. NAVY (RETIRED), NATIONAL COUNSEL OF THE ASSOCIATION OF COMMISSIONED OFFICERS, COAST AND GEODETIC SURVEY

Captain WILLENBUCHER. My name is Franz O. Willenbacher, captain, U.S. Navy, retired, national counsel of the Association of Commissioned Officers, Coast and Geodetic Survey.

The active membership of the association consists of practically all the career active duty personnel of the service and over half of the retired officers have retained associate membership. This organization is pleased to have the opportunity to appear before the committee to present the views of its members on the bill, S. 685, "to amend the Coast and Geodetic Survey Commissioned Officers Act of 1948, as amended, and for other purposes.

At the present time, there are a number of inequities existing between members of the Coast and Geodetic Survey and the other uniformed services, with which the Survey is included in much legislation, which have an adverse morale effect on Survey career service personnel.

This proposed legislation would remove some of the inequities and improve the morale of the Survey career service personnel. This would be a big factor in encouraging the retention of younger officers. In this period of expanding scientific horizons, it is necessary, indeed mandatory, to maintain a strong and vigorous corps to make service to the country attractive to young officers.

Since the statement of purpose which accompanied the legislation when it was introduced in the Senate gave a detailed analysis of the bill, I will not take up the committee's time by repetition. However, I would like to point out some of the major inequities which require correction:

(a) Members who enter the armed services (Army, Navy, Air Force, Marine Corps, and Coast Guard) receive their first promotions after 18 months of service. Members of the Public Health Service receive their first promotion after even a shorter period of active service. However, members who enter the Survey are presently required to wait 2 years for their first promotion.

(b) Members of the armed services, indicated in (a) above, and members of the Public Health Service may request voluntary retirement, the granting of which is discretionary with the Secretary concerned, after 20 years of active service whereas members of the Survey are presently required to serve 30 years of active duty before they may request voluntary retirement.

(c) Members of the armed services, indicated in (a) above, may have their privately owned automobiles transported to oversea stations at Government expense whereas members of the Survey are presently not authorized such transportation at Government expense. They must pay any such transportation expenses from their own private funds. It is interesting to note in this connection that Public Law 86-707 authorized automobile shipments for civilian employees when ordered to stations outside the continental United States.

The above are a few of the inequities which the pending legislation will, if enacted, correct.

Further, the enactment of this legislation would help correct some of the more glaring differences between the Survey's commissioned officers and those of the military services and the association strongly recommends favorable consideration.

Aside from the above, the association believes the commissioned corps can be strengthened by giving some attention to the initial appointment of Survey officers. Interpretation of existing legislation is that the Survey does not have authority to appoint personnel to the commissioned corps, except in the lowest grade. Consequently, very few persons who have pursued courses of education beyond their first college degree or who have worked in industry or Government after graduation, apply for appointment to the commissioned corps of the Survey as they must start at the bottom of the list, receiving no credit for this experience or higher education.

A shortage of officers now exists in the grade of lieutenant. The enactment of legislation which will permit the appointment of officers in that grade and the grade of lieutenant (junior grade) should serve to enable the Survey to fill the existing vacancies and the association recommends the enactment of such legislation.

A suggested language change in S. 685, which would implement this recommendation of the association in this respect, is respectfully submitted as follows:

Add new section (h) to section 1 reading as follows:

(h) Adding a new section 23 reading as follows:

"Sec. 23(a) Original appointments may be made in grades up to and including lieutenant after passage of a mental and physical examination given in accordance with regulations prescribed by the Secretary of Commerce, *provided*, That the President, under such regulations as he may prescribe, may revoke the commission of any officer appointed under this section during his first three years of service if he is found not qualified for the service.

"(b) Any person appointed under authority of this section shall be placed on the lineal list of active duty officers in a position commensurate with his age, education and experience in accordance with regulations prescribed by the Secretary of Commerce.

"(c) (1) For the purposes of basic pay any person appointed under this section to the grade of lieutenant or lieutenant (junior grade) shall be considered as having, on date of appointment, three years of one and one-half years of service respectively.

"(2) If a person appointed under this section is entitled to credit for the purpose of basic pay under other provision of law which would exceed that authorized by subsection (c) (1) he shall be credited with that service in lieu of the credit provided by subsection (c) (1)."

That is the end of the proposed amendment. I wish to thank the committee again for the privilege of appearing here to present the indorsement of the Association of Commissioned Officers, Coast and Geodetic Survey, of this proposed legislation and to submit the above associated amendment.

Senator BARTLET. Captain, in respect to the amendments you have suggested, is the authority granted under that comparable with that possessed now in the other services?

Captain WILLENBUCHER. I would not think it was precisely the same, but this would not be a precedent because the other services, for example, after the war, had authority to integrate officers at even much higher ranks than lieutenant from among the reserves and from

other sources. Therefore, there are or have been comparable provisions in other services.

Senator BARTLETT. Do you judge this as being necessary to fill up existing vacancies?

Captain WILLENBUCHER. I do because the association which I represent has that unanimous feeling.

Senator BARTLETT. Thank you, Captain.

Mr. Bourbon?

Mr. BOURBON. Captain, do you know whether any of the other services have the authority, when they take a man in, to give him credit for 3 years or other amounts of service that he has not performed?

Captain WILLENBUCHER. Oh, there are constructive service allowances, very definitely. For example, the doctors and dentists have a substantial opportunity for the granting to them of constructive service when they are taken into the service; yes, sir.

Senator BARTLETT. But aside from specialists, such as dentists and doctors—

Captain WILLENBUCHER. Except for the authorization of constructive service on the integration to provide the large number of regulars in the various, strictly military services, I am not aware of any that would compare exactly to this.

Senator BARTLETT. Of course, Captain, we want to hear the Survey's estimate of this amendment. I am going to ask Admiral Pierce to return to the stand.

You don't have to leave, Captain, we might want to ask you a question or two.

Do you have, Admiral, an opinion on this proposed amendment?

Admiral PIERCE. Yes, sir; I do, Mr. Chairman.

We have had several requests from officers, let's say, who are in the Navy and decided they would like to get into our line of work. Maybe they have had 4 years, they said, "Can we transfer?"

Well, there is no provision for them transferring into Coast and Geodetic Survey. The only answer I can give you, you will have to go back and start as an ensign. This, of course, is preposterous. I think in this situation it certainly would be helpful, and we do have vacancies in the grade of lieutenant, which we need to fill up, so it looks to me like if we could get, say, graduate engineers with master's degrees, who have gone to school at least 5 years, and could pass physical examination, this might be a very good way to attract them.

Senator BARTLETT. Do you know if this amendment has been considered by the Bureau of the Budget or Secretary of Commerce?

Admiral PIERCE. The Secretary of Commerce a year ago had an ad hoc committee to study our commissioned corps in relation to our privileges and what we were accomplishing and so forth, and at that time, one of the recommendations of this ad hoc committee to the Secretary of Commerce, was that we do this very thing.

Senator BARTLETT. Would you agree with the captain that if this amendment were adopted, it wouldn't be in violation of similar provisions made in other services, even if not identical?

Admiral, do you agree with the captain as to that?

Admiral PIERCE. I don't believe the other services would object to this, because there are examples, like doctors and dentists. To me it is more of a case of maybe transferring, giving us a chance to have

them transfer, if not officially, transfer by us taking them in at a higher grade, so I don't believe the other services would object.

This is my opinion.

Captain WILLENBUCHER. I don't think so, either.

Senator BARTLETT. Thank you, gentlemen.

Here is a letter from the General Counsel, Department of Commerce, in favor of the bill, and the letter to Chairman Magnuson from the Comptroller General, previously alluded to by Mr. Bourbon, offering no objection. Those will be included in the record.

The committee will stand in recess.

(A short recess was taken.)

(The documents referred to are as appended, together with a report from the Department of the Navy for the Department of Defense, dated July 12, 1961, and a letter from Mr. Willenbucher, dated July 10, 1961, supplying some data requested by the chairman.)

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., June 30, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: On January 19, 1961, before the present administration took office, the Department of Commerce submitted to the 87th Congress for introduction the following item of draft legislation entitled "To amend the Coast and Geodetic Survey Commissioned Officers' Act of 1948, as amended, and for other purposes."

The draft legislation was referred to your committee for consideration and was introduced as S. 685.

You are advised that the Department has reexamined this item and we continue to support its enactment.

The Bureau of the Budget has advised that there is no objection from the standpoint of the administration's program to our continued support of this draft legislation.

Sincerely,

ROBERT E. GILES.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 3, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Interstate and Foreign Commerce,
U.S. Senate.*

DEAR MR. CHAIRMAN: Your letter of January 31, 1961, acknowledged February 2, requests our views on S. 685, to amend the Coast and Geodetic Survey Commissioned Officers' Act of 1948, as amended, and for other purposes.

The laws relating to Coast and Geodetic Survey commissioned officers (33 U.S.C. 851-874), provide generally for the distribution, promotion, separation, and retirement of such officers on the same basis as is authorized for commissioned officers of the other uniformed services. General provisions for the pay and allowances of the uniformed services, including the commissioned corps of the Coast and Geodetic Survey, are made by the Career Compensation Act of 1949, as amended. However, some disparity of benefits exists in certain special areas between commissioned officers of the Coast and Geodetic Survey and commissioned officers of the other uniformed services. S. 685 would provide additional benefits authorized by legislation now applicable to officers of the other uniformed services in such special areas.

The need for this proposed legislation is contained in a statement on pages 1323 and 1324 of the Congressional Record dated January 30, 1961, submitted by the Under Secretary of Commerce in support of the bill and we believe that such statement is a substantially accurate presentation of the purposes and effect of the bill. Matters relating to the promotion and appointment of officers of the uniformed services and the adequacy of the pay and allowances and other

emoluments provided for such officers involve matters of policy for determination by the Congress in the light of the personnel problems of the departments concerned and we express no opinion on that aspect of the bill.

As a technical matter we suggest that section 4 of the bill be revised to amend the provisions concerned to include the Coast and Geodetic Survey rather than to make them applicable by assimilation. We have no objection to favorable consideration of S. 685.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
OFFICE OF LEGISLATIVE AFFAIRS,
Washington, D.C., July 12, 1961.

Hon. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate, Washington D.C.*

My DEAR MR. CHAIRMAN: Your request for comment on S. 685, a bill to amend the Coast and Geodetic Survey Commissioned Officers' Act of 1948, as amended, and for other purposes, has been referred to this Department by the Secretary of Defense for a report expressing the views of the Department of Defense.

The purpose of S. 685 is to amend the Coast and Geodetic Survey Commissioned Officers' Act of 1948 (ch. 390, 62 Stat. 297) as amended (33 U.S.C. 853a-853r), to place officers of the Coast and Geodetic Survey on a basis more comparable with that of officers of the Armed Forces and of the other uniformed services.

This is in keeping with the original intent of the Coast and Geodetic Survey Commissioned Officers' Act of 1948. The Department of the Navy, on behalf of the Department of Defense, therefore interposes no objection to the enactment of S. 685.

From a technical legislative drafting viewpoint, section 4 is rather awkward in its method of making the claims provisions of 10 U.S.C. 2732 applicable to the Coast and Geodetic Survey. It is recommended that section 4 be revised to redesignate present clause (8) of section 3(a) of the act of August 10, 1956 (ch. 1041, 70A Stat. 619), as amended (33 U.S.C. 857a(a)(8)), as clause "(9)" and to add a new clause (8) after clause (7) as follows: "(8) Sections 2731 and 2732, Property Loss: Incident to Service."

It is further suggested that section 2735 be added to the sections enumerated in the above proposed clause 8, in order that the settlement of the claims be final and conclusive.

This report on S. 685 has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Bureau of the Budget advises that, from the standpoint of the administration's program, there is no objection to the presentation of this report for the consideration of the committee.

Sincerely yours,

W. S. SAMPSON,
*Captain, U.S. Navy,
Deputy Chief
(For the Secretary of the Navy).*

LAW OFFICES OF MERRICK, KING, WILLENBRUCHER & SHELDON,
Washington, D.C., July 10, 1961.

Senator WARREN G. MAGNUSON,
*Chairman, Senate Committee on Commerce,
Senate Office Building, Washington, D.C.*

DEAR SENATOR MAGNUSON: Today, when I had the privilege of presenting to the subcommittee a statement on behalf of the Association of Commissioned Officers, Coast and Geodetic Survey, on S. 685, I was asked by the chairman, with reference to the amendment recommended by the association to authorize the original appointment of officers in the ranks of lieutenant and lieutenant

(junior grade), whether there were similar authorizing provisions for the military services. I regret that I was unable to answer the question with definiteness at that time. Upon my return to my office, I checked into the matter and now wish to report to the committee that the various military services and the Public Health Service do have such authority.

The authority of the various military services in the above-mentioned respect is contained in the following provisions:

Army: 10 U.S.C. 3286, 3287, and 3288.

Navy: 10 U.S.C. 5573(a) for appointments of reserve officers in the Regular Navy, and 10 U.S.C. 5577 for appointments in the Civil Engineer Corps for officers in the rank of lieutenant (junior grade); other provisions provide for the initial appointments for doctors and dentists in the rank of lieutenant (junior grade).

Air Force: 10 U.S.C. 8287 and 8288.

Coast Guard: 14 U.S.C. 2555.

Public Health Service: 42 U.S.C. 209. This provision provides for the extension of pay credits to those appointed in the higher ranks.

Sincerely,

F. O. WILLENBUCHER.

Senator BARTLETT. The committee will be in order.

On S. 1808, Mr. Metz will testify in behalf of the Federal Maritime Administration.

Mr. Metz?

(S. 1808 follows:)

[S. 1808, 87th Cong., 1st sess.]

A BILL To amend the Merchant Marine Act, 1936, as amended, to encourage the construction and maintenance of American-flag vessels built in American shipyards

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 901(b) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1241), is hereby amended by inserting at the end thereof the following: "For purposes of this section, the term 'privately owned United States-flag commercial vessels' shall not be deemed to include any vessel which, subsequent to the date of enactment of this amendment, shall have been either (a) built outside the United States, (b) rebuilt outside the United States, or (c) documented under any foreign registry, until such vessel shall have been documented under the laws of the United States for a period of three years."

Senator BARTLETT. They are working you overtime this morning, Mr. Metz.

Mr. METZ. That is right. It is a good beginning.

STATEMENT OF ELMER E. METZ, ACTING DEPUTY MARITIME ADMINISTRATOR, DEPARTMENT OF COMMERCE

Mr. METZ. This bill would amend section 901(b) of the Merchant Marine Act, 1936. This section now provides that the appropriate agency shall take steps to assure that at least 50 percent of the gross tonnage of equipment, materials, or commodities shall be transported in privately owned U.S.-flag commercial vessels (to the extent such vessels are available at reasonable rates for U.S.-flag commercial vessels) whenever—

(a) The United States obtains for its own account or furnishes to any foreign nations any such equipment, material, or commodities that may be transported in ocean vessels, or

(b) The United States advances funds or credits, or guarantees the convertibility of foreign currency in connection with the furnishing of such equipment, material, or commodities.

The bill would amend this section to provide that until it has been documented under the laws of the United States for 3 years, no vessel that (after enactment of the bill) was built or rebuilt abroad, or has been documented under foreign laws, shall be deemed a privately owned U.S.-flag commercial vessel.

The effect of the bill would be to exclude from the 50 percent minimum U.S.-flag participation under section 901(b), all vessels that (after enactment of the bill) are built, rebuilt, or documented abroad, until such vessels have been documented under U.S. laws for 3 years.

Our interpretation of the bill is that the bill is not intended to exclude from the definition of privately owned U.S.-flag commercial vessel any ship that is rebuilt in the United States with a foreign built midbody.

Our reason for this interpretation is that the language used in the bill—"rebuilt outside the United States"—is the same language as that which was used in Public Law 715, 84th Congress, which amended section 27 of the 1920 act and which was interpreted by the Bureau of Customs as not to apply to such ships. We assume that the language of Public Law 86-583 (an amendment of sec. 27 which was intended to overrule the Bureau of Customs' interpretation) would have been followed if it were intended to exclude such ships from the definition.

We recommend favorable consideration of the bill.

Vessels that have been built or rebuilt abroad, or that have been documented under foreign laws are not eligible for enrollment to engage in the U.S. coastwise trade.

The only substantial reason for documenting such vessels under the laws of the United States is to make them eligible for participation in cargoes reserved under section 901(b) of the 1936 act to privately owned U.S.-flag commercial vessels. This reason is sufficient inducement only when the foreign freight market is depressed.

Experience has been that generally the type of vessel that is brought back to U.S. documentation after having been transferred foreign are the poorer quality ships. As of June 1 of this year there were 37 such ships under U.S. registry. Five of these ships were redocumented in 1958; 20 in 1959; 8 in 1960; and 4 in 1961.

Twenty of these ships are Libertys; five are Victories; one is a C-2; four are war-built tankers; three are Liberty tankers converted to dry-cargo ships; and four are T-2's converted to dry-cargo ships.

All of the foregoing ships would remain eligible under the bill. A continued influx of such ships, however, would tend to create market instability and lower rates in the tramp and tanker segment of the U.S. merchant marine.

We think the bill would have a stabilizing effect, and we, therefore, recommend favorable consideration of the bill.

The Bureau of the Budget advises there is no objection to the submission of this statement from the standpoint of the administration's program.

Senator BARTLETT. Mr. Bourbon, do you have any questions?

Mr. BOURBON. Mr. Metz, on page 2, at the top, you said:

The effect of the bill would be to exclude from the 50 percent minimum all vessels that after enactment of the bill are built, rebuilt, or documented abroad until such vessels have been documented under U.S. laws for 3 years.

Do you mean by that that to be excluded—

Mr. METZ. They could not participate in the carriage—

Mr. BOURBON. I mean, when you say "after enactment of the bill"—that the vessels actually have to be built after enactment, or documented abroad.

Wouldn't it apply to vessels that are now documented abroad?

Mr. METZ. Yes, sir; it would.

Mr. BOURBON. I just wanted to make that point clear.

In other words, when this bill is enacted, it will apply to all vessels that were built abroad or rebuilt abroad, or are now documented abroad thereafter.

Mr. METZ. That is right.

Senator BARTLETT. Did you mean by that, in a general way, that its provisions are not retroactive?

Mr. METZ. I don't believe I understand your question, sir?

Senator BARTLETT. Referring to Mr. Bourbon's question, on the statement you made at the beginning of page 2, the provisions of the bill are not in a general way intended to be retroactive, are they?

Mr. METZ. Yes, sir; that is my understanding.

Senator BARTLETT. They are?

Mr. METZ. Yes, sir.

Senator BARTLETT. Why did you put in the words "after enactment of the bill" then?

Mr. METZ. No, I will have to say differently than what I just said.

Senator BARTLETT. You will say the reverse?

Mr. METZ. Yes, sir, this applies to ships that are hereafter built and rebuilt or documented abroad.

Senator BARTLETT. What is the importance of this bill, in your judgment, Mr. Metz, aside from what you have said in your statement? Is this going to have considerable impact upon the merchant marine or is it just a trivial matter?

Mr. METZ. I think that it might become important in that the present tramp steamer and tanker ships are having a very difficult time already with the number that are already under U.S. documentation and therefore, eligible for participation in the 50-50 cargo.

Senator BARTLETT. What does the present law say, if a vessel is returned to the United States and documented here, it is under no restrictions at all, such as would be imposed by this bill?

Mr. METZ. That is correct.

Senator BARTLETT. Does this bill come to the Congress from the administration?

Mr. METZ. I am not sure as to that.

Senator BARTLETT. In any case, the Federal Maritime Administration recommends its enactment and after scrutiny, careful no doubt, the Bureau of the Budget advises the Congress through you that the bill contains no features contrary to the administration's program; right?

Mr. METZ. That is correct.

Senator BARTLETT. Thank you, sir.

Mr. BOURBON. May I ask one more question?

Senator BARTLETT. Yes, sir.

Mr. BOURBON. Just to clear the record, Mr. Metz, when you said you reversed your statement, did you reverse what you said both to me and the Senator, or just what the Senator asked you?

Mr. METZ. Just what I had said to you, that it applied only as to the future documentation and so on.

Mr. BOURBON. And therefore ships that are now documented abroad or have been documented abroad for sometime, if they come back quite promptly before this is enacted, they could participate?

Mr. METZ. They are governed, I believe, by this 714 of the 84th Congress. So far as foreign trade goes, they would be eligible. So far as coastwise trade, they would not be.

Senator BARTLETT. Because they were not built here?

Mr. METZ. Because they, well, take the case of documentation abroad, they would not be eligible for coastwise trade and the same would be true if they were not built here.

Senator BARTLETT. Why, because they were not built here?

Mr. METZ. That is right, because of the law.

Now, so far as a ship that has been built abroad and documented abroad, and returned to America, U.S.-flag documentation, those would be eligible for the foreign trade features, but—

Mr. BOURBON. After enactment of this bill, they would not be eligible for 50-50 participation?

Mr. METZ. Until they had been documented for 3 years.

Mr. BOURBON. That clears it up.

Senator BARTLETT. As Mr. Bourbon says, they could run them all over here before the President signed the bill, if he did sign it—I guess he would, since the Bureau of the Budget says it is not objectionable to his program, they could run them all back here and document them.

Senator BARTLETT. Thank you.

Mr. Starbuck, executive secretary of the American Tramp Shipowners Association, Inc.

**STATEMENT OF SIDNEY H. STARBUCK, EXECUTIVE SECRETARY
OF THE AMERICAN TRAMP SHIPOWNERS ASSOCIATION, INC.;
ACCOMPANIED BY MR. COLES**

Mr. STARBUCK. Mr. Chairman, my name is Sidney H. Starbuck. I am executive secretary of the American Tramp Shipowners Association, Inc. That association is composed of companies owning American-flag vessels engaged in the so-called tramp or general bulk trades.

Our association vigorously endorses S. 1808 as being necessary for the continued survival of the American tramp owners.

The committee will note that this legislation does not prevent any vessel built or rebuilt abroad from being documented under the laws of the United States. The customs laws do not provide for any duty on vessels built or rebuilt abroad and the proposed legislation does not change that.

In other words, any vessel built or rebuilt abroad can still come into the United States duty free.

But what the bill would do is to prevent such vessels from carrying 50-50 cargoes as American ships for a period of 3 years after their documentation.

While the 50-50 law was designed to protect American-flag vessels, this pending legislation is needed to protect such vessels against foreign flag and foreign built ships from coming in and usurping the 50-50 cargoes.

Over 70 percent of the total export and import tonnage of the United States is shipped on tramp-type vessels. The principal cargoes involved are grain, coal, iron ore, scrap and miscellaneous ores such as bauxite. While the large preponderance of our cargoes go on tramp vessels, the American-flag tramp fleet does not receive any subsidy aid. Because it costs over three times as much to operate an American-flag tramp vessel as it does a similar ship under foreign registry, our American tramp ships obviously cannot compete in world markets for cargoes.

American tramp owners must therefore rely almost completely upon the half of the grain cargoes shipped pursuant to Public Law 480 which are reserved to American ships pursuant to the provisions of section 901 (b) of the Merchant Marine Act, 1936, as amended.

There is only a limited amount of such 50-50 cargo available for American tramp vessels: to the extent that such cargo is taken from existing American-flag tramp vessels by ships which have been built, rebuilt, or documented under foreign registry and then documented under the U.S. flag, to that same extent does the existing American tramp fleet lose its business and go into layup.

As there are more American tramp ships than cargoes for them, for each foreign ship put under American registry to carry 50-50 cargoes, one or more existing American built ships must go into layup for lack of business.

The policy of the Congress has been to encourage an American-owned merchant marine. It has also been to encourage and maintain an American-built merchant marine. For many years, the laws have provided that only American-built ships shall have the right to engage in the coastwise trades (46 U.S.C. 883).

When Congress learned in 1956 that American vessels were being converted abroad, it enacted legislation (Public Law 714, 84th Cong.) which denied coastwise privileges to such ships. Only last year, when the Congress learned that vessels were being rebuilt in the United States with foreign-built midbodies, it enacted Public Law 86-583, which denied coastwise privileges to such ships.

While it was believed that American shipyards and American ship-owners were thus protected from these foreign built and rebuilt ships, we have since found that this legislation has not deterred these ships from being documented under the American flag.

We have found that these buyers were not interested in the coastwise privileges, but only to qualify as American vessels under the 50-50 statutes. The proposed bill would close up this loophole and hence make effective the long and often expressed congressional policy of maintaining an American-built and American-owned merchant marine.

The need for this legislation is shown by the fact that within the last 2 years over 45 vessels previously documented foreign or built or rebuilt abroad have been placed under American registry and have then immediately engaged in carrying 50-50 cargoes as American-flag ships.

Tankers have been converted abroad into large bulk carriers, Victory ships have been extended by the insertion of a midbody section, Liberty ships have been rebuilt abroad to increase their capacity by roughly 20 percent; these vessels have been documented under American registry.

These vessels were converted abroad with low-cost foreign shipyard labor. At the present time, some brandnew foreign-built bulk carriers of over 20,000 deadweight tons are now in the process of being documented under the American flag.

Each of these new bulk carriers has the capacity of over three average American-flag tramp ships because of their greater size and speed. The amount of 50-50 cargo available to tramps is limited. As a result, for each of these new vessels being documented under American registry, there will be three existing American ships forced out of business.

For one new crew on the new vessel, three crews presently employed will become unemployed. The only one gaining will be the purchasers of the foreign-built or rebuilt ships: the ones losing will be the existing American tramp shipowners and American seafaring labor.

May we also point out that the Congress has always sought to maintain an American shipbuilding industry. To the extent that vessels built abroad can have the benefits of engaging in the 50-50 trades, which are the only American tramp business, why should ships be built or rebuilt in American shipyards?

Obviously, unless the existing loophole is closed by enactment of S. 1808, they will not be constructed in the United States but instead built or rebuilt abroad at the far lower costs. Thus not only would failure to enact S. 1808 injure the American tramp fleet, but it would similarly injure the American shipbuilding industry, American shipyard labor, and American seafaring labor.

Members of our association are operating American ships built in American shipyards. The members have managed to survive without Government subsidy because of the 50-50 cargoes.

We earnestly request the Congress to enact S. 1808 so as to permit our vessels to continue in operation and prevent them being driven out of business by foreign-flag vessels, vessels rebuilt abroad, and new vessels built abroad.

SENATOR BARTLETT. Mr. Starbuck, in relation to the total amount of business available to American tramps in the carriage of cargoes from American ports, what is the proportion of that business that comes from these 50-50 cargoes?

MR. STARBUCK. Practically all of it.

SENATOR BARTLETT. Practically all of it?

And you stated that you found yourself unable to compete in the world market for cargoes because it costs about three times as much to operate an American ship as a foreign-flag ship?

MR. STARBUCK. Yes, sir.

SENATOR BARTLETT. Is there a surplus of foreign-flag tramps?

MR. STARBUCK. That I could not answer.

SENATOR BARTLETT. The reason I ask this, I was wondering why the foreign ships would be brought here, to be documented in the United States, when they have such a clear advantage now in respect to the transportation of world cargoes and here would have to be in a competitive situation with the 50-50 cargoes?

MR. STARBUCK. Mr. Joseph Kahn, who is a shipowner, will answer that probably better. He will have it a little later. He will answer that probably better than I could.

SENATOR BARTLETT. All right.

Well, you have already answered, I guess, the other questions I have in mind because on page 4, you said this, and I quote :

To the extent that vessels built abroad can have the benefits of engaging in the 50-50 trades, which are the only American tramp business.

Would you say that is the only American tramp business or substantially all of it?

Mr. STARBUCK. Substantially all of it.

Senator BARTLETT. I have no further questions, Mr. Starbuck.

Do you have any, Mr. Bourbon?

Mr. BOURBON. About how many tramp ships do you figure there are now available for carriage of 50-50 cargoes?

Mr. STARBUCK. I should say, my guess would be around 100.

Mr. BOURBON. That 100 would include these 45 that you say have come back within the last 2 years?

Mr. STARBUCK. Yes, sir.

Mr. BOURBON. That is all.

Senator BARTLETT. Do you have any idea how big the world tramp fleet, including that of the United States, is?

Mr. STARBUCK. No, I have not.

Senator BARTLETT. Thank you, Mr. Starbuck.

Senator BARTLETT. Mr. Kahn, Committee of American Tanker Owners.

The acting chairman would like to suggest that the basic points have been reasonably well covered and if further witnesses want to submit their statements, which will be incorporated in the record in full text, and then brief those statements, any such suggestions from them would not be dismissed.

STATEMENT OF JOSEPH KAHN, PRESIDENT OF THE COMMITTEE OF AMERICAN TANKER OWNERS, INC.

Mr. KAHN. Mr. Chairman, with the advice of my counsel, I think it is satisfactory to me. May I present my statement for the record.

Senator BARTLETT. You may.

(The statement follows:)

STATEMENT BY JOSEPH KAHN, IN SUPPORT OF S. 1808

My name is Joseph Kahn. I am president of the Committee of American Tanker Owners, Inc., an organization representing owners of modern large tankers built with Government mortgage guarantees under title XI of the Merchant Marine Act, 1936. I am also part owner and officer in several companies which own American-flag dry cargo and tanker vessels. None of these vessels have received or receive Government operating or construction subsidies.

Cargoes shipped pursuant to the so-called 50-50 statute (sec. 901(b) of the Merchant Marine Act, 1936) today constitute the major portion of shipments made on vessels in which I have an interest. Even the independently owned American tankers receive a major share of their work in carrying these 50-50 grain cargoes. Without these 50-50 cargoes guaranteed to American-flag vessels, substantially all of the American tramp fleet and a large part of the American tanker fleet would be required to go into layup because of lack of employment opportunities.

The committee will note that there is only a limited amount of 50-50 cargo for shipment on American ships. Because of the excess number of American ships to carry these cargoes, rates have gone to such a level that only the larger and more efficient ships having the lowest capital and operating cost per ton carried can continue in operation. The cheapest ships are those built abroad.

For example, a 20,000-ton bulk carrier which would cost over \$8 million to build in this country could be purchased under \$4 million abroad with excellent credit terms obtained from the foreign yards. An existing T2 tanker can be converted into a 22,000-ton bulk carrier for about \$1,200,000 in a foreign yard: to make an identical conversion in this country it would cost more than double that. These large size vessels require only a few more men in their crew than do the standard size American-flag tramp vessels. As a result, their per ton operating and capital cost is far less than that of an American-built ship. Obviously, the existing American-flag tramp fleet cannot compete for 50-50 cargoes against this foreign rebuilt and newly constructed tonnage when it is brought under American registry.

Because of the limited amount of 50-50 cargo available, each foreign built or rebuilt ship which is documented under American registry requires several existing ships to be laid up. For example, a rebuilt T2 has approximately three times the carrying capacity of a Liberty ship. A new 22,000-ton bulk carrier has roughly double the carrying capacity of a C-3. While they carry much more, they employ only a few extra men. As a result, whenever a rebuilt or newly built foreign-flag vessel goes into the American 50-50 trades, several existing vessels go into layup to the financial detriment of their owners who have operated them under American registry. Moreover, when each of these new ships takes over the carriage of 50-50 cargoes, the employment of American seamen is substantially reduced as one ship's crew replaces crews on two or three existing vessels.

May I also point out that every time a foreign built or rebuilt ship comes under American registry to carry 50-50 cargoes, the rebuilding and new building opportunities for American shipyard labor is proportionately reduced. American owners who would rebuild or build in American yards obviously will not do so when they would be faced with competition from those foreign built or rebuilt vessels having a capital cost of less than half of what the American cost would be.

As set forth in the first section of the Merchant Marine Act, 1936, and reiterated in the 1946 act, it is necessary for the national defense and development of our foreign and domestic commerce that the United States shall have a merchant marine " * * * 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." To protect American built vessels, section 27 of the Merchant Marine Act, 1920 provides that no merchandise shall be carried in the coastwise trades except in vessels built in the United States and documented under the laws of the United States. That act further provides that any vessel which at one time had had coastwise privileges and has subsequently been transferred to foreign registry shall not thereafter acquire the right to engage in the coastwise trades. In 1956 (Public Law 714, 84th Cong.) and again in 1960 (Public Law 86-583), Congress legislated that vessels rebuilt abroad should not have the legal right to engage in the coastwise trades. In other words, it has long been congressional policy, and most properly so, that foreign built and rebuilt vessels shall be limited in their ability to compete with American built ships. Obviously this is necessary if we are to maintain an American built merchant marine in view of the far lower foreign shipbuilding costs.

Congress also enacted the so-called 50-50 statute to aid the American merchant marine. I do not believe it was ever intended that this statute was for the benefit of foreign built or foreign rebuilt ships. People who built ships in American yards without construction subsidy or operating subsidy, and I am one of them, certainly did not believe that we would be faced with the competition of foreign built and rebuilt vessels. Yet we find today that there are a substantial number of vessels rebuilt abroad that have come in and have taken away a substantial part of the limited 50-50 cargoes available to the American built ships.

Now new German built bulk carriers of approximately 22,000 tons each are being documented under the American flag. Because of their size and speed, these three foreign built vessels will replace approximately nine existing American-flag tramp ships. The number of jobs for U.S. seamen will be reduced from about 333 on the 9 existing vessels to about 126 on the new foreign built 22,000 tonners, a loss of about 207 American jobs. Who gains by this: foreign shipyards, foreign shipyard labor and purchasers in this country of foreign built ships. May I respectfully submit to the committee that this was not the intent of the Congress in enacting the 50-50 statute.

These rebuilt and new vessels are being documented under American registry solely because the carriage of the American 50 percent of the aid cargoes at existing rates is highly profitable for them because of their size and speed. At the present time foreign rates for bulk ships are so low that they cannot do nearly as well in the foreign trades. Within the past 2 years, 45 ships rebuilt abroad or previously under foreign registry have been documented under U.S. flag in order to take 50-50 cargoes. As a result, the business available to American-built tramp ships, American-built liner ships, and American-built tanker vessels has been reduced by the large amounts of cargo carried in these foreign ships after their American documentation.

Under existing customs law, foreign built or rebuilt ships can be documented under the laws of the United States without any payment of duty. While they do not have coastwise privileges under existing law, these ships are not interested in the domestic trades but only in qualifying as American vessels for purposes of the aid cargoes. To the extent that they are permitted to so qualify, they remove available business from existing American-built ships and result in their layup and reduction of American employment. Under these circumstances, I submit that it would be in accordance with all prior congressional enactments, and with the maintenance of an American owned and built American merchant marine, to close this gap in existing law so as to give the American built fleet protection and to prevent a perversion of the congressional intent in enacting the 50-50 statute.

Section 901(b) of the Merchant Marine Act provides that at least 50 percent of Government financed and Government aid cargo shall be carried on privately owned "U.S.-flag commercial vessels" to the extent such vessels are available at fair and reasonable rates for U.S.-flag commercial vessels. Please note that this section uses the term "U.S.-flag commercial vessels" as the ships which qualify for the American 50 percent of the aid cargoes. S. 1808 would provide that for the purpose of the 50-50 cargoes, the term "U.S.-flag commercial vessels" shall not include any ship which, subsequent to the date of the enactment of the pending legislation, shall have been either built outside the United States, rebuilt outside the United States, or documented under foreign registry, until such vessels have been documented under the laws of the United States for a period of 3 years. The purpose of the legislation would be to preclude these foreign vessels from running in to take advantage of the 50-50 statute and of obtaining American cargo rates to the detriment of American-built ships. Failure to enact this legislation will mean that the rapidly increasing inflow of foreign built and rebuilt ships would soon drive from the seas the unsubsidized American operator who has been striving for years to maintain an American tramp fleet. May I, therefore, earnestly recommend to the committee the enactment of this bill.

Mr. KAHN. My name is Joseph Kahn, and I am the president of the Committee of American Tanker Owners, an organization representing owners of modern, large tankers, built with Government mortgage guarantees under title 11 of the Merchant Marine Act of 1936.

I am also part owner and officer in several companies which own American-flag dry cargo and tanker vessels.

Mr. Chairman, I will now deviate from my statement to answer the question you have asked of Mr. Starbuck which may cover most of the pertinent points of the prepared text.

The only reason that foreign vessels come back under American registry is the reason of economics. When times are such, when the world market conditions are such, when they cannot operate profitably under the registry, their existing registries, they then transfer their flag to American registry to participate in our foreign-aid cargoes in what is known as the 50-50 participation.

Surely no foreign vessel comes back under American registry for any other reasons but profit motive, but this creates a very unstable situation with the American existing fleet, never knowing what the true composition of the fleet is.

It doesn't require any new construction. A man can build one, two, or three vessels in Germany or Japan, and our laws are such, our custom laws are such, that he can bring those vessels under American registry without any permission from the Maritime Administration, and need only pass the Coast Guard inspection.

I have heard you ask the question of Mr. Metz, and I think that was not clearly answered. The only vessels that need ask permission of the Maritime Administration are those vessels that at one time were American-flag ships, those vessels that have been transferred to foreign registry under certain restrictions that the Maritime has placed on them, and in those few instances Maritime permission is required.

Senator BARTLETT. What type of restrictions would these be?

Mr. KAHN. Well, those vessels are under restriction, for example, not to trade with any of the Russians or Russian satellite countries, Communist China, et cetera, and in the event of war become available to the U.S. Department of Defense. That is one type of vessel.

Those vessels were transferred out of American registry at the time when under title 11 American-flag vessels were being built and to make financing possible, a certain amount of vessels were transferred to foreign registry when it was more advantageous and more profitable to have foreign-flag ships.

Now some of these same vessels, if they desire to return to American registry, require Maritime approval. But a free foreign vessel, which is owned and operated without having prior governmental approval, without having received rather governmental approval for either transfer or having been built abroad, that vessel need not go to the Maritime Administration and that vessel just becomes American flag by simply having passed the Coast Guard requirements.

Senator BARTLETT. Now, is that class of vessel more numerous than the one originally built in the United States and then transferred abroad?

Mr. KAHN. Oh, yes, sir. The 98 or 97 percent of all of the foreign-flag tonnage is free foreign-flag tonnage. The few vessels that have these Maritime restrictions are possibly 1 or 2 or 3 percent at the very most, in relation to the world tramp fleet and they are all old vessels.

I am speaking now of the second category of those that do have Government restrictions.

Mr. BARTLETT. Yes; what happens when one of these unrestricted vessels comes over here for U.S. documentation? Does he have, specifically with respect to this, does the owner have equality with the people who have been engaged in carrying this 50-50 cargo for years? Does he get a proportionate share right away?

Mr. KAHN. Well, sir, there is one exception to the rule. Under the law any vessel that has at any time been foreign does not enjoy coast-wise rights. But aside from this exception, in relation to foreign-aid cargoes, he enjoys all of the privileges of any vessel that has been American from its inception.

From a practical point of view, what happens is if a 20,000-ton vessel returns to American registry; a 20,000-ton vessel will never be constructed in American shipyards. That is one.

Two, it is responsible for the loss of possibly 30 or 40 jobs—no; really actually more than that, because it replaces two American-flag

vessels and it is half again as fast, on some occasions, so it might replace as many as three American-flag vessels, if we now relate it to a big foreign-flag vessel coming back under American registry.

Senator BARTLETT. All right, now we have the ship back here, built abroad, have it documented under the U.S. laws. Does the owner of that ship go to the Government and say, "Here I am; I want some of this 50-50 cargo. I demand some of this; you give it to me."

Does he get a share right away?

Mr. KAHN. He will get as much of it and will carry just as quickly as a ship can physically carry. He is in open competition with every one who may have been under American registry for 10 years.

Senator BARTLETT. Go ahead.

Mr. KAHN. Mr. Chairman, I believe that most of the important points I intended to make have been clarified and, unless the chairman has any more questions, I believe that I have exhausted my good arguments.

Senator BARTLETT. I will inform you that I am going to take your statement with me when I leave the committee room and, before the day has been concluded, intend to read it in its entirety.

Mr. KAHN. Thank you very much, Mr. Chairman.

Senator BARTLETT. Do you have any question, Mr. Bourbon?

Mr. BOURBON. I note here that Mr. Metz, the Acting Deputy Administrator, said that 37 of the ships that now would be competing for the 50-50 cargoes were documented foreign and then returned; that these are the poorer ships.

Mr. KAHN. Well, sir, for the most part Mr. Metz' statement is correct, but as of late we know of two 22,000-ton vessels that have returned under American-flag registry which are pretty good ships. We also know of three brandnew vessels that have been built in the German yards that are presently being transferred to American-flag registry, so that there is perhaps the majority of the vessels were of the poorer type, but as of this moment some very fine foreign vessels are coming back under American registry, which in my judgment is even worse than having the poor ones here.

It may sound like a contradictory statement. For a moment it may appear that it is a good idea to have these good ships under American-flag registry, but it seems to me that the posture of the American merchant marine has to be taken in as a whole, and if the American yards are never given an opportunity to build these ships, a great sacrifice has been made in acquiring vessels that have been built under foreign registry in Germany or Japanese yards, for the moment, for the supposed improvement of the stature of the American-flag field.

Mr. BOURBON. Do any of the ships that have been under American flag and transferred foreign and then are brought back, or when any foreign built ships are brought under the American flag, as a rule, do they become members of the Tramp Ship Owners Association?

Mr. KAHN. Well, they could or could not. I don't think that there is any set rule for that at all, sir.

Mr. BOURBON. But right now the foreign-built ships that are coming back are much more of a threat than the ships that were transferred from American registry abroad and now being brought back?

Mr. KAHN. I would say so.

Mr. BOURBON. Bigger and newer?

Mr. KAHN. They are bigger and newer and thousands of them, and they cost so much less. You can build a 22,000-ton carrier overseas for approximately \$3.5 million or \$4 million. The same vessel constructed in American yards is very close to \$10 million or in excess of \$10 million.

Well, it is certainly unfair competition to have someone start out with a \$4 million capital investment, against someone who has constructed a ship in an American yard, with a \$10 million capital investment; but worst of all, in my judgment, is that in this way the posture of American yards, American shipyard workers, American seamen—

Senator BARTLETT. Mr. Kahn, you may not have the answer on these questions, but I am still curious as to how this newly documented ship or existing American tramp ship gets its business from the 50-50 cargo situation. Does the owner of the vessel make a tender to carry the cargo at such and such a rate?

Mr. KAHN. Well, sir, all Government sponsored cargoes are handled via commercial channels.

Senator BARTLETT. Commercial what?

Mr. KAHN. Commercial channels. The grain houses, which are the major portion of our foreign-aid program, the grain houses bid on the business. If we were to move, say, a million tons of grain to India, the successful, cheapest grain house will get a portion of this business. Under the law, this business or this commodity has to move 50 percent, a minimum of 50 percent of this commodity has to move on American-flag bottoms. Then the grain house will seek tonnage to cover his particular requirements. He will have to move so many tons in American-flag bottoms. Any ship that comes in at the lowest rate, through the grain house, will move this cargo. He, in turn, is complying with the law, so the mechanics are rather simple.

If I were in the grain business and there was a movement to Brazil of 100,000 tons and if my bid was the lowest bid, I would be the successful tender of that particular phase of the business. I, in turn, would have to comply and carry at least 50 percent of this 100,000 tons on American-flag ships. If I brought a ship back that was built in Germany, Japan, or the Philippines—it makes no difference where—I would be eligible to carry this cargo.

Senator BARTLETT. Then the Government itself doesn't arrange for the transportation?

Mr. KAHN. No, sir, the Government merely approves and supervises to make sure that the cargo is carried at fair and reasonable rates and the American-flag owner, regardless of the scarcity of vessels, which has not incidentally occurred in many a year now, cannot get a rate or cannot succeed in carrying a cargo unless his bid, in the opinion of the Government agency, is a fair and reasonable bid. In that event, the law no longer applies and they can go and seek foreign tonnage to cover the requirement.

Senator BARTLETT. Do the American tankers have conference agreements?

Mr. KAHN. No, sir.

Senator BARTLETT. On that basis then, the big modern ship, fast ship, built abroad, coming over here would have a tremendous com-

petitive advantage, would it not? You have already said in effect that it would, for the reason that it has all these modern features, including speed.

Mr. KAHN. Yes, sir.

Senator BARTLETT. If such a tanker built abroad comes over here and is documented, is it ever returned to a foreign flag at some future date? Does that ever happen?

Mr. KAHN. That can happen, sir, and, in some cases, it depends on the interpretation the Department of Defense and the Maritime place on the vessel. For example, there are categories of ships today that can come back and forth, depending on the particular economic advantage at a specific time. They can become American and make two trips American and transfer back again foreign, which is indeed a very disturbing factor in the market. On the other hand, it may not be possible for a 20,000-ton vessel to transfer out of foreign without the approval of the Department of Defense.

I would like to check this point with my counsel. I am pretty sure I am correct on that. That is correct.

Senator BARTLETT. His nod indicates confirmation.

Mr. BOURBON. Isn't there a secondary disadvantage to American shipowners when the foreign ships come back, to the extent there are a greater number in the market and that reduces what agriculture might consider as a fair and reasonable rate because there is so much competition?

Mr. KAHN. That is a very, very true statement. The first time, in our business in particular, the first time that there is one more ship than there is cargo, the rates tumble downward. The first time there is a slight scarcity of vessels, naturally, the rates go somewhat upward. This unstabilizing situation is very depressing to the market; yes, sir.

Senator BARTLETT. Is the world tramp market at this time in a depressed state?

Mr. KAHN. Yes, sir. Were it not so, this particular legislation would be academic because if it were more advantageous for these 22,000-ton bulk carriers that I speak of to be made foreign, there is nothing to force them naturally to come back American. It is only the advantage of additional profits that brings them to American registry.

Senator BARTLETT. Do you foresee any possibility that if it seemed imminent that this bill would be passed by Congress you might have hundreds of such ships rushing in before the President signed the bill?

Mr. KAHN. No, sir, I do not think it would number hundreds. There is always a possibility that a few vessels would come back before the door is slammed on them but it is very difficult, from a practical point of view, to act that quickly with a vessel. The vessel, firstly, has to be in an American port. It has to take 2 or 4 weeks for it to pass Coast Guard inspection. It may have contractual obligations, so that hundreds of vessels is a practical impossibility. But, there may be several ships that will come under American registry prior to this having become enacted.

Senator BARTLETT. Mr. Kahn, since you did not read your statement, the committee has not been informed whether you are for or against the bill, but the fair inference is that you favor the bill?

Mr. KAHN. It is a very fair inference, Mr. Chairman; yes, sir. I am for it.

Senator BARTLETT. Thank you, sir.

Mr. Garrett Fuller of the West Coast Steamship Co.

STATEMENT OF GARRETT FULLER, WEST COAST STEAMSHIP CO.

Mr. FULLER. Mr. Chairman, I have a brief prepared statement to offer, but in the interest of saving the committee's time, I will be glad to have it go into the record without being read.

Senator BARTLETT. Your kind offer is accepted. The statement will be included in full, but I wish you would sit down and tell us briefly how you feel about the bill.

(The full statement follows:)

STATEMENT ON S. 1808, BY GARRETT FULLER, ON BEHALF OF WEST COAST STEAMSHIP CO.

Mr. Chairman and members of the committee, my name is Garrett Fuller. As an attorney for West Coast Steamship Co., I appreciate this opportunity to appear in support of S. 1808.

Our interest in the proposed legislation stems from the fact that West Coast Steamship Co. is an American company that owns and operates four U.S.-flag dry cargo vessels. The company and its predecessor have operated out of Portland, Oreg., since 1946, making it the only U.S.-flag steamship owner on the Pacific coast which has maintained a tramp fleet over a period of years.

Since we operate without subsidy, nearly all of our business is attributable to cargoes subject to the so-called 50-50 statute; and for this reason we are indeed mindful of the fact that if it were not for the statute, we would not be in business—at least in the offshore trade. This is equally true, I am sure, of nearly every owner of an American-flag dry cargo vessel or tanker operating in the unsubsidized offshore trade.

In view of this dependency it is understandable that American-flag vessel owners are greatly concerned to see a partial nullification of the 50-50 statute by reason of cargoes lost to vessels that are built or rebuilt outside the United States or which have been documented under foreign registry. There is a limited amount of 50-50 cargo available, and when any portion of it is taken over by one of these vessels, the American owner who has always worked with American labor and American equipment is penalized by depressed rates or with a laid up vessel.

What hope is there for the survival of American tramp shipping, including tankers, unless something is done immediately to deter the pirating of 50-50 cargoes by foreign built or previously documented vessels?

For extended periods during the past several years, West Coast Steamship Co. has been faced with rates that do not even pay bare operating costs, and it will be recalled that, during the time of which I am speaking, several American companies were forced into bankruptcy and their ships libeled. Today rates are somewhat improved, but nevertheless freight revenues do not begin to cover depreciation and afford reserves out of which vessels may be replaced or upgraded.

No one can measure exactly how much of this plight is attributable to foreign built or rebuilt vessels or vessels previously documented under foreign registry. We do know, however, that they constitute a substantial factor in determining rates for 50-50 cargoes. I am told that no fewer than 45 vessels in this category have been documented under the American flag within the past 2 years, and apparently 3 German-built vessels of over 20,000 tons each will shortly be flying the American flag.

Quite obviously the rate situation in the world market has much to do with where these vessels are documented. As an illustration, the owner of an American-flag Liberty vessel on seeing profitable business in Japanese scrap, arranged for his vessel to be transferred to Liberian registry during January of this year and shortly thereafter undertook a voyage from California to Japan on a lump-sum basis of \$80,000. Meanwhile as the scrap rate fell off to about

\$60,000, the owner of the vessel obtained authority to retransfer the vessel to American flag. From such occurrences we may judge that if rates in the world market are further depressed in relation to rates obtained by American vessels, more and more owners of foreign-flag ships will seek to have them documented under the laws of the United States in order to secure 50-50 cargoes. By the same token they will depart the American flag if more profitable business offers in the world market and if regulations permit their retransfer.

It would seem self-evident that such practices run contrary to the national maritime policy of fostering the development and encouraging the maintenance of a merchant marine owned and operated under the U.S. flag by citizens of the United States. I submit by comparison that the American merchant marine is far better served by vessel owners such as West Coast Steamship Co. who have always operated under the American flag and American-built vessels. Their continuing to do so should be encouraged.

The legislative proposal now before the committee would, in our opinion, effectively check these injurious practices by providing that the term "U.S.-flag commercial vessel" as used in the 50-50 statute shall not include any vessel which, subsequent to the date of the enactment of the proposed legislation, shall have been built or rebuilt outside the United States or documented under foreign registry, until such vessel shall have been documented under the laws of the United States for a period of 3 years.

Because of the loophole that exists in the present statute, substantial damage has already been done to that segment of the American merchant marine that depends for its existence upon 50-50 cargoes. Of even greater concern is the fact that several conditions that we see developing today—such as overtonnage in the foreign market and a general lowering of foreign rates—indicate all too clearly that the loophole will be taken advantage of at an ever-increasing rate unless it is plugged by the amendment now being considered. We, therefore, respectfully urge favorable action on this bill.

Mr. FULLER. Mr. Chairman, the West Coast Steamship Co. heartily endorses the proposed legislation. It is a relatively small company but long established on the west coast with home office in Portland, Oreg. It has been in business since about 1946.

Senator BARTLETT. Operates from where to where?

Mr. FULLER. The company operates almost exclusively in the off-shore trade and almost 100 percent of its business is with 50-50 cargoes. I have had reason to check this recently and in the past 2 years, there has been only one cargo carried by this company with its five vessels that has not been Government sponsored or a so-called 50-50 cargo.

Senator BARTLETT. What type of vessels does the company own?

Mr. FULLER. Liberty ships, and it has no other interests except in American-flag ships and in American-built ships.

Senator BARTLETT. You believe then that this legislation would be beneficial and perhaps necessary?

Mr. FULLER. It certainly would be beneficial, and, depending upon the way rates in the world market move, it could be altogether essential. Failure to enact the legislation might mean the death of this company as it competes with the influx of more foreign built or foreign documented ships.

Senator BARTLETT. Thank you, Mr. Fuller.

Do you have any questions?

Mr. BOURBON. No, sir.

Senator BARTLETT. Thank you very much.

Next is Mr. E. M. Hood, vice president of the Shipbuilders of America.

**STATEMENT OF E. M. HOOD, VICE PRESIDENT, SHIPBUILDERS
COUNCIL OF AMERICA**

Mr. HOOD. Mr. Chairman, we want to build ships and we want to keep our yards open. We want to provide employment for American shipyard workers. We favor the bill and I ask that Mr. Sanford's letter be printed in the record.

Senator BARTLETT. We appreciate your appearance here. We are glad to have your views and the letter will be printed in the record. (The letter follows:)

SHIPBUILDERS COUNCIL OF AMERICA,
New York, N.Y., June 28, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Senate Committee on Commerce,
Senate Office Building, Washington, D.C.*

MY DEAR SENATOR: The Shipbuilders Council of America, a trade association of the shipbuilding and ship repairing industry, desires to go on record with the committee in favor of the passage of S. 1808, a bill to restrict 50-50 cargo-aid to certain U.S.-flag ships.

Section 901(b) of the Merchant Marine Act, 1936, known as the cargo preference provisions, mandates that at least 50 percent of certain U.S. Government sponsored cargo, such as relief shipments to foreign countries, must, if carried by ship, be transported by U.S.-flag commercial vessels.

The bill would not change this basic law but would foreclose certain ships otherwise eligible from being considered as such preferred vessels for a period of up to 3 years under certain circumstances. The bill proposes that a vessel must be documented under the U.S. flag for at least 3 years before it can be considered as a "privately owned U.S.-flag commercial vessel for the purposes of such section 901(b), if after the date of enactment of the bill the vessel is (a) built outside the United States; (b) rebuilt outside the United States, or (c) documented under any foreign flag."

The effect of the bill would be to discourage the registration of foreign built and foreign-flag ships under the U.S. flag for the purpose of participating in cargo preference carriage. It would also discourage owners of vessels under the American flag from having rebuilding jobs undertaken abroad.

At a time when there is a worldwide slump in shipping, with particularly adverse effects on U.S.-flag shipping, which is depending upon 50-50 cargo to transport even a small percentage of our foreign trade, it would be most unfair to permit foreign built, rebuilt, or documented ships to be redocumented under the U.S. flag and then, by participating in the 50-50 trade, substantially reduce such cargo available to U.S.-flag ships and undoubtedly force some of the latter to be laid up for lack of cargo.

The council will appreciate the inclusion of this letter in the record of the hearing by the committee.

Sincerely yours,

L. R. SANFORD, *President.*

Senator BARTLETT. Thank you, sir.

Next is Mr. Andrew A. Pettis, vice president of the Industrial Union of Marine and Shipbuilding Workers of America.

**STATEMENT OF ANDREW A. PETTIS, VICE PRESIDENT OF THE
INDUSTRIAL UNION OF MARINE AND SHIPBUILDING WORKERS
OF AMERICA, AFL-CIO**

Mr. PETTIS. Mr. Chairman, by name is Andrew A. Pettis, vice president and Washington representative of the Industrial Union of Marine and Shipbuilding Workers of America.

I appear in support of S. 1808. I would call the chairman's attention to our statement. It refers wholly to the effect that this bill would have on our members who are in shipyards in the Atlantic, Pacific, the Gulf, and Great Lakes.

Senator BARTLETT. How many such members do you have, Mr. Pettis?

Mr. PETTIS. Approximately 40,000 at the present time, Mr. Chairman.

Senator BARTLETT. What is the level of employment among them now?

Mr. PETTIS. The repair yards, Mr. Chairman, are in a very depressed state today and only a few of the new construction yards are having any appreciable amount of shipbuilding at the present time.

Senator BARTLETT. A lot of your people are out of work?

Mr. PETTIS. A tremendous number of people are out of work in the shipbuilding industry; yes, sir.

Senator BARTLETT. Proceed, please.

Mr. PETTIS. Mr. Chairman, I have nothing further to add to our statement that hasn't already been said. I think our statement carries our position.

Senator BARTLETT. The statement which you submitted in behalf of Mr. Grogan, president and Mr. Ross D. Blood, secretary-treasurer, will be printed in the record.

Mr. PETTIS. Thank you, sir.

(The full statement follows:)

TESTIMONY OF THE INDUSTRIAL UNION OF MARINE AND SHIPBUILDING WORKERS OF AMERICA, AFL-CIO, S. 1808

The rebuilding of vessels abroad for American registry has not been stopped by last year's legislation which precluded vessels rebuilt abroad from engaging in the coastwise trades. While this loophole to foreign built and foreign rebuilt ships was closed, experience in the past year has indicated that shipowners who build or rebuild abroad for American documentation are not interested in the coastwise trades. What they are interested in is that the "American" vessels will be able to participate as "American-flag" carriers in 50 percent of the foreign aid cargoes reserved for American ships. This loophole of participation as American ships in the 50-50 cargo must be closed.

In order to close up this existing loophole, legislation should be enacted to provide that vessels built or rebuilt abroad shall not be considered as American vessels in computing the American portion of the 50-50 cargoes. S. 1808 has been drafted along this line. It amends section 901(b) of the Merchant Marine Act, 1936, to provide that vessels built or rebuilt abroad shall not be considered American-flag ships for 50-50 purposes, even when they are documented under American registry. In order to avoid the objection that new and rebuilt ships should be permitted to come into the United States freely, this amendment precludes participation as American ships in 50-50 cargoes for a 3-year period.

The amendment must be read along with section 901(b) of the Merchant Marine Act, 1936.

American shipyards and shipyard labor are being deprived of an increasing amount of work, as a result of American ships being rebuilt abroad and then documented under the American flag. We are also losing work in that a number of foreign-flag ships are being rebuilt abroad and then transferred to American registry. Within the past year, three tanker vessels have been rebuilt abroad into large bulk carriers and then documented under American registry. Several foreign-flag Victory ships were rebuilt abroad and then redocumented as American-flag ships. There has also been a substantial number of Liberty ships which have been elongated abroad and then brought back for American registry. In addition, one American liner company has recently obtained permission to document under American registry three new vessels being built in Japan.

Once they have been put under American registry, all of these vessels participate in the 50-50 program as American-flag ships. Not only has this rebuilding abroad been a steadily increasing program in the past year, but it appears that other owners are now contemplating replacement of their existing American ships by building or rebuilding in foreign shipyards for American documentation. Such new building and rebuilding can be done abroad with excellent credit terms.

With building and rebuilding abroad for American registry, it is obvious that American shipyards and shipyard labor will be deprived of most merchant ship work except for subsidized lines and those few ships which may be constructed or rebuilt for the coastal trades. As over 70 percent of the export and import tonnage of the United States is now carried on unsubsidized bulk carrying ships, the American shipyards and shipyard workers will be deprived of participating in the building or rebuilding of ships to carry these American cargoes.

S. 1808 will close the loophole so that vessels under the American flag will not be built or rebuilt abroad.

The shipbuilding industry in the United States will be in distress for some time.

As of February 1961, the latest date available, there were a total of 119,500 employees (white and blue collar) in private shipbuilding and repair yards in the United States.¹ As of February 1961, in commercial construction yards on the Atlantic, gulf, Pacific, and Great Lakes districts having facilities to build ships 475 feet by 68 feet, there were 53,025 workers employed; 16,281 of these constituted all the production employees who would be available for Maritime Administration construction projects in accordance with the mobilization base.²

Since the end of World War II this union has been pointing out to the Congress of the United States and to various administrations the importance of keeping the U.S. shipbuilding and repair yards in ready condition in the event of a national emergency. We have again and again stated that it is impossible in the event of any future emergency or near emergency to activate the industry with any degree of speed from inactivity—that the industry must be kept operating in order to be ready when needed. We have pointed out that thousands and millions of dollars were lost in World War II in the reactivation of this industry; and that presently millions of dollars worth of skilled labor is being laid off from the industry and will never again be available during another emergency.

For the past 15 years, we have been stating that Congress and the administrations must face squarely up to the problems of determining whether or not a shipbuilding and repair industry is desired in this country, and if it is, determine to keep it going. Previous administrations, other than study after study, have done nothing, and this administration by virtue of its inaugurating yet another study, seems to be going along in the same pattern. Meanwhile, as the studies are being carried out, the industry will die.

One cannot expect private capital to continue investing in required modernization and expansion of facilities which would be needed if the industry were to stay alive, at a time when the industry has been operating on a virtual shoestring. This, in our economy, would be known as pouring good money after bad. We all know that the yards in this country have to modernize, that they need new equipment, new machinery and techniques. However, when there is no work, this modernization will not be carried out, and one cannot blame the industry for this lack when the Government seems deliberately to be pursuing a policy of putting the industry out of business.

The employment situation in the private shipbuilding industry in the United States is fraught with danger, as far as its defense capabilities are concerned.

The worldwide shipping recession is still with us. All the factors contributing to or resulting from that condition have had and continue to have a most serious effect on the shipbuilding, ship repairing, and allied Maritime industries, particularly in the United States.

The funds appropriated by the Congress, predicated on administration recommendations, for construction differential subsidies for the past 6 years have averaged less than sufficient for 12 ships per year, or less than 1 ship per shipyard if equally distributed. The recommendation presently in the budget for fiscal 1962, if funds are appropriated by the Congress as a result thereof and in accordance therewith, will have little effect upon that average.

As far as the shipbuilding yards are concerned, they have been forced to compete for a potential workload so low as to be entirely inadequate to permit any real continuity of operation in the industry as a whole. It is inevitable that in such a market severe competition will result in an all-out effort to obtain sufficient work to maintain facilities and organizations.

Such competition entails sacrifice bids at cost or less than cost. Such a condition cannot continue indefinitely without ultimate disaster to the industry, or

¹ U.S. Department of Labor; Bureau of Labor Statistics, "Employment and Earnings," vol. 7, No. 10, April 1961, p. 17, table B-5.

² U.S. Department of Commerce, Maritime Administration, "Maritime Manpower Report," Apr. 18, 1961, Rept. MAR-560-10, p. 3.

at least a substantial part of it, with consequent repercussions on its mobilization potential.

The passage of the proposed measure by the Congress of the United States will not preclude vessels from coming under the American flag, but will preclude them from coming under the flag and then leaving, as the vicissitudes of worldwide trade indicate without assuming any of the responsibilities of American-flag shipping.

Respectfully submitted.

JOHN J. GROGAN, *President.*

ANDREW A. PETTIS, *Vice President.*

ROSS D. BLOOD, *Secretary-Treasurer.*

Senator BARTLETT. Mr. Shapiro is next.

STATEMENT OF ALVIN SHAPIRO, VICE PRESIDENT, AMERICAN MERCHANT MARINE INSTITUTE, WASHINGTON, D.C.

Mr. SHAPIRO. I will only take a minute, Mr. Chairman. I know time is fleeting.

The justification of the proposal you are considering is basically uncomplicated. In spite of periodic setbacks varying in intensity, I believe it is entirely fair to say that American maritime management and labor and all segments of our shipbuilding industry are genuinely desirous of achieving a healthy and well-balanced American merchant marine of long-range stability. I firmly believe that no group of individuals is more convinced of this fact than the distinguished members of this committee.

This can be accomplished primarily through the creation of an increasing volume of cargo available for U.S.-flag ships. Since the competitive market in the international trades is what we know it to be today, no single tool has been of greater significance in this endeavor than has the Cargo Preference Act. Although American-flag ships carry only 10 percent of our trade volume overall, 25 percent of all cargoes imported and exported from the United States on American-flag vessels get into holds of our ships via the Cargo Preference Act.

If one were to consider only our dry cargo trade—that is, excluding the tanker trades—which would in fact be more accurate, the figures would be roughly 15 percent of that total carried in U.S.-flag vessels, but over a third of that carried on U.S.-flag ships accrues because of the existence of the Cargo Preference Act. And doubtlessly most impressive of all, in our dry cargo export trades alone, we carry overall about 15 percent, but about two-thirds of these cargoes result from the Cargo Preference Act.

On this basis, I have no personal hesitation in indicating that so far as I can see into the future the Cargo Preference Act is a vital instrumentality and will perhaps do more than any other device to create the merchant marine that you and I would like to see flying the American flag.

For purely business reasons, however, there are some who play the field with no long-range advantage to the U.S. merchant marine or our shipbuilding industry and until now with little or no loss of entitlement or privilege. I cannot in all fairness condemn such practices but with equal forthrightness I cannot say that they in the long run contribute to our maritime strength.

It is patently unfair to the hard core long-range American maritime industry, both operating and shipbuilding, now struggling to keep the pieces together, to allow owners of foreign-flag vessels to document or

redocument such vessels under U.S. registry and thus qualify for participating in Cargo Preference Act cargoes. These cargoes should properly accrue to those owners who have built in U.S. yards and remained under U.S. registry in good times and bad and upon whom our maritime hopes for the future rest.

It seems to me both shortsighted and pointless to dilute the beneficial effects to our maritime industry intended to result through the Cargo Preference Act by continuing to allow those who find the foreign-flag market depressed to return to U.S. registry and participate by mandate in the movement of Government-generated cargoes.

This bill in effect does very little more than impose certain restrictions on those who choose to participate in the Government-generated cargoes in fashion not dissimilar from the requirements for the participation in our equally privileged domestic trade.

The passage of this legislation will properly deny, for a period of 3 years, participation in cargo preference cargoes to those owners who have played the field in the past. It has no retroactive punitive implications but simply confirms the Government's desire of moving forward rather than backward in creating a proper posture for the American merchant marine.

Our attention, Mr. Chairman, has been called to the fact that there is one particular point in this bill that opens the door and that is the question of what period we are referring to when we speak about the 3-year period.

Some of these vessels have in fact actually been under registry for 3 years, U.S. registry, and then were transferred out, and now when they come back they automatically qualify under the terms of the bill.

We think that there is enough doubt to seek to clarify this, and we simply suggest that on the second page, right after the last two words of the bill, "3 years," we simply say "subsequent to such foreign building, rebuilding, or registry." I think this is clearly the intention of the bill, and it just removes that doubt which might exist in the minds of other people, and we are liable to find some court cases involved. We think this is what was intended to be done and we think this is what the committee may well decide to do with this modified language.

Thank you.

Senator BARTLETT. Thank you, Mr. Shapiro, for your statement and for your suggestion.

Mr. Sullivan, we are always glad to see you.

STATEMENT OF J. MONROE SULLIVAN, VICE PRESIDENT, PACIFIC AMERICAN STEAMSHIP ASSOCIATION, WASHINGTON, D.C.

Mr. SULLIVAN. My name is J. Monroe Sullivan, vice president of Pacific American Steamship Association.

Our association endorses S. 1808 with the amendment suggested by Mr. Shapiro, and urge that it be acted on immediately.

That is all I have to say, sir.

Senator BARTLETT. Thank you, Mr. Sullivan. I want to compliment you on being the first man I have seen in years who reached in his pocket for a business card and found one there.

Mr. SULLIVAN. Thank you.

Senator BARTLETT. Mr. James G. Dunaif.

STATEMENT OF JAMES G. DUNAIF, PRESIDENT, CARGO SHIPS & TANKERS, INC., NEW YORK, N.Y.

Mr. DUNAIF. My name is James G. Dunaif, president of Cargo Ships & Tankers, Inc., 17 Battery Place, New York City.

We are owners and operators of American-flag tramp ships, and also several restricted Liberian-flag tramp ships.

Last year, before this legislation was introduced, or I ever heard of it, I made a commitment to elongate several of our American-flag Liberty ships at Ishikawajima Heavy Industries, Ltd., Tokyo, Japan, the vessels ultimately to operate under American flag.

The purpose of this was that for the past 4 years the shipping business in general and American-flag shipping, as well, has suffered a depression and we have been competing with large tankers carrying grain and, as has been testified to here before, the 50-50 grain cargoes are the American-flag tramp ships' only source of employment.

The three ships in question—one of the three ships has already been lengthened and will return to an American port in September when it was our plan to document the vessel under American flag. This vessel is originally an American-built Liberty ship which has been elongated and enlarged.

The other two ships are in the same category. Those two vessels will arrive in an American port to be redocumented in October.

Therefore, I wish to propose that the following amendment be made to this bill:

Provided, however, That the provisions of this amendment shall not apply where prior to this date, July 10, 1961, the owner of a vessel originally constructed in the United States and rebuilt abroad has notified the United States Maritime Administration of its intent to document such vessel under United States registry and such vessel is so documented on its first arrival in a U.S. port subsequent to the date of enactment of this amendment.

Senator BARTLETT. I am going to ask, if you don't mind, Mr. Shapiro, Mr. Sullivan, to advise the committee as to their thought concerning this proposed amendment. Would you care, gentlemen, to do it now, or in writing subsequently?

Mr. SHAPIRO. I prefer, Mr. Chairman, to do it in writing. It seems perfectly all right. I certainly understand the problem Mr. Dunaif has, and surely we wouldn't want to create any unnecessary hardships in this particular situation, and there may be others the same. I would like to comment in writing, if I may.

Senator BARTLETT. Mr. Sullivan?

Mr. SULLIVAN. I would like to comment in writing, too. There has to be a cutoff date.

Senator BARTLETT. May I suggest, if this isn't an intolerable request, that the submission in writing on the part of both of you be made perhaps even later today?

Mr. SHAPIRO. Yes, sir.

Mr. BOURBON. Mr. Dunaif, have any of these three ships ever been under foreign registry?

Mr. DUNAIF. Yes, sir; they have. They are at this moment. I transferred the vessels to foreign registry temporarily in order for the elongation.

Senator BARTLETT. Would that have been necessary?

Mr. DUNAIF. Economically for me it was necessary.

Senator BARTLETT. Why? I am curious. I mean, did it have anything to do with the work in the shipyards over there?

Mr. COLES. Mr. Chairman, the bill would cover them whether they were American registry or foreign registry.

Senator BARTLETT. Yes, I understand. My question isn't pertinent really to the purposes of the bill or anything, but I was just curious as to whether foreign documentation would be helpful to you in having this reconstruction work done over there.

Mr. DUNAIF. I doubt if I could have done it if I hadn't temporarily put the ships under foreign registry, from an economic point of view.

Senator BARTLETT. I understand.

Thank you very much. We will give full consideration to your proposal.

STATEMENT OF EARL J. SMITH, PRESIDENT, EARL J. SMITH & CO., NEW YORK, N.Y.

Mr. SMITH. I am Earl J. Smith, president of the Earl J. Smith & Co., 17 Battery Place, New York City.

I am wholly in favor of this bill. I do not intend to testify, Mr. Chairman, but I thought that having had considerable experience in the operation and chartering of tramp ships, both American and foreign, that I might bring out more clearly some response to your queries.

No. 1, I would like to point out that the way this business is obtained, the Administration lets the agencies of foreign governments to a large measure—

Senator BARTLETT. I can't quite hear you.

Mr. SMITH. The agencies of the embassies of foreign countries, recipient nations, do a large part of this chartering through brokers, who cover the whole market looking for the cheapest possible rates. There is a danger here that I think ought to be brought to your attention and that is this, that there is a tendency to a long-term foreign aid. Under the present setup, there is nothing to prevent me, or anybody else in this business, going to some foreign shipyards, foreign owners, and saying:

Here, give me authority to quote rates substantially below the rates now existing, prices at which the present American tramp tonnage could not exist, and then bring that tonnage under the American flag.

Under the coastwise setup you must have at least 75 percent American stock ownership. Under the foreign aid program, these ships could be owned 49 percent by foreigners.

There is nothing, as I say, that would prevent me from going to the Indians and saying:

Here, I will give you a contract for 3 years, such and such a rate. I will furnish tonnage of this size and type, under these conditions.

They go ahead and give me the contract, and then I arrange to put that tonnage in.

Therefore, I urge that prompt action should be taken because that, in my opinion, is what will occur and it will bankrupt the present American tramp owners.

I personally have control of five American Liberty ships. It has been my intention, under the new arrangements that Maritime has come up with, to upgrade the operating fleet and downgrade the

laid-up fleet, to turn those ships in and take a better class vessel from the laid-up fleet. The tendency now to come back with these larger foreign ships is such that I seriously doubt, unless this legislation is passed, that I would be able to continue with that program.

If there are any further questions that you would like to ask me in connection with how these charters are accomplished, I would be very happy to answer.

Senator BARTLETT. I have no questions, but the information you gave is new and very helpful and ought to have and will have a bearing upon our determination.

Do you have any questions, Mr. Bourbon?

Mr. BOURBON. Just exactly what additional labor costs, if any, are involved when a ship comes back from foreign registry or comes from foreign registry to U.S. registry?

Mr. SMITH. If they come back under this flag, the crew has to be American. If there was a shortage of American labor, you might get permission to carry one or two foreigners in an emergency.

Mr. BOURBON. On a cargo ship, for the record, does the crew have to be 100 percent American?

Mr. SMITH. Yes, on an American ship, except in an emergency; if there was a shortage, you might be able to get permission to carry one or two men, but the difference in costs, of course, is that the American ship, American Liberty ship, would cost you about \$1,525 a day, without depreciation and interest, under the existing—before these increases which we are facing. A foreign ship of the same type would cost about \$600 a day. Now, when the market is bad, and there is an excess of foreign tonnage, these vessels will come under this flag, if they are permitted to do so. For example, you can buy a T-2 tanker and just use the stern section, and for less than \$2 million you would have a 23,000 to 24,000 ton vessel that could come in and they could contract to come in even before they bought the ship and demoralize the market. So that, while Mr. Kahn said he didn't think many ships would come in, if this present law stays the way it is, there is nothing to prevent the present tramp fleet being replaced on a contractual basis by foreign ships coming back under the flag, and they will in effect be getting the benefit of what we all must admit is an indirect subsidy under the 50-50 law, 49 percent of that going to foreign holders.

Senator BARTLETT. Thank you, sir.

At the outset of the meeting today, the acting chairman announced that two of the three bills, the first two, were noncontroversial. It develops happily that none of them are controversial, which certainly is of assistance to S. 1808.

The subcommittee will now stand in adjournment.

(Whereupon, at 12:30 p.m., the subcommittee was adjourned.)

(Subsequently the following letter from the Maritime Trades Department, AFL-CIO, dated July 12, was received.)

MARITIME TRADES DEPARTMENT,
Washington, D.C., July 12, 1961.

HON. WARREN G. MAGNUSON,
U.S. Senate, Washington, D.C.

SIR: The Maritime Trades Department, AFL-CIO, and its 31 affiliated national and international unions endorse the purposes of S. 1808 and recommend its enactment by the Congress. That bill provides that foreign-flag vessels and vessels rebuilt or built abroad shall not be considered as U.S.-flag commercial

vessels for purposes of carrying the American-flag portion of 50-50 cargoes for 3 years after their documentation. We believe that enactment of this legislation is necessary in order to prevent further reduction in the number of jobs available for American seamen.

American-flag tramp vessels are almost completely dependent for their continued operation on the 50-50 cargoes shipped pursuant to Public Law 480. Because of the shortage of available oil cargoes, many independently owned American tankers must also look to these 50-50 cargoes in order to be able to continue operating. Carriage of these foreign-aid cargoes financed and paid for by our Government is also essential to profitable operation even by American subsidized liner companies.

In recent months, foreign-built and foreign-rebuilt bulk carriers have been brought under American documentation in ever-increasing numbers. Because the foreign market rate for these ships is poor and they cannot be profitably operated under foreign registry, they have come under American registry in order to carry that part of the 50-50 cargoes retained for American-flag ships.

Because there is only a limited supply of 50-50 cargo available to American ships, the lower operating costs of these bigger ships enable them to usurp the carriage of a major portion of it. As a result, many existing American-built bulk carriers are required to go into layup. While each of these new vessels can carry up to three times the amount of cargo carried by each average existing American tramp vessel, they only employ a few more seamen than one of the existing ships. As a result, every time one of these foreign vessels is documented under American registry, the crews of two or more existing American-built ships are put on the beach. Because of their far lower foreign construction or rebuilding costs, and because they operate with only a few more men than the smaller American ships, the result is a vicious circle in which more and more American seamen and more and more American shipyard workers are put out of work. The only persons benefiting by this are the foreign shipyards and the foreign shipowners.

The 50-50 statute was enacted for the benefit of the American merchant marine. This includes American seamen as well as American ships and American shipyards. Every day more American seamen are being put on the beach because of these foreign-built and rebuilt vessels carrying more cargo with less seamen. This should not be permitted merely for the benefit of foreign shipyards and foreign owners of these ships. We therefore urge the Congress to enact the pending legislation in order to protect the American seafarers' jobs.

Very truly yours,

PAUL HALL,
President.

PETER M. GAVIN,
Executive Secretary-Treasurer.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, June 9, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce, U.S. Senate.

DEAR MR. CHAIRMAN: Further reference is made to your letter of May 5, 1961, acknowledged on May 9, requesting the comments of the General Accounting Office concerning S. 1808, 87th Congress, 1st session, entitled "A bill to amend the Merchant Marine Act, 1936, as amended, to encourage the construction and maintenance of American-flag vessels built in American shipyards."

We have no special information or knowledge as to the need for or desirability of the proposed legislation and, therefore, we make no recommendation with respect to its enactment.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.





