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MERCHANT MARINE LEGISLATION

(55% Subsidy, War Risk Insurance, Trade-in of Obsolete Vessels)

GOVERNMENT
Storage

HEARINGS BEFORE THE MERCHANT MARINE AND FISHERIES SUBCOMMITTEE

OF THE COMMITTEE ON COMMERCE UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS
SECOND SESSION

ON
S. 2800, S. 2801, and S. 2829

BILLS TO AMEND THE MERCHANT MARINE ACT, 1936

FEBRUARY 28 AND MARCH 1, 1962

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MERCHANT MARINE LEGISLATION

(55-Percent Subsidy, War-Risk Insurance, Trade-in of Obsolete Vessels)

WEDNESDAY, FEBRUARY 28, 1962

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

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

Senator BARTLETT. The committee will be in order.

Three bills of particular interest to the country's subsidized steamship lines are on the agenda for today. If we can complete testimony on all three before recess, the subcommittee then will take up tomorrow, beginning at 10 a.m., in this same hearing room, the two bills, S. 2313 and S. 2314, dealing with apportionment of vessel liability in collisions, and liability of vessel owners in such casualties. I might mention here that a sixth bill, S. 2833, dealing with ocean mail transportation rates, which had been announced for hearing at this time, has been withdrawn at the request of the sponsoring group.

Testimony now will be taken first on S. 2800, to make permanent the present temporary authority for payment by the Government of 55-percent construction differential subsidy for new vessels, and to permit payments exceeding 55 percent if required on vessel reconditioning and reconversion contracts.

Next we shall consider S. 2801, to extend for 2 more years the current authority, which otherwise would terminate on June 30, for trade-in toward new construction of vessels not less than 12 years old.

The final bill to be heard today is S. 2829, which would permit owners of vessels built with construction subsidy to secure war-risk insurance coverage on such vessels on the same basis as for unsubsidized vessels—namely, to domestic market value.

(S. 2800 follows:)

[S. 2800, 87th Cong., 2d sess.]

A BILL To amend the Merchant Marine Act, 1936, in order to make permanent a temporary increase in the maximum construction differential subsidy that may be paid under such Act and to provide that such maximum shall not apply with respect to reconstructing or reconditioning of ships

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 502(b) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1152(b)), is amended to read as follows:

“(b) The amount of the reduction in selling price which is herein termed ‘construction differential subsidy’ may equal, but not exceed, the excess of the bid of the shipbuilder constructing the proposed vessel (excluding the cost of any features incorporated in the vessel for national defense uses, which shall be paid by the Secretary of Commerce in addition to the subsidy), over the fair and reasonable estimate of cost, as determined by the Secretary, of the construction of the proposed vessel if it were constructed under similar plans and specifications (excluding national defense features as above provided) in a foreign shipbuilding

Staff member assigned to this hearing: August J. Bourbon.

center which is deemed by the Secretary to furnish a fair and representative example for the determination of the estimated foreign cost of construction of vessels of the type proposed to be constructed. The construction differential approved by the Secretary of Commerce shall not, except in the case of reconstruction or reconditioning, exceed 55 per centum of the construction cost of the vessel paid by the Secretary (excluding the cost of national defense features as above provided). Where the Secretary finds that the construction differential exceeds 55 per centum of such cost, he may negotiate and contract on behalf of the applicant to build such vessel in a domestic shipyard at a cost which will reduce the construction differential to 55 per centum or less. In the event that the Secretary has reason to believe that the bidding in any instance is collusive, he shall report all of the evidence on which he acted (1) to the Attorney General of the United States, and (2) to the President of the Senate and to the Speaker of the House of Representatives if the Congress shall be in session or, if the Congress shall not be in session, then to the Secretary of the Senate and the Clerk of the House, respectively."

SEC. 2. The last sentence of section 502(d) of the Merchant Marine Act, 1936 (46 U.S.C. 1152(d)), is amended to read as follows: "Nothing in this section shall be construed as authorizing, except in the case of reconstruction or reconditioning, a construction differential in excess of 55 per centum of the construction cost of the vessel as provided under subsection (b)."

SEC. 3. The amendments made by this Act shall be effective with respect to contracts entered into with respect to (1) the construction of a vessel the keel of which was laid after June 30, 1959, or (2) the reconstruction or reconditioning of a vessel the shipyard contract for which was entered into after the date of the enactment of this Act, and the Secretary of Commerce may, with the consent of the parties thereto, modify any such contract entered into prior to the date of the enactment of this Act to the extent authorized by the amendments made by this Act.

Senator BARTLETT. Before getting to the individual bills, we will hear a brief introductory statement by former Vice Adm. John M. Will, retired, who appears in his dual capacity as president of American Export Lines, Inc., and chairman of the Committee of American Steamship Lines.

Admiral Will, we welcome you.

STATEMENT OF VICE ADM. JOHN M. WILL, CHAIRMAN, COMMITTEE OF AMERICAN STEAMSHIP LINES; ACCOMPANIED BY J. D. DURAND, EXECUTIVE DIRECTOR, COMMITTEE OF AMERICAN STEAMSHIP LINES

Admiral WILL. Good morning, Senator Bartlett.

Senator BARTLETT. Not to coin a phrase, Admiral, you may proceed in your own fashion.

Admiral WILL. My name is J. M. Will. I am the president and chairman of the board of American Export Lines, Inc., and appear here today as the chairman of the Committee of American Steamship Lines.

The Committee of American Steamship Lines—frequently referred to as "CASL"—is a trade association composed of all the American-flag liner companies currently holding operating-differential subsidy contracts with the Federal Government. The presidents and officials of our member lines have carefully studied S. 2800, S. 2801, and S. 2829, and it is our unanimous opinion that these bills represent sound and constructive legislation which will make more effective portions of the Merchant Marine Act of 1936. All three bills are in harmony with the philosophy of this basic Maritime Act and will, we believe, contribute materially toward the maintenance of our essential American-flag liner fleet.

Accompanying me today are a number of well qualified witnesses who will present CASL's testimony in support of this legislation. Since these individual witnesses are available, I will not discuss specific details of the legislation, but I would like to outline for the committee the purpose of each of these bills.

(1) S. 2800. This bill would amend section 502 of the Merchant Marine Act of 1936 so as to make permanent the present 55 percent ceiling on construction-differential subsidy payments. Public Law 86-607, which authorizes the payment of up to 55 percent construction-differential subsidy, expires on July 7, 1962. This law was made temporary in nature so as to permit a 2-year study of the trend of vessel construction prices. During the past 2 years, construction-differential subsidy determinations have ranged both above and below the 50 percent level, but a study of world ship construction prices, which will be presented to the committee by Mr. J. J. Henry, on behalf of CASL, indicates that differentials in excess of 50 percent will continue for the foreseeable future. We believe that this study will clearly indicate the need for a permanent ceiling of 55 percent while at the same time demonstrating that past experience proves that the higher ceiling in no way influences actual determinations.

S. 2800 would also eliminate the present 55 percent ceiling on construction subsidy paid in the case of reconstruction or reconversion of a vessel. This is necessary because a determination in excess of 55 percent has been made in a recent reconversion case. This resulted primarily from the large proportion of labor at high American wages, which goes into reconstruction and reconversion work as compared with new construction. For the same reason it is expected that reconversion to accommodate so-called automation equipment may result in determinations exceeding 55 percent.

While construction subsidies are paid directly to American shipyards, they are vital to American liner operators if we are to continue the replacement in American shipyards of our war-built fleet. A permanent 55 percent ceiling would insure that the basic principle of the act of placing the American operator on a parity as to capital costs with his foreign competitor can be implemented.

(2) S. 2801. This bill would amend section 510 of the Merchant Marine Act of 1936 to extend the time for trade-in of vessels, not less than 12 years old, from June 30, 1962, to June 30, 1964. Section 510 of the act authorizes the Government to acquire obsolete vessels in order to encourage new construction. Obsolete vessels are defined in section 510(a) as, among other things, those not less than 17 years old, provided that until June 30, 1962, vessels not less than 12 years old may be considered obsolete for trade-in purposes. The 12-year age provision was included in the act so as to accelerate replacement of the war-built fleet.

Most war-built vessels which are 15 or 16 years old are scheduled for trade-in after June 30, 1962. These latter vessels include a number for which keels were laid during the war, but which were not delivered until 1946 or early 1947, because of extensive modifications which were made, following the war, to make them more suitable for peacetime service.

Efficient operations often require that a ship without specialized equipment—for example, deep tanks or refrigerator space needed for a particular service—be traded in before an older vessel which does

have such necessary equipment. We believe that the proposed extension of the existing law could permanently correct this problem and be in the best interest of both the industry and the Government.

(3) S. 2829. This bill would authorize CASL members to protect their fleets through the purchase of war risk insurance on the same basis that such insurance is made available by the Government to vessels built without construction subsidy. The first and third provisos of section 1209(a)(2) of the Merchant Marine Act of 1936, limit the amount for which steamship owners who have had ships built with the aid of shipyard subsidies cannot, through war risk insurance, protect their investment to the extent of the fair and reasonable values fixed by the Secretary of Commerce. This is obviously inequitable and places an unnecessary burden upon such owners.

Since war risk insurance premiums paid by the operating companies are calculated ex post facto, upon the actual loss experience, there would be no financial burden on the Government in permitting the operator to insure his vessel up to its full value.

Mr. J. D. Durand, sitting on my right, is the executive director of the Committee of American Steamship Lines, and will introduce the CASL witnesses who will present detailed testimony of these three bills.

On behalf of the members of the Committee of American Steamship Lines, I would like to express our thanks for the prompt attention and interest which your committee is giving to these problems.

Senator BARTLETT. Thank you, Admiral, for appearing, and we appreciate your statement.

Do you know of any opposition to these three bills?

Admiral WILL. I do not know of any; no, sir.

Senator BARTLETT. If there is opposition, I am sure it will be developed during the hearings.

Will you tell the committee what the general situation is, in your opinion, now regarding the status of this Nation's subsidized steamship lines. How are they faring?

Admiral WILL. Economically or as far as the Government support?

Senator BARTLETT. No, economically and competitively.

Admiral WILL. I think they are having a pretty tough time, Senator. The foreign competition is increasing very, very rapidly. It is continually on the increase. The conditions in some of the trades are in a rather chaotic state.

We are trying, in many of the conferences, to return stability by means of pools and self-policing features. I think that the dual-rate legislation that has recently been enacted is going to help us, and has already evidenced itself as a great help.

But the traffic is getting thin in many of the areas. We are having a bad time with the passenger lines. The foreign lines are bringing out new ships. The *France* has just appeared on the scene in New York, and the Italian Line is coming out next year with a couple of new ships, and there are some brandnew ships in the Pacific.

We are getting along all right, but business is not as good as it could be.

Senator BARTLETT. Would you say that our fleet is as big as it was a year ago? Is it as big with respect to number of vessels and with respect to tonnage?

Admiral WILL. I do not think there is a great deal of difference in the amount of tonnage in the past year. We suspect that the tonnage with the new ships has increased some, and the number of ships has probably decreased slightly.

Senator BARTLETT. Admiral, would you care to comment as to whether the American lines engaged in carrying passengers were helped by the so-called cruise bill enacted last year?

Admiral WILL. Speaking for my own company, Senator, American Export Lines, I would say definitely that we have been helped. We have not yet submitted a report to the Congress because there are two or three more cruises to be completed before the regular service goes in in April.

But we have definitely shown that benefits accrue. We have not made profits on these voyages, but we have been able to reduce the losses, and that was the purpose for which the cruise legislation was enacted, to enable us to use our ships in a trade in competition with foreign lines that would enable us to show less of a loss throughout the winter months.

Senator BARTLETT. Have you been able to make any studies yet which might reveal whether the passengers that have gone on your cruise ships have come from those who otherwise might have gone on foreign lines, or whether they have come from those who might have gone on airplanes, or whether new business has been generated?

Admiral WILL. We have not yet been able to determine that with any certainty.

I think we have definitely generated a lot of new business. I do not think that the American lines have been hurt by this legislation and by the bringing of additional ships into the West Indian cruise service. I think we have taken a lot of passengers from foreign lines.

Senator BARTLETT. Have your own ships; namely, those of American Export Lines, gone down to the West Indies fairly well filled with passengers?

Admiral WILL. After the service was started, we did pretty well. In the beginning, to get the service rolling, we had a couple of sailings that went very light.

Senator BARTLETT. This was the first season?

Admiral WILL. This is our first season; yes, sir.

Senator BARTLETT. And you would expect more difficulty then than in later years?

Admiral WILL. But the response from the passengers that have made these cruises has been universally favorable. They are very enthusiastic about the service that we have established.

Senator BARTLETT. Thank you very much, Admiral.

Does counsel have any questions?

Mr. BOURBON. No.

Admiral WILL. Thank you.

Senator BARTLETT. Now we would be glad to have you present the witnesses, Mr. Durand. Perhaps you have a statement yourself.

Mr. DURAND. No, Senator; I do not, and I believe according to the hearing schedule Mr. Alexander is the next witness.

Senator BARTLETT. Mr. Alexander, please.

STATEMENT OF HON. DONALD W. ALEXANDER, FEDERAL MARITIME ADMINISTRATOR; ACCOMPANIED BY LUDWIG HOFFMAN, CHIEF, OFFICE OF SHIP CONSTRUCTION; AND GRAYDON L. ANDREWS, DEPUTY GENERAL COUNSEL

Mr. ALEXANDER. Mr. Chairman, my name is Donald W. Alexander, and I am the Maritime Administrator, with an office in the GAO Building in Washington.

Senator BARTLETT. I want to apologize. I was a little mixed up on the witness list.

Mr. ALEXANDER. I would like to read, with your permission, a prepared statement on S. 2800.

Senator BARTLETT. You have that permission.

Mr. ALEXANDER. Public Law 86-607 as amended by Public Law 87-222 increased, until July 7, 1962, the maximum construction-differential subsidy that may be granted for the construction and reconstruction of ships from 50 percent of the U.S. cost of construction or reconstruction to 55 percent of such cost.

The bill would make permanent the 55-percent maximum on construction subsidy for new construction, and would eliminate any maximum limitation on the subsidy for reconstruction.

Section 3 of the bill is not clear. As we interpret this section, however, it would make the permanent 55-percent maximum subsidy applicable retroactively to any vessel whose keel was laid after June 30, 1959, and would make the lifting of the maximum limitation on subsidy for reconstruction unlimitedly retroactive.

We are opposed to the changes the bill would make in existing law. We would have no objection, however, to continuing for 1 more year the 55-percent limitation on subsidy for construction and reconstruction. We think that in the meantime efforts should be made by all concerned in this matter to hold this subsidy under 50 percent of the American costs.

The construction-differential subsidy determinations for new construction since January 1960 have ranged from 46.9 percent to 53 percent. These determinations are as follows:

Operator	Project	Bid date	Construction differential subsidy ratio (percent)
Moore-McCormack.....	1 cargo ship.....	May 2, 1960	53.0
Lykes.....	4 cargo ships.....	June 16, 1960	52.9
Farrell.....	6 cargo ships.....	June 29, 1960	48.4
United States Lines.....	5 cargo ships.....	July 13, 1960	50.2
American Export.....	4 cargo ships.....	Nov. 1, 1960	48.0
Lykes.....	do.....	Nov. 4, 1960	50.8
States.....	2 cargo ships.....	Nov. 30, 1960	47.7
Lykes.....	4 cargo ships.....	Aug. 24, 1961	49.5
Gulf and South American.....	2 cargo ships.....	Aug. 24, 1961	48.4
Grace Line.....	1 combination ship.....	Nov. 14, 1961	50.3

No bid for construction of a new ship received after June 29, 1960, has exceeded 50.8 percent of American cost. Bids for 22 ships were less than 50 percent. Bids for 10 ships were more than 50 percent, but not more than 50.8 percent. We think that with the cooperation of the operators these subsidies could be kept under 50 percent. We think the operators could cooperate by agreeing to build standard

ships, and by contracting for larger numbers of ships in each contract rather than smaller numbers in several contracts.

Since November 5, 1959, we have granted construction-differential subsidies with respect to three contracts covering the conversion of four vessels. The percentages of U.S. costs that are equal to the difference between the U.S. and foreign costs of these conversions are as follows:

Ship	Owner	Bid date	Contract	Percentage of U.S. cost
President Cleveland.....	}APL	Nov. 5, 1959	\$686,000	55.9
President Wilson.....				
Atlantic.....		AEL	Feb. 5, 1960	1, 871, 687	53.7
President Roosevelt.....	APL	Jan. 6, 1961	7, 750, 993	59.1

To the extent that the difference between the United States and foreign costs of these reconstructions exceed 55 percent of U.S. costs, they are not allowed under existing law. We think this is proper. We think the merchant marine policy of the United States is better served by the construction of new ships than by the reconstruction of existing ships. We, therefore, believe that the statute should not permit a premium on reconstruction of existing ships over the construction of new ships.

We think the subsidized operators should have parity on their new construction. We do not, however, believe that it is the sole responsibility of the United States to see that they get parity. There are factors in this situation which are under the control of the subsidized operators which, if exercised, would tend to keep these subsidies under 50 percent. We think this influence by the subsidized operators should be exercised to this end. To see what can be done in this area, we recommend that the 55-percent limitation be extended for 1 year. Attached to this statement is a substitute text for the bill which would carry out our recommendation. This reads as follows:

The Department of Commerce's proposed substitute text for S. 2800:

"That section 2 of the Act of July 7, 1960 (Public Law 86-607, 74 Stat. 362), as amended by the Act of September 13, 1961 (Public Law 87-222, 75 Stat. 494), is further amended by striking out the words 'two years' and inserting in lieu thereof the words 'three years'."

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

Senator BARTLETT. Thank you, Mr. Alexander. You certainly answered one question I put earlier as to whether there is opposition to the bill.

Now, referring to page 1 of your testimony in which you said section 3 is not clear because your interpretation is that application would be made retroactively, I am wondering if that comment does not apply to the language in the bill filed before the House of Representatives, rather than S. 2800, because here it seems clear to me that there can be no misconception of the language. It says:

- (1) the construction of a vessel the keel of which was laid after June 30, 1959, or (2) the reconstruction or reconditioning of a vessel the shipyard contract for which was entered into after the date of the enactment of this Act.

Mr. ALEXANDER. I would appreciate it if our counsel could answer this question.

Senator BARTLETT. Surely.

Mr. ANDREWS. Senator, the June 30, 1959, date is currently in the 55-percent law, and it might well be they have restated it here since this proposes to be a complete substitution section for that.

However, subsection (2) provided for reconstruction or reconditioning of a vessel the shipyard contract for which was entered into after the date of the enactment of this act, which would be all right. There would be no problem there.

Then there is the conjunction "and," and it reads—

and the Secretary of Commerce may, with the consent of the parties thereto, modify any such contract entered into prior to the date of the enactment of this Act to the extent authorized by the amendments made by this Act.

We construed that as contemplating that either (1) or (2) could retroactively have been approved.

If the intention of the sponsors of this is not to do that, we would have no problem—if they ended after (1) and (2) and before the word "and."

Senator BARTLETT. Would my interpretation be correct that a retroactive feature could be had only with the permission of the Secretary of Commerce?

Mr. ANDREWS. Yes, sir; it is permissive. This was necessary now, Senator. Since you have executed contracts, both parties would have to agree to a limit, so it would have to be permissive.

Senator BARTLETT. Thank you.

Now, Mr. Alexander, on page 2 you express the thought that the operators could cooperate in keeping the differential down by building standard ships.

Mr. ALEXANDER. Yes, sir.

Senator BARTLETT. Will you explain that a bit more?

Mr. ALEXANDER. This goes to the question of utilizing designs of ships, particularly hull designs, which have previously been utilized, or which are available, without necessarily going into new designs having certain specialized features.

In the past it has been quite customary to more or less custom build ships to the specific needs or requirements or desires of the owners. It is our thought that substantial savings may be made by utilizing either existing designs or designs which have already been drafted and are in the blueprint stage.

Senator BARTLETT. Well, the thought occurred to me—and I would like to have you comment on this—that with reference to standardization of ships, and by contracting for larger numbers of ships in each contract rather than smaller numbers in several contracts, as you recommended, a company might have need for different types of ships in different trades; and in respect to the second feature, they would not have a need at a particular moment for a large number of ships and so they could not effectuate the savings that might be made in that manner.

Would you comment on that?

Mr. ALEXANDER. Yes, sir.

I think that there will be exceptions from time to time which certainly are justified. On the other hand, we believe that over cer-

tain trade routes and in certain services, a greater standardization of design is readily possible.

And we also think that under the provisions of subsidy contracts it is possible to build ships in larger groups, rather than dividing them up into smaller groups.

This is an opinion which we have.

Senator BARTLETT. Well, assuredly if a company were to build 100 ships rather than 4, there would be a large saving, but they are going to have to have a need for the hundred before they enter into contracts.

Mr. ALEXANDER. We are thinking, sir, in groups of four, five, or six ships, rather than one or two at a time.

Senator BARTLETT. And is it not possible that in times of financial tightness, as it were, the owner or owners might have trouble getting money to build a large number of ships?

Mr. ALEXANDER. I think that is possible; yes, sir.

Senator BARTLETT. Now, will you comment a bit more, if you are willing to do so, about the desirability of the policy which you stated here would be the best for the American States, of having new ships rather than reconstruction. In all cases do you think a new ship is better than a reconstructed ship?

Mr. ALEXANDER. I think as a general rule that would be the case. There might be exceptions to that, but it has been our experience recently—and I would like to ask Mr. Hoffman, our Chief of the Office of Ship Construction, to comment on this matter, because he is much more familiar with it than I am.

Senator BARTLETT. I would appreciate that.

Mr. HOFFMAN. In the reconversion of ships, generally you take an older ship, which is obvious, and you put money into it, but it does not mean that the life of the ship is extended again 20 to 25 years. In many cases, the propulsion equipment is of the original state. The hull normally is not changed. And after about a 25-year life of the ship from the original building of it, the maintenance in the major areas becomes excessive.

And to that extent we think it is better to build a new ship if the owner has the means and wants to do so.

Senator BARTLETT. Why is it that the differential is so much greater in respect to reconversion than for construction of a new ship?

Mr. HOFFMAN. The reason for that, Senator, is that the large portion of the cost on your reconversion is labor, and the difference in the labor rates here and abroad is about 1 to 4. So that in all cases where you convert a ship, and especially a passenger ship where there is a considerable amount of joiner work, obviously labor is a very high portion of it.

This is different from a new ship, or especially a cargo ship, where the material is a large segment, also of the cost, as compared to the labor.

Senator BARTLETT. I see.

Now, Mr. Alexander, in the following paragraph, on page 3, you expressed a belief that there are factors in the situation which are under the control of the subsidized operators, and which, if they were to be exercised, would keep the subsidies under 50 percent.

What are these factors?

Mr. ALEXANDER. These are the same factors referred to previously, namely, the utilization of standardized designs and the building of larger numbers in each group.

Senator BARTLETT. Well, do you think that these determinations could be made in only 1 additional year?

Mr. ALEXANDER. I think we would have a much clearer indication, sir, as to the trends of subsidization costs and also construction costs after another year's experience.

Senator BARTLETT. Mr. Alexander, the House report on the 1960 act, which increased the differential subsidy to 55 percent of the construction cost, stated that the change was made for only the 2-year period because world shipbuilding was in a fluctuating situation at that time. And the report stated that Congress should review the matter again in 1962 when the situation would be more certain—and we are now reviewing it.

Let me ask you this: Is the shipbuilding industry more stable today than it was in 1960, so that Congress might be able to legislate now on more than a year-to-year basis?

Mr. ALEXANDER. This question of particularly foreign construction costs, and also our domestic construction costs, is something with which Mr. Hoffman is familiar and has been familiar over a long period of years, and he is much better qualified to speak.

Senator BARTLETT. All right.

Mr. HOFFMAN. In connection with the trend of shipbuilding costs here and abroad, the market abroad has been reasonably steady over the past couple of years. When I say "steady," I mean the prices have been about the same.

Labor has gone up abroad, but the work is somewhat off. It is a competitive market, and obviously the prices still remain fairly level.

In the United States, shipbuilding prices have fallen off during the last 2 years—the last 3, maybe—but I think that the prices here are leveling out. I think many of the yards are having trouble making money in this country. I think in some of the yards abroad they are having difficulty.

I want to mention, though, that the increase in labor cost percentages abroad is about 10 percent a year. The increase here is around 3 percent. At some future time—not now—there will be a closing of this gap.

The material costs have been fairly steady abroad and here, although this, again, is a competitive factor. I think they may stay there, but I am not sure about the U.S. market. I would feel that perhaps we have hit the bottom here. It might rise slightly, or certainly steady out.

Senator BARTLETT. Where can a ship be built at the very lowest possible cost today?

Mr. HOFFMAN. This is, perhaps, a difficult question. I would like to answer it a different way.

We go to the country that is basically a shipbuilding center and, on the basis of orders during the past year, is the country where the majority of the people go. We are presently using the West German yards as a base and considering Japanese yards. We think the Japanese and the West German prices are consistently as low as most.

However, you will see in the papers, the trade journals, an occasional price from another country at a lower price than the German price. But it is not a consistency. And if you had any amount of work to put in these countries, I doubt if the price would remain low.

So that the basic volume of work at the present time, certainly on a basis of cost, is in the West German area and the Japanese area.

Senator BARTLETT. I understand the French Government paid a very sizable percentage subsidy for the construction of the new liner *Paris*. Are you familiar with that?

Mr. HOFFMAN. This is correct, sir. I do not know the amount, but it is a considerable one. The cost of the ship is around \$80 million.

Senator BARTLETT. Thank you.

Now, Mr. Alexander or Mr. Hoffman, in 1960 the representative of the Department of Commerce appearing in committee hearings stated that the longrun trend has been for the difference between the U.S. and foreign shipbuilding costs to increase. He reported that in the mid-1930's the difference was 30 to 40 percent. By 1956 it was up to over 48 percent, and now, in 1960, we reach in many cases to and beyond 55 percent.

You just explained, Mr. Hoffman, that the labor costs are rising much more rapidly abroad than here, and that material costs tend to level out. Are there any other costs abroad that are increasing or diminishing more rapidly than in the United States?

Mr. HOFFMAN. I would like to make one point clear on the increase in the labor. What I meant to say was that the percentage increase is 10 percent abroad, and it is around 3 percent here. On a percentage basis it is still a smaller amount in cents per hour abroad than it is here.

Senator BARTLETT. I understand.

Mr. HOFFMAN. You understand?

Senator BARTLETT. I understand that thoroughly, yes.

Mr. HOFFMAN. The only charges abroad that perhaps are going up a little are these charges, but it is that and material.

Senator BARTLETT. Now, one final question or we will never get this bill completed before the recess.

What portion of our subsidy program is directed toward conversion of vessels as compared to new construction?

Mr. HOFFMAN. We made a summary of the total work that has been done since 1955 in the new construction and conversion end, and only around 3½ percent is in the conversion field. It is a very small amount.

May I correct this? This is since 1959; excuse me.

Senator BARTLETT. Do you know how it was running before then?

Mr. HOFFMAN. Still a very small amount, a small segment of the total dollar volume in the U.S. yards.

Senator BARTLETT. Thank you very much.

Thank you, gentlemen.

Mr. Bourbon has a question.

Mr. BOURBON. Mr. Administrator, I have some figures here on construction differential subsidy rates approved by the Board after January 1955, and I would just like to cite that from March 1959 down to November 1961 there were 12 bids, including reconversions, that were 50 percent or more, and only 7 that were less than 50 percent.

Now, during that period it is well known that the shipyards—at least some of them—did not make any money, and I think the average profit was less than 2 to 2½ percent during the year.

Obviously, to use a phrase which Senator Magnuson likes, they have been "sharpening their pencils" to get the jobs. Just as obviously, they cannot stay in business if they do not make some money.

So it would seem, with the differential now hovering around 50 percent, sometimes over, and in some few instances less than 50 percent, that it is hardly likely that the differential will be less in the future.

The American shipyards are going to have to protect themselves by trying to make some money. So it would seem that with that being the case, and with the fact that, of course, you as the Administrator are the one who will determine whether the differential will be over 50 percent, there is not a lot of danger of a runaway percentage. In fact, it would seem to be unfair to the operators in a time like this, that if the occasion arises when the differential is more than 50 percent, under the law and under the policy of the 1936 act, they should be allowed something lower than 50 percent.

Mr. ALEXANDER. Of course, the provision here is for 55 percent.

Mr. BOURBON. The provision has been for 55 percent right along in these 2 years, but only in one case was that allowed. So it shows you do not have to give the 55 percent. You have given 50, 50.8, 53 percent and so on.

Mr. ALEXANDER. Yes. Well, it is our proposal here, sir, that this 55 percent provision be extended for 1 more year.

Mr. BOURBON. And you think, as Mr. Allen did 2 years ago, that the conditions will change in that period? If they do change are they not more apt to result in higher prices quoted by the American yards?

Mr. ALEXANDER. Well, sir, it is our hope—and we have some basis for this—that through standardization of designs and through this grouping of ship contracts, we may be able to effect savings which really have nothing to do with actual cost per ship, but simply gaining the benefits of these other measures.

Mr. BOURBON. Just one more question:

You say it is better for the country and the merchant marine to build new ships, and I do not think anybody will question that statement as an ideal. But then you run into a situation like the present, where a number of the lines are not making expenses, and it becomes an economic problem of getting a ship—let us take the new *President Roosevelt*. I forget how much they paid for it originally, but they are spending \$7½ million to convert it to their needs. If they wanted a new ship, it would cost them \$20 million or \$25 million or more.

So the ideal is fine, but is there not a practical reality that you are up against?

Mr. ALEXANDER. Certainly economic considerations must enter into these questions—no doubt about it, sir.

Mr. BOURBON. That is all I have.

Senator BARTLETT. Just one more question, Mr. Alexander.

What is your real concern here? Is it that despite the figures quoted by Mr. Bourbon, demonstrating that the upper limit has not been reached very frequently, you feel that if the 55 percent is made a permanent part of the law the subsidy will tend to go in that direction?

Mr. ALEXANDER. I believe that is a fair statement, yes. We believe it is our responsibility and obligation to try to get the best possible ships built at the lowest cost to the taxpayer.

Senator BARTLETT. But to come back to what I said again, does it really matter whether it is 44 or 51 or 60 percent, so long as you have the administrative determination?

Mr. ALEXANDER. We are suggesting that 1 more year's observation of the trends would be appropriate and proper at this time.

Senator BARTLETT. Thank you.

There will be placed in the record at this point a compilation of construction differential subsidy rates approved by the Board (bids after January 1955), and likewise the letter addressed to Chairman Magnuson on S. 2800, under date of February 28, 1962, by the Department of State and signed by Frederick G. Dutton, Assistant Secretary, offering no objection to enactment and the letter from the Department of the Treasury, dated March 2, 1962, and the letter under date of February 26, 1962, by the Federal Maritime Commission, and signed by Thomas E. Stakem, wherein the Commission expresses no opinion as to the desirability of this legislation.

(The documents above referred to are as follows:)

Construction differential subsidy rates approved by Board (bids after January 1955)

Operator	Design	Project	Bid date	Construction differential Subsidy rate (percent)
APL.....	C4-S-1h.....	Mariner conversion.....	Mar. 21, 1955	42.85
Oceanic.....		Mariner conversion to passenger-cargo.....	Apr. 19, 1955	48.07
MM.....	P2-S2-9a.....	Passenger.....	July 12, 1955	39.94
Grace.....	P2-S2-11a.....	do.....	Oct. 3, 1955	42
APL.....		Conversion of SS <i>Cleveland</i> and <i>Wilson</i>	May 21, 1956	38.9
Bernstein.....	P2-S1-1n.....	Mariner conversion to passenger-cargo.....	Oct. 17, 1956	40.5
MM.....	C3-S-33a.....	Cargo.....	Oct. 8, 1957	45.2
Lykes.....	C3-S-37a.....	do.....	Oct. 23, 1957	44.5
Export.....	C3-S-38a.....	do.....	Oct. 30, 1957	45.3
APL.....	C4-S-1q.....	do.....	Dec. 2, 1957	49.5
APL.....	C4-S-1p.....	Mariner conversion.....	June 23, 1958	50
Export.....		Conversion of SS <i>Independence</i> and SS <i>Constitution</i>	June 30, 1958	50
Lykes.....	C3-S-37a.....	Cargo, 2d group.....	July 2, 1958	148.4
Grace.....	C3-S-45a.....	Conversion to container carrier.....	July 28, 1958	48.8
MM.....	C3-S-33a.....	Cargo, 2d group.....	Oct. 27, 1958	149.2
Export.....	C3-S-46a.....	do.....	Dec. 18, 1958	48.3
Mississippi.....	C3-S-43a.....	Cargo.....	Mar. 17, 1959	150
American Mail.....	C4-S-1s.....	do.....	Apr. 15, 1959	150
P.F.E.L.....	C4-S-1t.....	do.....	June 25, 1959	150
Grace.....	C4-S-1-49a.....	Passenger-cargo.....	Oct. 29, 1959	50.2
APL.....		Conversion of SS <i>Wilson</i> and SS <i>Cleveland</i>	Nov. 5, 1959	55.0
States.....	C4-S-1u.....	Cargo.....	Nov. 30, 1959	148
Export.....	P2-S1-1v.....	Conversion of SS <i>Atlantic</i>	Feb. 5, 1960	53.7
MM.....	C3-S-33a.....	Cargo, 8th ship.....	May 2, 1960	153.0
Lykes.....	C3-S-37b.....	Cargo, 3d group.....	June 16, 1960	52.9
Farrell.....	C4-S-58a.....	Cargo.....	June 29, 1960	48.4
U. S. Lines.....	C4-S-57a.....	do.....	July 13, 1960	50.2
Do.....	C4-S-57a.....	Cargo, 2d group.....	Oct. 18, 1960	46.9
Export.....	C3-S-46b.....	Cargo, 3d group.....	Nov. 1, 1960	48.0
Lykes.....	C3-S-37c.....	Cargo, 4th group.....	Nov. 4, 1960	50.8
States.....	C4-S-1u.....	Cargo, 2d group.....	Nov. 30, 1960	47.7
APL.....	P2-S2-R14.....	Conversion of SS <i>Leilani</i>	Jan. 6, 1961	55.0
Lykes.....	C3-S-37c.....	Cargo, 5th group.....	Aug. 24, 1961	49.5
Gulf & South America.....	C3-S-37d.....	Cargo.....	do.....	48.4
Grace.....	C4-S1-49a.....	Passenger-cargo, 4th ship.....	Nov. 14, 1961	50.3

¹ Tentative construction differential subsidy rate based on fixed foreign cost and domestic adjusted price bid.

FEBRUARY 28, 1962.

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

DEAR MR. CHAIRMAN: I refer to your request dated February 6, 1962 for the views of the Department of State on S. 2800, a bill to amend the Merchant Marine Act, 1936, in order to make permanent a temporary increase in the maximum construction differential subsidy that may be paid under such act and to provide that such maximum shall not apply with respect to reconstructing or reconditioning of ships.

The Department of State has no objection to the enactment of this bill from the foreign policy standpoint.

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,

FREDERICK G. DUTTON,
*Assistant Secretary
 (For the Secretary of State).*

FEDERAL MARITIME COMMISSION,
 Washington, D.C., February 26, 1962.

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

DEAR MR. CHAIRMAN: This will acknowledge your request of February 6, 1962, for the views of the Federal Maritime Commission with respect to S. 2800, a bill to amend the Merchant Marine Act, 1936, in order to make permanent a temporary increase in the maximum construction differential subsidy that may be paid under such act and to provide that such maximum shall not apply with respect to reconstructing or reconditioning of ships.

This bill deals with the amount of construction differential subsidy which may be paid under the Merchant Marine Act, 1936, with respect to new construction and also with respect to reconstruction or reconditioning of existing ships.

Inasmuch as the functions with respect to the determination of construction differential subsidies are matters under the jurisdiction of the Secretary of Commerce, the Commission expresses no opinion as to the desirability of this legislation and defers to the Department of Commerce.

The Bureau of the Budget advised there would be no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

THOS. E. STAKEM, *Chairman.*

THE GENERAL COUNSEL OF THE TREASURY,
 Washington, March 2, 1962.

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

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 2800, to amend the Merchant Marine Act, 1936, in order to make permanent a temporary increase in the maximum construction differential subsidy that may be paid under such act and to provide that such maximum shall not apply with respect to reconstructing or reconditioning of ships.

The proposed legislation would amend section 502 of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1152) to increase on a permanent basis the limit on the amount of the construction differential subsidy from 50 to 55 percent of the construction cost of a vessel. In addition, the bill would except the reconstruction or reconditioning of vessels from the ceiling on the subsidy.

The proposed legislation is not of primary interest to this Department and the Department has no comment to make on its general merits.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

ROBERT H. KNIGHT, *General Counsel.*

Senator BARTLETT. The committee will stand in recess for 2 minutes. (Whereupon a short recess was taken.)

Senator BARTLETT. The committee will be in order.

Mr. DURAND. Mr. Chairman, the Committee of American Steamship Lines has four witnesses who will speak in support of S. 2800. Three are executives from our member companies representing the east coast, the gulf coast, and the west coast. The fourth, Mr. J. J. Henry, is president of the J. J. Henry Co., one of the world's outstanding firms in the field of naval architecture and marine engineering.

In addition, Mr. Chairman, I understand that three other organizations interested in the maritime field, the American Merchant Marine Institute, the Pacific-American Steamship Association, and the Shipbuilders' Council of America desire to file statement for the record.

Senator BARTLETT. They will be accepted.

(The statements follow:)

STATEMENT BY EDWIN M. HOOD, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA, RIDDELL BUILDING, WASHINGTON, D.C.

The Shipbuilders Council of America, as the national trade association of private companies engaged in shipbuilding and ship repair in all areas of the United States, has a vital interest in and supports pending bill S. 2800, to make permanent the present temporary increase from 50 to 55 percent in the maximum subsidy that may be paid under the Merchant Marine Act, 1936, on new ship construction and to remove any percentage limitation on that which may be paid as a subsidy to aid in reconstructing or reconditioning any vessel.

The theory of the subsidy provisions of the 1936 act is, of course, that a U.S.-flag operator engaged in foreign trade should be placed in a position of parity with foreign-flag competitors by being given equality of opportunity to compete. This is accomplished by means of an equalization of both his capital costs and his operating costs. In other words, if the act is to be effective, the ship operator is supposed to be able to acquire a new ship, built in the United States, at the same price his foreign competitor can obtain a similar ship from a foreign shipyard.

At the time the 1936 act was adopted, it was generally accepted as a fact that the differential in price favoring foreign shipyards was in the neighborhood of 40 percent. Therefore, to allow flexibility in administration, the somewhat higher limit of 50 percent was written into the original law. Until a few years ago this limit proved ample to provide parity.

When the long-range phased program of cargo ship replacement began to take shape in 1958 and 1959, however, it became evident from the bids submitted that the actual differential had reached and in some instances would exceed the 50-percent limit. As a result, in order to retain the parity concept, the Congress found it appropriate that the limit be raised.

After exhaustive hearings, section 502(b) of the act was amended so that for the temporary period of 2 years, ending on June 30, 1962, construction differential subsidies of up to 55 percent may be approved. Due to an inadvertent omission of language, the temporary increase to 55 percent was not made applicable to reconstructing or reconditioning, but the Congress rectified the situation by further amending the act last year so that until June 30, 1962, the increase in the limit to 55 percent also applies to reconstructing or reconditioning of any vessel.

U.S. shipyard bids on vessels for the cargo ship replacement program in recent months make it clear the situation of 2 years ago still prevails. While shipbuilding quotations in U.S. yards have come down somewhat, so also have those in foreign yards. As a result, the price differential between U.S. and foreign shipyard construction remains in the neighborhood of 50 percent or more. Further, it is understood in the case of reconstructing or reconditioning, recent shipyard bids show a price differential even greater than that for new construction. Differentials in excess of 55 percent have been mentioned. Testimony by the Maritime Administration will undoubtedly develop the actual figures.

In view of this situation, the Shipbuilders Council endorses the principal provisions of S. 2800, which are to make the 55-percent limit permanent as to

new construction and to remove any limitation on the subsidy which may be approved for reconstructing or reconditioning.

Without in any way seeming to object to these purposes of the bill itself, the council would like to comment on the following provision in S. 2800 unrelated to its main purpose.

First, the council notes that in accordance with Reorganization Plan No. 7 of 1961, the bill would substitute the Secretary of Commerce as the person directly responsible for the administration of the ship construction subsidy rather than the former Federal Maritime Board, or the present Maritime Subsidy Board or Maritime Administration. The council has no objection to this change in view of the existing law.

Secondly, the council notes that in lines 17 through 22 on page 2 of S. 2800, an objectionable sentence which now appears in section 502(b) of the Merchant Marine Act would be reenacted, permitting the Secretary of Commerce, where he finds that the construction differential exceeds 55 percent, to negotiate and contract on behalf of the applicant to build the vessel in a domestic shipyard at a cost which will reduce the construction differential to 55 percent or less. This provision for unrestricted and unguided negotiation fails to state who are to be the parties to the negotiation, whether the owner or the Secretary or both on the one side; and whether the low bidder or any or all bidders on the other side.

The council submits that in case the low bid is found to exceed 55 percent, the logical procedure to follow would be to reject all bids as provided elsewhere in the act, and to readvertise for new bids rather than to negotiate. Readvertisement for rebidding would probably produce a bid below the 55 percent limit or at least make it positive that the original low bid cannot be reduced. In any event, it would be a more equitable procedure to accomplish what is desired than the negotiation method.

Finally, the council notes that in lines 22 on page 2 through line 4 on page 3, the bill would reenact language appearing in present section 502(b), concerned with collusive bidding. In view of the provisions in section 806 of the act this appears to be redundant and should be omitted. Ample protection for the Government is contained in section 806 of the act.

STATEMENT OF ALVIN SHAPIRO, VICE PRESIDENT, AMERICAN MERCHANT MARINE INSTITUTE, INC., 919 18th St. NW., WASHINGTON, D.C.

My name is Alvin Shapiro. I am vice president of the American Merchant Marine Institute which is a national association representing the owners and operators of a majority of American-flag ships. Included among our members are those who operate freighters, passenger ships, and tankers in both the domestic and foreign trades of the United States. Many of our members operate under subsidies provided by the Merchant Marine Act of 1936 and others do not.

We favor enactment of S. 2800 introduced by the chairman of this committee. Fortunately the principles involved in this legislation are quite simple and the record before this committee in the past can almost stand on its own in justification of the present legislation.

In essence, S. 2800 would provide that the 55-percent limitation on construction differential in connection with new vessels which was enacted in 1960, to be effective for 2 years, be made a permanent provision of our maritime statute. Additionally the bill provides that statutory differentials be eliminated in connection with reconstruction or reconditioning as distinguished from new construction.

During December of 1959 this committee held hearings on this general subject matter. This was followed by formal hearings on S. 2584 in February of 1960 which your committee approved and out of which came Public Law 86-607, which extended the 55-percent differential through July 7, 1962.

With a written record as extensive as is available to this committee I will abstain from elaborating on that which will otherwise be presented during the course of the present hearings and limit my remarks for the primary purpose of avoiding burdening of the record and imposing upon your time.

The proposal before you grows out of probably the most essential ingredient of our basic maritime statute, the act of 1936 as amended. This is the principle that certain qualified operators in our foreign trade be allowed, in the interest of maintaining an American merchant marine, to have real economic parity with

foreign competitors on our essential trade routes. S. 2800 deals with parity not in the operating area but in the area of capital investment required of the American versus the foreign-flag operator in the procurement of ships—the tools of the trade—and their reconstruction and reconditioning.

Although economic conditions prevailing at the time of the original enactment, which provided for a statutory limitation of 50 percent on construction differential, may have been meritorious, postwar developments in our economy contrasted with the economies of those countries who are the principal fabricators of ships abroad can make the imposition of a statutory 50 percent limitation a breach of parity. Should such limitation be resumed it will redound unfairly and to the disadvantage of our merchant marine, our shipbuilding facilities, and the laboring community both on board ship and in the yards. In essence then, failure to modernize our legislation in respect of these matters could prove a gross disadvantage to the national interest.

It is essential that I reiterate that the bill before you does not modify the parity principle and does not involve greater Federal expenditures or a greater degree of Government assistance except if this should be necessary under the parity principle. If parity is achieved by 45-percent differentials the actual awards will be on the basis of all the facts demonstrated. What we are doing, however, is saying that if differentials under the parity principle may in the future, as they have in the past, rise above the levels of 50 percent a statutory/economic barrier to constructing vessels for the American merchant marine under Government assistance would immediately set in should this legislation not be enacted.

In regard to reconstruction or reconditioning, S. 2800 eliminates any statutory maximum on differentials, as provided in section 2 of the bill. This again is necessitated by existing conditions, i.e., the unusual proportion of labor costs involved in the reconstruction and reconditioning process makes even a 55-percent differential fall outside of the realm of parity. Thus we feel that if the approval of differentials in excess of 55 percent is barred in connection with this type of work, few operators, if any, will find it economically feasible to reconstruct or recondition vessels in the process of modernizing individual fleets or the merchant marine as a whole.

We strongly believe that failure to enact the proposed legislation before you will result in progressive weakening of the American merchant marine. Thus we urge the committee's favorable reporting of S. 2800.

PACIFIC AMERICAN STEAMSHIP ASSOCIATION,
San Francisco, Calif., February 26, 1962.

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

DEAR MR. CHAIRMAN: This is to advise that the Pacific American Steamship Association strongly supports S. 2800, a bill to make permanent the maximum construction-differential subsidy which may be paid under the Merchant Marine Act, 1936.

When the matter of the raising of the construction-differential ceiling from 50 percent to 55 percent was considered in 1960, it was clearly demonstrated in the hearing record that foreign shipbuilding costs vis-a-vis American costs had reached a point where the 50-percent ceiling was no longer realistic. The Congress provided for a 2-year limit on an increase to 55 percent and we know of no factual data which would do other than demonstrate once again that the 55-percent ceiling is realistic and should be made permanent in law.

Spokesmen for the Committee of American Steamship Lines will develop the need for this legislation in some depth in hearings commencing February 28. Our organization concurs in the statements prepared by the Committee of American Steamship Lines for this hearing and strongly urge early favorable action.

Yours very truly,

RALPH B. DEWEY.

Mr. DURAND. Our first witness is Mr. Frank A. Nemeck.

**STATEMENT OF FRANK A. NEMEC, SENIOR VICE PRESIDENT,
LYKES BROS. STEAMSHIP CO., NEW ORLEANS, LA.**

Mr. NEMEC. Mr. Senator, I have here a rather lengthy prepared statement which I would be very happy to read, or else review with the committee in brief some of the major points. I will leave this to your pleasure.

Senator BARTLETT. Well, since we here are going to read every word of the testimony entered in any case, why do you not summarize the statement. The entire statement will be placed in the record at this point.

(The statement referred to follows:)

STATEMENT OF FRANK A. NEMEC, CHAIRMAN, VESSEL REPLACEMENT COMMITTEE, COMMITTEE OF AMERICAN STEAMSHIP LINES, AND SENIOR VICE PRESIDENT, LYKES BROS. STEAMSHIP CO., INC.

My name is Frank A. Nemic. I am a senior vice president of Lykes Bros. Steamship Co., Inc., New Orleans, but I appear here today as chairman of the Vessel Replacement Committee of the Committee of American Steamship Lines, in support of S. 2800. Accompanying me as industry witnesses in support of this bill are Mr. J. J. Henry, president of J. J. Henry Co., Inc, naval architects and marine engineers; Mr. C. D. Gibbons, formerly president, and now chairman of the finance committee of United States Lines Co.; and Mr. Peter Teige, vice president, American President Lines, Ltd.

Testimony on this bill has been arranged so that our group of witnesses will supplement rather than overlap.

GENERAL

In December 1959 and February 1960, I appeared before this committee of the 86th Congress in support of S. 2584, a bill intended to remove certain limitations on construction-differential subsidy. This bill, amended to limit shipyard subsidies to 55 percent of domestic shipbuilding prices, was subsequently enacted into law, with the proviso, however, that it would be made effective for only 2 years in order that this committee and the Congress might determine whether or not the experience of the 2 intervening years would justify its permanent enactment.

We appear here today in support of S. 2800 and are prepared to demonstrate that—

(1) A 55-percent limitation on construction-differential subsidy is fair and reasonable and should be enacted into permanent law;

(2) Contrary to the fears of some witnesses at the 1960 hearings, a 55-percent subsidy limitation has not resulted in runaway domestic shipbuilding prices; actually, domestic shipbuilding prices have decreased sharply during these 2 years;

(3) While on a per-ship basis the percentages of construction-differential subsidy have increased, the actual comparable per-ship disbursements by the United States have decreased;

(4) Shipbuilding conditions both here and abroad are similar to those which existed during 1959-60 and warrant continuation of the present law;

(5) Construction-differential subsidy is shipyard subsidy and the United States should fully and openly absorb this subsidy in order to maintain a shipbuilding mobilization capacity; it would be inequitable to suggest that American-flag shipowners absorb part of these shipyard subsidies;

(6) The replacement obligations of the members of CASL are large and the financial burdens are great; passage of S. 2800 is necessary in order that the existing capital cost gap between foreign and American ships shall not widen, thereby impeding the long-range replacement program; and, finally,

(7) Insofar as reconstruction and conversion are concerned, there is ample justification for removing any limitation on construction-differential subsidy; this is particularly important at a time when the American merchant marine may be confronted with substantial conversion programs in order to meet the challenge of automated foreign-flag ships.

In my testimony I will limit myself to the general conditions which make it imperative that the bill before you be enacted into law, and Messrs. Henry, Gibbons, and Teige will provide the committee with testimony on some of the other points I have enumerated above.

PARITY

In enacting the Merchant Marine Act of 1936, Congress adopted the parity principle as its basic philosophy in order to insure the development and maintenance of a modern merchant marine and a domestic shipbuilding industry adequate to serve the commerce of the United States and to provide a military auxiliary in time of war or national emergency.

Mr. Gibbons will discuss with this committee the very sound reasons why the members of CASL believe that parity in capital costs is just as essential as parity in operating costs.

My purpose, however, in mentioning this subject is to provide the framework within which this committee should view the very serious financial problems facing the members of CASL in fulfilling the vast ship replacement program to which they are committed and to urge that in view of current and prospective worldwide shipping conditions this burden should not be increased by failure to enact into law the bill which is before you.

THE IMPORTANCE OF CAPITAL COSTS

Presently, there is a substantial worldwide imbalance between shipping capacity and cargo offerings and a significant quantity of laid-up tonnage awaiting employment in the world shipping market. Because of a lag in the scrapping of old vessels, coupled with continued worldwide construction of new and improved ships, this situation may continue for an indefinite period of time into the future.

The problem of the U.S. shipowner is complicated further by the likelihood that in the future, as in the recent past, the relatively high cost of American-manufactured products in world markets and the adverse balance of payments of the United States may create a climate which, from time to time, may affect the volume and flow of the foreign trade of the United States.

Since the end of World War II, worldwide shipbuilding prices have risen progressively. During this extended period of years most foreign-flag liner companies substantially rehabilitated their fleets and therefore have averaged their capital costs from the relatively low postwar cost to the higher present-day prices.

However, the situation is quite different in the case of the subsidized lines which have been committed to replace about 300 ships over a 15-year period at a total cost of between \$4 and \$4½ billion. These companies, by reason of contracts with the United States of America, are confronted with a regularly scheduled replacement program and required to replace their ships whether or not building costs are high.

While building costs have receded from their post-Suez highs and now seem to be relatively stable, they are nevertheless at a high-price plateau compared to earlier periods.

Although the span of the present ship replacement program partially spreads the consequences of high capital cost and debt service over a period of years, we believe it fundamental to the success of our national maritime policies that American companies be enabled to purchase their ships at prices directly related to foreign competitors—without any limitations on full parity.

HIGH CAPITAL COSTS

In spite of the determined efforts by the Maritime Administration, by shipowners and by others to reduce the costs of American ships, there is no gainsaying the fact that because of a combination of reasons the American shipowner pays more for his vessels, even after construction-differential subsidy, than does his foreign counterpart. This is due to a variety of factors involving higher American building and living standards, built-in defense requirements, improved accommodations dictated by American custom and practice, and possibly other factors, all of which result in increased cost.

This disparity between our capital costs and those of our principal foreign competitors is a matter of great concern to American shipowners. At the present time foreign shipyards are delivering fine, high-class liner vessels to foreign owners for the equivalent of \$3½ million or less. Typical of this type of competitive liner vessels is the S.S. *Omsk*, built for the Soviet Government by a Japanese shipyard. This ship is first of three cargo ships which the Japanese contracted to construct for the Soviets in the autumn of 1960. From material available to us, this vessel, competitive with American-flag ships in almost all respects and superior in some features, has been delivered to the Soviet Govern-

ment for a cost approximating \$3.9 million. We believe that under similar contract conditions this vessel, constructed in an American shipyard, probably would have cost an American owner more than \$4½ million, after construction-differential subsidy. This disparity is illustrative of the very serious capital cost deficiency with which the American owner is confronted in competing against foreign-flag shipping in world markets.

The Japanese build fine competitive liner ships. While their crew quarters and appointments are severe by U.S. standards, they are excellent cargo carriers. Accordingly, the following list showing some of the vessels contracted for Japanese shipping lines during 1961 will be of interest:

	Gross tons	Dead-weight tons	Horse-power, diesel	Speed	Cost in dollars
N.Y.K.-----	10, 100	11, 700	17, 500	19. 7	4, 067, 232. 10
Mitsubishi-----	9, 350	12, 000	13, 000	18. 3	3, 522, 711. 95
O.S.K.-----	9, 300	12, 050	13, 000	18. 3	3, 486, 595. 82
Mitsui Line-----	8, 250	9, 750	12, 000	18. 0	3, 314, 349. 65
Shinnihon-----	8, 950	11, 750	10, 500	17. 4	3, 233, 782. 90
Yamashita-----	8, 900	11, 750	10, 500	17. 4	3, 278, 233. 52
Daido Line-----	9, 570	12, 400	13, 000	18. 5	3, 583, 831. 56
Kawasaki SS-----	9, 220	11, 900	9, 000	16. 2	3, 042, 089. 58
Kawasaki SS-----	9, 200	11, 900	9, 000	16. 2	3, 000, 417. 12

The difference in cost between American and foreign-flag ships ranging somewhere between \$0.6 to \$1.0 million is increased additionally by debt service involved in financing this additional capital. This may be illustrated by the following oversimplified example:

Basic difference in price—say-----	\$1, 000, 000
Interest ¹ -----	625, 000

Disability of the American owner----- 1, 625, 000

¹ This is calculated at 5 percent per annum (to cover either interest costs or loss of investment earnings in the average investment over 25 years). Interest is not compounded.

The foregoing does not include any compensation to the American shipowner on risk or return on his investment in the ship.

This situation provides an additional compelling reason why S. 2800 should be enacted into law.

THE DOMESTIC SHIPBUILDING INDUSTRY

All too often we hear serious questions raised as to whether or not in this nuclear age the defense of the United States requires or justifies the maintenance of a domestic shipbuilding industry.

On behalf of CASL I should like to make it unmistakably clear that we are completely dedicated to the support of a vigorous, healthy, thriving shipbuilding industry in the continental United States. Historically, nations have lived and died by the measure of their strength on the high seas. Control of the sea is dependent not only upon a Navy able to sweep the enemy from the seas and skies above them, but also on a merchant marine and a shipbuilding industry capable of adequately serving both the commercial and defense needs of the country.

If, in the event of national emergency, we had no shipyards of our own we would have to depend exclusively on foreign yards to fill our national needs. These shipbuilding facilities might not be available to us and consequently our offensive and defensive capabilities would be impaired seriously.

Many students assume that reactivating a shipbuilding capability would be a relatively simple matter in time of need. This is far from the truth. Construction of complex oceangoing vessels involves a substantial number of technical professions and skills and requires unique industrial production facilities. These skills and production capabilities once lost—are not recreated overnight. Experienced naval architects do not spring from the ground. Manufacturers of gears and turbine equipment do not have the instant capability of expanding limited production facilities. Complex navigational and electronic control equipment must be created and tested, and last but not least, shipyards must be reactivated and manned. These are tasks which should not be underestimated.

We believe that the United States, as a matter of national policy, has resolved to support the American shipbuilding industry and CASL fully supports this policy.

In the case of anything less than all-out nuclear war, the merchant marine becomes a critical factor in our offensive capability and the lessons of two World Wars should make it plain that our national interest is best served by active and continuing support to both the merchant marine and shipbuilding industry.

Even in the case of all-out nuclear war, shipping will remain as the one great communication and transportation force in the free world. Shipping will be able to provide emergency housing, power, hospital and subsistence facilities during the days immediately following any nuclear holocaust. Later, shipping may become the principal means of communication between the various coastal areas and between the United States and other nations in the free world. Conceivably, ships able to traverse the undamaged oceans will provide mankind the only reliable and substantial means of communication and transport.

A healthy, adequate merchant marine and shipbuilding industry are just as important today as they were in the days before the atomic bomb or intercontinental missiles.

THE NEED FOR THE BILL

During 1960, in recommending enactment of S. 2584, this committee suggested that it be limited to a 2-year period in order to permit an adequate study to the continuing need for this legislation.

We believe, and Mr. Henry will demonstrate in his testimony, that the record of the past 2 years has provided an adequate justification for enactment into law of the present bill, S. 2800.

During this 2-year period shipbuilding prices have been reduced drastically both here and abroad. Yet in spite of these sharp reductions there has been continuing need for the provisions of this act, and we firmly believe that similar conditions will prevail in the future. In any case, however, current construction-differential subsidy rates now vary around a 50-percent axis and in light of this fact we believe that any statutory limitations of less than 55 percent would be restrictive and unrealistic. The experience of the past 2 years has conclusively and justifiably demonstrated that this 55-percent limitation should be enacted as a permanent provision of the 1936 act.

CONCLUSION

CASL stands squarely in the support of an American shipbuilding industry and submits that this industry is necessary both to the domestic and foreign commerce and to the defense of the United States.

Construction-differential subsidy is a shipyard subsidy and any limitation which might require shipowners to absorb part of the burden of supporting shipyards is inequitable.

Even now, members of CASL have serious problems in financing the replacement of their fleets at relatively high current shipbuilding prices. The burden of these capital costs under depressed worldwide shipping conditions creates many, many problems. Any limitation on construction-differential subsidy which adds to the burden of these high capital costs may jeopardize the future of the vessel replacement program.

Parity both in operating and capital costs is the fair and equitable foundation of the 1936 act.

The record of the past 2 years has demonstrated ample need for this legislation and has proven that this legislation has not resulted in increased domestic shipbuilding prices. On the contrary, during these last 2 years domestic shipbuilding prices have declined sharply.

For these reasons, CASL supports and strongly urges a favorable consideration and prompt action on S. 2800.

Mr. NEMEC. My name is Frank A. Nemec. I am a senior vice president of Lykes Bros. Steamship Co., Inc., in New Orleans, but I am appearing here today as chairman of the Vessel Replacement Committee of the Committee of American Steamship Lines, in support of S. 2800.

Accompanying me as industry witnesses in support of this bill are Mr. J. J. Henry, president of J. J. Henry Co., Inc., naval architects and marine engineers; Mr. C. D. Gibbons, formerly president and now

chairman of the Finance Committee of United States Lines Co.; and Mr. Peter Teige, vice president, American President Lines, Ltd.

We have attempted to arrange our testimony so that it will supplement, rather than overlap.

We appear here today in support of S. 2800 and are prepared to demonstrate that—

(1) A 55-percent limitation on construction-differential subsidy is fair and reasonable and should be enacted into permanent law;

(2) Contrary to the fears of some witnesses at the 1960 hearings, a 55-percent subsidy limitation has not resulted in runaway domestic shipbuilding prices; actually, domestic shipbuilding prices have decreased sharply during these 2 years;

(3) While on a per ship basis the percentages of construction-differential subsidy have increased, the actual comparable per ship disbursements by the United States have decreased;

(4) Shipbuilding conditions both here and abroad are similar to those which existed during 1959-60 and warrant continuation of the present law;

(5) Construction-differential subsidy is shipyard subsidy and the United States should fully and openly absorb this subsidy in order to maintain a shipbuilding mobilization capacity; it would be inequitable to suggest that American-flag shipowners absorb part of these shipyard subsidies;

(6) The replacement obligations of the members of CASL are large and the financial burdens are great; passage of S. 2800 is necessary in order that the existing capital cost gap between foreign and American ships shall not widen, thereby impeding the long-range replacement program; and finally

(7) Insofar as reconstruction and conversion are concerned, there is ample justification for removing any limitation on construction-differential subsidy; this is particularly important at a time when the American merchant marine may be confronted with substantial conversion programs in order to meet the challenge of automated foreign-flag ships.

At the bottom of page 3, Mr. Chairman, I mention very briefly the parity basis of construction differential which runs through the 1936 act. Mr. Gibbons will speak to this point.

My primary purpose in mentioning parity at this time is to provide the framework within which this committee should view the very serious financial problems facing the member of CASL in fulfilling the vast ship replacement program to which they are committed and to urge that in view of current and prospective worldwide shipping conditions this burden should not be increased by failure to enact into law the bill which is before you.

On the next page I discuss with the committee the great importance of capital costs to the shipowner, and emphasize that in view of current worldwide ship operating conditions, the imbalance between shipping capacity and cargo offers, and the relatively thin profit margins available to operators at this time—all of which are a worldwide situation—we simply cannot afford to have an imbalance in capital construction costs between ourselves and the foreign lines which compete with us.

Of further significance is the fact that since the end of World War II, worldwide shipbuilding prices have increased progressively. Dur-

ing this extended period of years, most foreign-flag liner companies substantially rehabilitated their fleets and therefore have averaged their capital costs from the relatively low postwar cost to the higher present-day prices.

At the top of page 5 we point out the situation is quite different in the case of the subsidized lines, which, largely as a result of World War II shipbuilding, were not confronted with replacing their vessels until the commencement of the long-range shipbuilding program in 1958.

This means that they are, in effect, replacing their ships at the top of a current price plateau.

As you know, the members of CASL have been committed to replace about 300 ships over a 15-year period, with an estimated total cost ranging somewhere between \$4 and \$4½ billion. These companies, by reason of their contracts with the United States, are confronted with a regularly scheduled replacement program and required to replace their ships whether or not building costs are high.

We point out that while building costs have receded from their post-Suez highs and now seem to be relatively stable, they are nevertheless at a high price plateau compared to earlier periods.

While the span of the present ship replacement program partially spreads the consequences of high capital cost and debt service over a period of years, we believe it fundamental to the success of our national maritime policies that American companies be enabled to purchase their ships at prices directly related to foreign competitors, without any limitations on full parity.

Now, in the succeeding section, we discuss the fact that American costs, in spite of the provisions of the 1936 act, are relatively higher on a per-ship basis or on a per-ton basis than effective comparable liner competitive ships, built and operated under foreign flags.

We say that this occurs because of a combination of reasons, and it is due to a variety of factors involving higher American building and living standards, built-in defense requirements, improved accommodations dictated by labor conditions and by our standards of living and by American custom and practice, and by a number of other factors, all of which give us, even with full parity, a built-in cost disadvantage.

On page 6 we call attention to the fact that at the present time foreign shipyards are delivering very fine high-class liner vessels to foreign owners at the equivalent of about \$3½ million or less. And we point out that the SS *Omsk* has recently been delivered to the Soviet Government by the Japanese. It is a very fine ship. It is strengthened in the bow sections for ice protection; it has many high-class features. It is as good as our vessels in most respects, and superior in some. And it has been reported that the Soviet Government obtained this vessel, one of three, from the Japanese for a price of about \$3.9 million. We have reason to believe that under similar circumstances, if this vessel were constructed in an American yard, the ship would cost an American owner probably more than \$4.5 million.

Then we further point out that the Japanese are building very fine competitive liner ships today, and while their crew quarters and appointments and steward accommodations are, in fact, severe by U.S. standards, they are excellent cargo carriers. They compete with us effectively and thoroughly.

And then we show, on page 7, a recent listing of vessels contracted for by the Japanese in the 1961 shipbuilding program. And these are good-sized liner vessels, very similar in general characteristics, in horsepower ratings, performance, and in many other respects, to American-flag ships. And we have converted the values there to show the approximate delivered costs to Japanese owners.

I may say, incidentally, that if these vessels were being built for export, their prices would probably be somewhat lower.

The difference between comparable American- and foreign-flag ships, in our opinion, ranges between six-tenths of a million to one million dollars, and is increased additionally by debt service. We illustrate it by a relatively simple example calling attention to the fact that what we may have involved is \$1.6 million, which we have to recover from operations before we are equal with our foreign competitors in terms of capital cost.

We think this provides an additional compelling reason why S. 2800 should be enacted into law. In other words, if there were added to this difference which now exists a further arbitrary difference by reason of statutory limitation, we think you would add greatly to our burden.

In the next two pages, Mr. Chairman, we go on record in a completely unequivocal manner in support of a domestic shipbuilding industry. I think you will have here today representatives of the shipbuilding industry, so I will not attempt to put their justification in.

But we do want to make it a matter of firm record that CASL stands foursquare behind a vigorous, capable American shipbuilding industry. We do feel, however, that it should continue to be supported by shipyard subsidies and these should be paid for openly and fully by the United States.

On page 10 we briefly outline the need for the bill, and then the conclusions, and with your leave, Mr. Chairman, I will read this, because it is in very summary form.

Senator BARTLETT. Surely.

Mr. NEMEC. During 1960, in recommending enactment of S. 2584, this committee suggested that it be limited to a 2-year period in order to permit an adequate study to the continuing need for this legislation.

We believe, and Mr. Henry will demonstrate in his testimony, that the record of the past 2 years has provided an adequate justification for enactment into law of the present bill, S. 2800.

During this 2-year period, shipbuilding prices have been reduced drastically both here and abroad. Yet in spite of these sharp reductions there has been continuing need for the provisions of this act, and we firmly believe that similar conditions will prevail in the future. In any case, however, current construction-differential subsidy rates now vary around a 50-percent axis and in light of this fact we believe that any statutory limitations of less than 55 percent would be restrictive and unrealistic. The experience of the past 2 years has conclusively and justifiably demonstrated that this 55-percent limitation should be enacted as a permanent provision of the 1936 act.

CASL stands squarely in the support of an American shipbuilding industry and submits that this industry is necessary both to the domestic and foreign commerce and to the defense of the United States.

Construction-differential subsidy is a shipyard subsidy and any limitation which might require shipowners to absorb part of the burden of supporting shipyards is inequitable.

Even now, members of CASL have serious problems in financing the replacement of their fleets at relatively high current shipbuilding prices. The burden of these capital costs under depressed worldwide shipping conditions creates many, many problems. Any limitation on construction-differential subsidy which adds to the burden of these high capital costs may jeopardize the future of the vessel replacement program.

Parity both in operating and capital costs is the fair and equitable foundation of the 1936 act.

The record of the past 2 years has demonstrated ample need for this legislation and has proven that this legislation has not resulted in increased domestic shipbuilding prices. On the contrary, during these last 2 years, domestic shipbuilding prices have declined sharply.

For these reasons, CASL supports and strongly urges a favorable consideration and prompt action on S. 2800.

Senator BARTLETT. Thank you, Mr. Nemeec.

On page 5 you related that the subsidized lines have been committed to replace on the order of 300 ships over a 15-year period, and that the cost of doing so would range between \$4 and \$4½ billion. Is there any escape clause in this contractual arrangement for the lines?

Mr. NEMEC. Yes, sir. Each year, on application and even without application, the Maritime Subsidy Board is bound to determine that the construction is economically feasible and prudently sound. This contract, proviso, requiring review and need for this, is basically called the economically feasible test.

In addition to that, there are other contract provisions which would prevent this, for example, the failure on the part of the United States to provide construction differential funds, or, of course, default by any party would do it.

Then, in addition, there are certain clauses which in effect permit an owner to not proceed with the construction, but he is then subject to some very considerable penalties.

Senator BARTLETT. You are not forced into a situation, then, where you might go bankrupt if you went ahead and built?

Mr. NEMEC. I will put it this way, Mr. Chairman, that up to this time, certainly, there has not been any such administration, and we think it unlikely there will be in the future. And the contracts have been ably administered, and we were not forced into that situation, and we do not anticipate that we will be.

Senator BARTLETT. You refer to this ship built in a Japanese shipyard for the Russians.

Mr. NEMEC. Yes, sir.

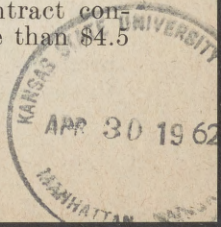
Senator BARTLETT. You did an admirable job of pronouncing the name of that ship, too, I might add.

You said the Soviet Government got that for \$3.9 million.

Mr. NEMEC. Yes, sir.

Senator BARTLETT. And you expressed the view that if this had been constructed in an American yard under similar contract conditions, the American owner would have had to pay more than \$4.5 million after construction differential subsidy.

Mr. NEMEC. Yes, sir.



Senator BARTLETT. Now, if that had been done, would the ship then have had the improved crew quarters, for example, that are necessary here?

Mr. NEMEC. No, sir. Perhaps I ought to tell you a little bit about this ship.

She is basically of a C-3 size—I am doing this from memory and I will provide a statement for the record amplifying this.

She is of the type which many American lines are building, approximately 500 feet in length. Her engines are semiaft. She is not a Japanese ship, built to Japanese standards. She is a very, very high quality ship, built to very, very high standards.

For example, the crew quarters are air conditioned; they have a recreation room on board, a projection room for films, things of that nature. She has a high horsepower diesel, as I recall, 13,000 brake horsepower. She has a speed of some 19 knots, a rated speed of that. She has additional ice strengthening. She has air conditioning in all quarters. She has hydraulically operated hatch covers, which are found on all of the modern American ships today. She has, in addition, imported special frames from Germany for the handling of certain of her gear, and she has a very heavy lift crane on board which is not found on most American vessels.

So she is not a typical Japanese ship. She is very directly comparable to the best or the better of our ships today—or as good as our ships today.

Senator BARTLETT. I am glad you gave that explanation. I had not quite understood that.

Now, I think it was Mr. Hoffman who related that on the average, shipyard labor costs abroad are increasing 7 percent a year faster than they are in the United States; that costs of materials abroad and here have been relatively stable. And the inference I assume to be drawn from that is that our competitive situation is improving.

Would you care to make a comment on that?

Mr. NEMEC. Yes, sir; I would be happy to.

Mr. Henry, of course, will provide detailed statistics and information and some charts, which I think will illustrate this very clearly.

Mr. Hoffman, I think, clarified his percentage statement by stating that while the percentage of increase was admittedly greater on the foreign side than this side, nevertheless the disparity per hour of labor was still increasing.

This tendency has been the prevailing one for the past 15 years, so that when you talk of labor differentials it is utterly misleading to think of them in terms of percentages. You are starting from a completely different base.

For example, if you start in with a 50-cents-per-hour rate and increase it by 10 percent, that will raise the foreign wage cost to 55 cents, or an increase of 5 cents per hour. But if you are starting from a \$3 rate or a \$3.50 rate, a 3-percent increase means an increase of 10 cents per hour.

So that while the percentages are disproportionate, the disadvantage incurred by American labor is an additional 5 cents per hour, and your differential in pricing has opened that gap.

Now, as to materials, these have been relatively stable in the world-wide market, and we are talking of materials here in the sense of mill products. These are your basic bar stocks, rods and plates. And these, with the exception of the Japanese market, which is a much

thinner one and much more responsive to abnormal demands, have been relatively in line over the past several years.

But we have good reason to believe that with the conclusion of the steel industry negotiations, there will be increases in steel prices here which will not be reflected abroad. As evidence of what is hapening, I would point to the fact that the steel industry today is beginning to complain more strongly of competition in domestic markets of imported steels, specialized at the moment, but nevertheless they are starting to feel something of the impact of this wage differential and capital cost differential which enters into foreign production.

So I would look in the future, looking at the next 4 or 5 years, for a new trend to set in on material prices, and that is, they will start to incur a broadening of whatever difference there now is between American and, let us say, Western European steel prices.

I think this is inevitable.

Senator BARTLETT. Now, Mr. Nemeec, you and those on your side of the argument favor the bill before the committee. It is apparent that Mr. Alexander—and, we must assume, the administration—take a directly contrary view in that they recommend an extension of existing law for 1 year.

None of us knows, of course, how adamant that opposition might be if the Congress were to act favorably on the legislation, whether this would bring about the possibility of a veto.

Bearing that possibility in mind, do you think that if the administration continued in its opposition it would be better to put the bill through anyway, or to try to seek a compromise and extend existing law for, say, 2 or 3 years?

Mr. NEMEC. It would seem to me, Mr. Chairman, that an additional 1-year period is going to provide very little additional information which could be helpful to the Congress or to the administration.

I would point out, for example, that if you glance over Mr. Alexander's table on page 2, there have been a substantial number of fairly large groupings of ships built at one time. The typical purchase group was four or six.

We will point out, for example, also, that in the case of the Gulf & South American contract, this was combined with the Lykes, since they were similar ships. So that, in effect, was a six-ship contract group.

But, typically, the spacing has been that the contracts have been let on a four, five, or six basis. The number of contracts which have been let on a one or—well, I will reemphasize that. There are only three contracts in that entire list which are for one or two ships, and each one of these has peculiar circumstances.

The Moore-McCormack vessel was an option ship. She was placed on the tail end of a contract, I believe, for five, so this was not a single-ship contract, but a followup of a five-ship contract.

The States ship contract, I think, is the only one that is an independent, as such, representing an autonomous or integrated group.

The Grace Line is a followup for a contract placed in 1960, and this is a sister ship to it. They just found later, after reappraising the situation, that they needed one more ship of this class to give them the kind of service they needed.

So that during this whole period of time, we could say there was only one contract for two ships placed which didn't have other circumstances surrounding it, and this was for a relatively small company.

What I see in here is that there has been a fairly substantial grouping of vessels.

Now, as to the benefits of standardization, through this entire listing there are numbers of standardized ships. My company, for example, has constructed or built 21 ships to one design, a large class. You will see the price trend on a chart here to the left. But it has been replete through here.

So I would, in all fairness, like to point out to the committee that there has been a good deal of what Mr. Alexander has been seeking present during the period under review; that we have had a good deal of standardization.

There have been Mariners, variations of them, but basically Mariner hulls, built in large numbers during this period of time.

As Mr. Gibbons, to my right, points out here, all 11 of the United States Lines ships are of one design. When you get ships that start to run in the number of 10 or more, you are getting the benefits of standardization. On a per-ship basis, the savings which could be realized afterward are relatively small.

There is one other very difficult thing to assess in this whole picture, and that is certainly that building in large groups may tend to funnel the work into a limited number of yards. Immediately you do that, you run into the problems of maintaining a shipbuilding industry on all costs.

You are familiar with the problems which required the enactment of the so-called allocation provisions of the 1936 act, whereby for defense reasons the normal bidding processes were set aside and contracts were, in fact, allocated to various coastal areas for defense purposes.

So it is not quite as clear as we would like to have it.

I think there has been an ample record in here, and there are constant cross-purposes, if you will, or cross-currents, on any of these things which make it not just a case of black and white.

My own feeling would be that a 1-year extension would be inadequate.

Senator BARTLETT. I think your last point is very important, and I am glad you made it.

It seems to me that large groupings would help to channel construction into a very few yards, and this ought to be taken into consideration.

Who is the next witness?

Mr. NEMEC. Mr. Henry is the principal technical witness. I think you will be interested in many of the charts and materials which he has.

Senator BARTLETT. All right. Mr. Henry.

We will appreciate whatever summarization you can make.

**STATEMENT OF J. J. HENRY, PRESIDENT, J. J. HENRY CO., INC.,
NEW YORK, N.Y.**

Mr. HENRY. As you see, the statement is rather lengthy. The statement is some 22 pages long. I would like to abstract it, as you suggest, and also refer to these charts as a part of the abstracting.

Senator BARTLETT. Mr. Henry's statement will be incorporated in the record in full text.

(The document referred to follows:)

FIGURE 2

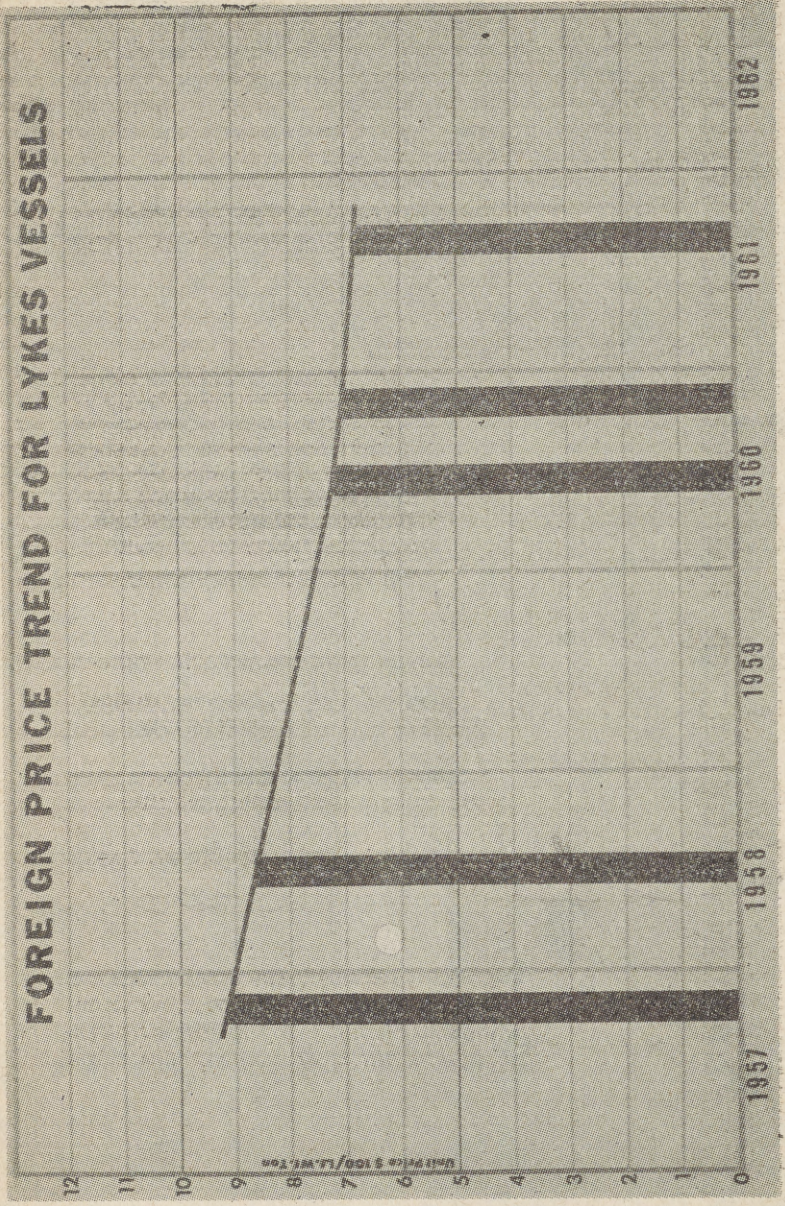


FIGURE 3

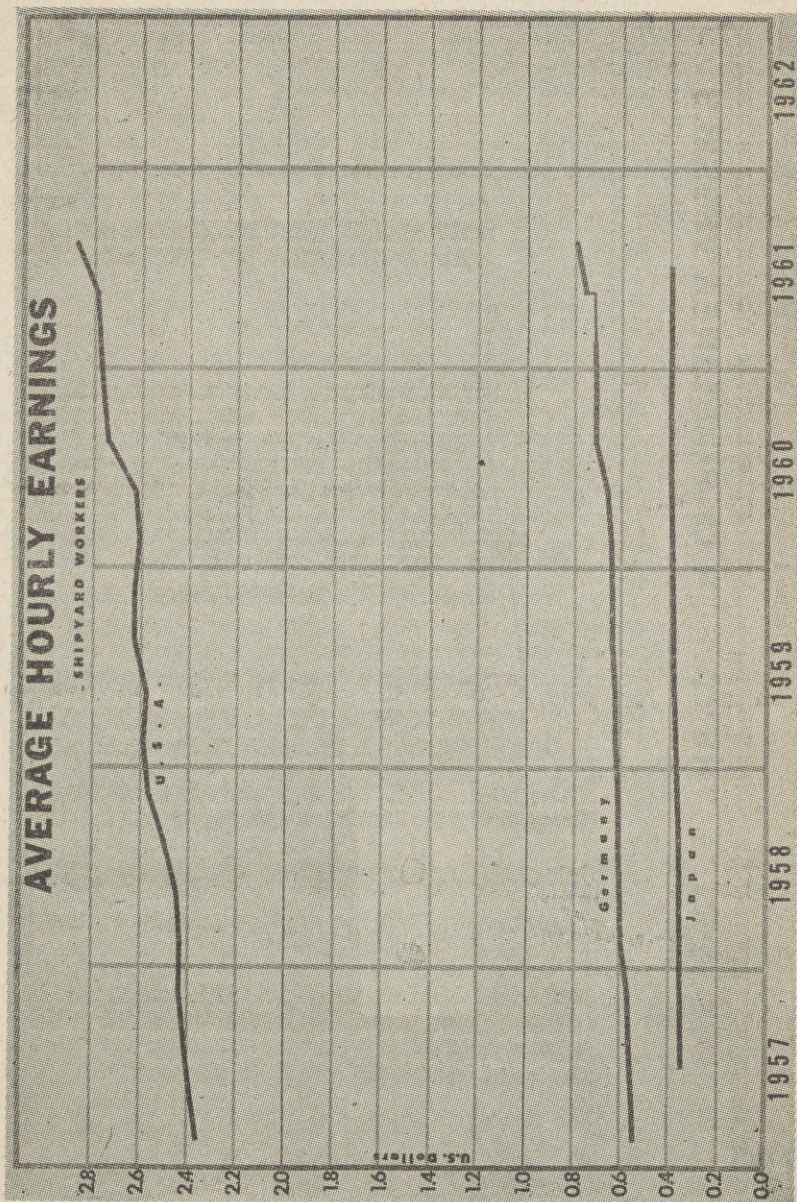


FIGURE 4

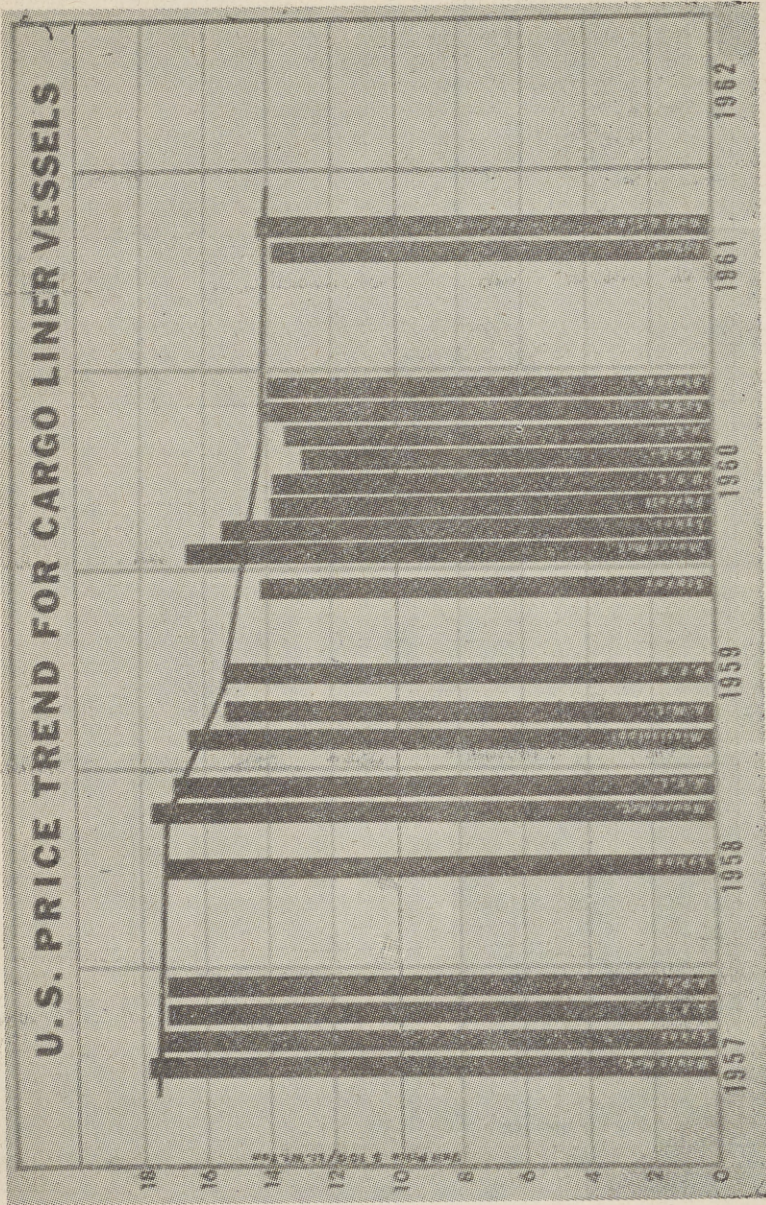
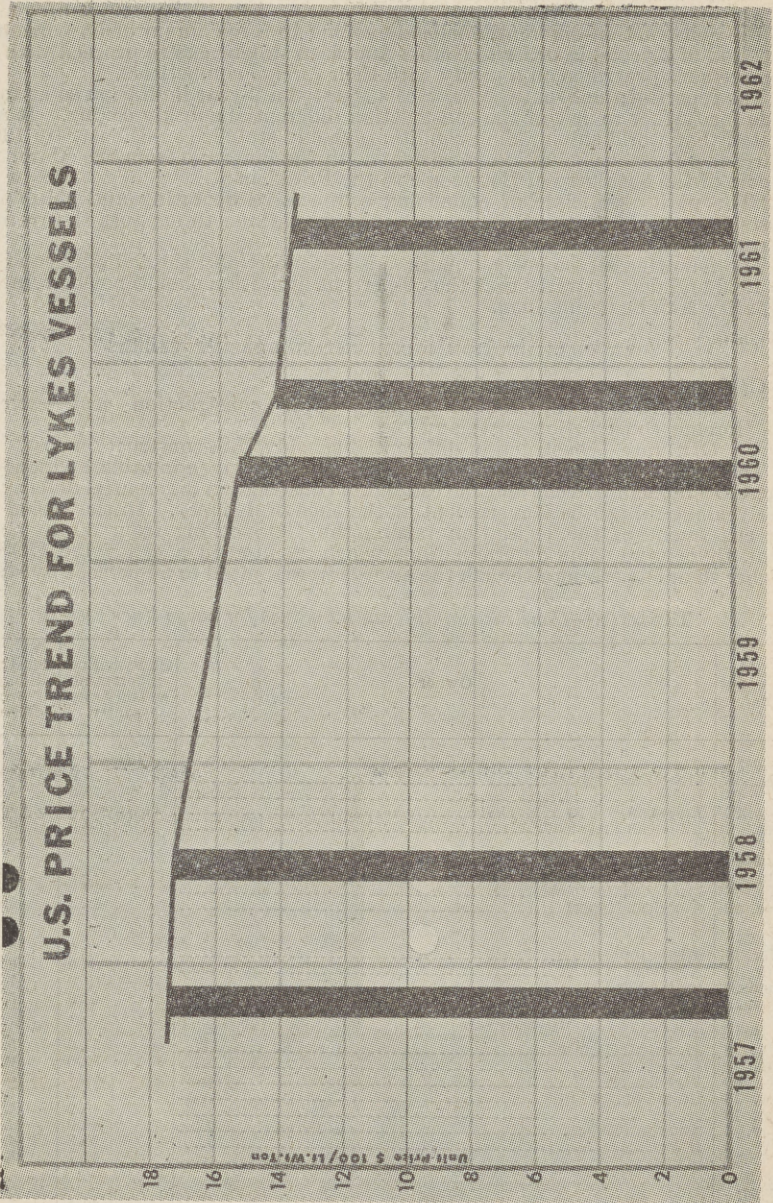


FIGURE 5



STATEMENT BY J. J. HENRY, COMMITTEE OF AMERICAN STEAMSHIP LINES, ON
LIMITATIONS ON THE CONSTRUCTION DIFFERENTIAL SUBSIDY

I. INTRODUCTION

The 1960 amendment to the Merchant Marine Act, 1936, provided for a raise in the construction-differential subsidy ceiling to a maximum of 55 percent, for a period of 2 years, in order to enable American shipowners to proceed with their replacement programs on a parity with their foreign competitors.

The report of the Senate committee suggested a 2-year limitation so as to provide for further review of the construction differential subsidy ceiling. It anticipated that world shipbuilding conditions should stabilize sufficiently by 1962 to warrant a further evaluation consistent with the language from the March 1960 report of the Secretary of Commerce to the President:

"The parity principle of equalizing competitive operating and shipbuilding costs is sound, and the Government should continue to support the merchant marine through subsidy to the degree necessary to maintain parity."

The following statement summarizes a study of world shipbuilding conditions in 1962 and demonstrates that the 50-percent limitation should not be reinstated if parity is to be maintained.

II. CONSTRUCTION DIFFERENTIAL SUBSIDY VALUES

CDS values are defined as follows:

Construction differential subsidy—U.S. construction cost—estimated foreign construction cost; and

CDS rate—construction differential subsidy/U.S. construction cost.

The FMB/MSB determinations of CDS values are given in table 1 which shows the CDS rates in percent and the estimated construction differential dollar values per vessel paid by the Government at the time of delivery. In the period prior to enactment of the legislation raising the CDS ceiling from 50 to 55 percent, there were some determinations which resulted in a calculated CDS rate higher than 50 percent although the awards were limited to 50 percent by statute.

TABLE 1.—Construction-differential values for cargo liner vessels

Bid opening date	Owner	Construction-differential subsidy rate granted	Construction-differential when delivered ¹
		<i>Percent</i>	
1957			
Oct. 8	Moore-McCormack.....	45.2	² \$5,650,000
23	Lykes.....	44.5	4,600,000
30	American Export.....	45.3	³ 5,900,000
Dec. 2	American President.....	49.5	3,400,000
1958			
July 2	Lykes.....	48.4	4,800,000
Oct. 27	Moore-McCormack.....	49.2	5,300,000
Dec. 18	American Export.....	48.3	5,500,000
1959			
Mar. 17	Mississippi.....	50.0	5,000,000
Apr. 15	American Mail.....	50.0	6,600,000
June 25	Pacific Far East.....	50.0	7,600,000
Nov. 30	States.....	48.0	5,700,000
1960			
May 2	Moore-McCormack.....	53.0	5,300,000
June 16	Lykes.....	52.9	4,900,000
29	Farrell.....	48.4	5,400,000
July 13	United States Lines.....	50.2	5,600,000
Oct. 18	do.....	46.9	4,800,000
Nov. 1	American Export.....	48.0	4,400,000
4	Lykes.....	50.8	4,400,000
30	States.....	47.7	5,500,000
1961			
Aug. 24	Lykes.....	49.5	4,100,000
24	Gulf & South American.....	48.4	4,200,000

¹ These are Marad estimated values. They include the following:

- (a) National defense features.
- (b) Allocation costs where applicable.
- (c) Escalation, if adjusted price contract.
- (d) Contract changes—engineering and other costs.

² Average for 2 ships at Sun at \$5,500,000 and 2 ships at Todd at \$5,800,000.

³ Average for 2 ships at NYS at \$6,000,000 and 2 ships at NASSCO at \$5,800,000.

Following passage of the 1960 amendment raising the ceiling to 55 percent, there have been four determinations which exceeded 50 percent. During the same period six CDS rates fell below 50 percent due to particularly low bids by American shipyards.

The situation has proven to be essentially as predicted by industry representatives; namely, that some differentials would in fact be above 50 percent while others would be below, thereby demonstrating the need for administrative flexibility.

The increase in CDS ceiling from 50 to 55 percent has not automatically resulted in increased costs to the Government, but, on the contrary, the dollar amount of construction differential for comparable ships has gone down.

If the 50-percent ceiling had not been raised by the 1960 amendment so as to provide parity, losses of the following approximate amounts would have been suffered by American shipowners.

TABLE 2.—*Approximate losses to American shipowners if 50-percent ceiling had not been raised by 1960 amendment*

	Loss per ship	Number of ships	Total loss
Pacific Far East.....	\$70,000	2	\$140,000
Moore-McCormack (3d group).....	310,000	1	310,000
Lykes (3d groups).....	270,000	4	1,080,000
United States Lines (1st group).....	20,000	5	100,000
Lykes (4th group).....	70,000	4	280,000
Total loss.....			1,910,000

Looking toward the future, no great deviation from the pattern of the past few years can be foreseen. CDS percentage rates can be expected to vary around the 50-percent axis, with some above and some below, depending on normal variations in the bidding patterns and bidding pressures existing in domestic and foreign shipbuilding markets, from time to time. Therefore, it cannot be assumed that parity will be maintained if the 50-percent ceiling is reinstated. Substantial losses to American shipowners must be expected if this occurs.

III. SUMMARY OF DEVELOPMENTS IN WORLD SHIPBUILDING, 1959-61

Shipbuilding prices, both domestic and foreign, declined during 1959 and 1960 and recently have tended to stabilize around relatively low levels.

Price pressures continue to exist, due, in large measure, to small volume of orders, excess shipbuilding capacity, generally depressed conditions of freight markets, shipbuilding price pressures from the Communist world, and some other specialized situations. The small volume of orders and the resulting large excess of shipbuilding capacity are the major factors affecting prices.

Although the world tonnage of new shipbuilding orders for 1961 was greater than for 1960, there is no evidence as yet that this has had any significant effect on shipbuilding price levels. However, if the flow of new orders continues, this should have a tendency to check the downward trend of shipbuilding prices in the major foreign shipbuilding countries.

Since the United States is not competitive in the world shipbuilding market, it cannot be expected that this country will automatically benefit in the event of an improvement in the worldwide volume of new orders. The major sources of new orders for domestic shipyards are not related to those which influence the world market, and it is therefore possible that opposing tendencies might develop with respect to domestic and foreign shipbuilding orders. However, the currently announced U.S. Government programs for naval and subsidized commercial vessels offer the prospect of some improvement in the volume of new orders.

There has been no significant change in world shipbuilding capacity during the past few years. A few of the minor shipyards have closed down due to the lack of orders. While the shipbuilding market has been seriously depressed, the general industrial economy in the major shipbuilding countries has enjoyed a healthy expansion of such proportions that experienced labor is in short supply. In order to avoid permanent loss of skilled workers to other branches of industry, many of the major shipyards have sought to "weather the storm" by taking orders for work outside of the shipbuilding field. In some countries, govern-

ments are seeking a better balance between shipbuilding capacity and shipbuilding orders through a process of elimination, with support, in the form of government orders, promised to selected shipyards.

However, these steps to reduce shipbuilding capacity have been offset by the completion of programs to modernize shipbuilding machinery, equipment, and facilities and in other technological advances which have served to increase the productive capacity of existing shipyards. Several new shipyards have also been built in foreign countries during the past few years, whose capacity to build cargo liner and larger type vessels far exceeds that of the yards which have closed. It does not appear that there has been any significant net change in the total world shipbuilding capacity as a result of these developments. This conclusion applies to the U.S. shipbuilding capacity also.

The downward trend in shipbuilding prices both domestic and foreign has been effected through reduction and elimination of estimating margins and profit factors, shrewd purchase of shipbuilding materials and components, reduction of labor costs through more efficient methods and machinery, and, in many cases, by contracting at a price level approximating true costs.

Since basic manufacturing cost factors, involving labor and material, throughout the world are subject to inevitable pressures toward higher levels, true costs of shipbuilding labor and material must rise. Productivity of labor, which has been an important factor in the price situation, should continue to improve in the future, but at a slower rate. The percentage of improvement in productivity will probably be greater abroad than in the United States, since the improvement started from a lower level abroad. In the past, however, any such increases in productivity in the United States have normally been more than offset by increases in wages. Since no industry can afford for long to operate at break-even prices and, since many shipyards have already found profitable contracts outside of the shipbuilding market, it must be expected that a more normal profit factor will gradually return to shipbuilding prices, both here and abroad.

Considering all of these circumstances, and in view of the slight improvement in the volume of shipbuilding orders, it would appear that the downward trend in shipbuilding prices, both domestic and foreign, may be arrested in the near future.

Due to the fact that the U.S. shipbuilding industry must rely almost exclusively on orders from domestic sources, a change in the worldwide market situation will not necessarily be reflected in a corresponding change in the local shipbuilding picture. Since the construction differential subsidy involves the relationship of U.S. and foreign prices, some legislative flexibility must therefore be provided to cover variations in the response of prices, here and abroad, to the many factors which influence the market.

IV. FOREIGN PRICE TRENDS

The trend of foreign prices for cargo liner vessels, based on all FMB/MSB determinations from 1957 to date, is shown by figure 1. These determinations were all based on detailed component estimates, prepared by competent foreign consultants, with a high degree of consistency being assured by the Maritime Administration's interest in the proper correlation of results.

In order to furnish the most direct comparison, all prices have been reduced to unit prices, in dollars per lightweight ton, for each of three vessels. The trend line is based on calendar yearly averages. The 1957 values are adjusted price basis, the balance are fixed price. For true quantitative comparison, it would appear that the 1957 values should be higher, by an unknown amount, to allow for escalation of labor and material costs. However, after the foreign shipbuilding market collapsed in 1957-58, many of these contracts were renegotiated on a fixed price basis at the same or lower prices. The values plotted are therefore considered representative of realistic pricing for 1957.

Figure 1 covers C-3 and C-4 type vessels varying considerably in size. Shipbuilding unit prices vary with size; the larger the ship, the smaller the unit price. The nature of the mixture of sizes has some influence on the yearly average values and therefore on the trend line.

The foreign price trend can also be shown by the price history of cases which involved repeat bidding of identical or essentially similar designs. The broadest example of repeat bidding is furnished by the Lykes history, which is illustrated in figure 2. With only minor deviation, the Lykes trend line very closely resembles the trend line for all vessels shown on figure 1. The character of these curves would be closely paralleled for any of the other cases of repeat bidding.

It can therefore be concluded that the overall trend of foreign prices is reliably represented by both figures 1 and 2. These clearly indicate a continued downward trend since 1957, with a reduction in the rate of decline during the past year and a half.

Although foreign construction prices have declined as observed above due to the competitive pressure imposed by the world market situation, this has not been accompanied by corresponding reductions in all basic elements of shipbuilding costs.

The trend of labor costs for Germany and Japan, which have consistently been low cost centers, is shown in figure 3. These show a constantly rising tendency over the years which should tend to force true shipbuilding labor costs upward, unless offset by increases in productivity—which has been the case in the more productive foreign yards.

Since shipbuilding wage rates generally follow the pattern of all industry, shipbuilding material and component costs should also be expected to rise over the years. Due to the large quantity of steel and steel products used in shipbuilding, steel prices are normally a good indicator of shipbuilding material costs. Steel prices for Germany and Japan are shown in table 3. These indicate that in both Germany and Japan, the steel price has remained essentially constant during the past few years. (The break in the curve for Germany is due to revaluation of the German currency which produces a 5 percent price increase when converted to dollars. Actually, there has been relatively little change in the price expressed in deutsche mark.)

TABLE 3.—Steel prices

Date—Year, month	United States, dollars per lightweight ton	Germany, dollars per lightweight ton	Japan, dollars per lightweight ton
1957—February.....	109.40	109.00	276.00
May.....	109.40	109.00	224.00
August.....	115.04	109.00	135.90
November.....	115.04	109.00	118.15
1958—February.....	115.04	113.90	89.85
May.....	115.04	113.90	115.60
August.....	119.64	113.90	104.30
November.....	119.64	113.90	103.90
1959—February.....	119.64	113.90	116.00
May.....	119.64	111.70	151.80
August.....	119.64	111.70	153.30
November.....	119.64	111.70	149.80
1960—February.....	119.64	111.70	136.20
May.....	119.64	111.70	129.90
August.....	119.64	111.70	124.00
November.....	119.64	111.70	129.40
1961—February.....	119.64	111.70	127.00
May.....	119.64	¹ 117.30	148.10
August.....	119.64	-----	135.90
November.....	119.64	-----	132.30

¹ Increase due to 5-percent revaluation of deutsche mark.

From Table 3, it would appear that there has recently been a strong tendency for steel prices to seek a fairly competitive international price level. Substantial improvements in industrial technology have occurred in both countries in recent years, and labor productivity has increased very rapidly in many areas of industry, including steel production. This has helped to stabilize steel prices. In the absence of any developments tending to create a serious shortage of steel, this situation can generally be expected to prevail. However, the inevitable tendency toward higher wage rates should eventually force steel prices to higher levels.

Recent estimates show that the total price for all shipbuilding materials for a cargo liner vessel is now lower abroad than it was 2 years ago. Price pressures from within the shipbuilding industry and general improvement in productivity are responsible for this decline. Productivity should continue to improve but the resulting reduction in manufacturing costs will be countered by the trend toward higher wage rates. It is questionable that any further reduction in material costs can be expected in the future.

In examining the relationship of foreign shipbuilding prices and shipbuilding costs, consideration must also be given to the improvement in labor productivity within the shipbuilding industry. Improvements in foreign shipbuilding technology in recent years have resulted in vast improvement in the productivity of

labor. This has been of such magnitude that, at least for certain periods of time, improved labor productivity has completely offset wage increases in some yards. Improvements in shipbuilding labor productivity will continue but probably at a decreasing rate in the future.

The small volume of orders together with the great excess of world shipbuilding capacity during the past few years has exerted heavy pressure on competitive prices. While many of the world shipbuilding centers are taking orders with the prospect of little or no profits, price pressures have continued. Due to the limited volume of orders, countries with a relatively small shipbuilding capacity such as Yugoslavia, Poland, and Spain have, through very low prices, exerted strong influence on world shipbuilding market price levels. It is strongly suspected that, in certain countries which have repeatedly contracted at very low prices, shipbuilding contract prices may bear no real relationship to actual shipbuilding costs and Government support may be responsible for the low-price level.

Based on my many years of experience in contracting for the construction of vessels both here and abroad, a continuing study of worldwide ship price trends, and my assessment of all of the foregoing factors, it is my considered judgment that, barring an international upheaval, it is likely that foreign prices will hold at or near their present levels for the immediate future.

V. DOMESTIC PRICES

The trend of domestic prices, based on low bids for all cargo liner contracts, included in the vessel replacement program since 1957, is shown by figure 4. This graph therefore furnishes domestic price data paralleling the foreign price data given in figure 1.

The values used in figure 4 have been reduced to unit prices, in dollars per light-weight ton, for each of three vessels, in order to furnish the most direct comparison. The trend line is based on calendar yearly averages.

As in the case of the plot of foreign prices, figure 4 covers C-3 and C-4 type vessels. The comments regarding the mixture of sizes made in connection with figure 1 apply equally to the U.S. price trend data.

Figure 5 shows the corresponding plot for the Lykes repeat bidding. Again, it may be observed that, with minor deviation, the Lykes trend line closely resembles the trend line for all vessels shown on figure 4. Furthermore, the character of these curves would be closely paralleled for any of the other examples of repeat bidding.

The overall trend of U.S. shipbuilding prices is reliably represented by figures 4 and 5. These clearly indicate a continued downward trend since 1957, with a reduction in the rate of decline during the past year and a half.

The trend of shipbuilding labor costs in the United States is shown on figure 3. This shows a constantly rising tendency over the years which should tend to force true shipbuilding labor costs upward. A continued increase in wage rates is expected for the future.

Improvement in productivity has continued in U.S. yards while basic wage rates have been climbing. This serves to check the increase in shipbuilding prices due to constantly increasing labor rates.

Steel prices for the United States are shown in table 3. This indicates that the steel price has remained constant during the past few years. However, collective bargaining negotiations now in progress in the steel industry may involve additional increases in the future and serious concern regarding the ability to hold the line on steel prices has emanated from authoritative sources. It is therefore possible that domestic steel prices may resume the inevitable upward trend in the near future.

In spite of the tendency of labor costs and most material costs to increase over the years, the price of many shipbuilding components have been drastically reduced since 1957 in response to fierce competition and shrewd procurement practices. It is this factor, above all others, which has permitted the U.S. shipbuilding prices to decline. It is considered unlikely that subcontractors, prices can sustain the downward trend much longer.

In the face of fierce competition for the small volume of U.S. shipbuilding orders, profit and margin factors have been drastically cut or entirely eliminated by the shipyards. It has been authoritatively testified in previous hearings that some contracts have been taken at a loss. It is unlikely that any further U.S. shipbuilding price reduction can be expected in the future through reduction of estimating values for overhead, margin, and profit.

U.S. shipbuilding prices are now probably at or near rockbottom level. Domestic inflationary pressures, naval shipbuilding construction programs and

increasing component costs in the United States may induce higher U.S. prices in the future.

VI. SPECIAL CONSIDERATIONS AFFECTING RECONSTRUCTIONS AND CONVERSIONS

Reconstructions and conversions are very special examples of the subsidy problem and require special consideration in respect to any limitation on the CDS rate.

This is due to the fact that conversions may involve a very broad range of mixtures of labor and material costs, varying widely from the common mixture involved in new construction contracts. This will cause rather wide variation in construction differential, which can be illustrated by the following examples which have been simplified to show the effects of labor (including overhead) and material only.

The following table illustrates a typical cost comparison on new construction contracts:

TABLE 4.—*Typical cost comparison—New construction*

[In percent]

	United States	Germany or Japan
Material.....	52	75
Labor and overhead.....	42	23
Engineering.....	6	2
Total net cost.....	100	100

The relationship of foreign to U.S. prices on new construction is about as follows:

TABLE 5.—*Approximate cost relationships—New construction*

	United States	Germany or Japan
Material.....	1.00	0.67
Labor and overhead.....	1.00	.25
Total net cost.....	1.00	.46

These approximate relationships reflect the construction differentials ranging around the 50-percent level for new construction contracts during the past few years.

On conversions or reconstructions, however, a far greater portion of the total cost may be attributed to labor, and the price relationships and construction differential values will vary accordingly.

An example representative of the recent *Leilani* conversion may be used to illustrate this situation.

Assume for estimating purposes that the same subcontracting practices would be followed abroad as in the United States. About 1 million man-hours of direct shipyard labor would be involved with relatively little subcontracting.

Average hourly earnings taken from figure 3, show about the proper relationship of average labor costs, representative of U.S. and foreign yards.

Use 80 percent overhead both here and abroad which appears reasonable from recent conversion information.

A representative price comparison for this passenger ship conversion would then be as follows:

TABLE 6.—*Cost comparison—Passenger ship conversion*

	United States	Germany
Labor man-hours.....	1,000,000	1,000,000
Labor rate.....	\$2.82	\$0.78
Labor cost.....	\$2,820,000	\$780,000
Overhead rate (percent).....	80	80
Overhead.....	\$2,260,000	\$625,000
Material.....	\$2,660,000	\$1,895,000
Totals.....	\$7,740,000	\$3,200,000
Differential.....	\$4,690,000	
Representative CDS rate (percent).....		59

It is possible that some reconstruction and conversion projects could involve an even higher CDS rate. Some conversion projects could involve essentially only the removals and reinstallations of existing materials, in which event the material costs would be nil, and the differential would approach the relationship represented by the labor rates United States and foreign, or: $\text{Differential} = (\$2.82 - 0.78) / 2.82 = 72$ percent.

It is also conceivable that the opposite could be true, for example in the event that a conversion involved special materials or large quantities of material. In such a case the construction differential could be substantially below the 50-percent level.

Construction differential subsidy considerations for conversions or reconstructions of liner vessels must therefore be viewed in an entirely different light than those for new construction liner vessels, if parity is to be attained.

VII. CONCLUSION

In the statement presented to this committee on December 3, 1959, I observed that—

The 50-percent CDS ceiling had been penetrated.

Further penetrations would occur in the future.

Some determinations would be above and some below the 50-percent level.

The spread in prices could be expected to widen.

The disparity in costs would make the position of the shipowner more acute if the 50-percent ceiling was maintained.

The experience of the past 2 years confirms that my assessment of the situation was correct in all major particulars:

Penetrations of the 50-percent ceiling have continued.

Some determinations have been above and some below 50 percent.

The spread between domestic and foreign values of some elements of shipbuilding costs have widened.

Substantial losses would have been suffered by some American shipowners if the 50-percent ceiling had been maintained.

At the present time, there are no indications that the situation will change materially in the near future, unless a serious international crisis should develop:

The downward trend of foreign prices is slackening.

U.S. prices are leveling off and may rise in the near future.

Prices are still fiercely competitive and pressures on domestic and foreign markets can be expected to continue.

The U.S. and world market are not geared together and varying pressures on the markets here and abroad may cause fluctuations in the price relationships.

The spread between U.S. and foreign shipbuilding prices may widen depending upon the future trends of labor and material costs.

CDS rates should continue to range above and below 50 percent.

Parity will not be achieved if the 50-percent limitation on construction differential subsidy is reinstated by failure of the Congress to enact S. 2800. If this should occur, we believe that American shipowners would seriously consider the practicality of proceeding with their long-range vessel replacement programs. As the former Chairman of the Federal Maritime Board, Mr. Clarence G. Morse, testified before this committee in 1960, the Government would have serious difficulty in finding it economically feasible for American owners to proceed with their replacement programs, if those owners were denied parity with competing foreign flag lines.

There is no evidence whatsoever to support any allegation that the 1960 enactment of the 55-percent legislation has resulted in higher domestic prices or increased cost to the Government. To the contrary, both domestic prices and dollar amounts of shipyard subsidy have declined during this period.

The act has been consistently and flexibly administered. On the basis of factual analyses of world price trends, there is ample reason to believe that the situation that existed during the past 2 years will extend into the future, with some likelihood that shipbuilding differentials may increase. In any case, however, the recent history of world shipbuilding prices, prospective trends, and the record of the administration of the act thoroughly justify elimination of any subsidy limitation from the 1936 act. However, recognizing the practicalities of the situation, in my judgment, permanent enactment of the 55-percent limitation into law will probably meet the needs of the foreseeable future.

Construction differential subsidy rates for reconstructions and conversions should be treated separately from those applying to new construction contracts. The most common types of conversions involving accommodations in passenger vessels can be expected to produce CDS rates materially higher than those commonly associated with cargo liner construction. Further, the possible need for converting recently built vessels to more automated operation in order to accommodate technological changes also should be considered. Broad legislative flexibility is required to assure parity for all conceivable types of reconstructions and conversions.

For these reasons, I fully support and urge favorable action on S. 2800.

Mr. HENRY. Our company is a company of naval architects and marine engineers. We have some 200 persons employed in designing and supervision and detail drafting of shipbuilding projects.

Senator BARTLETT. May I interrupt you?

Mr. HENRY. Yes, sir.

Senator BARTLETT. Only to say that you make as much of your statement as you desire. I am not going to limit you.

Mr. HENRY. Thank you.

As an American company we have had, and still have, extensive experience in projects involving the construction of ships in almost all the major foreign shipbuilding countries. This includes Germany, Japan, Holland, the United Kingdom, Sweden, Spain, and Taiwan. Since 1955 I have been a consultant to the Committee of American Steamship Lines on foreign shipbuilding construction costs.

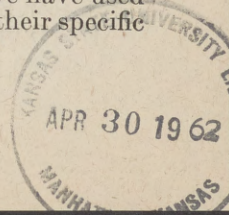
I testified before this committee at the hearing at San Francisco on December 3, 1959, on the enactment of the legislation raising the construction differential subsidy to 55 percent. We are strongly recommending the continuation of the 55 percent on a permanent basis.

We are also recommending that the 55-percent limitation be removed from the conversion type job.

With your permission I would like to move now to these charts. The first chart shows the foreign price trend for cargo liner vessels as established by the construction-differential foreign cost estimate. The units on the left represent the price in hundred dollars per lightweight ton. In other words, it started in 1957 at \$900 per lightweight ton. The lightweight ton is the actual material going into the ship.

You can see the trend has been from \$900 down to \$700 over the time of 1957 to 1961. And the conclusion from this chart is that the foreign price is relatively stable and has been over the last year to a year and a half, and we believe will continue to be relatively stable.

Since Lykes Steamship Co. has had the most continuous program and the greatest number of vessels over this entire span, we have used their price determinations to show the trend as related to their specific



ships. This again just shows that the same information applies to their program.

I would like to emphasize here that this tends to refute somewhat the matter of the standardized ship as affecting the construction differential subsidy.

In the tables illustrated by Mr. Alexander, and also shown as table 1 in our paper on page 3, your attention is invited to the fact that the ratio of 52.9 percent is applied to four cargo ships for Lykes on June 1960. This was the third program of the same standard ship, and there was a group of four, and yet the construction subsidy ratio was almost 53 percent. In the same table you will notice that the States Steamship has a group of two ships. In November 1960 the subsidy was only 47.7 percent, or close to 48 percent. The construction subsidy is not really directly tied to the use of a standard ship or numbers of ships.

This chart illustrates the trend of labor rates and wages in the United States, Germany, and Japan, over this period of 1957-61. You will note that the actual dollar or cents difference tends to be the same, or still diverging. This again emphasizes the point made by Mr. Nemeec that while German wage rates have gone up at a higher percentage, the actual dollars and cents difference between the wages paid in Germany and here still is spreading.

Senator BARTLETT. Mr. Henry, if I may interrupt, what was the average hourly earning of a shipyard worker in the United States in 1957?

Mr. HENRY. In 1957 it shows on the chart here that the average wage was \$2.40.

Senator BARTLETT. And in 1961?

Mr. HENRY. Above \$2.80

Senator BARTLETT. Would you give the figures for the same years for Germany—West Germany and Japan?

Mr. HENRY. Yes. In Germany the wage in 1957 was below 60 cents, and in 1961 is about 80 cents.

In Japan the wage rate has stayed more level. In 1957 it was below 40 cents; now, in 1961, it is slightly above 40 cents.

Mr. NEMEC. Mr. Chairman, so that the record will show this clearly, with your leave, I think in tabular form, in 1957 the American wage rates were about \$2.38, as compared with the German rate of about 58 cents, or a differential per hour of \$1.80.

In 1961 the wage rate in U.S. yards was about \$2.85 per hour as compared with the German wage rate of about 80 cents per hour, or a differential of \$2.05 per hour. Which means that during this period of time the actual wage differential has increased by about 25 cents per hour, in spite of the fact that the foreign level has been rising at a larger percentage than the domestic.

Senator BARTLETT. How about productivity per individual worker?

Mr. HENRY. This is a very difficult area to give an absolute answer on. In general we find that the productivity is very much alike in all the first-class shipbuilding countries; that is, the productivity in Germany and Japan and Sweden, are all very close to the United States. In Sweden the productivity is probably the highest of all.

Senator BARTLETT. What is the wage in Sweden; do you know?

Mr. HENRY. I think the wage in Sweden would be up in the area of \$1.25 an hour.

The next chart is essentially similar to the previous ones except that it gives the actual U.S. price on a per unit lightweight ton, and shows the variation from 1957 through 1961. There again I think the most important conclusion to draw is that the pricing has reached quite a stable situation. It is our opinion that it is more likely for the U.S. prices to be going up in comparison to the foreign prices. The statement gives rather lengthy arguments backing up our opinion on this matter.

I would like now to refer to the paper on table 1 again and emphasize that there has actually been a net dollar saving to the Government over the last 2 years after the passage of the act raising the subsidy to 55 percent.

You will notice that while the subsidy rate has sometimes gone above the 50 percent, up to 52, 53, and we feel still quite likely will do this in the future, the actual dollars have come down.

Senator BARTLETT. How do you account for this?

Mr. HENRY. This comes about from a more competitive situation in that the actual bidding of the American yards has reached a lower level in the last 2 years and probably has reached its lowest possible level.

Senator BARTLETT. Mr. Bourbon indicated that the level may be so low that the shipyards aren't earning a correct rate of return.

Mr. HENRY. I don't think there is any doubt whatsoever that the shipyards are not getting a proper rate of return. We see evidence that there is a tendency now for the prices to go up. Even though the shipyard might have taken the contract in the last couple of years at a certain level, most of these yards have now come to the conclusion that there is not much point to continue to take contracts at these levels.

In the matter of the passenger conversions—

Senator BARTLETT. Just a moment. Mr. Kenney has a question.

Mr. KENNEY. Mr. Henry, your previous testimony has indicated that the Lykes vessels were substantially similar.

Mr. HENRY. Yes.

Mr. KENNEY. The chart seems to show that the Lykes vessels were bought with a construction subsidy of \$4,600,000 in 1957, and the subsidy declined to some \$4.1 million. Is that correct?

Would you amplify that?

Mr. HENRY. That is correct.

Mr. NEMEC. These are not the prices of those ships; these are differentials.

Mr. KENNEY. This is the cost to the Government?

Mr. HENRY. Yes. Our prices were considerably in excess of these.

Mr. KENNEY. Despite the fluctuation in the percentage rate and despite the increase from 50 to 55 percent, the actual cost to the Government of these vessels has declined?

Mr. HENRY. That's right.

Mr. BOURBON. And that declined because the cost of your vessels declined?

Mr. NEMEC. They declined in the United States at a greater rate than they did abroad. For example, perhaps I can illustrate it best in this fashion: Our first group which you see up there which was contracted at the end of 1957 will cost us, per ship, about \$5,750,000 delivered. We estimate that the fifth group of this entire group of

ships will cost us not more than \$4 million to deliver, or in that period of some 5 years a price decrease of over \$1.5 million.

A good part of that was by reason of fluctuations in market prices. While the decrease on the American side has been great, the decrease on the foreign side has been just as great.

These are market conditions, and they will vary. Almost anything can upset the balance.

I think one thing that the committee should understand is that costs don't always control prices. There are times when the yards will take work for purposes of keeping an organization together and simply hope that they can survive the storm and go on to better days. On the other hand, as we have testified before this committee some 2 years ago, when you are in a seller's market then you may have as much as a 100-percent increase, almost overnight, in the price of ships, both here and abroad.

The exaggerations in prices have not been as great on the American side. We illustrated to this committee the impact of Suez. So that prices are not always related directly to costs. This is a competitive situation.

Mr. BOURBON. Twelve of your vessels were built at Bethlehem, Sparrows Point?

Mr. NEMEC. That's correct.

Mr. BOURBON. Is that an example of how contracting groups in the same yard would bring the prices down?

Mr. NEMEC. This, like everything else in this business, has no easy answer. This is a series of five groups of sister ships. The first group went to Avondale. They had what should have been a very substantial technical advantage. They had their lofting done. From the engineering point of view, even though they were bound to furnish reproducibles to any other bidder, they had an inside run for the next group of ships. By cost standards they should have gotten a substantial advantage.

However, Bethlehem Steel obviously wanted the second group of Lykes vessels, and it went out to get them, and it did get them by underbidding Avondale. This is some of the advantage of this system of contracting. It then maintained this bid advantage for the next two groups of ships and put a very good bid in on the fifth. But at that time Avondale Shipyards in New Orleans just wanted some business and wanted that particular group of ships. And, even though Bethlehem certainly was thoroughly acquainted with market conditions and costs and everything else, this shipyard underbid Bethlehem by about \$500,000 a unit—\$2 million less in total price. This shows how these prices can vary. And it shows that the shipyards in this country have been competitive and are fiercely competitive and are seeking to get business.

Senator BARTLETT. Will you continue, Mr. Henry?

Mr. HENRY. I would like to proceed to the matter of conversions, where we recommended that the 55-percent limitation be removed.

Senator BARTLETT. Where do we find this in your statement?

Mr. HENRY. This comes at page 18. However, if you will turn back to page 17, at the bottom, table 5 shows the approximate cost relationships of material versus labor and overhead between United States and Germany or Japan. You will notice that material prices have been in round numbers two-thirds the cost of materials here

but that labor and overhead tend to be one-fourth the cost in Germany or Japan over the cost here. This was also mentioned by Mr. Hoffman in his testimony.

The mix of these two materials in any particular job is what determines the final construction subsidy percentage. We have taken the case of a conversion where no materials are involved, on page 19, and showed there that the differential would reach 72 percent.

Mr. BOURBON. If only labor had to be considered.

Mr. HENRY. If only labor were concerned.

This leads to another very important point in the long-range trends which was not previously emphasized, I believe, but touched on somewhat by Mr. Nemeč, that we believe that this two-thirds cost of materials will start showing a different ratio. In other words we think that the cost of materials abroad will come down in comparison with the cost of materials here.

Senator BARTLETT. Why?

Mr. HENRY. This generally is because materials also involve labor, and the reason why materials have been higher priced abroad in comparison with the United States is we did have certain advantages on the availability of raw materials, the logistics of transportation, and possibly greater technology and greater tooling and greater capital investment in facilities. In all these areas the foreign countries are catching up to us very rapidly and probably exceeding us. In other words, their technology certainly in the making of steel or other components or machinery is at least equal to ours. The material handling and availability of raw materials in this case are narrowing the gap. They are building their own big ore carriers, they are finding sources of raw materials equal to ours and are transporting them and handling materials with methods equal to ours.

So that there is every indication to believe that their final processed material, whether it is steel or machinery, will show a greater cost difference in the future from ours.

If you will turn back to the table showing the steel prices, which is on page 12, you will see that in 1957 the U.S. price was in the neighborhood of \$109 early and \$115 later in the year, and the German price was \$109, equal to ours.

In the passage of time, you will notice that the U.S. price on steel has gone up to \$120 while the German price had been averaging about \$112 until the actual reevaluation went into effect in 1961. Even after reevaluation you will see that the German price is less.

Senator BARTLETT. How about the Japanese?

Mr. HENRY. The Japanese price on steel has fluctuated greatly and it has been because of their thinner market. It has been greatly based on what the traffic would bear. Their actual cost of steel has been higher than in the United States, as can be seen. But Japan is one of the best examples of the fact that their new technology, the fact that they are building big ore carriers, they are going to be bringing ore from Peru and Africa to Japan, their handling facilities are all improving at such a rate that the cost of steel in Japan is bound to be coming down at a very rapid rate.

Senator BARTLETT. In February 1957 the cost of steel in Japan is recorded here in the table as being \$276 compared with \$109 for both Germany and the U.S.A.

Mr. HENRY. This was based entirely on a speculative market, and I believe was at the time of the Suez crisis.

Senator BARTLETT. How do you account for the fact that in February 1958 the price went down to \$89 in Japan?

Mr. HENRY. Again the Japanese price of steel has jumped all over the map, and is dependent almost entirely on what the market would bear at the time.

Senator BARTLETT. By and large they have been at a competitive disadvantage, though, in respect to the price of steel over this period of time you have related here.

Mr. HENRY. Yes, they are still at a slight competitive disadvantage in the price of steel. But they more than make up for it in the total price of the ship by their lower labor rate.

Our point is that they are taking drastic steps to improve the pricing of their materials and will do so at greater rate than we can possibly hope to do.

Senator BARTLETT. Where will this leave us in the export market in general, aside from the building of ships, if this situation that you predict comes about? We simply won't be competitive in any area relating to the finished product from raw material, will we?

Mr. HENRY. No, it doesn't look too encouraging, although you are in an area which is outside of my field.

Senator BARTLETT. Go ahead, Mr. Henry.

Mr. HENRY. I believe that covers the testimony. Our conclusions are stated on pages 20, 21, and 22, but I will abstract that again to the principal points.

We recommend strongly that the 55-percent figure be continued on a permanent basis for the cargo ships; that the limit on the passenger ship conversions be lifted completely, and that the bill in its present form be passed.

Senator BARTLETT. You have stated that conclusion, certainly at the bottom of page 21, when you say "There is no evidence whatsoever to support the agencies that the 1960 enactment of the 55-percent legislation has resulted in higher domestic prices or increased costs to the Government."

Apparently the administration entertains a contrary view as to whether permanent legislation should be enacted. What would you think about a 2- or 3-year extension of existing law?

Mr. HENRY. I certainly believe that 1 year is much too short. The charts reviewed before show a quite stabilization over the last 2 years, and the figures presented by Mr. Alexander and as shown in our various tables show a relatively stable situation. That is, the subsidy rate has fluctuated around 50 percent and has gone up to as high as 53 percent, and back down again to 49 percent.

But the very stability here would indicate that either permanent legislation should be passed or some period of time of at least 3 years chosen.

Mr. NEMEC. Mr. Chairman, could I add a word there?

Senator BARTLETT. Surely.

Mr. NEMEC. I think perhaps these two issues ought to be divided. I would say with little reservation that all lines are very much interested in cooperating and doing everything they can to reduce the price of the ships, both to themselves and to the Government. But if the

55-percent subsidy limitation is made permanent law there is no reason why this other program should not go on.

We don't have to be whipped to move in our own self-interest. The threat of a 1-year extension is something which I don't believe is necessary. Certainly there is no compulsion ever to give anything other than the correct differential. This is a matter of governmental fending upon a showing of evidence.

Merely increasing the ceiling or putting a 1-year extension is not going to bring about the hoped for result of reducing ship prices either to the Government or to the owner. We are happy to work with the Government and do every single thing we can to reduce these prices, but we can do it just as well within the framework of a permanent enactment of a 55-percent subsidy limitation as we can within the framework of a 1-year enactment. For this reason I would again urge that it be made a part of permanent law. We don't want to always be coming back and seeking temporary extensions.

Senator BARTLETT. If the differential should be 54 percent instead of 49, the individual companies pay more out of their own pockets for the ships, too.

Mr. NEMEC. As Chairman Morse very ably stated before this committee when he was then Chairman of the Federal Maritime Board, he said in his opinion—and he was joined by the members of the Board—the Government would have a very, very difficult if not impossible test of finding that the construction was economically feasible and that the company should proceed with the construction in the face of that kind of a cost disability. This is the test of a Government witness.

Senator BARTLETT. Has the companion bill come before the House committee for a hearing yet?

Mr. NEMEC. No, sir; it has not.

Senator BARTLETT. Mr. Bourbon?

Mr. BOURBON. I would like to ask Mr. Henry a question which will help us in our hearing tomorrow, Senator.

We have a bill up tomorrow on vessel liability in collisions. The Brussels Convention proposes a limitation fund based on ship tonnage. I think the ship tonnage proposed is the net tonnage plus the propulsion space. Could you now, or maybe later today, give us some idea of the value of ship tonnage today, both passenger and freight?

Mr. HENRY. Yes; I could. Probably later today would be better.

Mr. BOURBON. I would appreciate it.

Senator BARTLETT. Thank you very much.

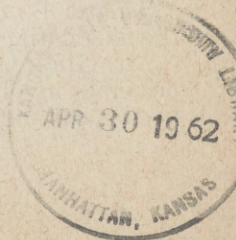
Mr. NEMEC. Mr. Gibbons has a point.

Senator BARTLETT. I may say that we are going to read your statement in full before we make any determination on this.

Mr. HENRY. Thank you very much.

Senator BARTLETT. Who is the next witness?

Mr. NEMEC. Mr. Gibbons, chairman of the finance committee of United States Lines.



STATEMENT OF C. D. GIBBONS, MEMBER, EXECUTIVE COMMITTEE,
COMMITTEE OF AMERICAN STEAMSHIP LINES

Mr. GIBBONS. Mr. Chairman, my name is C. D. Gibbons. I am chairman of the finance committee of United States Lines Co. and I am appearing here today as a member of the executive committee of the Committee of American Steamship Lines.

The Merchant Marine Act of 1936 recognizes that for both economic and defense reasons, it is essential that our Nation maintain the physical facilities and the skills which go with a substantial merchant marine. To maintain these facilities, the act forbids companies holding operating differential contracts from using foreign ships, crews, repairs and supplies.

The act then undertakes to compensate these steamship operators for the otherwise insupportable costs thus entailed. The principle by which this is accomplished as parity, the leveling off of American vessel operating and capital costs to equality with those of foreign-flag competitors.

The intent of the Congress to provide parity through construction differentials is clear from a review of the legislative history, the decisions and the administration of the 1936 act.

The logic, workability and fairness of this principle are too obvious and too well known to require detailed explanation here. An excellent brief summary of the application of parity principles to construction subsidies is found on pages 2, 3, and 4 of a report of your committee dated May 24, 1960—Report No. 1415, 86th Congress, 2d session.

After a brief review of the pertinent legislative history, this report concludes that construction differentials paid directly to shipbuilders are intended to place a ship operator on a parity, as to capital costs, with his foreign competitor.

The report also found that:

The parity concept has proved a successful instrument for fulfilling national maritime needs and aspirations. Under almost constant review since its adoption, the concept has received universal endorsement from the Congress and executive agencies.

The report concludes its analysis of this subject with the statement that:

It is clear from the record of these hearings that limiting shipyard subsidies to 50 percent violates the parity principle and endangers the entire vessel replacement program of the American merchant marine.

For the benefit of committee members who might wish to review the legislative history of the parity principle and of shipbuilding subsidies in detail, I would like to file for the record copies of two research reports prepared for the Committee of American Steamship Lines: First, "A Legislative History of Shipbuilding Subsidies Under the Merchant Marine Act, 1936," and, second, "A Legislative History of the Parity Principle Under the Merchant Marine Act of 1936."

Mr. Chairman, here are the documents—samples of the documents. We can supply others if needed.

Senator BARTLETT. Those will be accepted and will be placed in the file relating to this bill.

Mr. GIBBONS. Thank you. In light of the importance of the principle involved, we urge that S. 2800 receive favorable support by this committee and be recommended for prompt legislative action.

I would like, if I may, for a moment, to supplement what has been said previously about this question of raising the limit. I think just as happens when you talk about increases in wages and relate the increases to percentages, you become very confused when you talk about 50 or 55 percent subsidies.

I can point out in the table on page 3 of Mr. Henry's report or statement one example that very clearly demonstrates that the significant thing is not necessarily the percentage; the significant thing is the dollars.

If you look at table 1, page 3, you will see that Lykes' first group of replacement ships had a construction differential rate of 44½ percent and that the construction differential was \$4,600,000 per ship.

Now if you look down to the next to the last in the fourth from the bottom line, Lykes had a differential of 50.8 percent, or 5 or 6 percent more in percentage, but the actual dollar differential was down \$200,000.

Why get frightened because we are talking about 55 percent? The dollars are what the Government and we are interested in. I think they are what really count, not the question of whether it is 51 percent, 52, 49, or 48. You are talking about the difference in dollars that the Government pays because we are at a disadvantage in the American market in building ships compared with foreign yards.

Senator BARTLETT. That is a pertinent observation.

Thank you, Mr. Gibbons.

Mr. NEMEC. Mr. Peter Teige, vice president, American President Lines.

STATEMENT OF PETER N. TEIGE, VICE PRESIDENT, AMERICAN PRESIDENT LINES, LTD., SAN FRANCISCO, CALIF.

Mr. TEIGE. Mr. Chairman and members of the committee, my name is Peter N. Teige. I am a vice president of American President Lines, Ltd. My address is 601 California Street, San Francisco, Calif.

I am here to speak in support of S. 2800, which would permanently increase the ceiling on construction-differential subsidy paid under title V of the Merchant Marine Act of 1936. I am appearing on behalf of the Committee of American Steamship Lines and also for my own company, American President Lines.

S. 2800 would make two important changes in the law on construction-differential subsidy. First, it would make permanent the present temporary ceiling on construction-differential subsidy of 55 percent. The data on foreign and domestic shipbuilding costs filed at this hearing by the Committee of American Steamship Lines strongly support the need for a permanent increase in this ceiling. Secondly, the bill would eliminate the ceiling on construction-differential subsidy when applied to reconstruction and reconditioning of vessels. It is primarily to this aspect of the legislation that I would like to address my remarks.

Title V of the Merchant Marine Act of 1936 covers not only governmental support for new construction of vessels but also for the reconstruction and reconditioning of existing vessels. This support of reconstruction and reconditioning is entirely appropriate both from the standpoint of developing the merchant marine and of maintaining a sound U.S. shipyard complex.

The U.S.-flag vessel operator and the Maritime Administration have sometimes found that existing vessels in the U.S.-flag fleet can continue to be operated efficiently and economically only if they are extensively rebuilt. Such rebuilding is an important tool in the hands of the vessel operator and the Maritime Administration for it enables the strengthening and modernization of units of the merchant fleet, without relying solely on new vessel construction which may in the circumstances be economically unsound both from the standpoint of the operator and the Government.

Governmental support of reconstruction and reconditioning is also an important source of strength for our shipyards. Obviously it would be economically impossible for U.S. operators to engage in extensive rebuilding of vessels in U.S. yards without governmental aid while their foreign competitors can have such work done in low-cost foreign yards. The result of the construction-differential provisions for reconstruction in title V is that the U.S. yards receive not only new construction work from the support plan but also reconstruction work, which is an important part of a rounded shipyard program.

This brings us to the question of the need for elimination of the ceiling on construction-differential subsidy on reconstruction work. Construction-differential subsidy represents the difference between the cost of shipyard work in this country and in foreign shipbuilding centers. It must be remembered that the ceiling that is the subject of S. 2800 is a ceiling on this difference in costs and is not a ceiling on the costs themselves. What does this difference in costs represent? It is composed of differences in the cost of shipyard labor, differences in the cost of shipbuilding materials, and differences in efficiency of shipyard production, if any. But here is the important point. By far the greatest spread between foreign and domestic costs among these cost differential components is in labor costs.

It is the very fact that labor cost is the element of shipbuilding cost that shows the greatest differential that justifies a different treatment of the construction-differential ceiling for vessel reconstruction work. The fabrication of a new vessel permits production techniques that reduce substantially the ratio in manpower cost to material cost. In the case of the reconstruction of an existing vessel, however, the labor portion of the total job materially increases. Since it is in this labor portion of the work that the greatest differential between foreign and domestic costs exists, the high labor content of ship reconstruction leads to high overall construction differentials.

An example of this situation is found in the reconstruction of the SS *President Roosevelt* by American President Lines, now nearing completion in Seattle, Wash. This passenger vessel, formerly the SS *Leilani*, is being extensively rebuilt into a modern, de luxe passenger liner for service in the trade between California and the Orient. The work of reconstructing this vessel was put out to bid and after spirited bidding, the low bidder was found to be Puget Sound Bridge & Dry Dock Co. of Seattle. The Maritime Administration then computed the construction differential for the work by determining the cost of performing this reconstruction job in a foreign shipyard. They found the cost differential to be 59.1 percent. This reflected the extensive labor content of the work of tearing out old structures and rebuilding them. In short, there was far more labor cost as compared with materials cost on a job of this kind than would be true if a new

vessel were being built. Not every reconstruction job would lead to such a high differential, but the possibility is so strong that we recommend that reconstruction work be taken out from the ceiling on new construction. The 55-percent ceiling appears to be adequate for new cargo vessel construction. It does not appear adequate for reconstruction and reconditioning work.

There has not been a great deal of reconstruction work performed under the act in the past. Parenthetically, Mr. Hoffman's statement today indicates that to be the case. It seems unlikely that this will continue to be the case in the future, however. The maritime industry is rapidly moving into an era that many of us believe will be marked by sweeping changes in technology. The Maritime Administration has underway an extensive research program which it is expected will develop many fundamental changes in ship design. The industry is also examining a wide variety of new methods of ship operation.

While this activity is going on, however, the program for replacing the U.S. merchant fleet is also forging ahead with great strides. Over 100 U.S.-flag vessels have been built or are being built under this program. Another 50 vessels may well have been constructed by the time this technological revolution matures. When that time arrives we believe it highly probable that both the ship operators and the Maritime Administration will want to rebuild many of these vessels, which will still be relatively new, so as to take advantage of these new vessel design features. An example of this is the automation of ship propulsion equipment. The changes that some foresee in this field could well be such that their incorporation into existing U.S. vessels would be highly desirable in order to keep our merchant fleet competitive and so as to reduce the cost to the United States of its support.

It is at that point that this hitherto seldom used provision of the act calling for the payment of construction-differential subsidy on reconstruction will become a most important tool in the hands of the operators and the Government. When that time comes, we believe such a program should not be hamstrung and inhibited by a ceiling of construction-differential subsidy which is too restrictive for reconstruction work. The legislation before you will clear the way for the implementation of such a modernization program. We urge your approval of S. 2800.

I would like to supplement my written statement with a brief comment on the Maritime Administration's statement in this hearing that the maritime policy of the United States is better served by reconstruction of existing vessels.

We think this statement goes much too far. As my written statement, which I have just read, indicates, there are and will be a number of instances when rebuilding and improving existing vessels will be the best economic solution not only for the operator but for the United States.

It may be necessary to keep a vessel that is only 5 or 10 years old competitive when for some reason it has become in some respect obsolescent.

It surely is not in the interest of either the Government or the operator to see a ship of that age wither on the vine because of obsolescence.

There is another type of rebuilding that may from time to time be desirable. Rebuilding an existing vessel may in some instances enable inauguration of a new, important, U.S.-flag service without the Government or the operator having to put up large sums of money for a new vessel. This would happen infrequently but would probably be most applicable to the field of passenger vessels where new construction costs have risen to a crushing burden.

However, in all this I want to make it clear that we do not in any sense advocate the use of the reconstruction provision of the act as a substitute for new construction when such new construction is for the purpose of replacing vessels that have reached the end of their useful lives.

We of course fully agree that replacement of such vessels with new vessels is normally the desirable policy to be followed.

One other point should be made. Whether there is new construction or reconstruction will be determined by the Maritime Subsidy Board. The final choice is theirs. Removing the construction differential subsidy ceiling on reconstruction can't weaken that power. It will only mean that when the Board in its wisdom determines there should be a reconstruction, the operator affected will get parity and not be caught by a ceiling which will in effect force him instead of the United States to subsidize in part an American shipyard.

We urge your support of S. 2800.

Senator BARTLETT. Thank you very much for your statement, which gave more emphasis than we had had heretofore on the reconstruction feature. You pretty well covered what I had in mind, I think, in your supplemental statement. I will put my question to you in any case.

Emphasis was placed in your written statement on the need to eliminate this reconstruction ceiling because of great technological progress which is being made, and this may well be applied to the new ships that are coming into being now under the merchant marine fleet program. If I were to speak for Mr. Alexander, without any authority to do so, I might ask this question of you: Why not wait until that time comes and determine then if there is a necessity for eliminating this ceiling?

Mr. TEIGE. I think the answer to that is that both the Maritime Administration and the operators feel the need for an orderly replacement of vessels. Vessels are in some instances reaching the end of their useful lives. I think that there would be concern on the part of both the Administration and the operators that a delay of the construction program to await the fruition of the scientific discoveries that we hope and expect will be forthcoming, could lead to a serious blocking up of the program with very large numbers of vessels then having to be replaced at one time instead of being phased out over a considerable number of years as is the case in the present program.

I believe that is the answer to that. Maybe one of my colleagues would like to supplement that.

Mr. NEMEC. I think you misunderstood the Chairman's question. Were you not asking, sir, why not the reconstruction or removal of the reconstruction limit should not await these technological changes?

Senator BARTLETT. Yes.

Mr. TEIGE. I beg your pardon. I gave you a good answer, but to the wrong question.

Mr. BOURBON. What do you figure now would be the useful life of the *Roosevelt* which has been twice renovated in recent years?

Mr. TEIGE. I can't answer that from a technical standpoint. In other words, as to the condition of its machinery and hull. I am not informed on that.

I can say this, that the vessel has had its life extended from 20 years to 25 years for the purpose of depreciation under section 607, I believe it is, of the act. It has had its life extended by 5 years. But whether the condition of the vessel would enable it to serve longer, than that, I cannot answer.

Senator BARTLETT. Are there any other witnesses on S. 2800?

(No response.)

Senator BARTLETT. If not, since the acting chairman has a luncheon engagement in company which will include John Glenn, I will recess this right now. It took a bit longer than we had expected on this bill.

We will resume at 1:40 p.m., and continue until 2:55 p.m. this afternoon.

If any of you gentlemen care to offer further testimony on S. 2800, we will entertain it when we reconvene. If not, we will go on to the next bill.

The committee will stand in recess.

(Thereupon, at 12:29 p.m., the committee was recessed, to reconvene at 1:40 p.m., this same date.)

(Subsequently, there was received a letter from the General Services Administration, under date of March 8, 1962, signed by Bernard L. Bouten, Administrator, in re S. 2800, which follows:)

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., March 8, 1962.

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

DEAR MR. CHAIRMAN: Your letter of February 6, 1962, requests comments on S. 2800, a bill to amend the Merchant Marine Act, 1936, in order to make permanent a temporary increase in the maximum construction differential subsidy that may be paid under such act and to provide that such maximum shall not apply with respect to reconstructing or reconditioning of ships.

This legislative proposal provides for the permanent application of a temporary increase in the maximum construction differential subsidy to be applied to U.S. shipbuilding in American shipyards. With respect to the reconditioning or reconstruction of U.S. vessels in American shipyards, this maximum differential limitation does not apply. On new construction it is proposed that the amendment cover all vessels, the keel of which was laid after June 20, 1959, while contracts entered into for vessel reconditioning and reconstruction are not affected until after the enactment of S. 2800.

Under its statute (63 Stat. 383; 40 U.S.C. 481), General Services Administration is interested in transportation and traffic management on behalf of executive agencies from the viewpoint of a user of transportation services. Accordingly, S. 2800 does not sufficiently concern GSA's mission to warrant an expression of opinion on its merits.

The Bureau of the Budget has advised that, from the standpoint of the administration's program, there is no objection to the submission of this report to your committee.

Sincerely yours,

BERNARD L. BOUTIN, *Administrator.*

AFTERNOON SESSION

Senator BARTLETT. The committee will be in order. The next bill to be considered is S. 2801.

(S. 2801 follows:)

[S. 2801, 87th Cong. 2d sess.]

A BILL To amend section 510 of the Merchant Marine Act, 1936, in order to extend for two years the time during which a certain definition of the term "obsolete vessel" shall be used

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 510(a)(1) of the Merchant Marine Act, 1936 (36 U.S.C. 1160(a)(1)), is amended by striking out "June 30, 1962" and inserting in lieu thereof "June 30, 1964".

Senator BARTLETT. The first witness will be Mr. Alexander.

STATEMENT OF DONALD W. ALEXANDER, FEDERAL MARITIME ADMINISTRATOR, G.A.O. BUILDING, WASHINGTON, D.C.

Mr. ALEXANDER. I am Donald W. Alexander. I am the Maritime Administrator.

Mr. Chairman, I have a prepared statement which I should like to read in connection with the bill S. 2801.

Senator BARTLETT. Is it true, Mr. Alexander, that you appear in connection with this bill in a different title than you did with reference to S. 2800? We have you down as the Chairman of the Maritime Subsidy Board.

Mr. ALEXANDER. I have two titles.

Senator BARTLETT. Right now you are the Maritime Administrator?

Mr. ALEXANDER. Yes.

This bill would amend section 510(a) of the Merchant Marine Act, 1936, to extend until June 30, 1964, the 12-year minimum age for trade-in of vessels on new construction. We recommend favorable consideration of the bill.

When section 510 was originally enacted in 1939 to get old tonnage off the market and to encourage new construction, it authorized the trade-in of vessels which were of not less than 1,350 gross tons, not less than 17 years old and in the judgment of the Commission—then the U.S. Maritime Commission—obsolete or inadequate for successful operation in the domestic or foreign trade of the United States, and which had been owned by a citizen of the United States for at least 3 years prior to the trade-in.

The long-range amendments which were enacted in 1952 amended this section to provide that until June 30, 1958, the vessel need only be 12 years old and to eliminate, until that date, the requirement that the vessel be obsolete or inadequate for successful operation in the domestic or foreign trade of the United States. Public Law 85-332 extended this date to June 30, 1962.

Of the World War II-built vessels now owned by the subsidized operators 35 were built in 1946 and 7 were built in 1947. The vessels built in 1946 will become 17 years old in 1963, and the vessels built in 1947 will become 17 years old in 1964. All vessels built after January 1, 1946, were given a 25-year life by Public Law 86-518. Enactment of the bill will give added flexibility in the selection of ships for trade-in.

Due to the urgency of the situation, it has not been possible to

obtain the advice of the Bureau of the Budget as to the relationship of this legislation to the program of the President.

Senator BARTLETT. Thank you, Mr. Alexander. Have you had opportunity to have any informal conversations with Bureau of the Budget officials?

Mr. ALEXANDER. We expected to have a decision, and their advice, prior to this hearing today, but it has not come through, sir.

Senator BARTLETT. Has any advice reached you from that quarter that an adverse report might be made?

Mr. ALEXANDER. No, sir.

Senator BARTLETT. You have not heard anything?

Mr. ALEXANDER. I have not heard anything, sir.

Senator BARTLETT. Do you have any personal judgment as to the effect, beneficial or detrimental, to the U.S. Treasury, that enactment of this bill might have?

Mr. ALEXANDER. Our position is with relation to the benefits that might accrue to the U.S. merchant marine through the extension of this time for 2 more years.

Senator BARTLETT. It doesn't require any Treasury Department money or taxpayers' money?

Mr. ALEXANDER. No, sir.

Senator BARTLETT. However, you might want to view it.

Mr. ALEXANDER. To the best of my knowledge.

Mr. DURAND. Mr. Chairman, as your schedule indicates, CASL has two witnesses on S. 2801, Mr. Ira Ewers, of Ewers & Duff, one of the senior, if not the senior, maritime counsel in the United States, and also Mr. Harold Logan, vice president of Grace Line. They both have very short statements which they would like to present to the committee at this time.

Senator BARTLETT. All right.

STATEMENT OF IRA EWERS, COUNSEL FOR THE VESSEL REPLACEMENT COMMITTEE, THE COMMITTEE OF AMERICAN STEAMSHIP LINES, 1000 16th STREET, WASHINGTON, D.C.

Mr. EWERS. We find ourselves in accord with the Maritime Administration.

We have prepared statements. I have a prepared statement which I had intended to read. I see no purpose in doing it, since it is essentially the same conclusion. I would like to submit my statement for the record in support of the bill.

I am accompanied by Mr. Logan, of the Grace Line, who has a similar statement which he may desire to read or submit for the record.

We submit ourselves for any questions that you may desire to ask.

Senator BARTLETT. Thank you, Mr. Ewers. Your statement will be incorporated in the record at this point, as if read.

(The statement follows:)

STATEMENT OF IRA EWERS, COUNSEL FOR THE VESSEL REPLACEMENT COMMITTEE OF THE COMMITTEE OF AMERICAN STEAMSHIP LINES

My name is Ira Ewers and I am the senior partner in the law firm of Ewers & Duff. I am appearing here today as counsel for the Vessel Replacement Committee of the Committee of American Steamship Lines.

The members of the Committee of American Steamship Lines are cooperating with the Maritime Administration to replace some 300 vessels at total cost of over \$4 billion in an orderly manner:

- (1) To prevent block obsolescence;
- (2) To maintain shipyards and shipbuilding skills;
- (3) To modernize the present operating fleet; and
- (4) To upgrade the reserve fleet.

Eighty-four new vessels already have been or are being built pursuant to this program.

Since practically all of the vessels to be replaced were built during the war years, 1940 to 1947, they would have reached block obsolescence in 1950 to 1957, which would have sustained shipyards for a while but left them idle before and thereafter.

It was therefore decided to spread the replacement program over more years by accelerating the construction of some vessels and deferring others.

In aid of this program, the Long Range Shipping Act of 1952, upon the recommendation of the Secretary of Commerce, provided that vessels might be traded in at 12 years of age rather than at 17.

It was originally thought that this would suffice if permitted until 1958, but as that time approached, it became obvious that an extension was necessary which was granted until July 1, 1962.

It now appears that to carry out this cooperative program, a further extension until July 1, 1964, is necessary.

There is attached a table prepared by the Maritime Administration showing some 44 vessels to be replaced which were built in 1946 and 1947.

While, normally, an operator desires to trade in an older, rather than a newer vessel, there are circumstances wherein business judgment dictates the trade-in of a newer vessel while an older one is maintained in service. This situation has arisen and may again arise, with regard to vessels on the attached list where the younger vessels (over 12, but not yet 17 years) do not have equipment important to a trade or service. For example, if a company's operations require large amounts of refrigerated space or deep tanks, it would desire to trade in a younger vessel without this equipment while keeping in service an older vessel with it.

Obviously, these vessels will not be 17 years of age until 1963-64, but to round out their fleets, some of the companies desire to trade them in earlier, and others may so desire. In aid of their cooperative program, they should be permitted to do so by extending the 12-year eligibility requirement until July 1, 1964, as prepared by the legislation under consideration.

U.S. DEPARTMENT OF COMMERCE—MARITIME ADMINISTRATION

Comparison of annual depreciation writeoff on basis of 20-year and 25-year economic life of 44 vessels delivered between Jan. 1, 1946, and Dec. 31, 1949

Operator and vessel	Depreciated book value Dec. 31, 1959 minus residual value ¹	Remaining years of economic life on a 20-year basis	Annual depreciation 20-year basis	Annual depreciation 25-year basis	Year acquired by operator	Date of construction contract	Date of delivery
American Export Lines, Inc.:							
<i>Erbrook</i>	\$363,295	6.1	\$59,197	\$32,729	1946	May 17, 1945	Feb. 20, 1946
<i>Erjord</i>	374,724	6.3	59,158	32,161	1946	do	May 3, 1946
Total			118,355	65,890			
American President Lines, Ltd.:							
<i>President Cleveland</i> ..	3,867,917	7.9	486,321	299,839	1954	Jan. 16, 1942	Dec. 15, 1947
<i>President Wilson</i>	3,934,552	8.3	473,028	295,831	1954	do	Apr. 27, 1948
<i>President Jefferson</i> ..	539,169	6.7	80,732	46,083	1946	Sept. 2, 1943	Aug. 23, 1946
<i>President Madison</i>	526,031	6.5	81,164	45,742	1946	do	June 12, 1946
<i>President McKinley</i> ..	529,918	6.6	80,501	45,683	1946	do	July 19, 1946
Total			1,201,746	733,178			

See footnote at end of table, p. 57.

Comparison of annual depreciation writeoff on basis of 20-year and 25-year economic life of 44 vessels delivered between Jan. 1, 1946, and Dec. 31, 1949—Continued

Operator and vessel	Depreciated book value Dec. 31, 1959 minus residual value ¹	Remaining years of economic life on a 20-year basis	Annual depreciation 20-year basis	Annual depreciation 25-year basis	Year acquired by operator	Date of construction contract	Date of delivery
Bloomfield Steamship Co.:							
<i>Alice Brown</i>	\$395,400	6.1	\$64,748	\$35,622	1957	Dec. 29, 1944	Sept. 17, 1945
<i>Lucille Bloomfield</i>	376,250	6.3	59,710	33,296	1956	do	Apr. 18, 1946
<i>Margaret Brown</i>	396,794	6.2	63,915	35,428	1957	do	Mar. 15, 1946
<i>Neva West</i>	405,188	6.3	64,747	35,855	1957	do	Apr. 2, 1946
Total.....			253,120	140,201			
Farrell Lines, Inc.:							
<i>African Crescent</i>	495,765	6.7	73,410	42,373	1946	Oct. 28, 1943	Oct. 3, 1946
<i>African Lightening</i>	523,721	7.1	73,410	43,283	1947	do	Feb. 19, 1947
<i>African Moon</i>	525,531	7.1	73,410	43,432	1947	do	Feb. 28, 1947
<i>African Planet</i>	473,241	6.4	73,409	41,512	1946	do	June 13, 1946
<i>African Rainbow</i>	481,888	6.5	73,410	41,903	1946	do	July 26, 1946
<i>African Star</i>	461,978	6.3	73,409	40,883	1946	do	Apr. 18, 1946
Total.....			440,458	253,386			
Grace Line, Inc.:							
<i>Santa Barbara</i>	582,899	6.4	90,287	51,131	1946	Jan. 25, 1945	June 17, 1946
<i>Santa Cecilia</i>	586,136	6.5	89,833	50,968	1946	do	July 12, 1946
<i>Santa Isabel</i>	635,052	6.7	93,861	54,278	1946	do	Oct. 8, 1946
<i>Santa Luisa</i>	633,451	6.7	94,427	54,141	1946	do	Sept. 17, 1946
<i>Santa Sofia</i>	618,019	7.4	83,466	49,840	1947	Apr. 24, 1945	Jan. 24, 1947
<i>Santa Monica</i>	614,227	7.2	85,379	50,346	1946	do	Nov. 11, 1946
<i>Santa Margarita</i>	647,679	6.6	98,273	55,834	1946	Jan. 25, 1945	Aug. 5, 1946
<i>Santa Maria</i>	614,624	6.6	92,566	52,985	1946	do	Aug. 23, 1946
Total.....			728,092	419,523			
Lykes Bros. Steamship Co., Inc.: Dolly Turman							
	336,990	6.5	51,725	29,303	1946	Dec. 29, 1944	July 8, 1946
Mississippi Shipping Co.:							
<i>Del Mar</i>	1,107,551	7.4	149,339	89,319	1947	Apr. 20, 1943	May 27, 1947
<i>Del Norte</i>	1,028,053	6.8	149,380	87,123	1946	do	Nov. 13, 1946
<i>Del Sud</i>	1,077,946	7.2	149,376	88,356	1947	do	Mar. 15, 1947
Total.....			448,095	264,798			
Moore McCormack Lines, Inc.:							
<i>Mormac Dawn</i>	517,150	6.6	78,000	44,582	1946	Feb. 1, 1945	Aug. 9, 1946
<i>Mormac Gulf</i>	502,191	6.4	78,000	44,052	1946	do	May 31, 1946
<i>Mormac Isle</i>	510,739	6.5	78,000	44,412	1946	do	July 10, 1946
<i>Mormac Land</i>	527,195	6.7	77,999	45,059	1946	do	Sept. 25, 1946
<i>Mormac Mail</i>	535,100	6.8	78,000	45,347	1946	do	Nov. 1, 1946
<i>Mormac Penn</i>	545,144	6.9	78,000	45,810	1946	do	Dec. 18, 1946
<i>Mormac Saga</i>	553,051	7.1	78,000	45,707	1947	do	Jan. 24, 1947
Total.....			545,999	314,969			
United States Lines Co.:							
<i>American Clipper</i>	335,120	6.1	54,935	30,191	1946	Jan. 25, 1945	Jan. 22, 1946
<i>American Forwarder</i>	335,062	6.1	54,927	30,186	1946	do	Jan. 2, 1946
<i>American Importer</i>	336,282	6.1	54,931	30,286	1946	do	Jan. 10, 1946
<i>American Scout</i>	340,106	6.2	54,941	30,367	1946	do	Feb. 4, 1946
<i>American Traveller</i>	341,890	6.2	54,945	30,526	1946	do	Feb. 15, 1946
<i>American Leader</i>	328,037	6.4	51,240	28,775	1946	Dec. 29, 1944	May 31, 1946
<i>Pioneer Cape</i>	353,736	6.5	54,262	30,760	1946	do	July 26, 1946
<i>Pioneer Tide</i>	325,236	6.1	52,973	29,300	1947	do	Feb. 22, 1946
Total.....			433,154	240,401			
Total for all companies.....			4,220,744	2,461,649			

¹ Residual value 2½ percent of domestic construction cost (not depreciable).

Mr. EWERS. I would like to say in answer to the question which the chairman asked of the Administrator, I cannot conceive of this legislation having any effect whatever on the budget.

Senator BARTLETT. One way or another?

Mr. EWERS. One way or another; no, sir.

Senator BARTLETT. Mr. Logan?

STATEMENT OF H. R. LOGAN, VICE PRESIDENT, GRACE LINE, INC., 3 HANOVER SQUARE, NEW YORK, N.Y.

Mr. LOGAN. If I may, I will submit my statement for the record.

Senator BARTLETT. Permission to do so is granted, and it will be incorporated in the record at this point.

(Document referred to follows:)

STATEMENT OF H. R. LOGAN

My name is H. R. Logan. I am vice president of Grace Line, Inc. I appear in support of S. 2801 which would extend for the 2-year period from June 30, 1962, to June 30, 1964, the conditions under which it has been possible to trade-in vessels under section 510(a) of the Merchant Marine Act, 1936, as amended by Public Law 586 of July 17, 1952. The purpose of the 1952 amendment was to accelerate the replacement of war-built vessels by reducing the age limit of the vessels to be traded in from 17 to 12 years, thus encouraging an early start on the problem of block obsolescence of war-built vessels. The amendment was originally limited in duration to June 30, 1958, but no vessels of less than 17 years of age were traded in by anyone prior to that date and the time limit was extended to June 30, 1962.

A number of vessels less than 17 years old have been traded in in the last few years but some 15- and 16-year-old vessels (construction of which was contracted for early in 1945 but which were not completed until 1946 or early 1947) are currently scheduled for trade-in in exchange for new vessels to be delivered in the latter half of 1962 and in 1963. The 2-year extension of the postwar trade-in privileges provided by the 1952 amendment is needed to permit the orderly trade-in of these war-built vessels as a part of their owners' replacement program.

Grace Line, for example, has contracted for four new combination cargo-passenger vessels to be delivered over the period from December 1962 to March 1964 and plans to contract in September for four new freight vessels. It has eight 15-year-old combination vessels (which will fall just short of meeting the 17-year age qualification at the time they are scheduled for trade-in although they were contracted during World War II) to trade in in exchange for these new vessels. Unless legislation such as S. 2801 is passed these vessels cannot be traded in for the new vessels to be contracted for in 1962 or those to be delivered in late 1962 or early in 1963. If this legislation is not passed, Grace Line will not be able to trade in at an opportune time some of its war-built combination ships. This is due in part to delays back in 1945 in the construction of the vessels to be traded in and in part to delays in the construction of the replacement vessels due to a shipyard strike.

We submit that owners with new construction should not be needlessly penalized by the fortuitous combination of the expiration of the statutory period on June 30 next with shipyard delays. The purpose of the amendment is not to extend trade-in privileges to vessels not previously entitled thereto but, as in the case of the previous extension in 1958, to carry out the purposes of section 510; namely, orderly replacement of the war-built fleet on a nondiscriminatory basis.

Mr. EWERS. May I, before asking to be excused, also endorse the other three CASL bills that are under consideration, in my own personal behalf and on behalf of some of my clients. Moore-McCormack has in contemplation some reconversions that are coming up fairly soon in which the prospects are the differential will exceed 55 percent. We should like to be protected there.

In connection with the next bill on the program, the Voorhees bill, we should like an opportunity to purchase, without cost to the

Government, insurance coverage which our management feels the circumstances require.

Senator BARTLETT. Your testimony on those other bills will, of course, be given appropriate consideration by the committee.

Mr. EWERS. Thank you, Senator.

Senator BARTLETT. We have a letter favorable to S. 2801 by Mr. Alvin Shapiro, vice president, American Merchant Marine Institute, Inc., and one from Ralph B. Dewey, president, Pacific American Steamship Association, which will go in the record at this point.

(The documents referred to follow:)

AMERICAN MERCHANT MARINE INSTITUTE, INC.,
Washington, D.C., February 28, 1962.

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

DEAR MR. CHAIRMAN: The American Merchant Marine Institute wishes to go on record urging prompt and favorable consideration of S. 2801, a bill you introduced which would extend for 2 additional years certain criteria in the definition of an "obsolete" vessel.

The principle of allowing the trade-in, under section 510(a) of the Merchant Marine Act of 1936, of vessels which were not less than 12 years of age in contrast with the then existing 17-year minimum limitation, originated in legislation enacted in 1952. At that time authorization was granted until 1958. But in 1958 the Congress deemed it necessary to extend the time an additional 4 years, until June 30, 1962.

This original modification which we are now seeking to extend for 2 additional years was entirely meritorious in order to overcome the stultifying effect on the replacement of World War II constructed vessels which constituted an overwhelming portion of the fleets of subsidized lines. The orderly and economic replacement of all of these vessels under the trade-in provision did not permit waiting for their 17th birthday, thus the reduction by 5 years.

Under present circumstances, we find a number of vessels (44, to the best of our knowledge) eligible for trade-in were commenced during World War II, but were actually not completed until after the close of the war. These ships will not turn 17 years of age for some brief time in the future. Thus, in order to avoid frustration of their eligibility for accelerated replacement, it is necessary to extend the 12-year definition under section 510(a) for 2 more years. Such action is not only in consonance with our basic overall maritime interests, but will provide equality of treatment under trade-ins for all vessels regardless of their year of completion in the Government's World War II construction program and subsequent acquisition by the individual private operator.

We respectfully request that this communication be made a part of the official record of this bill.

Respectfully,

ALVIN SHAPIRO.

PACIFIC AMERICAN STEAMSHIP ASSOCIATION,
San Francisco, Calif., February 26, 1962.

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

DEAR MR. CHAIRMAN: Pacific American Steamship Association takes this opportunity to support a 2-year extension, as provided in S. 2801, for statutory definition of obsolete vessels to be applied in the trade-in of vessels for new construction.

The need for this legislation stems from the desires on the part of steamship lines to trade in vessels which have not yet reached the age of 17 years' useful life. In order for these trade-ins to be accomplished this legislation is necessary.

Spokesmen for the Committee of American Steamship Lines will develop the need for this legislation in depth and we concur in that statement.

Yours very truly,

RALPH B. DEWEY.

(Subsequently, the report of the Department of State, dated February 28, 1962, expressing no objection to enactment, was received, as follows:)

FEBRUARY 28, 1962.

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

DEAR MR. CHAIRMAN: I refer to your request dated February 6, 1962, for the views of the Department of State on S. 2801, a bill to amend section 510 of the Merchant Marine Act, 1936, in order to extend for 2 years the time during which a certain definition of the term "obsolete vessel" shall be used.

The Department of State has no objection to the enactment of this bill from the foreign policy standpoint.

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,

FREDERICK G. DUTTON,
Assistant Secretary
(For the Secretary of State).

(Also the report of the General Counsel of the Treasury, dated March 2, 1962, as follows:)

THE GENERAL COUNSEL OF THE TREASURY,
Washington, March 2, 1962.

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

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 2801, to amend section 510 of the Merchant Marine Act, 1936, in order to extend for 2 years the time during which a certain definition of the term "obsolete vessel" shall be used.

The proposed legislation would extend from June 30, 1962, to June 30, 1964, a provision of the Merchant Marine Act which reduces from 17 to 12 years the age requirement of a vessel to qualify as an obsolete vessel for an allowance of credit upon the purchase price of a new vessel.

The proposed legislation is not of primary interest to this Department and the Department has no comment to make as to its general merits.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

ROBERT H. KNIGHT, *General Counsel.*

(Subsequently, the following letter with respect to S. 2801, dated March 8, was received:)

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., March 8, 1962.

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

DEAR MR. CHAIRMAN: Your letter of February 6, 1962, requests comments on S. 2801, a bill to amend section 510 of the Merchant Marine Act, 1936, in order to extend for 2 years the time during which a certain definition of the term "obsolete vessel" shall be used.

Under current legislative authority the minimum age of obsolete vessels is defined as 12 years. This definition would revert to 17 years after June 30, 1962, unless specifically extended by statute. S. 2801 is intended to serve this purpose by amending section 510 of the Merchant Marine Act, 1936, providing for an extension by inserting "June 30, 1964," in lieu of June 30, 1962.

Under its statute (63 Stat. 383; 40 U.S.C. 481). General Services Administration is interested in transportation and traffic management on behalf of executive agencies from the viewpoint of a user of transportation services. Accordingly, S. 2801 does not sufficiently concern GSA's mission to warrant an expression of opinion on its merits.

The Bureau of the Budget has advised that, from the standpoint of the administration's program, there is no objection to the submission of this report to your committee.

Sincerely yours,

BERNARD L. BOUTIN, *Administrator.*

Senator BARTLETT. Now we will turn to S. 2829, introduced by Chairman Magnuson, by request, on February 8.

Mr. Alexander will be the first witness on this bill. He is appearing once more in his capacity as Federal Maritime Administrator.

(S. 2829 follows:)

[S. 2829, 87th Cong., 2d sess.]

A BILL To amend title 12 of the Merchant Marine Act, 1936, in order to remove certain limitations with respect to war risk insurance issued under the provisions of such title

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1209(a)(2) of the Merchant Marine Act, 1936, is amended—

(1) in the first sentence by striking out all beginning with "*Provided, however*" through "*Provided further*" and inserting in lieu thereof "*Provided*"; and

(2) in the second sentence by striking out all beginning with "*Provided, however*" through "*And provided further*" and insert in lieu thereof "*Provided*".

SEC. 2. The amendments made by this Act shall be applicable to war risk insurance coverage attaching after February 1, 1962.

STATEMENT OF DONALD W. ALEXANDER, FEDERAL MARITIME ADMINISTRATOR; ACCOMPANIED BY LEONARD F. NICHOLS, COMPTROLLER, AND WILLIAM H. LANE, CHIEF, DIVISION OF INSURANCE

MR. ALEXANDER. I am Donald W. Alexander, Maritime Administrator.

Title XII of the Merchant Marine Act, 1936, authorizes the Secretary of Commerce to furnish war risk insurance on American-flag ships, and certain foreign-flag ships, whenever such insurance cannot be obtained on reasonable terms and conditions from companies authorized to do an insurance business in a State of the United States.

Commercial war risk insurance policies now in effect contain automatic termination clauses which cause such insurance to terminate upon the outbreak of war—whether there is a declaration of war or not—between any of the following countries: United States of America, United Kingdom, or any other member of the British Commonwealth, France, the Union of Soviet Socialist Republics, and the Peoples Republic of China.

These automatic termination clauses also exclude from the coverage of the commercial policies any loss, damage, or expense arising out of any prior hostile act by any of the foregoing countries which within 90 days of its happening results in the outbreak of such a war.

The Maritime Administration, under delegation of authority from the Secretary of Commerce, has made the statutory finding that upon such termination of commercial coverage commercial war risk insurance is not available. We have issued binders which will place Government war risk insurance in effect upon termination of the commercial coverage.

Section 1209(a)(2) of the 1936 act limits the amount of Government war risk hull insurance that may be issued with respect to any vessel. With respect to a vessel that has not been built with the aid of con-

struction subsidy, this amount is the just compensation that would be payable if the vessel had been requisitioned for title under section 902(a) of the act. This is equivalent to the current domestic market value of the vessel.

With respect to a vessel that has been built with the aid of construction differential subsidy, section 1209(a)(2) provides one limit on the amount for which it can be insured for the period prior to the time that it is requisitioned for use; and a different limit on the amount for which it can be insured for the period after it is requisitioned for use.

The first limit—for the period prior to requisitioning for use—is the current domestic market value of the vessel reduced by the proportion that the construction subsidy paid bears to the entire cost of the vessel. The second limit—for the period after requisitioning for use—is the amount that would be paid if the vessel were requisitioned for title under section 902 and valued under section 802 of the act. This latter amount is the current domestic market value of the vessel, but not exceeding the depreciated acquisition cost of the vessel to the original private owner, or scrap value, whichever is greater.

The bill would amend section 1209(a)(2) by striking out the provisos that provide for different valuations on construction subsidy ships than on other ships. We understand that the intention is to provide that the stated valuation of construction subsidy ships shall be their current domestic market value.

We are opposed to this change in the law. We think, however, for the reasons hereinafter stated, that the law with respect to the stated valuation of construction subsidy ships for the period prior to their requisition for use should be amended to provide that such valuation shall not be less than the amount that would be payable if the vessel had been requisitioned for title under section 902 and valued under section 802 of the act.

The existing law is that for the period after the vessel has been requisitioned for use, its stated valuation shall be the amount that would be payable under section 802 if the vessel had been requisitioned for title. Since at any time that a vessel is requisitioned for use, it could be requisitioned for title, we see no reason why the United States should pay more if a vessel that is requisitioned for use is lost through a war risk than we would have paid if the vessel had been requisitioned for title. We think the owners are not equitably entitled to the entire current domestic market value as the stated valuation for the period prior to or after requisition for use in view of the Government's contribution to the capital costs of constructing the vessel.

The increased premium would be a cost of operating the ship after it is requisitioned for use and would thus ultimately be paid by the United States in its charter hire.

Even if the bill were amended to provide that, as a condition to providing this increased insurance, the owner must agree that the increased premium cost would not be passed on to the Government, the United States could not be sure that it would be made whole with respect to premiums collected and losses paid. Whether it would in fact be made whole would depend on a number of factors, one of which is the duration of the war, i.e., that any large initial loss might be recouped through continuing premium collections which are not absorbed by continuing losses.

Section 1202(b) of the act provides that any insurance issued under the act "shall be based, insofar as practicable, upon consideration of the risk involved." This, as hereinabove indicated, does not purport to guarantee a break-even or profitable program to the Government. There was a similar provision in the World War II legislation, and I am advised that the United States made an overall profit on that insurance, but that the hull portion of the insurance resulted in a loss to the United States.

It should be noted that World War II lasted for several years, and in its later stages the submarine menace was conquered. During that war, the United States was a self-insurer of vessels that were under requisition for use, but the amount for which the United States undertook to compensate the owner of a construction differential subsidy vessel upon its loss was the section 802 value.

For the period prior to requisition for title or use, the existing law provides that the stated valuation of construction subsidy ships shall be their current domestic market value reduced by the proportion that construction subsidy paid bears to the entire cost of the vessel. Thus, if the construction subsidy was 50 percent of the U.S. cost, the owner is entitled to 50 percent of the just compensation under section 902(a).

Since at any time that a vessel is lost through a war risk which is covered by Government insurance we are within 90 days of the outbreak of war—when all vessels presumably will be requisitioned for title or use—we think this gives the owner a reasonable participation in the increased value of the vessel. In any event, we do not think the owner is entitled to the current domestic market value for this period, because this may greatly exceed the section 802 value.

We believe, however, that for the period prior to requisition for title or use that the owner should be assured of at least the section 802 value. Existing law does not provide this floor value.

Attached is a substitute text for the bill which we recommend. It would provide a section 802 floor for the stated valuation of construction subsidy ships for the period prior to their requisition for title or use. Attached also is a comparative text showing the changes in existing law that would be made by our proposed substitute text.

The Bureau of the Budget advises that there is no objection to the submission of this statement to your committee from the standpoint of the administration's program. Our proposed substitute text is quite lengthy. I would like to submit it for the record.

Senator BARTLETT. It will be accepted for the record.

(The document follows:)

THE DEPARTMENT OF COMMERCE'S PROPOSED SUBSTITUTE TEXT FOR S. 2829

That section 1209(a)(2) of the Merchant Marine Act, 1936 (46 U.S.C. 1289), as amended, is amended as follows:

(a) By striking out of the first proviso in the first sentence thereof, after the words "for the period of insurance prior to requisition for title or use, the valuation," the words "so determined shall be" and inserting in lieu thereof the following: "shall be (A) the amount so determined".

(b) By inserting in the first proviso in the first sentence thereof immediately after the close of the parenthesis the following: "or (B) the amount which would be payable under section 802 in the case of requisition for title, whichever is higher".

(c) By striking out of the first proviso in the first sentence thereof the words "or use" immediately before the second proviso.

(d) By inserting in the first proviso in the second sentence thereof immediately after the words "the valuation determined by the court as such just compensation for any period of insurance prior to actual requisition for title or use of the vessel shall be" the following: "(A) the foregoing just compensation amount".

(e) By inserting in the first proviso in the second sentence thereof immediately after the close of the parenthesis the following: "or (B) the amount which would be payable under section 802 in the case of requisition for title, whichever is higher".

COMPARATIVE TEXT SHOWING THE CHANGES THE DEPARTMENT OF COMMERCE'S PROPOSED SUBSTITUTE TEXT FOR S. 2829 WOULD MAKE IN THE FIRST PROVISIO IN THE FIRST SENTENCE AND THE FIRST PROVISIO IN THE SECOND SENTENCE OF SECTION 1209(a)(2) OF THE MERCHANT MARINE ACT, 1936, AS AMENDED

[Deletions are shown by brackets; insertions are shown by italicizing]

THE FIRST PROVISIO IN THE FIRST SENTENCE

Provided, however, That in the case of a construction-subsidized vessel, for the period of insurance prior to requisition for title or use, the valuation [so determined shall be] *shall be (A) the amount so determined* reduced by such proportion as the amount of construction subsidy paid with respect to the vessel bears to the entire construction cost and capital improvements thereof (excluding the cost of national defense features) *or (B) the amount which would be payable under section 802 in the case of requisition for title, whichever is higher,* and for the period of insurance after requisition for use the valuation so determined shall not exceed the amount which would be payable under section 802 in the case of requisition for title [or use]:

THE FIRST PROVISIO IN THE SECOND SENTENCE

Provided, however, That in the case of a construction-subsidized vessel, the valuation determination by the court as such just compensation for any period of insurance prior to actual requisition for title or use of the vessel shall be (A) *the foregoing just compensation amount* reduced by such proportion as the amount of construction subsidy paid with respect to the vessel bears to the entire construction cost and capital improvements thereof (excluding the cost of national defense features) *or (B) the amount which would be payable under section 802 in the case of requisition for title, whichever is higher,* and for any period of insurance after actual requisition for use, the valuation determined by the court shall be the amount which would have been payable under section 802 in the case of requisition for title:

Senator BARTLETT. Mr. Alexander, do you know, or do your associates know if changes in law sought to be accomplished by S. 2829 have been previously incorporated in a bill before the Congress?

Mr. ALEXANDER. These gentlemen have had much longer experience in this field than I. I would like to refer the question to them.

Mr. NICHOLS. My name is Leonard Nichols. I am Comptroller, Maritime Administration.

Mr. LANE. I am William H. Lane, Chief of the Division of Insurance, Maritime Administration.

Mr. NICHOLS. I don't think, going by memory, that there had been a bill in exactly this form submitted previously. There was a bill submitted not too long ago which has been incorporated in the act which this present bill, now submitted, was intended to change. But I do not believe—I don't know if the Chief of Insurance here knows if there was a bill previously submitted in this form to accomplish quite this purpose.

Senator BARTLETT. Is that your recollection?

Mr. LANE. Yes, it is my understanding that no bill in this precise form has been previously introduced.

Senator BARTLETT. Or anywhere near this form?

Mr. LANE. No, I should say not.

Senator BARTLETT. All I am seeking to determine here is whether the administration has a continuity with respect to recommending against this.

Mr. NICHOLS. I think the administration has had a continuous position it has taken on various bills of this type, of insisting on the so-called 802 for the construction of subsidized ships being in effect the book value of the ships. I think in various bills which have been submitted where that question has come up this has been the consistent position of the Government in the past.

Senator BARTLETT. Mr. Bourbon.

Mr. BOURBON. Would your proposed amendment, Mr. Alexander, place all subsidized ships on at least the same basis as the foreign ships which will be covered by the war risk insurance?

Mr. NICHOLS. No, Mr. Bourbon, it would not. The position the Government takes in dealing with construction-subsidized ships, is what we are actually talking about here, and you would have no other ships of this category involving foreign-flag ships, for example. None of those ships would have been built with construction subsidy. So therefore the provisions of the 902 value under the statute would apply to all other ships except those built with construction subsidy. So therefore we are talking about ships predominantly of the subsidized operators. Very few others would have been built with construction subsidy.

Mr. BOURBON. So that if a ship had been built without subsidy and was now under foreign flag, it could be covered by insurance at a higher rate than the subsidized ship?

Mr. NICHOLS. Yes, that's correct, if it was not built with construction subsidy.

Senator BARTLETT. Thank you, gentlemen.

Mr. DURAND. Mr. Chairman, as your list indicates, CASL has four witnesses on S. 2829, three of them steamship company executives representing all three coasts, and Mr. Anderson, vice president of Johnson & Higgins, one of the leading merchant marine brokers in the United States. I am also informed, if I may state for the record, that both the American Merchant Marine Institute and the Pacific American Steamship Association, desire to file statements for the record supporting this legislation.

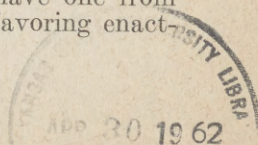
Senator BARTLETT. Those statements, when offered, will be accepted and incorporated in the record.

Mr. DURAND. I am also informed, Mr. Chairman, by Mr. Clifford Cornwall, who is manager of the American Hull Insurance Syndicate, 99 John Street, New York, and who is speaking under authority of the American Institute of Marine Underwriters, which is the American market which underwrites substantially all merchant marine insurance, that the American Institute will file a statement, if it hasn't already been received, in support of this legislation.

Mr. BOURBON. Who is that?

Mr. DURAND. Mr. Clifford Cornwall, American Institute of Marine Underwriters. They will file a statement supporting the legislation.

Senator BARTLETT. That isn't here yet. But we have one from Mr. W. T. Moore, president of Moore-McCormack, favoring enactment of the bill. That will be placed in the record.



We have another letter, also addressed to Chairman Magnuson, signed by Mr. W. J. McNeil, president of Grace Line, likewise supporting S. 2829.

And here is the endorsement from Pacific American Steamship Association under date of February 26, 1962, to Chairman Magnuson from President Ralph B. Dewey of the association, favoring the bill.

These will be placed in the record.

(The documents referred to follow:)

MOORE-McCORMACK LINES, INC.,
New York, N.Y., February 26, 1962.

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

DEAR SENATOR MAGNUSON: This letter is being sent to you to urge the passage of S. 2829 introduced by you which in effect amends title XII—War Risk Insurance, of the 1936 Merchant Marine Act so as to strike from that title, language which limits the valuation of a vessel built with construction-differential subsidy.

As a subsidized steamship operator, I think it is vitally important that our ship investment be protected with either full replacement or market value, through prudent insurance coverage. In the enactment of this bill, there would be no financial burden on the Government in permitting the operator to insure his vessel up to its full value.

I shall appreciate all possible efforts toward passage of this bill.

Cordially,

W. T. MOORE, *President.*

GRACE LINE, INC.,
New York, N.Y., February 27, 1962.

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

DEAR MR. CHAIRMAN: We strongly support S. 2829 and urge that it be favorably reported out by your committee.

By striking out two provisos in section 1209(a)(2) of title XII of the Merchant Marine Act, 1936, it removes an artificial and unrealistic limit on the war risk insurance which can be obtained by the owner of a vessel which has been built with the aid of a construction-differential subsidy.

There are inequities in the section 802 valuation formula. By reason of the sharp increase in vessel construction costs, the shipowner whose vessel is requisitioned under that section is in no position to replace it in kind by purchase or to build a replacement from the proceeds. There is no reason to further handicap the owner of such a vessel by lowering the war risk insurance he can collect to an artificial value.

Section 1209(c) provides that the Secretary in administering title XII may act in accordance with commercial practices in the marine insurance business. In accordance with sound commercial practice, Grace Line is insuring its vessels built with a construction-differential subsidy at amounts considerably in excess of their value as presently limited in section 1209(a)(2). No prudent businessman would do otherwise. Under similar circumstances, other commercial concerns would insure against war risks at replacement values. The reduction in valuation on transfer from commercial war risk to Government war risk insurance would, by reason of the present limitation in section 1209(a)(2), immediately put us in the unsound position of being far underinsured.

Respectfully,

W. J. McNEIL.

PACIFIC AMERICAN STEAMSHIP ASSOCIATION,
San Francisco, Calif., February 26, 1962.

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

DEAR MR. CHAIRMAN: Pacific American Steamship Association takes this opportunity to support S. 2829, a bill designed to permit owners of subsidize vessels to be covered under Government war risk insurance programs at valuations reflecting just compensation value of such vessels.

This bill would increase the amount the Government would permit in its binders under war risk policies on vessels which were built under construction-differential subsidy. It would do this by striking from title XII of the Merchant Marine Act, 1936, clauses which limit valuation for war risk purposes to the cost to the owners less depreciation.

Spokesmen for the Committee of American Steamship Lines will develop in some depth the need for this legislation and this association concurs in those statements and urges the earliest possible action on this important legislation.

Yours very truly,

RALPH B. DEWEY.

Mr. DURAND. Mr. Chairman, all of the CASL witnesses are here. Senator BARTLETT. Mr. Purdon?

STATEMENT OF ALEXANDER PURDON, EXECUTIVE VICE PRESIDENT, UNITED STATES LINES CO., NEW YORK, N.Y.; ACCOMPANIED BY C. T. DAVIS, VICE PRESIDENT, DELTA LINE, NEW ORLEANS, LA.; AND PETER N. TEIGE, VICE PRESIDENT AND GENERAL COUNSEL, AMERICAN PRESIDENT LINES, LTD., SAN FRANCISCO, CALIF.

Mr. PURDON. Mr. Chairman, my name is Alexander Purdon, and I am the executive vice president of the United States Lines Co. My associates, Mr. Davis on my right, and Mr. Teige on my left, of Mississippi Shipping Co. and American President Lines, respectively, have joined with me in presenting the views of all of the members of the Committee of American Steamship Lines, 15 subsidized lines operating some 300 ships in service all over the world.

We are also supported here today by Mr. Anderson, of Johnson & Higgins, on my left; and I have the benefit of Mr. H. Maurice Fidlund, a distinguished lawyer with a great deal of background in this particular field.

I would like to make a few comments first that are not in my prepared statement, to sort of set the stage. I would hope, Mr. Chairman, that as questions arise we will be able to answer them by anyone who happens to be most knowledgeable and probably more knowledgeable than I.

Senator BARTLETT. I doubt the last statement.

Mr. PURDON. Thank you, Mr. Chairman. This is a very difficult subject. Having heard Mr. Alexander's testimony, it seems even more difficult. I don't think it is if you strip it of all the complications and get it down to some simple principles.

The first principle on which our testimony is based is that section 802 values have absolutely nothing to do with insurance values.

Secondly, I would like to establish that the process of Government war risk insurance itself is simply a matter of the Government stepping into the breach when commercial war risk insurance is no longer available.

The Government then undertakes the obligations that were previously undertaken by commercial underwriters.

In the section to which we refer the Government is mandated to follow normal commercial practice in administering war risk insurance. We pay the premiums for this war risk insurance. We are entirely willing to pay the premiums. All we are asking here is that we be allowed to pay premiums and obtain coverage on a proper value, not an arbitrary, restricted value established under the section of the act that has no application at all to insurance.

The experience in Government war risk insurance during World War II is that the Government made a profit, according to the testimony of Admiral Land of \$1 billion in this field. We don't argue that this was not proper. We simply present this as a fact that what we are asking here today is not something that increases the Government's risk or the Government's cost, because once the Government takes over the role of commercial underwriter and assumes this responsibility, the Government establishes the premiums, but they establish them after they have experienced the losses. They don't have to guess at this. And actually what they do is they take all of their losses and really apportion them among lines and such, so that it is in effect a sort of mutual insurance.

With that premise may I proceed to my prepared statement, and with your indulgence I will depart from it here and there as it seems desirable.

We urge the passage of S. 2829 as a pressing necessity to avoid a grave injustice to the owners of construction-subsidized vessels—and here is my first departure. Following up on Mr. Bourbon's question, it is a fact as he established, and as Mr. Nichols admitted, that the owners of foreign-flag vessels are insured by the United States to valuations that are not permitted to the owners of subsidized vessels. If there were any logic to the Maritime Administration's argument that we should have some impediment because we have enjoyed the benefit of construction subsidy, there should be a similar recognition of the fact that the foreign-flag ships, which now have benefits in excess of ours in this field, were generally purchased under the Ship Sales Act and the participation of the United States in the construction cost of those ships was far in excess of the construction subsidy that is involved in our ships. But no deduction is made, though discrimination is made. Their values are values that we would seek to have, and we see no reason why we should not.

Actually, we believe that the present program threatens the impairment of the ship-replacement program which the Merchant Marine Act was designed to encourage and carry out. The purpose of the bill is merely to permit the owners of such construction-subsidized vessels to adequately insure them in the event of war, or in the event commercial war risk insurance is not available. I doubt whether the members of this committee realize how inadequate are the insurable valuations permissible for Government war risk insurance under title XII of the Merchant Marine Act, as they apply to our vessels.

Let me cite as one example, one very close to me, the case of the *S.S. America*, of the United States Line Co. At present we are meeting the requirements of the U.S. Maritime Administration and we are insuring the ship commercially for a total loss value of \$8,600,000. Yet if war comes, so that the commercial insurances are terminated

and the Government war risk insurances take effect, here ultimate insurable value under section 1209 would be reduced from \$8,600,000 to \$450,000.

Senator BARTLETT. Mr. Purdon, you have taken the liberty of interrupting yourself from time to time. May we have a like liberty? Mr. Bourbon has a question.

Mr. PURDON. Please.

Mr. BOURBON. Would it be possible to get a higher coverage on the vessel under the amendment proposed by the Administrator?

Mr. PURDON. With the 802 as a floor? The amendment is so vague that I am at a loss as to how to answer you. I would say probably not, because it doesn't say what value they would allow or on what basis they would determine that value.

Mr. BOURBON. For the record, 802 is the depreciated cost?

Mr. PURDON. Yes, sir.

Could I ask if someone else has a comment on that question?

This experience or illustration of the S.S. *America* is only one example of the curious, and I might add illogical, workings of the present arbitrary limitations on Government war risk insurance.

If you were to multiply this by all the similar limitations on all of the other construction subsidized vessels, owned—and I underscore this—owned by both subsidized and nonsubsidized lines, we have a situation which is frightening in its implications and from a business point of view completely intolerable.

In the case of the fleet of United States Lines we would be subject to having our present commercially insured valuations cut by approximately \$28 million in the event that Government war risk limitations come into operation. I don't know what the figure is for all the construction-subsidized vessels but I would estimate that the difference between the commercially insured valuations and Government war risk valuations would total at least a quarter of a billion dollars.

I am sure Mr. Teige and Mr. Davis will indicate the measure of the discrepancy for the ships in their fleet. Let me explain why these astounding discrepancies exist under title XII of the Merchant Marine Act, which authorizes and limits the Government war risk insurances.

Under its provisions the general rule is that a ship is eligible for Government war risk insurance at its normal commercial value, and that is established and published by the Maritime Administration. That normal commercial value is its just compensation value, without enhancement for wartime inflation that is caused by the Government's own requisitions for war needs.

In the case of a vessel built without construction subsidy, therefore, there should be no discrepancy between her commercial insurable value in peacetime and her permissible valuation for purposes of Government war risk insurance under section 1209(a)(2) if—if Government valuations reasonably approximate commercial valuations, as they are intended to be.

In the case of a construction-subsidized vessel, however, the first and third provisos of that subsection have the effect of limiting the Government war risk valuation to the vessel's cost, less depreciation, regardless of her then normal commercial value.

Consequently, if a construction-subsidized vessel is 20 years old, and has been written down to her residual value, the maximum

permissible Government insurance is the vessel's residual or scrap value, irrespective of what her value is.

Mr. BOURBON. Right there, Mr. Purdon, would a vessel bought under the 1946 act be subject to the same limitation of residual or scrap value coverage?

Mr. PURDON. No.

Mr. BOURBON. They would still get just compensation?

Mr. PURDON. A vessel bought under the 1946 act would not be subject to the 802 valuation as in the same sense as a vessel sold foreign under the same act is not subject.

Mr. EWERS. May I interpolate there, Mr. Bourbon, that was proposed in the Ship Sales Act and almost unanimously rejected in 1946 as being unfair.

Mr. PURDON. The bill, S. 2829, proposes to remedy this situation by merely striking out the first and the third provisos of section 1209(a)(2) so that a construction-subsidized vessel will be eligible for Government war-risk insurance on the same basis as any other American-flag vessel, namely, her normal commercial value without the enhancement to which I have already adverted, or just compensation.

Mr. BOURBON. Could you explain that "normal commercial value" with reference to the construction subsidy?

Mr. ANDERSON. It would be what I term a fair market value of the vessel: I think it is the same as would be considered just compensation.

Mr. BOURBON. It would not take into account at all any construction subsidy which had been paid?

Mr. PURDON. We are talking about ships not sold under construction subsidy but sold under the Ship Sales Act, is that correct?

Well, the point is, ships were sold under the Ship Sales Act at a price that was considerably less, I believe, than the price at which the owners of construction subsidy vessels acquired them. Those same ships, sold under the Ship Sales Act, in the event of loss and for insurance purposes under the Government war-risk plan, received a fair market value, or have a value that is a just compensation.

One point that might be clarified is that such vessels are largely American-flag vessels. They are not in any sense bound to foreign flags. In fact, relatively few would be foreign flag. They are ships purchased under the Ship Sales Act, or purchased subsequently from people who had purchased them under the Ship Sales Act. They are American flag and for the most part owned by nonsubsidized American-flag owners.

Mr. BOURBON. This is the point that I would like to have cleared up. Would it be possible for a ship built under construction subsidy—say the ship cost originally \$10 million and the operator paid \$5 million of that—would it be possible, even if that were almost a brandnew ship, to insure it for more than the \$5 million that the ship owner had paid?

Mr. PURDON. May I comment on that, Mr. Bourbon? Construction subsidy, as has been demonstrated many times before your committee and accepted by the Congress, is paid at the shipyard solely for the purpose of insuring the survival of a very essential industry.

The amount of construction subsidy does not alter the value of the ship. The ship has a value. That value will go up or down, and has no relation to the construction subsidy.

A ship that cost \$10 million to build in a shipyard may actually, when she comes out, have a value of \$5 million; 6 months later it may be less; 6 months later it may be more.

This is another instance, I think, where the subsidized operator is at a disadvantage because of the Government policy.

We are not objecting to the Government policy of building in American yards. But there is no justification for the assumption that thereafter there is a common ownership between the Government and the operator. This is our ship. We bought it. We paid the world market price for it when we bought it. That is the basis on which construction subsidy is determined.

Thereafter its value is a value established by world conditions, domestic conditions, and bears no relation to the construction subsidy.

Mr. BOURBON. So, to make it absolutely clear, if you were the shipowner and paid \$5 million as your share of the construction cost, could you, in event of war, if that were almost a brandnew ship, insure it for \$8,500,000, which it would probably be worth?

Mr. PURDON. You can insure it for its value, which might be higher than you paid.

Mr. BOURBON. And if you collected on that ship the entire \$8½ million, it would belong to the ship line?

Mr. PURDON. Yes, and would be deposited in the capital reserve funds and can be used for replacement. I would like to make one other point, to clarify this.

Certainly it is my personal view that if you take a \$10 million ship with a \$5 million construction subsidy, when that ship has been built in an American shipyard and the \$5 million subsidy is paid to the yard, the Government has got what it bought. It got the construction in an American yard. That \$5 million does not go with the ship. It was left behind in the yard, for value received, if you will. It doesn't affect the value of the ship. The ship is still a \$5 million ship.

Your point was, could we insure it for more than \$5 million if its value is more than \$5 million, and the answer is: "Yes".

But we are not insuring the construction subsidy portion of it. We maybe insure appreciation. But the ship will appreciate in value whether or not it has construction subsidy. There is no relation.

Now may I continue, sir. I am in the middle of page 3.

When the Government war risk insurance powers were reenacted in 1955, it was recognized that the arbitrary limitations of section 1209 were inequitable as applied to construction-subsidized vessels, but instead of dealing with the problem in a logical and thoroughgoing manner, only a small, temporary and, in our view, totally inadequate adjustment was made.

Under the present provisions of section 1209(a)(2) the owner of a construction-subsidized vessel is allowed to increase its Government insurance by one-half of the difference between the vessel's depreciated cost and her normal commercial value. But even such increase is available only till the Government requisitions the ship for use, when the maximum insurance permissible is again reduced to her depreciated cost.

We submit, gentlemen, that the time has come when this situation, instead of being dealt with on a piecemeal basis, should be dealt with on a logical and up-to-date basis, unhampered by restrictive provi-

sions that have no longer any relevance to modern conditions, or, indeed, to the basic principles of the 1936 act.

Congress has recognized in the enactment of title XII that commercial war risk insurance becomes impossible in the event of a shooting war, and that the only agency that can supply the needs is the Government itself.

All of the principal maritime nations of the world have taken the same kind of action. The United States in one respect at least has failed to provide for adequate war risk insurance since for one group of vessels it imposes a statutory limitation based on depreciated cost instead of fair market value. Such arbitrary limitation might have been less onerous when the act was first passed because our economy was then at a reasonably stable basis, so that the depreciated cost of a vessel might be presumed to have approximated its fair value. But since then it is estimated that ship construction costs have increased about five times, and there is no longer any correlation between depreciated cost of a vessel, its fair market value, and its replacement cost.

So far I have emphasized the fundamental unfairness to the shipowner of the statutory limitations that hold war risk insurance values down to cost less depreciation.

Now I wish to point out how such limitation tends to defeat the very purposes of the Merchant Marine Act itself. It was enacted to encourage the building and maintenance of a merchant marine under the American flag. Under its wise provisions we have built an American merchant marine which serves the commerce of the Nation in time of peace, and is the fourth arm of our national defense in time of war.

Basic in its concept is the requirement that vessels shall be replaced as they become obsolete or are lost. In the latter case, adequate hull insurance is a prerequisite. In the case of the subsidized lines, the insurance proceeds must be deposited in the ship owner's capital reserve fund, where it is dedicated primarily to replacement purposes. The Maritime Administration has been most diligent in requiring that the shipowner carry adequate commercial insurance, whose proceeds can be devoted to replace a lost vessel.

How incongruous then are the limitations of section 1209(a) which, when the insurance needs become the most urgent, operate to cut the permissible Government insurance down to an inadequate amount. I have already cited the case of the SS *America*. Under such arbitrary limitations, how can the shipowner be expected to replace a vessel that is lost? The whole situation militates against carrying out the very purpose which the Merchant Marine Act was enacted for.

I know that there are various technical arguments that can be advanced against adequate Government insurance for construction-subsidized vessels. One of them is that the Government has the power to take the vessel by requisition and pay only her depreciated cost. It may be that such power is too drastic in this era of great inflation, but we are not concerned with that in this issue, and it is not relevant to the argument.

The point we emphasize is that unless and until the Government does take title to the vessel by requisition, that vessel belongs to the shipowner who should be permitted to insure her at her fair value by Government insurance, just as the Government requires him to carry

adequate commercial insurance (including commercial war risk) as at present.

The arbitrary limitations, which S. 2829 proposes to eliminate from section 1209(a) are all the more incomprehensible in view of the directive contained in section 1209(c), namely: "The Secretary, in administering this title, may exercise his powers, perform his duties and functions and make his expenditures in accordance with commercial practice in the marine insurance business."

He is not directed to introduce extraneous considerations such as the amount of construction subsidy and 802 value; he is directed to operate as a commercial insurer would.

All of the control rests with the Secretary of Commerce. He again—I quote from the statute—

may prescribe forms and policies and figures, adjust and change the amounts insured and rates of premium.

Since he establishes the premium rate after the fact, and knows what the risk was, there is no possibility of loss, as I mentioned in my opening statement.

Thus I want to pin one further point home here. I spoke of the foreign-flag ships and those that were sold to foreign owners under the Ship Sales Act of 1946. They get insurance valuations that are denied us. But it is also true that a ship built abroad can be insured under title XII for insurance valuations that are excess of those permitted to us.

Gentlemen, we strongly urge the immediate passage of S. 2829, so that there will be eliminated from section 1209(a) those arbitrary, unfair, and I repeat, irrelevant provisos which at present prevent the Government from administering war risk insurance in accordance with recognized and universally accepted principles of commercial insurance and prevent the shipowner subject to these provisos from insuring his own vessel at a fair valuation and paying premiums in accordance with those values.

Thank you.

I would like to add at this point, Mr. Chairman, that the American Merchant Marine Institute has authorized me to say that in addition to the expression of support in the bill, they concur with the views I have expressed and wish to be identified with them.

Senator BARTLETT. I want to know something more about this foreign-flag insurance. What is this all about?

Mr. PURDON. Let me ask an insurance expert to answer that. As I understand it, ships under foreign flag are entitled to the benefits of U.S. Government war risk insurance at valuations in excess of the valuations that are permitted U.S.-flag subsidized operators.

Mr. Anderson?

Mr. ANDERSON. I will take a start at it.

It is true that the Pan-Hon-Lib—Panamanian-Honduran-Liberian—flag vessels, American-owned, do have interim war risk binders—that is, Government war risk insurance—in many instances. We're in a very complicated subject because there are certain restrictions put on when such binders, when such insurance is available. But nevertheless some foreign-flag vessels of that type do have such insurance.

Senator BARTLETT. Is that insurance granted under a clear provision of law?

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Mr. ANDERSON. Oh, yes.

Senator BARTLETT. How far does it go?

Mr. TEIGE. Mr. Chairman, I might read that portion of the act.

Senator BARTLETT. I wish you would.

Mr. TEIGE (reading):

The Secretary may provide the insurance and reinsurance authorized by section 1282 of this title with respect to the following persons, property, or interests:

(a) American vessels, including vessels under construction; foreign-flag vessels, owned by citizens of the United States or engaged in transportation in the waterborne commerce of the United States or in such other transportation by water or such other services as may be deemed by the Secretary to be in the interest of the national defense or the national economy of the United States when so engaged.

Senator BARTLETT. Where does that quotation come from?

Mr. TEIGE. That comes from section 1203(a) of the war risk section of the Merchant Marine Act. As I understand it, under that permissive provision there have been foreign-flag vessels covered, and specifically—and we probably should defer to the gentlemen of the Maritime Administration when we get into this area because I am sure they are more expert on it than we are. As I understand it, their General Order 75 specifically provides that the Maritime Administrator has found that—and I will read this:

Vessels of Panamanian, Honduran, and Liberian registry, when eligible under certain categories hereinafter specifically described, are deemed to be engaged in services which are in the interest of the national defense of the United States. The Maritime Administration will, upon application, issue war risk insurance for such vessels, provided such vessels remain eligible in accordance with these regulations and also are made available to the United States Government upon request in the event of national emergency pursuant to an unqualified contract of commitment in form prescribed by the Administration, both of these requirements to be warranted in the application.

Senator BARTLETT. When is that dated?

Mr. TEIGE. That is dated November 23, 1959. I'm sorry, that is the date of the declaration, or the determination by the Administrator. I don't have the date of the order. It would have been, I assume, immediately subsequent to that.

Mr. PURDON. Mr. Chairman, if I could interrupt, I want to make it clear that we are not criticizing either the statutory authorization or the administrative policy with respect to this. We are merely using this as an example to show the discrepancy that exists between the valuations permitted to those ships and the valuations permitted for our ships.

Senator BARTLETT. You have mentioned, I think, Mr. Purdon, that ships built abroad could be likewise insured by the Government.

Mr. PURDON. Yes, sir.

Senator BARTLETT. I want you to give more detail about that.

Mr. PURDON. The section that Mr. Teige read does not limit the application of this to ships built in the United States. It merely provides that if the ship is owned by an American citizen, as I read it, and is otherwise qualified, it is eligible for this Government war risk insurance, operated in the American commerce. That is the final—

Senator BARTLETT. The ships don't have to be owned by the citizens in that case?

Mr. PURDON. I believe they do, yes.

Mr. BOURBON. If they are operating in the service of the country, do they really have to be owned by citizens?

Mr. ANDERSON. In the matter of interpreting this letter of commitment which is required, I believe the Maritime Administration would insist on such a commitment from an American citizen, although I am not positive of their view on that point.

Senator BARTLETT. I think before the hearings on this bill conclude, we will have someone from the Maritime Administration back to testify on this and related subjects.

Mr. PURDON, how much did the SS *America* cost when built?

Mr. PURDON. It cost the United States Lines \$7.5 million.

Senator BARTLETT. And the subsidy was how much?

Mr. PURDON. We would be glad to give the exact figures. Probably about the same amount.

Senator BARTLETT. That is close enough for my purposes.

When was the *America* built?

Mr. PURDON. She is 21 years old now.

Senator BARTLETT. I wonder how the figure of \$8,600,000 for commercial insurance was arrived at. Was that the determination of the United States Lines, subscribed to by the Maritime Administration, or was it the Maritime Administration's figure?

Mr. PURDON. Mr. Anderson would like to answer that.

Mr. ANDERSON. As I recall, it was the choice of the United States Lines to insure the *America* for \$8 million through the mid-1950's. About 1957 the Maritime Administration advised that that was insufficient insurance and about the beginning of 1958 they insisted that the insurance be increased to \$8,350,000 and, subsequently, nearly a year later, again they wished to have it increased to \$8,600,000, which figure has remained.

Mr. PURDON. In other words, Mr. Chairman, the Government established the valuation, and we insured it in accordance with their directive.

Senator BARTLETT. How would one ever arrive at a proper value on a market for the SS *America*?

Mr. ANDERSON. In my comments that I was going to make, I expected to touch partially on that subject.

Senator BARTLETT. I hope you will.

Mr. ANDERSON. If you would like me to do it now, as regards the *America*—

Senator BARTLETT. I wish you would.

Mr. ANDERSON. The *America* would be too much for me. I would not know how one would go about that, because there is a relatively limited market value for such a ship. Perhaps Mr. Purdon would know better than I.

Mr. PURDON. I know there is a limited market for such a ship, because such a big ship can only operate in certain trades. But I do recall, without being precise about it, that about the period that Mr. Anderson is talking about, there were hearings and discussions about the value of the ship and actually at that time we had an unsolicited offer to buy the ship for in excess of this figure.

So that a legitimate offer from a legitimate buyer, and a qualified purchaser, subject to the approval of Maritime on a unique ship of this character would be the best way I know to establish the value.

Senator BARTLETT. And that would be pretty chancey, would it not, because that offer was declined, and might or might not be repeated for the next century.

Mr. PURDON. It might not. That is the penalty of having a large and very fine ship. But at least it was legitimate, and it was well intentioned at the time. So it was reasonable for us to suppose the ship at that time had that sort of a value.

Mr. ANDERSON. In connection with appraisals of vessels, including the *America* and *United States*, every so often you will have a general average condition and in the course of the adjustment it will be necessary to have an appraisal from qualified appraisers.

The adjuster would look to eminent persons in the field of valuations of vessels, and I believe in their overall program of ascertaining values for vessels with which they are concerned the Maritime Administration used much the same people, experts on the Pacific coast, the gulf coast, and the east coast.

Senator BARTLETT. Mr. Purdon, you stated that if war came and and war risk insurance took over, that the insurance policy would be reduced from \$8,600,000 to \$450,000.

Mr. PURDON. Valuation, yes, sir.

Senator BARTLETT. What if the *America* were flying the Panamanian flag; what would be the upper limit of war risk insurance in that case?

Mr. PURDON. I think it would be her fair value, Mr. Chairman, \$8,600,000. I think it would not be reduced. Is that correct?

Mr. ANDERSON. I don't think so. I believe that once a vessel is built under construction subsidy, she remains under that, and the construction subsidy follows with her through her life.

Senator BARTLETT. The committee will stand in recess until 9:30 tomorrow morning.

(Whereupon, at 2:55 p.m., the committee adjourned, to reconvene at 9:30 a.m., March 1, 1962.)

MERCHANT MARINE LEGISLATION
**(Fifty-five Percent Subsidy, War Risk Insurance, Trade-in of
Obsolete Vessels)**

THURSDAY, MARCH 1, 1962

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

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 5110, New Senate Office Building, Hon. E. L. Bartlett presiding.

Senator BARTLETT. The committee will be in order.

Mr. DURAND. Good morning, Mr. Chairman.

All of the witnesses of the committee of American Steamship Lines are in the room, and if you wish them recalled, sir, why we are ready to proceed.

Senator BARTLETT. I think that would be well because we recessed rather hurriedly yesterday and I am sure all your witnesses hadn't completed their statements.

Mr. DURAND. That is correct.

Senator BARTLETT. All right.

Alexander Purdon, will you identify for the sake of the record again, this morning, your associates.

FURTHER STATEMENT OF ALEXANDER PURDON, EXECUTIVE VICE PRESIDENT, UNITED STATES LINES CO., NEW YORK, N.Y.; ACCOMPANIED BY MAURICE FRIDLUND, COUNSEL; C. T. DAVIS, VICE PRESIDENT, DELTA LINE, NEW ORLEANS, LA.; C. S. ANDERSON, VICE PRESIDENT, JOHNSON & HIGGINS, NEW YORK, N.Y.; PETER N. TEIGE, VICE PRESIDENT AND GENERAL COUNSEL, AMERICAN PRESIDENT LINES, LTD., SAN FRANCISCO, CALIF.; AND DONALD DURAND, EXECUTIVE DIRECTOR OF THE COMPANY FOR AMERICAN STEAMSHIP LINES

Mr. PURDON. My associates are, on my immediate right, Mr. Maurice Fridlund, counsel; Mr. C. T. Davis, vice president and treasurer of Mississippi Shipping Co., New Orleans. On my left, Mr. Anderson of Johnson & Higgins, New York; and Mr. Peter Teige, vice president of American President Lines, San Francisco; and Mr. Donald Durand, executive director of the company for American Steamship Lines.

Mr. Chairman, two of my associates did have prepared statements supplementing the testimony that I offered yesterday, but we had quite a good discussion of a lot of this yesterday, and so—

Senator BARTLETT. We started anyway.

Mr. PURDON. Yes, sir; we are going to ask them merely to put their statements in the record in full, with your permission, and just to hit a few highlights that we will add to the testimony of yesterday.

Senator BARTLETT. That will be done.

Mr. PURDON. Thank you, sir. Mr. Teige, did you want to proceed?

Mr. TEIGE. Mr. Chairman, as has been indicated, I will just summarize very briefly my statement and submit it to you. I have these points to make summarizing that statement.

(1) Many different types of vessels are covered by the war risk insurance program, including foreign-flag vessels, vessels purchased under the Ship Sails Act, and subsidized vessels.

(2) The only vessels for which an owner cannot buy full insurance coverage under the program are the U.S.-flag subsidized vessels.

(3) The fact that construction differential subsidy has been paid to a shipyard on a vessel does not provide any basis for this discrimination. The insurance valuation placed on all vessels for war risk insurance that are entitled to the maximum coverage is established by the Maritime Administration. That valuation is totally unrelated to the domestic construction cost of the vessel, and is instead based on the market value of the various vessel types. Thus, if subsidized vessels were brought into the full coverage program, they would have the same value as unsubsidized vessels of the same type.

(4) The war risk insurance program is self-supporting. It is not a giveaway.

(5) If foreign flag and nonsubsidized U.S. flag vessels can buy the maximum valuation coverage established by the Maritime Administration, then the owners of construction differential vessels should also be permitted to do so since they are prepared to pay the premium cost.

That, sir, is our case. It is simple, clear, and plainly equitable. We ask you to support it.

Senator BARTLETT. Does that conclude your statement?

Mr. TEIGE. Yes, sir.

Senator BARTLETT. Now will you repeat that which you already said and tell me what ships can't get complete war risk insurance, what class of ships?

Mr. TEIGE. They are the vessels that have received construction differential subsidy, either in their original construction or in their reconstruction.

Senator BARTLETT. And only those?

Mr. TEIGE. And only those—well, there are other ships in the world that can't. As I understand the program, obviously foreign-owned vessels that aren't serving the United States couldn't be covered and as I—

Senator BARTLETT. Sure.

Mr. TEIGE. There are a number of types of ownerships that could not be covered, but of those serving the U.S. trades, they are the only U.S.-flag vessels that can't be covered and there are, of course, foreign-flag vessels that can be covered.

Senator BARTLETT. Would you be prepared to estimate what percentage of the American fleet, total fleet, is left uncovered by reason of the situation which you described?

Mr. TEIGE. I would have to guess at an answer to that. Is there anyone in our group that can give better than a guess?

Mr. EWERS. You will find that in an amendment of the Ship Sales Act hearings prepared by the Maritime Commission. It shows the vessels built up to a certain date, which were built with and without CDS. I would be very happy to furnish a copy of that to Mr. Bourbon. I don't know how current it is. I think it comes up probably around 1957, 1958.

Mr. TEIGE. Mr. Chairman, we surely could get that information and prepare it for you and submit it for the record.

Senator BARTLETT. If you please.

Now Mr. Teige, you or one of your associates might be able to answer this. What are the reasons ascribed for not allowing complete war risk insurance for ships that are built under construction differentials? Is there a philosophy behind this which has been expressed by the Administrator or by the Congress?

Mr. TEIGE. We heard a number of those reasons yesterday expressed by Mr. Alexander, and I am not sure I am qualified to express them as completely as he did.

Mr. PURDON. Excuse me for interrupting, but I think the answer is reasonably simple, Mr. Chairman. The philosophy is that the ship built with construction subsidy puts the Government in the position of being a sort of co-owner of the ship and this is a philosophy, of course, that applied here, results in what we call discrimination. It is not a philosophy that we agree with wholeheartedly and certainly we don't agree with it with respect to its application to insurable values. It just doesn't relate, but to the best of my knowledge, this is the basic line of reasoning.

Senator BARTLETT. Well, Mr. Purdon, I think you went further than that yesterday, when you said that the SS *America* could be insured only in the amount of \$450,000. Of course, that would mean the company would bear the loss between that amount and \$8,600,000 or thereabouts.

Mr. PURDON. That example was accurate.

Senator BARTLETT. Do you know how it came about that complete war risk insurance was made available to ships operating under flags of necessity, flags of convenience, or runaway flags, whichever the viewpoint might be on that?

Mr. PURDON. I don't know that I could answer with any authority how it came about, except first, that it came about in the statute, the Congress authorized this and the Maritime Administration has administered it within that statute. Again, I think that this is simply a case of putting all ships that are eligible in two categories, the one category being the ships that have been built with the aid of construction subsidy, and I would like to point out there that these are not exclusively owned and operated by subsidized lines. There are construction subsidy ships operated by nonsubsidized lines, or lines not holding operating subsidy contracts with the United States.

In the other category are all the other ships, whether American flag or foreign flag, and I believe I said yesterday, Mr. Chairman, that we do not take issue with this policy of providing war risk insurance for these foreign-flag ships because obviously Congress approved it, Maritime administers it very strictly within the con-

gressional directive, it is a question of national policy, which we have no quarrel at all, and I am quite sure that there are due considerations flowing to the United States for the application of this insurance

Our purpose in bringing it up is merely to illustrate again the difference in treatment between the two categories of vessels and in the case of the foreign flag it was more dramatic.

Senator BARTLETT. I understand your position. I don't know whether I have a quarrel with that either, but I have a lot of curiosity. Do you know anything of the legislative history or the provision of law which made this insurance applicable to these American-owned ships operating under foreign flags?

Mr. PURDON. Personally, Senator, I do not, and I don't know whether any of my associates are familiar enough with that application to comment.

Senator BARTLETT. Mr. Ewers is rising again.

Mr. EWERS. Mr. Chairman, the coverage of foreign ships is induced by what we call the Warrant Act principle. In time of war, unless a vessel has a contract with the NATO governments, she can't get insurance, she can't get repairs, and she can't get fuel oil until she agrees to operate in the trades and at the rates prescribed by the controlling authority. It is a concept that has crept in to cover foreign-flag vessels who are willing to take part in the NATO program under what we call the Warrant Act concept. It was in the last war, and legislation to extend any future emergency is pending, I think even before your committee, sir.

It is purely what we call Warrant Act concept. If you are willing to play ball with the NATO nations, they will make available to you war-risk insurance, repairs, fuel oil, that otherwise you could not get in time of a national emergency.

Senator BARTLETT. I would have thought, perhaps this has already been done, that maritime labor would have protested very vigorously against this situation which you relate as a discrimination, because maritime labor has no hesitancy in calling these ships, those which are operating under runaway flags, but as to the legislative history, we can check into that ourselves.

Senator BARTLETT. Mr. Kenney.

Mr. KENNEY. I think it might be helpful if you could enlighten the committee as to the legislative history of the first and third provisos which this bill would repeal. Congress presumably had reason for inserting those in the law in the first place.

Mr. PURDON. I can't immediately, Mr. Kenney, but I will be happy to see if we can explore that and provide something for you.

Mr. KENNEY. We can look up published legislative history but often in this field there are other considerations which the industry is more aware of than the Congress.

Senator BARTLETT. And our interpretations might differ.

Mr. PURDON. Yes, sir; I understand that. We will be glad to try to do something and supply that, Mr. Kenney.

Senator BARTLETT. Mr. Teige, do you have anything further?

Mr. TEIGE. No, sir. Thank you.

Mr. PURDON. May we proceed with Mr. Davis, Mr. Chairman.

Mr. DAVIS. Thank you, Mr. Chairman, for accepting Mississippi Shipping Co.'s prepared statement in the records.

I would like to mention a point not yet covered. I have in mind the situation where an owner has in his fleet two identical vessels, sister ships, built in the same yard in the same year, one built with the aid of a construction subsidy, the other purchased under the 1946 Ship Sales Act. On the construction subsidied vessel, the war risk insurable value, assuming the vessel to be, say, 20 years old, would be about the scrap or residual value, which is between \$60,000 and \$100,000, while the war risk insurable value of the 1946 Ship Sales Act vessels would be the war risk insurable value as set by the Secretary of Commerce, which would be something over \$600,000.

It seems to us that this variation in the insurable value of these two identical ships is difficult to justify. Quite a few of the fleets present this unjustified dissimilarity.

Mr. PURDON. Mr. Chairman, Mr. Ewers supplements the record quite extensively from the floor, and I want to be sure that he has the opportunity this time, which he didn't ask. He actually has two ships in his fleet, that are sister ships, that are in exactly the situation that Mr. Davis describes.

Senator BARTLETT. Mr. Ewers is rising to his feet at this very moment.

Mr. EWERS. I would like to submit for the record an analysis of the Moore-McCormack Lines fleet, which shows the vessels which are and are not subject to the 802 impediment. We have C-3's, and C-2's in the fleet, which are identical ships, have substantially the same values, half of which are subject to the 802 impediment, and the other half which are not, depending on whether they were bought as subsidized with construction differential subsidy or purchased under the Merchant Ship Sales Act of 1946.

I haven't counted the number of ships which are and are not, but looking at it graphically, it appears that about half of the fleet is subject to the 802 impediment, and the other half is not.

It is also significant that of vessels built in the same years, substantially the same shipyards, some of which were acquired as CDS vessels, and some of which were acquired as Ship Sales Act vessels, the CDS are low, take the 802 impediment, while the Merchant Ship Sales Act vessels, sister ships, sold to the same company at about the same price, do not.

I would like to submit this comparative statement for the record, Mr. Chairman. It is more graphic than my testimony.

(The document follows the statements of Messrs. Teige and Davis.)

Senator BARTLETT. I deny that, but nevertheless this will be accepted for the record.

Mr. PURDON. Shall we proceed?

Senator BARTLETT. Unless Mr. Bourbon has questions.

Mr. PURDON. Mr. Anderson.

Mr. ANDERSON. Mr. Chairman, my name is C. S. Anderson. I am a vice president and director of Johnson & Higgins, specializing in the insurance requirements of vessel owners and I have been in the marine insurance business for some 25 years.

I would merely like to summarize and comment very briefly on one of the practical aspects of the insurance of subsidized vessels.

The Maritime Administration have a very efficient system for determining regularly the market values of the vessels of the subsidized operators. In fact, it is routine procedure, prior to the renewal of each commercial, marine and war risk insurance, to receive a letter

from the Maritime Administration in which they advise the very minimum amounts which will be required. The reason for this is well understood, I am sure. The purpose is to see that funds will be available in the event of total loss of a vessel, to have funds in a reserve fund for replacement program purposes.

This is adhered to strictly and the subsidized operator would be in default in the event he did not comply with this completely. In other words, the Maritime Administration insists on these minimum amounts at all times. Yet, by reason of section 1209, as it now stands, when you come to Government war risk insurance, at a time perhaps when it is most needed, it is impossible for the subsidized operator to comply with the Maritime Administration's requirements. This points up a rather severe inconsistency in the thinking in the matter and it is for that reason that we, as brokers, feel sections 28, 29 should be adopted promptly.

Senator BARTLETT. Thank you, sir.

Mr. BOURBON. How often is that list prepared, Mr. Anderson?

Mr. ANDERSON. This is a routine matter. They are letters that are sent out approximately 2 or 3 weeks before each and every renewal. I have some of them right here, if you would like to see some. I could put them in the record.

Mr. BOURBON. I think it would be a good idea to have one of those submitted for the record.

(The Maritime Administration letters follow; also the statements of Messrs. Teige and Davis:)

U.S. DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington, D.C., October 16, 1961.

Subject: SS *America*, No. 239,738, war risks hull and increased value insurances.
UNITED STATES LINES Co.,
New York, N.Y.

GENTLEMEN: Our records reflect that the above-mentioned insurance will expire November 1, 1961. The amount of renewal hull insurance (including increased value and/or other forms of total loss insurance) must be not less than \$7 million.

Our records also reflect that war risk protection and indemnity insurance will expire November 1, 1961. The renewal insurance must be in an amount not less than \$5,262,800.

If your broker's or underwriter's confirmation of renewal is not received in this office by the date or dates mentioned above, immediate notice that there has been an act of default under the terms of your contract with the Maritime Administration must be given to the appropriate officials thereof.

Very truly yours,

C. R. FULLENKAMP,
Chief, Insurance Compliance Branch,
Division of Insurance.

U.S. DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington, D.C., August 17, 1961.

Subject: Various ships, war risks hull and increased value.
UNITED STATES LINES Co.,
New York, N.Y.

GENTLEMEN: Our records reflect that the above-mentioned insurances will expire September 1, 1961.

The amount of renewal hull insurance (including increased value and/or other forms of total loss insurance) must be not less than the amounts shown in column No. 1.

Our records also reflect that war risks protection and indemnity insurance will expire September 1, 1961. The renewal insurance must be not less than the amounts shown in column No. 2.

	Col. 1	Col. 2		Col. 1	Col. 2
Pioneer Main-----	\$3,791,000	\$1,842,800	Pioneer Merchant-----	\$710,000	\$565,000
Pioneer Mart-----	3,979,000	1,841,400	Pioneer Pilot-----	710,000	565,000
Pioneer Mill-----	3,900,000	1,842,400	Pioneer Shipper-----	710,000	565,000
Pioneer Ming-----	4,992,000	1,842,800	American Traveler-----	710,000	565,000
Pioneer Minx-----	3,900,000	1,842,400	American Builder-----	675,000	540,000
Pioneer Mist-----	3,975,000	1,842,800	American Chief-----	675,000	540,000
Pioneer Moor-----	3,900,000	1,842,400	American Flyer-----	675,000	540,000
Pioneer Muse-----	4,000,000	1,843,200	American Forester-----	675,000	540,000
Pioneer Myth-----	3,945,000	1,842,800	American Harvester-----	675,000	540,000
Pioneer Gem-----	710,000	565,000	American Leader-----	675,000	540,000
Pioneer Glen-----	710,000	565,000	American Manufacturer-----	675,000	540,000
Pioneer Star-----	710,000	565,000	American Miller-----	675,000	540,000
Pioneer Cove-----	675,000	540,000	American Packer-----	675,000	540,000
Pioneer Isle-----	675,000	540,000	American Planter-----	675,000	540,000
Pioneer Reef-----	675,000	540,000	American Press-----	675,000	540,000
Pioneer Surf-----	675,000	540,000	American Producer-----	675,000	540,000
Pioneer Tide-----	675,000	540,000	American Reporter-----	675,000	540,000
Pioneer Clipper-----	710,000	565,000	American Scientist-----	675,000	540,000
Pioneer Forwarder-----	710,000	565,000	American Scout-----	675,000	540,000
Pioneer Importer-----	710,000	565,000	American Veteran-----	675,000	540,000

If your broker's or underwriter's confirmation of renewal is not received in this office by the date mentioned above, immediate notice that there has been an act of default under the terms of your contract with the Maritime Administration must be given to the appropriate officials thereof.

Sincerely yours,

K. H. GREEN
(For C. R. FULLENKAMP,
Chief, Insurance Compliance Branch, Division of Insurance.)

U.S. DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington, D.C., August 17, 1961.

Subject: Various use agreement ships, war risks hull insurance.

UNITED STATES LINES Co.
New York, N.Y.

GENTLEMEN: Our records reflect that the above-mentioned insurance will expire September 1, 1961.

The amount of renewal hull insurance must be not less than the amounts shown in column 1.

Our records also reflect that war risk protection and indemnity insurance will expire September 1, 1961. The renewal insurance must be not less than the amounts shown in column 2.

	Col. 1	Col. 2		Col. 1	Col. 2
American Angler-----	\$685,000	\$1,656,200	American Marketer-----	\$675,000	\$1,637,200
American Archer-----	675,000	1,657,400	American Ranger-----	685,000	1,644,200
American Banker-----	675,000	1,644,200	American Retailer-----	675,000	1,626,600
American Gunner-----	675,000	1,681,400	American Supplier-----	675,000	1,634,600
American Hunter-----	634,750	1,686,400	American Surveyor-----	675,000	1,637,000
American Farmer-----	685,000	1,644,200	American Trapper-----	634,750	1,679,800
American Guide-----	685,000	1,656,200			

If your broker's or underwriter's confirmation of renewal is not received in this office by the date mentioned above, immediate notice that there has been an act of default under the terms of your contract with the Maritime Administration must be given to the appropriate officials thereof.

Sincerely yours,

K. H. GREEN
(For C. R. FULLENKAMP,
Chief, Insurance Compliance Branch, Division of Insurance.)

STATEMENT OF PETER N. TEIGE, VICE PRESIDENT, AMERICAN PRESIDENT LINES, LTD., 601 CALIFORNIA STREET, SAN FRANCISCO, CALIF.

Mr. Chairman and members of the committee, my name is Peter N. Teige. I am a vice president of American President Lines, Ltd., 601 California Street, San Francisco, Calif. I appear today, in support of S. 2829, on behalf of the Committee of American Steamship Lines, consisting of 15 U.S.-flag Lines; the Pacific American Steamship Association, consisting of 8 U.S.-flag Lines operating on the Pacific coast of the United States, and my own company, American President Lines, Ltd.

The United States, in the interest of insuring the continued flow of our shipping in time of war, is authorized, by title XII of the Merchant Marine Act of 1936, to insure vessels serving our commerce against casualty caused by war risks.

The program extends not only to U.S.-flag vessels but to foreign vessels owned by U.S. citizens. The fifth revision of General Order 75 of the Maritime Administration states in part as follows:

"On November 23, 1959, the Maritime Administrator further found that vessels of Panamanian, Honduran and Liberian registry when eligible under certain categories hereinafter specifically described, are deemed to be engaged in services which are in the interest of the national defense of the United States. The Maritime Administration will, upon application, issue war risk insurance for such vessels provided such vessels remain eligible in accordance with these regulations and also are made available to the U.S. Government upon request in the event of national emergency, pursuant to an unqualified contract of commitment in form prescribed by the Administration, both of these requirements to be warranted in the application."

As matters now stand, foreign-flag vessels and other vessels, the construction of which was not aided by the United States, may be insured at a stated valuation fixed by the Secretary of Commerce, not in excess of fair, normal market value. The only vessels excepted from this insurance coverage treatment are U.S.-flag vessels which have received U.S. Government aid in their construction or reconstruction in the form of construction-differential subsidy paid under title V of the Merchant Marine Act of 1936. The owners of these vessels are permitted to insure them only for what could well be substantially reduced amounts. In the case of such a vessel taken by the Government for use, which would be a normal wartime situation, the owner could insure his vessel only for the depreciated value of his vessel, less the depreciated amount of aid received in its construction.

We have all seen enough in recent years of the inflation of the cost of capital assets over extended periods of time to know that such coverage would leave the owner seriously short of replacement capital in the event of the total loss of an older vessel. The foreign vessel owner covered by the statute can acquire, by paying the required premium rate per thousand dollars of coverage, full coverage of his vessel. The owner of a U.S.-flag construction-differential vessel, on the other hand, though he is prepared to pay the same premium per thousand dollars of coverage cannot acquire the coverage needed to fully insure his vessel. There is a serious inequity here. S. 2829 would remedy this highly inequitable situation.

The rationale of this discrimination is that because subsidy has been paid to the shipyard in the construction of the vessel then the owner is not entitled to insurance protection consistent with all other ships insured under this Government program.

Substantially, all such construction-differential vessels now operating are under an operating-differential subsidy contract between the owner and the United States. As long as they are under such a contract any recovery of insurance proceeds, in the event of a loss, must be deposited in full in the reserve funds which the owner is required to maintain and use for vessel replacement purposes. Under such a system one would think the Government would insist on the owner acquiring full value coverage as long as the vessel in question was under an operating-differential subsidy contract so as to insure the vessel's replacement. Interestingly enough, the Maritime Administration does require such full market value insurance coverage, including war risk, when the vessel can be insured in the commercial market.

On analysis, the fact of receipt of construction-differential subsidy in a vessel's construction only means that its acquisition cost has been reduced. This should be no basis for a reduction of its insurance coverage. There is no other insurance system, of which we are aware, that bases its coverage on acquisition cost. Even this statute does not attempt to limit the insurance coverage of the other types

of vessels covered by the statute in accordance with what their owners paid for the vessels. Thus, some of the non-construction-differential vessels may be old and though their acquisition cost would have been low their market value, at the time of insurance, may be high. Yet they could be fully insured. Only the U.S.-flag construction-differential vessels are singled out. As previously mentioned, even foreign-flag ships get better treatment under existing law. In short, acquisition cost as a means of determining the amount of insurance coverage under the statute is applied only to such vessels.

We strongly believe that for the purpose of determining the amount of insurance coverage, acquisition cost should not be the criterion for insurance coverage. This is particularly true in view of the fact that the war risk insurance program is not intended to be a give-away but is to charge compensatory premiums that will cover loss experience. We urge, therefore, that all vessel owners eligible for participation in the war risk insurance program be put on an equal footing. If they are prepared to pay the premiums for full value coverage the Government should sell it to any of them without discrimination. S. 2829 will accomplish this equitable result. We request that you give it your strong support.

STATEMENT OF C. T. DAVIS, VICE PRESIDENT, MISSISSIPPI SHIPPING CO., INC.
1300 HIBERNIA BANK BUILDING, NEW ORLEANS, LA.

Mr. Chairman and members of the committee, my name is C. T. Davis. I am vice president and treasurer of the Mississippi Shipping Co., Inc., commonly known as Delta Line.

Delta Line operates pursuant to an operating-differential subsidy contract on essential trade route No. 20, between U.S. gulf ports and the east coast of South America, and essential trade route No. 14, Service 2, between U.S. gulf ports and the west coast of Africa.

I appear before you today in support of S. 2829, a bill to amend title XII of the Merchant Marine Act of 1936 in order to remove certain limitations with respect to war-risk insurance. Presently under title XII of the Merchant Marine Act of 1936 and related regulations, the United States issues binders for war-risk insurance. The basic authorization for this coverage rests in section 1209(a)(2) of the act.

Under section 1209(a)(2) of the act as now worded, the valuation for war-risk insurance purposes of vessels built with the aid of a construction-differential subsidy is limited to the depreciated value of these vessels. In the case of vessels 20 years of age this would be the residual, i.e., scrap value, while vessels built without construction subsidy would be eligible for Government war-risk insurance at their just compensation value.

The enactment of S. 2829 would remove this serious discrepancy between the war-risk insurance values provided for construction-subsidized vessels and vessels built without a construction subsidy. In other words, S. 2829 proposes to put all American-flag shipowners on an equal basis by striking out the first and third provisos of section 1209(a)(2), in order that Government war-risk insurance will be provided for construction-subsidized vessels on the same basis as for any other American-flag vessel.

As an example of the wide spread between war risk values provided for vessels falling in these two categories, I cite the insurable value (depreciated value) at December 31, 1961, of the five C2 type vessels owned by my company, all of which were built with construction-differential subsidy, and the insurable value of these vessels had they been built without construction-subsidy. At December 31, 1961, the depreciated value of these vessels was \$906,750, while the commercial (just compensation) value on that date was \$4,189,465. This valuation was made by James F. Lindsay, marine consulting engineer, 76 Beaver Street, New York, N.Y., the leading vessels' appraiser in the East.

Mississippi Shipping Co., Inc., now covers its vessels, for war risk purposes, at what it considers the commercial value of these units. It seems only reasonable that there should be no discrepancy between these vessels' commercial insurable value in peacetime and their permissible valuation (without enhancement for wartime inflation) for purposes of Government war risk insurance under section 1209(a)(2) of the act.

Many years ago there may have been some relationship between the depreciated cost of a vessel and its fair market value. Today, however, ship construction costs have increased at least five times since the enactment of the Merchant

Marine Act of 1936. Today there is absolutely no correlation between depreciated cost of vessels and their commercial value. Obviously, therefore, a valuation "yardstick" that may have been reasonable when the 1936 Merchant Marine Act was passed is today completely inadequate.

It would seem that the basic purpose of the 1936 act is being defeated by the limitations of section 1209(a)(2), since the act was intended to encourage the building and maintenance of an American merchant marine. Obviously, the cost less depreciation limitation, at least with respect to older vessels, will provide only a fraction of the amount necessary for the required minimum 25 percent part payment on replacement tonnage.

It is evident that the Maritime Administration recognizes the absolute necessity of adequate hull insurance coverage on subsidized vessels. This is made apparent by the fact that they prescribe minimum total loss values which a contractor must carry or be in violation of his operating-differential subsidy contract. These values are fixed by the Maritime Administration at what they consider the commercial values of the vessels involved. Certainly, this same necessity should be recognized where war risk insurance is concerned.

Moore-McCormack Lines, Inc., depreciated value of vessels, Dec. 31, 1961

Vessel	Fully depreciated	Year built	Builder	Year acquired	Vessel cost including betterments	Restrictions under sec.—		
						503	506	802
Mormactide.....	Apr. 9, 1961	1941	Ingalls.....	1941	\$1,697,346.95	Yes.....	No.....	Yes.
Mormacmar.....	.....	1943	do.....	1948	1,654,677.00	Yes.....	No.....	Yes.
Mormacsun.....	.....	1943	do.....	1957	1,625,000.00	No.....	No.....	No.
Robin Gray.....	.....	1943	do.....	1957	1,550,000.00	No.....	No.....	No.
Robin MTR.....	.....	1943	Seattle-Tacoma.....	1957	1,550,000.00	No.....	No.....	No.
Robin Mowbray.....	.....	1943	do.....	1957	1,550,000.00	No.....	No.....	No.
Robin Trent.....	.....	1943	do.....	1957	1,550,000.00	No.....	No.....	No.
Mormacrey.....	.....	1944	do.....	1957	1,550,000.00	Yes.....	No.....	Yes.
Mormacsurf.....	.....	1944	Ingalls.....	1948	1,632,996.00	Yes.....	Yes.....	Yes.
Mormacwaye.....	.....	1944	do.....	1948	1,625,000.00	Yes.....	No.....	No.
Mormacguide.....	.....	1944	do.....	1957	1,625,000.00	No.....	No.....	No.
Mormacwind.....	.....	1944	do.....	1957	1,625,000.00	No.....	No.....	No.
Mormacrio.....	.....	1944	do.....	1947	1,249,722.45	No.....	No.....	No.
Robin Goodfellow.....	.....	1945	do.....	1957	1,600,000.00	No.....	No.....	No.
Robin Hood.....	.....	1945	do.....	1957	1,600,000.00	No.....	No.....	No.
Mormacgulf.....	.....	1946	do.....	1946	1,639,884.00	Yes.....	No.....	Yes.
Mormacble.....	.....	1946	do.....	1946	1,639,884.00	Yes.....	No.....	Yes.
Mormacdown.....	.....	1946	do.....	1946	1,639,884.00	Yes.....	No.....	Yes.
Mormacward.....	.....	1946	do.....	1946	1,639,884.00	Yes.....	No.....	Yes.
Mormacmail.....	.....	1946	do.....	1946	1,639,884.00	Yes.....	No.....	Yes.
Mormacpenn.....	.....	1946	do.....	1946	1,639,884.00	Yes.....	No.....	Yes.
Mormacsaga.....	.....	1947	do.....	1947	1,639,884.00	Yes.....	No.....	Yes.
Mormacpride.....	Tentative.....	1960	Sun Shipbuilding.....	1960	5,950,553.76	Yes.....	Yes.....	Yes.
Mormacbay.....	do.....	1960	do.....	1960	5,929,401.97	Yes.....	Yes.....	Yes.
Mormacape.....	do.....	1961	Todd Shipyards.....	1961	6,007,796.78	Yes.....	Yes.....	Yes.
Mormaclake.....	do.....	1961	Sun Shipbuilding.....	1961	5,371,269.40	Yes.....	Yes.....	Yes.
Mormacgen.....	do.....	1961	Todd Shipyards.....	1961	5,822,872.16	Yes.....	Yes.....	Yes.
Mormacsan.....	do.....	1961	Sun Shipbuilding.....	1961	5,356,037.65	Yes.....	Yes.....	Yes.
Mormacocove.....	do.....	1961	do.....	1961	5,352,313.55	Yes.....	Yes.....	Yes.

See footnotes at end of table, p. 88.

Moore-McCormack Lines, Inc., depreciated value of vessels, Dec. 31, 1961—Continued

Vessel ¹	Fully depreciated	Year built	Builder	Year acquired	Vessel cost including betterments	Restrictions under sec.—		
						503	506	802
C-2's								
Robin Locksley.....	Mar. 4, 1961	1941	Bethlehem Steel.....	1957	\$1,286,667.00	Yes.....	No.....	Yes.
Robin Sherwood.....	July 15, 1961	1941	do.....	1957	1,296,667.00	Yes.....	No.....	Yes.
Mormacwren.....	1944	1944	Moore Drydock.....	1947	1,115,869.00	No.....	No.....	No.
Mormacove.....	1944	1944	do.....	1947	1,138,082.22	No.....	No.....	No.
Mormacreal.....	1944	1944	do.....	1947	1,115,970.92	No.....	No.....	No.
Mormacowl.....	1944	1947	do.....	1947	1,140,626.97	No.....	No.....	No.
Mormacawak.....	1945	1947	do.....	1947	1,127,033.17	No.....	No.....	No.
VICTORIES								
Mormacoak.....	1944	1944	Richmond.....	1947	1,066,316.82	Yes.....	No.....	Yes.
Mormacpine.....	1945	1947	do.....	1947	1,130,588.25	Yes.....	No.....	Yes.
Mormacdm.....	1945	1947	do.....	1947	1,166,712.03	No.....	No.....	No.
Mormacdr.....	1945	1947	do.....	1947	1,005,431.00	No.....	No.....	No.
TANKER								
Mormacfuel.....	1943	1943	Portland.....	1948	1,714,364.92	No.....	No.....	No.
P2-S2-9A								
Brasil.....	Tentative.	1958	Ingalls.....	1958	15,313,474.14	Yes.....	Yes.....	Yes.
Argentina.....	do.....	1958	do.....	1958	15,314,613.51	Yes.....	Yes.....	Yes.
Total.....					119,987,831.62			

¹ Summary: C-3's, 29; C-2's, 7; P2-S2-9A, 2; Victories, 4; tanker, 1; total, 43.

Senator BARTLETT. Mr. Kenney.

Mr. KENNEY. No questions.

Senator BARTLETT. Thank you.

Mr. PURDON. Mr. Chairman, there is one other point that I think the record should be perfectly clear on, and that is how this Government war risk insurance is financed.

We made the point yesterday that we are paying the premiums and the Government is not and should not be at risk. That point is valid, but to clarify it so that the record will show how this has worked out, I would like to ask Mr. Fridlund if he will explain that situation for the committee.

Senator BARTLETT. Please.

Mr. FRIDLUND. Mr. Chairman, my name is H. Maurice Fridlund. I am counsel to the group presenting the case here and I am familiar with the workings of the war risk insurance, both on a commercial basis and on the Government basis.

Certain references have been made to the fact that a certain portion of the Government war risk insurance would be more or less on a mutual basis. Now to make sure that we are not misunderstood on this, I would like to clarify the point.

When the commercial war risk automatic termination clauses come into effect, and the Government insurance takes over, there are in effect three categories or stages involved.

First, there is the original, the first hostile act which results in war, not more than 90 days to the outbreak of war.

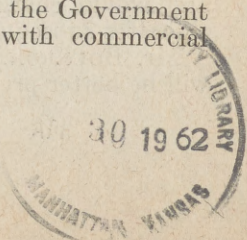
Now, as I understand it, it is that feature on which the intent is to add up the losses and spread them among the valuation of the binders, which gives, in effect, a more or less mutual spread of the premium or cost. Then you have the problem of getting the ships, after the outbreak of war, in to port, and it is that rate shock risk which the commercial underwriters have felt, and I think properly, that no commercial outfit could stand. And the Government in articulating its war risk binders with those automatic termination clauses, you have involved that great shock risk of getting the ships back in to port and while there is no intent, as I understand it, to spread that on a strictly mutual basis, nevertheless, those losses will be known by the time that the Maritime Administration gets around to fixing the premiums. So, they will have the actual experience on which to base the premiums.

Now, in those two categories, the net effect will be practically to give a mutual basis for spreading the losses among the shipowners on what amounts to a mutual basis. Of course, from that time on, the Government will be fixing the premiums and if their underwriting facilities are as good as they were during World War II, why, the prospects are that the Government will be realizing a very substantial profit on the war risk insurance.

I merely mention this so that we will not be understood to allege that the whole administration of the Government war risk insurance will be on a mutual basis. It will not, otherwise, of course, the matter of Government profit would never come into play.

Senator BARTLETT. Do you happen to recall how the Government premium rates during World War II compared with commercial rates following the war, as to amount?

Mr. FRIDLUND. No.



Mr. PURDON. Mr. Anderson might.

Mr. ANDERSON. Well, I was away during most of the war, but at the very beginning, shortly after December 7, 1941, commercial underwriters continued to insure the vessels against war risk. As it turned out, the premium charges they made prior to knowing the eventual losses were entirely inadequate and they lost a great deal of money. And I recall that during the spring of the following year, 1942, the Government would make charges of about 2 to 3 percent for say a round voyage, whereas at that time, the commercial rates would have been drastically higher.

However, I am told that subsequently, that is, within 6 or 8 months, the actual differential between the Government war risk rates and those of the English market were not too drastic. By that time, the American market as a war risk market for hulls was rather inadequate by reason of the very difficult and drastic losses they sustained at the very beginning of the war.

Senator BARTLETT. Thank you very much.

Mr. Bourbon.

Mr. BOURBON. Mr. Anderson, for the purpose of the record and to make this question of the successive steps in war risk insurance, could you tell us what happened as between when commercial went into effect and how long it continued, and relate that to the period of the beginning of World War II, and previous to World War II.

In other words, when did the Government take over from the commercial companies in World War II?

Mr. ANDERSON. As I recall, the Government requested the commercial underwriters to continue carrying the war risk insurance.

Mr. BOURBON. At what period?

Mr. ANDERSON. Immediately after December 7, 1941. And one of the reasons being that the Government did not have an organization set up to administer the program. Within 3 to 4 months, the Government did have such an organization, but in the meantime, the commercial underwriters were taking the shock risk, as it were, of that war and taking it at an entirely inadequate premium, since they set the premium charge before the fact.

Mr. BOURBON. Did they set those premiums on the total experience or did they do it, as I understand they do it now, with each particular company over a 5-year period?

Mr. ANDERSON. On war risk, they would set the rate from even day to day, depending upon the information known as to the events that were occurring during the war, but as to vessels, they insured them on a round voyage basis, and part of the problem they had—and one of the reasons for their experiencing such severe losses—was that a ship would start out on what normally perhaps might be a 30-day voyage, and because of delays caused by the outbreak of the war, our entry into the war, the ship perhaps would not get back until 60 or 90 days, and by that time, our enemy had opportunity to concentrate its submarine program along the east coast in particular.

But they anticipated a ship would be back in its normal 30 days and would charge a very minimum premium by comparison with the rates subsequently charged by the Government.

Mr. BOURBON. Now, in a future war emergency, our Government will be better prepared to take care of that situation, will it not?

Mr. ANDERSON. The Government will certainly know, as Mr. Fridlund has pointed out, the Administration will know the amount of losses prior to fixing the premium, which is a very satisfactory way of underwriting.

Mr. BOURBON. Would that mean it might be the actual end of the experience of the war, the emergency, before the Maritime would set the rate on the basis of everything that happened up to that time?

Mr. ANDERSON. They would adjust the rates and fix the rates after the losses were known.

Mr. BOURBON. As losses are known, the rate would vary.

Mr. ANDERSON. After the losses are known. Then, once the shock period is over they would proceed, presumably, as commercial underwriters and assess premium rates in line with their views as to the probable outcome, the probable loss experience of the future.

Mr. BOURBON. There is just one more question on that. The Administrator yesterday said that the increased premium would be a cost of operating the ship after it is requisitioned for use and would thus ultimately be paid by the United States in its charter hire.

In other words, the United States then would pay part of your increased evaluation.

Mr. ANDERSON. That, sir, is a question I could not answer. I do not know how the premium charges would be allocated in such a situation.

Mr. BOURBON. Could Mr. Fridlund answer that?

Mr. FRIDLUND. Well, I don't think that statement is completely valid. The war risk insurance value that would be picked up by the Government would not be changed, as we see it, in any event by this bill.

The only question is whether the owner, having his ship at risk, would be willing himself to pay that excess premium.

Mr. BOURBON. That was the question I was getting to. In this bill, if that were a valid point, would you be satisfied to have the bill provide that in such a case, the owner would pay the differential between the rate on the lower valuation and the higher valuation?

Mr. FRIDLUND. I think Mr. Purdon has something to say.

Mr. PURDON. Mr. Bourbon, the two issues are really separable. We are talking here only about getting proper valuations for our ships. When you get to the questions of requisition for use and charter party agreement between the owner and the Government, there are a multitude of considerations involved in the charter party. Insurance is only one of them.

And that is a consideration, as between two commercial people, just the same as it is between an operator and the Government. There is a whole, you might say, ball of wax involved in the charter party agreement, so I don't think that this is material to the issue that we have. I repeat this, all we are asking for is the right to insure our vessels to a proper valuation. That valuation is established by the Government itself.

When it comes to the question of the terms of agreement as between the owner and the Government, after requisition for use, this will be worked out satisfactorily, but if this was the one issue on which this statement won or lost, we then have to come back to our basic position. We are at risk, we are supposed, we are at unnecessary risk, we are willing to pay the premiums.

Senator BARTLETT. Mr. Kenney?

Mr. KENNEY. No, thank you.

Senator BARTLETT. Does your group have any more testimony to present, Mr. Purdon?

Mr. PURDON. No, Senator, I think that concludes it. I merely wish to say to you, sir, that we appreciate the extended opportunity to present our case, that we seek not to take anything away from the Government at all. We do not seek to add any unnecessary burdens to the Government. We do not seek to add any additional costs to the Government. This is an insurance program that we think is proper and we believe that we should have the right and that we indeed do have the right, but not the law at the moment, to pay the premiums to get adequate insurance.

Senator BARTLETT. Thank you very much for your presentation of testimony and your courtesy in staying overnight to conclude this morning.

Mr. PURDON. Thank you, Senator.

Senator BARTLETT. Is there anyone here who can be recalled on S. 2829 in behalf of the Maritime Administration?

**STATEMENT OF JULIAN SINGMAN, DEPUTY ADMINISTRATOR,
MARITIME ADMINISTRATION, ACCOMPANIED BY LEONARD F.
NICHOLS, COMPTROLLER, AND WILLIAM G. LANE**

Mr. SINGMAN. I am Julian Singman, the Deputy Maritime Administrator, and we have here from the Maritime Administration our Comptroller, Mr. Leonard F. Nichols, who is also a member of the Maritime Subsidy Board, and Mr. Nichols is more familiar with the war risk insurance problems in our agency than anyone else.

With your permission, I should like to offer Mr. Nichols to answer any questions that the committee may have.

Senator BARTLETT. Very well, Mr. Singman; and Mr. Nichols was here yesterday, too.

Now, Mr. Nichols, first I am going to ask you to supply to the committee a list of foreign-flag vessels now holding war risk binders. And likewise, a list, the latest list, of valuations established for these vessels by the Secretary of Commerce.

By the way, do you know, Mr. Nichols, how often this list is revised?

Mr. NICHOLS. The valuations, we have attempted to establish them twice a year, on a semiannual basis, and the last values that have been published on those that have been established were as of July 1, 1961.

Senator BARTLETT. Is it true that under the law, U.S. Government war risk insurance could be granted flying foreign flags and owned by foreigners?

Mr. NICHOLS. The statute provides certain conditions under which war risk insurance may be provided for foreign-flag ships. It is spelled out in section 1203 of title XII of the Merchant Marine Act.

Basically, it indicates that the ships in effect have to be operating in the national interest, either in the national interest, either in the national economy or national interest. I mean the U.S. national interest.

Senator BARTLETT. Then conceivably it could be determined that a ship owned by a national of a country friendly to the United States and operating under a flag of that country would be eligible for such insurance?

Mr. NICHOLS. It could be conceivable if it were found that that ship were operating in the interests, the national interests of the United States.

I might just say that there have been very few instances where there have been ships that have not been owned by American citizens, however, that have been embraced in this program.

Senator BARTLETT. Is it true by regulation, the Maritime Administration has limited such insurance to American-owned foreign-flag vessels?

Mr. NICHOLS. By regulation, I would say the very great majority of cases. I can recall an insurance where we have, to give you an example, of a flag, a British ship, we have a cable ship which has been found to be necessary for our general national defense interests, which is a British-flag ship.

I am not sure that is American owned, but that ship, as an example, is one that we do embrace in the war risk program. There have been very few of that particular nature.

Senator BARTLETT. And that particular ship might be owned by a British citizen?

Mr. NICHOLS. Yes, sir, it could be. I would have to check to be certain in that case, but it might be.

Senator BARTLETT. Does a general regulation now apply in respect to this situation or are regulations revised to meet a condition of the moment?

Mr. NICHOLS. Well, we have a regulation which in effect enunciates the policy of the Maritime Administration as to the types of ships, both American flag and foreign flag that are eligible for war risk insurance.

That is our General Order 75. That indicates the types of foreign-flag ships that may be covered under our general policy, which as I say, is embraced in this regulation.

The statute, I understand from our legal advisers in the Administration, is very broad as to how far that might go. I would say the Maritime Administration's position has been quite restricted in its application to foreign-flag ships.

Senator BARTLETT. Broad enough to make it possible to grant this insurance to a British-owned ship flying the British flag?

Mr. NICHOLS. Yes, sir; if it is found to be operating in the national interest or in the interest of our national defense. There has to be a finding prior to it being embraced in the program prior to that time.

Senator BARTLETT. It is true, is it not, Mr. Nichols, such insurance has by and large been granted principally to ships American owned flying the Panamanian flag, Liberian flag, or the Honduran flag?

Mr. NICHOLS. Flags of that class have been embraced in the program where there have been commitments on the part of the owners to make these vessels available to the United States at its request, in its national defense.

Senator BARTLETT. Aside from being embraced in the program, is it not true that these are the principal parts of the program, in that category?

Mr. NICHOLS. They are the principal part of the foreign flag, of those foreign flags covered by the program; yes, sir, Senator.

Senator BARTLETT. And in those cases, owners have agreed by contract with our Government to make the ship or ships available to the United States in the event of war?

Mr. NICHOLS. Yes, sir.

Senator BARTLETT. Can you tell us, after having heard, as I know you did, or most of the testimony on this bill, why it is that we are willing to insure that ship flying a foreign flag at a different value from the ship flying the U.S. flag, built under construction differential? What is the philosophy here?

Mr. NICHOLS. Well, I think the basic philosophy as we indicated yesterday, was the philosophy that practically in every instance the question has been raised with the Administration, the Administration has taken the position that a ship built with construction subsidy, that under those circumstances, they differentiate between that class of ship and any other ship. They have taken the position that under requisition for title, the Government has the right by contract, right by statute, to not pay more than the 802 value, which is, in effect, the depreciated book value. And that has been embraced consistently in the war risk program and as far as any other ship goes, that is not encumbered by this philosophy of requisition for title, the position being, that the Government cannot see a position of paying any more as a war risk than it would pay the owner if it had requisitioned the ship for title, which it has a right to do.

Senator BARTLETT. Well, I see it as in the national interest that ships are insofar as possible, in our trade, owned by Americans, under the American flag, and have American crews.

It would seem to me that this differential here in respect to war risk insurance would be shoving the owner of that ship into a position where he would be more likely to want to have a foreign flag. It is cheaper, labor is cheaper, and here he can get a different valuation on war risk insurance.

Mr. NICHOLS. Well, the Government's position has been consistently that if the ship were built with construction subsidy, that the ship itself has a taxpayer interest, and they have taken the position basically, the ship is committed to be operated, if it is operating under an operating subsidy contract, under the American flag, it is committed also, if built with construction subsidy, that Government may reacquire it under requisition for title with no general market enhancement.

This has been, as I say, a basic philosophy for a good number of years on the part of the U.S. Government.

Senator BARTLETT. I understand that, but this opens up for me a new train of thought. Sometimes policies that have been enunciated in the past are voiced in different form under different circumstances and if I owned a ship and under the American flag, I could get war risk insurance for only \$450,000 on that ship. But if I had it under Panamanian flag, with much cheaper labor costs, and could have insurance on the order of \$8.5 million, that would nudge me powerfully in that direction, I should think.

Wouldn't you be so inclined, if you owned that ship?

Mr. NICHOLS. If I were the owner, I would think it would be a definite nudge. Of course, the owner may already have commitments

under which he acquired the ship in the first place, that he recognized under the contract, as to his obligations with the ship, and of course, that might prevent him from being nudged.

Senator BARTLETT. You mean there would be a legal handicap to him.

Mr. NICHOLS. Yes, sir.

Senator BARTLETT. Mr. Nichols, are you familiar with this, which I was told since yesterday, that our Government grants certain forms of insurance to foreign-flag aircraft?

Mr. NICHOLS. I am not at all familiar with that, Senator.

Senator BARTLETT. Well, I can inquire into that from another source. Now just tell us once more, what the substitute bill proposed yesterday by Mr. Alexander would do in changing existing law?

Mr. NICHOLS. Basically, I think it is very simple. The substitute proposition recognizes that we see a definite disadvantage in the present law, insofar as a construction subsidy ship goes, under the present provisions of the bill, in that actually we believe that there should be a floor established below which the value would not drop. And that floor, as we see it, is again this 802 value.

If by working of the provisions of the present existing law under the war risk, title XII, war-risk provisions of the act at the moment, the market, on the basis of the market value, drops down to a point, after applying a construction subsidy percentage, where it is below what the value would be as depreciated book value, which would be in effect the 802 value, that we believe that at least at that point there should be a floor and it should not go below what would be the normal 802 value.

As we see the act today, it could drop below on the basis of the existing law on the books. And we are suggesting a modification, which would in effect establish this floor.

Senator BARTLETT. The 802 value is the depreciated book value.

Mr. NICHOLS. It would be the higher of depreciated book or scrap value.

Senator BARTLETT. Will you tell me now or submit for the record later, what difference that would make in respect to the war-risk insurance that can be had by the *SS America*, a ship upon which I have dwelled at length.

Mr. NICHOLS. I would like to have a statement prepared for the record for that, Senator, if you would permit us to do so. I would like to get the facts.

Senator BARTLETT. I would like to see how close that would come to \$8,600,000 under the substitute bill offered by the Administration.

Mr. NICHOLS. What we would have to establish there is a question of what is the market value, and this would be important to answer that question, what the market value would be for the *SS America*. That would have to be explored. I am talking about present-day conditions.

Senator BARTLETT. Just take a tentative reading, don't do a great deal of research, too many man-hours.

Mr. NICHOLS. We would be happy to attempt to work out what that would be.

(Subsequently there was received from the Maritime Administrator, Donald W. Alexander, a letter dated March 12, with attached listing of all foreign-flag ships insured under interim war risk binders, together

with copy of General Order 82, giving approved values of ships established by the Maritime Administration, and the requested statement as to the established value of the SS *America* now, and under S. 2829 and proposed substitute. These documents will be found at the conclusion of the hearing transcript.)

Senator BARTLETT. I violently disagree with one statement you made a few minutes ago, Mr. Nichols, when you said this was simple.

Mr. Bourbon, do you have any questions?

Mr. BOURBON. Yes, sir. I believe the Maritime Administration had a study made recently by the Arthur D. Little Co., with regard to construction differential. I am sending for the book but it seems to me that it says in that book, and it is an expression that I have seen before, namely, that the Congress of the United States in drafting the 1936 act and in passing that act wanted an adequate merchant marine, and they wanted an adequate shipbuilding potential, in case of war, and therefore, to support that shipbuilding potential, they required that all holders of operating subsidies would have to have their ships built in this country.

In other words, the purpose of having the ship built in this country is to provide a substantial and stable shipbuilding industry.

Now, if I, as an owner, build my ship under subsidy, a subsidy which doesn't come to me, but goes to the shipbuilding company, have I carried out the purpose of the original 1936 act in that I am helping to sustain a stable shipbuilding industry?

Therefore, should I be penalized financially because of the fact that I did what the Government wanted me to do in order to accomplish the Government's purpose of having a stable shipbuilding facility?

Mr. NICHOLS. Well, I think, Mr. Bourbon, that actually is the question, really, that has been involved in this particular hearing, as to whether or not the restrictions that are now covered under the act, as it stands now, in a construction-subsidy ship, in effect, are retained. Now we are not discussing in this point this question of 802, but really this is basic as to what is behind the problem.

Mr. BOURBON. This is the whole policy of having—

Mr. NICHOLS. We are talking about the point of view of war risk insurance, but actually the question you raise seems to me does go to that question, as to this question of philosophy back of 802, approaching it, however, from one side of it, the war risk insurance side of it.

I can only say again that the Government's position has been that the approach followed to date does not appear to be an inequitable approach insofar of all the equities of the situation that are involved.

Mr. BOURBON. Just one more question, sir, which you may or may not want to answer. Do you see any inconsistency in taking two ships that are built in the same yard at the same time, cost the same amount of money, and then denying one of them the same marine war risk coverage as the other, just simply because the owner complied with the Government's request to have its ship built in this country rather than abroad?

Mr. NICHOLS. Well, of course, what you have there is that in the two cases, you have the construction subsidy issue again, which is the basic issue. If the ship was built with construction-subsidy, then this value would apply.

Now, in the other case, if you have a sister ship that was not built with construction-subsidy, it may be that they would have the same value, I don't know. It would depend on each case. It is hard to see that they would be identical, if one was purchased under Merchant Ship Sales Act, which is a totally different bill, they might not have had the same value.

Mr. BOURBON. One of the 1946 act vessels might be of a lesser value because of its war service.

Mr. NICHOLS. It could be, and I don't see how you can differentiate or try to put together one that was sold under Merchant Ship Sales Act which would carry one value and another built with construction-subsidy. It is two different things.

You may get by circumstances the same value, but it would merely be because of circumstances, not because of anything else.

Mr. KENNEY. Would it be fair to say, in the light of Mr. Alexander's request for new legislation dealing with section 1209, that the Maritime Administration agrees in principle that the present language is not equitable in all cases?

Mr. NICHOLS. That is correct.

Senator BARTLETT. Mr. Nichols, in your opinion, your personal opinion, are we operating in this area and perhaps related areas under a broad philosophy based on continuity, improvement, and modernization, or are we operating under a hodgepodge of basic law as amended from time to time to meet a particular situation?

Mr. NICHOLS. I think that we always get in the situation where we amend a part of an act that we deal with it, unfortunately, piecemeal. It may well be that the whole general philosophy, going to the whole question, is one that has to be explored.

Senator BARTLETT. Those hearings wouldn't be brief though, would they?

Mr. NICHOLS. I am afraid they would not be, sir. As I say, I think perhaps the Deputy Administrator here would be better qualified to indicate what would be the Maritime Administration's position going to that type of question.

Senator BARTLETT. Well, that is a pretty direct and broad question to put to him on the spur of the moment, so I won't insist upon an answer from any of you.

Mr. SINGMAN. Thank you.

Mr. BOURBON. Mr. Chairman, for the record, I would like to have inserted in the transcript just two short sentences from the report to the Maritime Administration on ship construction differential subsidies by Arthur D. Little Co., Inc., and I quote:

The Merchant Marine Act, 1936, which prescribed the basic U.S. maritime policy, provides substantial financial assistance for the purpose of encouraging and maintaining the domestic shipbuilding industry. The construction differential subsidy is the principal means of providing this assistance.

Senator BARTLETT. That is pertinent.

Mr. Ewers?

Mr. EWERS. I may save some one a couple of minutes, Mr. Chairman.

With respect to the legislative history of the shipbuilding subsidies, it was one of the documents included with the testimony of Mr. Gibbons of yesterday, and I think it is quite comprehensive, and I

think it will answer any questions that there may be arised concerning it.

With respect to the Chairman's inquiry about war risk insurance for aircraft—

Senator BARTLETT. Yes.

Mr. EWERS (continuing). You will find that documented in title XIV, Code of Federal Regulations, section 1501, and it substantially parallels similar provisions in title XII of the Merchant Marine Act.

With respect to foreign coverage, there is made eligible foreign aircraft engaged in aircraft operations deemed by the Defense Air Transportation Administrator to be in the interests of national defense, or the national economy of the United States.

So it substantially parallels with regard to foreign aircraft the provisions with respect to surface craft.

Senator BARTLETT. Thank you very much.

And thank you, gentlemen. Now that will conclude the taking of testimony on S. 2829, and the committee will stand in recess for 5 minutes before proceeding to the next bill.

(Thereupon, at 10:45 a.m., the committee was adjourned.)

(Reports of the Comptroller General, dated March 7, 1962, and of the Federal Maritime Commission, dated February 23, follow:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 7, 1962.

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

DEAR MR. CHAIRMAN: Further reference is made to your letter of February 9, 1962, acknowledged on February 13, requesting the comments of the General Accounting Office concerning S. 2829, 87th Congress, 2d session, entitled "A bill to amend title 12 of the Merchant Marine Act, 1936, in order to remove certain limitations with respect to war risk insurance issued under the provisions of such title."

The proposed legislation pertains to the amounts payable in the event of actual or constructive total loss of vessels covered by war risk insurance under title 12 of the act. Section 1209(a)(2) of title 12 presently provides that the valuation in the policy for actual or constructive total loss of the vessel insured shall be a stated valuation determined by the Secretary of Commerce which shall not exceed the amount that would be payable if the vessel had been requisitioned for title under section 902(a) of the act at the time of the attachment of the insurance under the policy. This amount would be so-called just compensation. However, section 1209(a)(2) further provides that in the case of a construction-subsidized vessel, for the period of insurance prior to requisition for title or use, the valuation so determined by the Secretary shall be reduced by such proportion as the amount of construction subsidy paid with respect to the vessel bears to the entire construction cost and capital improvements thereof, and for the period of insurance after requisition for use the valuation so determined shall not exceed the amount which would be payable under section 802 in the case of requisition for title.

It is the latter provisions of section 1209(a)(2) which S. 2829 would eliminate, in which case the stated valuation of a construction-subsidized vessel for the period prior to requisition would be at the section 902(a) value without reduction. Likewise, with the removal of the aforementioned restrictions, the stated valuation for the period after requisition for use would be the entire section 902(a) just compensation price, rather than the depreciated cost to the owner under section 802 as presently provided by title 12 of the act.

We heretofore have not agreed with somewhat similar proposed legislation primarily on the premise that the proposed basis of valuation for war risk insurance for a subsidized vessel would be inconsistent with the basis of compensation allowed for the same vessel if requisitioned for title pursuant to section 802 of the act. However, upon further consideration of the matter, and particularly with reference to the pending bill, we have concluded that certain changes in our views are warranted for the reasons hereinafter set forth.

It is our understanding that one of the primary objectives of title 12 of the act, and specifically section 1209, was to encourage continuance of regular private maritime service during periods of hostile action in order to sustain U.S. foreign commerce and the interests of the Government in such hostile areas. It would appear, therefore, that the attachment of Government insurance upon termination of commercial insurance due to events not controllable by shipowners should not operate to place the shipowners in a different position from the standpoint of collectible insurance in the event of loss from that existing when they were under commercial insurance coverage. Accordingly, we believe that repeal of that portion of section 1209(a)(2) of the act requiring the reduction of insurance valuation for the period prior to requisition for use would be equitable and proper.

With respect to the period of insurance subsequent to requisition for use, we believe that the circumstances of such requisition are essentially the same as those underlying requisition for title. That is to say, ordinarily, a ship requisitioned for use is no longer carrying on commercial business for the shipowner in its regular trade service. To the contrary, the vessel is completely under the jurisdiction of the Government for purposes of operation. Thus, in terms of physical possession and operating control, the status of a vessel requisitioned for use and one requisitioned for title appear to be analogous. In our opinion, to fix an insurance valuation on a ship requisitioned for use different from the value which would be given the same ship if it should be requisitioned for title would be inconsistent with section 802 of the act. Therefore we do not favor the repeal of that portion of section 1209(a)(2) limiting the insurance valuation of a construction-subsidized vessel for the period after requisition for use to an amount not in excess of that which would be payable under section 802 in the case of requisition for title.

Aside from the foregoing, and recognizing that the question whether legislation of this type is necessary is a matter of policy for determination by the Congress, we have no further recommendation to offer. In the event, however, it should be decided by your committee to adopt S. 2829 in its present form, your attention is invited to the fact that there would remain effective that portion of section 1209(a)(2) which provides that "the valuation * * * shall not exceed the amount that would be payable if the vessel had been requisitioned for title under section 902(a) at the time of attachment of the insurance under said policy." Section 902(a) provides for the payment of just compensation, but with respect to construction-differential subsidy vessels, section 902(b) expressly provides that payment therefor shall be determined "as provided in section 802" of the act. If it is intended to completely remove the section 802 restrictions with respect to payment, it is suggested that this phase of the matter be clarified.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

FEDERAL MARITIME COMMISSION,
Washington, D.C., February 23, 1962.

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

DEAR MR. CHAIRMAN: This will acknowledge your request of February 9, 1962, for the views of the Federal Maritime Commission with respect to S. 2829, a bill "To amend title 12 [sic] of the Merchant Marine Act, 1936, in order to remove certain limitations with respect to war risk insurance issued under the provisions of such title."

This bill would amend certain provisions of title XII of the Merchant Marine Act, 1936, dealing with Government war risk insurance which may be provided with respect to vessels on which a construction-differential subsidy has been paid.

Inasmuch as the functions with respect to title XII insurance are under the jurisdiction of the Secretary of Commerce, the Commission expresses no opinion as to the desirability of this legislation and defers to the Department of Commerce.

The Bureau of the Budget advised there would be no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

THOS. E. STAKEM, *Chairman.*

(Subsequently, there was received the letter and statement from Emil A. Kratovil, president, American Institute of Marine Underwriters, in support of S. 2829, and a letter from C. G. Cornwall, manager, American Hull Insurance Syndicate, expressing full accord with the Institute's views. These documents follow:)

AMERICAN INSTITUTE OF MARINE UNDERWRITERS,
New York, N.Y., February 28, 1962.

Mr. EDWARD JARRETT,
Chief Clerk, Committee on Commerce, U.S. Senate, New Senate Office Building,
Washington, D.C.

DEAR MR. JARRETT: I send you herewith statement on behalf of this Institute in support of Senator Magnuson's bill, S. 2829.

We will appreciate your making our statement a part of the record of hearings on this matter.

Very truly yours,

EMIL A. KRATOVIL, *President.*

STATEMENT ON BEHALF OF THE AMERICAN INSTITUTE OF MARINE UNDERWRITERS

The American Institute of Marine Underwriters is made up of 125 member companies admitted to do a marine insurance business in the various States of the United States. The institute, which maintains offices at 99 John Street, New York City, N.Y., is the authorized spokesman for the American marine insurance market.

This institute favors S. 2829 which would eliminate certain provisions of section 1209(a)(2) Merchant Marine Act, 1936, as amended, that appear prejudicial to one group of shipowners. The inequity to which we refer is the stipulation that vessels built with construction subsidy may not be insured under the Government's war risk insurance program for amounts exceeding the section 802 values to which these owners would be entitled if their vessels were purchased or requisitioned by the Government. We feel that such provision is in fact inconsistent with the objectives and purposes of title XII of the Merchant Marine Act, 1936, as amended.

S. 2829 would strike out the first proviso of the first sentence of section 1209(a)(2) of the Merchant Marine Act, 1936, as amended. This would make two changes with respect to the war risk insurance valuation of a vessel built with construction subsidy:

(1) For the period of insurance prior to requisition for title or for use, the normal valuation would no longer be reduced by the proportion that the construction subsidy bears to the entire construction cost; and

(2) For the period of insurance after requisition for use, the normal valuation would no longer be limited to the amount payable if requisitioned under section 802 of the 1936 act. The amount payable under section 802 is the actual depreciated construction cost less the depreciated amount of construction subsidy.

It must be emphasized that none of the changes to be made by S. 2829 would affect in any way the right of the Government to requisition vessels built with construction subsidy and to pay only section 802 values therefor.

S. 2829 would also strike out the first proviso of the second sentence of section 1209(a)(2), which sentence deals with a situation where there is no agreed valuation and the insured who has suffered a loss goes to court to recover the equivalent of just compensation. The deletion of the first proviso would remove a limitation on just compensation in the case of vessels built with the aid of a construction subsidy. Here again, the amount payable to the insured, both before requisition for title or use and after requisition for use, is now limited in the same manner as that described above.

On many occasions Congress has declared that it is our national policy to develop and preserve a strong American merchant marine. Implementing this congressional mandate, the Maritime Administration has contracted with major American-flag operators to enter into replacement programs, pursuant to which their war-built tonnage is presently being supplanted by more modern and far more costly vessels. It seems inconsistent with this policy to impose any artificial impediments which will make it more difficult or perhaps impossible for the American operator to carry out this program. This is particularly true when it is remembered that the subsidized operator must place insurance recoveries in his reserve funds from which he finances his replacement program.

Prior to the nuclear era, underwriters were able to provide commercial war risk protection during periods of conflict at rates commensurate with anticipated risk. Confronted with potential catastrophic war losses (life, hull, and cargo) which might readily exceed the ability of commercial underwriters to respond, it became evident that in times of crisis only governments could assume liabilities of such magnitude. This has been done by all leading maritime nations.

The decision of Congress, when it enacted title XII of the 1936 act, to provide insurance against loss or damage by war risks, was not based on the magnitude of potential liabilities alone. Rather it was based on the realization that shipowners deprived of such needed coverages would not expand and modernize their fleets. Without adequate protection from war risks, to which shipping is particularly vulnerable, capital would not favor shipping but would seek other avenues of investment. It was recognized that the operation and the strengthening of such fleets is vitally important to the national defense. It was also apparent that the outbreak of a major conflict anywhere in the world, even though the United States be not involved, would make it impossible for the American operator to secure adequate commercial war risk insurance. Shipowners could not be expected to risk their investments by putting to sea under these circumstances and our foreign commerce would suffer. Therefore, war risk protection provided in advance by our Government under title XII was intended to assure the free venturing of ships and new investment in ships to preserve the free flow of cargoes essential to our foreign commerce and our national defense.

Only if this insurance is to be made available in realistic amounts by the Government in accordance with commercial practice will the public interest and the original intent of title XII be served. Certainly, when one considers that premiums will be payable on the basis of these realistic valuations, that premium rates will be determined solely by the Maritime Administration and that at least for coverage at inception and immediately thereafter rates will be determined after the fact, there appears to be no reason why the owners of the vessels built with construction subsidy should not be eligible to buy from the Government insurance in amount equivalent to just compensation which is available to all other owners.

We support S. 2829 and urge you to recommend enactment.

(Subsequently the letter from Mr. Cornwall was received, and follows here:)

AMERICAN HULL INSURANCE SYNDICATE,
New York, N.Y., February 28, 1962.

Mr. EDWARD JARRETT,
Chief Clerk, Committee on Commerce,
U.S. Senate, New Senate Office Building,
Washington, D.C.

DEAR MR. JARRETT: A statement in support of Senator Magnuson's bill, S. 2829, has been mailed to you today on behalf of the American Institute of Marine Underwriters by Mr. Emil A. Kratovil, president of the institute.

I have seen a copy of this statement and am in full accord with the views expressed therein. May I ask that this letter be incorporated in the record of the hearings thereby supporting favorable action on S. 2829.

Very truly yours,

C. G. CORNWALL, *Manager.*

(Documents submitted by Maritime Administrator at request of chairman:)

U.S. DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington, D.C., March 12, 1962.

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

DEAR MR. CHAIRMAN: In the hearings on S. 2829, held on February 28, 1962, Senator Bartlett requested the Maritime Administration to supply certain specific information, identified below, concerning this agency's war risk insurance program.

In response to this request, the following is submitted:

Exhibit I: This is a listing of all foreign-flag ships insured under interim war risk binders of the Maritime Administration.

Exhibit II: Publication of General Order 82, 5th revision, which outlines the latest approved values of ships under war risk insurance binders where such values have been established and approved by the Maritime Administration.

Exhibit III: A statement confirming our understanding as to the values which would attach to the SS *America* (a) under the law as it presently exists, (b) under the law as recommended for amendment by the Maritime Administration in its testimony, and (c) as amended by S. 2829 as we understand the provisions of this bill.

In addition, for your ready reference, we are enclosing a copy of a letter to you dated August 25, 1961, signed by the Acting Maritime Administrator, in which was outlined for the information of the committee a fairly comprehensive report of the agency's war risk insurance activities.

We also refer you to the quarterly reports which are submitted to the President of the Senate and Speaker of the House, concerning the activities of the Maritime Administration as required by section 1211 of the Merchant Marine Act, 1936 as amended.

If we may be of further assistance to you in this matter, we trust you will not hesitate to call on us.

Sincerely yours,

DONALD W. ALEXANDER,
Maritime Administrator.

Enclosures: 3.

EXHIBIT I

Foreign-flag ships insured under interim war risk program title XII, Merchant Marine Act, 1936, as amended

Owner	Ship	Flag	Type	Gross tonnage	Built	
Afran Transport Co., Liberia (owned by Gulf Oil Corp.).	La Cruz	Liberian	Tanker	17,861	1952, United States.	
	Lagunillas	do	do	21,147	1955, Germany.	
	Cabimas	do	do	21,147	Do.	
	Eastern Gulf	do	do	24,266	1956, France.	
	Fallaika	do	do	17,861	1952, United States.	
	Las Piedras	do	do	18,611	1953, United States.	
	Northern Gulf	do	do	23,721	1956, Netherlands.	
	Margarita	do	do	18,762	1954, United States.	
	San Tome	do	do	17,902	1950, United States.	
	Western Gulf	do	do	23,721	1956, Netherlands.	
	Coro	do	do	18,694	1949, United States.	
	Burgan	do	do	19,929	Do.	
	Tasman Sea	do	do	24,945	1961, Japan.	
	Phillipine Sea	do	do	24,945	Do.	
	Alexander S. Onassis Corp., Liberia (75 percent controlled by Grace National Bank as trustee).	Arickaree	do	T2-SE-A1	10,544	1943, United States.
		Battle Rock	do	T2-SE-A1	10,448	1944, United States.
		Camp Namanu	do	T2-SE-A1	10,511	Do.
Federal		do	T2-SE-A1	10,441	Do.	
Fort Bridger		do	T2-SE-A1	10,172	1944, United States.	
Lake George		do	T2-SE-A1	10,582	1943, United States.	
McKittrick Hills		do	T2-SE-A1	10,520	1944, United States.	
Montebello Hills		do	T2-SE-A1	10,535	Do.	
Republic		do	T2-SE-A1	10,581	Do.	
Sea Robin		do	Tanker	11,379	1948, United States.	
Argo Tankers, Inc., Liberia (100 percent owned by U.S. citizen).	Arctic Sea	do	do	24,905	1959, Japan.	
	Bering Sea	do	do	24,903	Do.	
	Arrow Navigation Corp., Panama (controlled by Arrow Continental Corp., United States).	Continental Carrier	do	Freighter	9,144	1958, Germany.
Ascuna Shipping Co., Liberia (owned by the American Sugar Refining Co.).		Domino Crystal	do	Bulk carrier	5,812	1960, Denmark.
	Praxiteles	do	EC2-S-C1	7,237	1943, United States.	
Atalaya Compania Naviera, S.A., Panama (owned by Independent Steamship Corp., United States).	Falcon	do	Bulk oil carrier	10,456	1959, Italy.	
Atlantic Bulk Trading Corp., Liberia (owned by Eastern Gas & Fuel Associates, United States).		do	EC2-S-C1	7,257	1944, United States.	
Atlantic Robin Steamship Corp., Panama (owned by American Foreign Steam- ship Corp., United States).	Atlantic Robin	do	EC2-S-C1	7,257	1944, United States.	
Augusta Shipping Corp., Liberia (owned by Piggly Wiggly Corp., United States).	Aegina	do	EC2-S-C1	7,267	1943, United States.	
	Augusta	Honduran	Converted cargo (LST)	3,344	1944, United States.	
Avila Compania Naviera, S.A., Panama (owned 100 percent by U.S. citizens).	Agia Thalassini	Liberian	EC2-S-C1	7,238	1943, United States.	
Barracuda Tanker Corp., Liberia (owned 100 percent by U.S. citizens).	Sansinena	do	Tanker	37,202	1958, United States.	
	Toorey Canyon	do	do	37,202	1959, United States.	
California Transport Co., Liberia (owned by Stand- ard Oil of California).	Lake Palourde	do	do	37,202	Do.	
	George L. Park-Hurst	do	do	39,965	1960, Sweden.	
	E. J. McClanahan	do	do	12,232	1956, Netherlands.	
	Gage Lund	do	do	16,533	1952, United States.	
	T. L. Lenzen	do	do	24,508	1960, Japan.	
	Paul Piott	do	do	16,533	1951, United States.	
	Robert Watt Miller	do	do	16,533	Do.	
	Atholl McBean	do	do	16,533	1950, United States.	
	A. N. Kemp	do	do	16,533	Do.	
	Chevron Transporter	do	do	16,533	Do.	
Caribbean Steamship Co., Panama (owned by Rey- nolds Metals Co.).	Carl Schmedeman	Panama- nian	Ore carrier	9,918	1952, United Kingdom.	
	Louise	do	do	10,851	1957, Sweden.	
	Casa Blanca Shipping Corp., Liberia (owned by Piggly Wiggly Corp., United States).	Casa Blanca	Honduran	Converted cargo (LST)	3,010	1943, United States.
Poros		Liberian	E C2-S-C1	7,273	1943, United States.	

Foreign-flag ships insured under interim war risk program title XII, Merchant Marine Act, 1936, as amended—Continued

Owner	Ship	Flag	Type	Gross tonnage	Built
Compania De Navegacion Suffolk, S.A., Panama (owned by Oil Transfer Corp., United States).	Estrellita-----	Panama- nian.	Tanker-----	1, 968	1947, United States.
Dolores Shipping Corp., Liberia (owned by Piggly Wiggly Corp. United States).	Faralis-----	Liberian	EC2-S-C1--	7, 268	1945, United States.
Everett Orient Lines, Inc. Liberia (owned by Everett Steamship Corp., Panama, which owned 82½ percent, by U.S. citizens).	MV Rutheverett	do-----	C1-A, diesel	5, 135	1943, United States.
	MV Leneverett	do-----	C1-M-AV1	3, 805	1945, United States.
	MV Doneverett	do-----	C1-A diesel	5, 155	1944, United States.
	MV Dolpheverett.	do-----	do-----	5, 267	1943, United States.
	MV Noreverett	do-----	C1-M-AV1	3, 805	1945, United States.
	MV Rebeverett	do-----	C1-M-AV1	3, 805	Do.
Fairseas Freighters Corp Liberia (owned 100 percent by U.S. citizens).	MV Bradeverett	do-----	C1-M-AV1	3, 805	Do.
	Alexander S.M.	do-----	EC2-S-C1--	7, 215	1944, United States.
Ferore Co., Inc., Panama (owned 100 percent by U.S. citizens).	Ferore-----	do-----	EC2-S-C1--	7, 225	1943, United States.
General Tankers, S.A., Panama (owned by General Tankers, Inc., United States).	Texaco Arizona	Panama- nian.	Tanker-----	18, 428	1956, Germany.
	Texaco Arkansas	do-----	do-----	12, 665	1956, Netherlands.
	Texaco Missouri	do-----	do-----	18, 750	1957, Ireland.
	Texaco Vermont	do-----	do-----	18, 428	1956, Germany.
Globe Tankers Inc., Liberia (owned 100 percent by U.S. citizens).	Cuyama Valley	Liberian	do-----	28, 430	1958, Japan.
	Kenai Peninsula	do-----	do-----	28, 430	1959, Japan.
	Statue of Liberty	do-----	do-----	22, 610	1954, United States.
Grand Bassa Tankers Inc., Liberia (owned by Cities Service Oil Co.).	Cities Service Valley Forge	do-----	do-----	22, 595	Do.
	Cradle of Liberty	do-----	do-----	22, 610	Do.
	Liberty Bell	do-----	do-----	22, 610	Do.
	Cities Service Traveler	do-----	do-----	20, 144	1955, Sweden.
Grand Palmas Tankers, Inc., Liberia (owned by Cities Service Oil Co.).	Ocean Carrier	Panama- nian.	Bulk ore carrier.	7, 082	1943, England.
Gypsum Carrier, Inc., Panama (owned by Kaiser Gypsum Co., Inc., which is owned by Permanente Cement Co.).	Harry Lundeborg.	do-----	Gypsum carrier.	10, 172	1957, Japan.
	Tidewater	Liberian	Tanker-----	33, 705	1957, France.
Hemisphere Transportation Co., Liberia (owned by Tidewater Oil Co.).	Minnehoma	do-----	do-----	33, 768	Do.
	Oklahoma	do-----	do-----	33, 791	Do.
	Getty.	do-----	do-----	33, 704	Do.
	George F. Getty	do-----	do-----	33, 704	Do.
Jackson Steamship Co., Liberia (owned by Piggly Wiggly Corp.).	Andros Fighter	do-----	EC2-S-C1--	7, 233	1943, United States.
	Andros Lady	Liberian	EC2-S-C1--	7, 257	1944, United States.
	Andros Laurel	do-----	EC2-S-C1--	7, 010	1942, United States.
	Transporter	do-----	EC2-S-C1-- (Jumbo).	8, 597	1944, United States.
Kupan Transport Co., Liberia (owned by Gulf Oil Corp.).	Kuwait-----	do-----	Tanker-----	17, 612	1949, United States.
Madison Shipping Corp., Liberia (owned 100 percent by U.S. citizens).	Madison Bell	do-----	EC2-S-C1--	7, 216	1944, United States.
Maracay Compania Naviera, S.A., Panama (owned 100 percent by U.S. citizens).	Georgia S.M.	do-----	EC2-S-C1--	7, 262	1945, United States.
	Chryssi S.M.	do-----	EC2-S-C1--	7, 256	1944, United States.
Margrande Compania Naviera, S.A., Panama (charterer, Texaco Panama, Inc., owned by Texaco Inc.).	Neapolis-----	do-----	Tanker-----	24, 068	1958, Japan.
Marine Navigation Co., Inc., United States (owned 100 percent by U.S. interests).	Marine Chemist.	do-----	do-----	8, 137	1942, United States.
Mexican & West Indies Steamship Co., Inc., Panama (owned by Amerind Shipping Corp., United States).	Mexican Trader	do-----	C1-MT- BU1	3, 133	1946, United States.

Foreign-flag ships insured under interim war risk program title XII, Merchant Marine Act, 1936, as amended—Continued

Owner	Ship	Flag	Type	Gross tonnage	Built
Mobil Tankers Co., S.A., Panama (owned by Socony Mobil Oil Co., Inc.)	Tascalusa.....	Panama-nian	T2.....	9, 854	1942, United States.
	Tahchee.....	do	Tanker.....	12, 654	1952, Scotland.
	Waneta.....	do	do	18, 766	1952, United States.
	Wapello.....	do	do	18, 722	1953, United States.
	Wenatchi.....	do	do	11, 977	1939, United States.
	Winamac.....	do	do	11, 980	Do.
	Samoset.....	do	T3-SE-A1	10, 260	1943-United States
	Tatarrax.....	do	T2	9, 854	1942-United States
Ore Carriers of Liberia, Inc., (Liberian) (owned by Polaris Steamship Co., United States).	Tees Ore.....	Liberian	Ore carrier	8, 210	1960-Germany
	Clyde Ore.....	do	do	8, 210	Do.
	Mersey Ore.....	do	do	8, 198	Do.
	Tyne Ore.....	do	do	8, 198	1961-Germany
	Oswego Leader.....	do	T2-SE-A1	10, 524	1943-United States
Oswego Bulk Carriers, Inc., (Liberia) (owned 60 percent by U.S. citizens).	Oswego Freedom.....	do	Ore-oil carrier.	17, 987	1959-Japan
	Oswego Reliance.....	do	do	16, 852	1961-Japan
	Oswego Defender.....	do	do	16, 847	Do.
Oswego Transportation Corp., Liberia (owned 60 percent by U.S. citizens).	Charles E. Spahr.....	do	Tanker	28, 598	Do.
Panama Transport Co., Panama (owned by Standard Oil, New Jersey).	Esso Colon.....	Panama-nian	do	17, 420	1949, United States.
	Sao Paulo.....	do	T2-SE-A1 (Jumbo)	11, 307	1944, United States.
	Esso Venezuela.....	do	T1-M-BT2	3, 160	1945, United States.
	Esso Rochester.....	do	Tanker	11, 720	1943, United States.
	Esso La Salina.....	do	T2-SE-A1	10, 548	1945, United States.
Panama Transport & Navigation Co., Panama (owned by Panama Transport Co., which is owned by Standard Oil, New Jersey).	Esso Brooklyn.....	do	T3-S-A1	10, 399	1943, United States.
	Esso Genova.....	do	Tanker	17, 420	1949, United States.
	Esso Montevideo.....	do	do	17, 420	Do.
	Esso Norfolk.....	do	T2-SE-A1	10, 501	1942, United States.
	Esso Santos.....	do	Tanker	17, 328	1950, United States.
	Esso Argentina.....	do	do	23, 363	1958, Italy.
	Esso Aruba.....	do	do	29, 995	1959, Germany.
	Esso Chile.....	do	do	23, 352	1957, Italy.
	Esso Colombia.....	do	do	23, 414	1956, France.
	Esso Cuba.....	do	do	23, 437	1957, Japan.
	Esso Panama.....	do	do	23, 362	1958, Italy.
	Esso Peru.....	do	do	23, 437	1958, Japan.
	Esso Puerto Rico.....	do	do	25, 278	1959, Italy.
	Esso Switzerland.....	do	do	23, 363	Do.
	Esso Trinidad.....	do	do	23, 363	Do.
	Esso Uruguay.....	do	do	23, 437	1958, Japan.
	Ridgefield.....	Liberian	EC2-S-C1	7, 217	1945, United States.
Ridgefield Navigation Co., Ltd., Liberia (owned 100 percent by U.S. citizens).	Melida.....	do	EC2-S-C1	7, 254	Do.
Rosario Shipping Corp., Liberia (owned by Piggy Wiggly Corp., United States).	Omnium Carrier.....	do	Z-ET1-S-C3	8, 195	1943, United States.
Samana Shipping Corp., Liberia (owned by Piggy Wiggly Corp., United States).	Wilderness.....	do	EC2-S-C1	7, 251	1945, United States.
Seatramp, Inc., Liberia (owned by Cargo Ships & Tankers, Inc., United States).	Villa Marion.....	do	EC2-S-C1	7, 219	1944, United States.
Shipenter Lines, Inc., United States (owned by Shipping Enterprises Corp., United States).	Winnebago.....	Panama-nian	T2-SE-A1	10, 172	1943, United States.
Socony Mobil Oil Co., Inc., United States.	George A. Davidson.....	Liberian	Tanker	24, 991	1959, Japan.
Tanker Facilities Corp., Liberia (100 percent owned by U.S. citizens).					

Foreign-flag ships insured under interim war risk program title XII, Merchant Marine Act, 1936, as amended—Continued

Owner	Ship	Flag	Type	Gross tonnage	Built
Tanker Transport, Inc., Liberia (owned by the Atlantic Refining Co.).	Atlantic Cape-town	Liberian	T2-SE-A1	10,385	1945, United States.
	Atlantic Ranger	do	T2-SE-A1	10,249	Do.
	Atlantic Refiner	do	T2-SE-A1	10,623	Do.
Texaco Panama Inc., Panama (owned by Texaco, Inc.).	Brighton	Panamanian	Tanker	26,544	1959, United States.
	Santiago	do	do	23,420	1958, Japan.
	Trinidad	do	do	26,530	1958, United States.
	Texaco Alaska	do	do	24,077	1960, Sweden.
	Texaco Anacortes	do	do	26,253	1961, Japan.
	Texaco Cristobal	do	T1-M-BT2	3,250	1945, United States.
	Texaco Hawaii	do	Tanker	26,253	1960, Japan.
	Texaco Idaho	do	do	23,420	1959, Japan.
	Texaco Iowa	do	do	24,035	1959, Sweden.
	Texaco Kentucky	do	do	17,892	1949, United States.
	Texaco Maine	do	do	26,544	1959, United States.
	Texaco New Mexico	do	do	18,750	1958, Belgium.
	Texaco Ohio	do	do	17,892	1949, United States.
	Texaco Oregon	do	do	26,253	1960, Japan.
	Texaco Pennsylvania	do	do	17,872	1949, United States.
	Texaco Southampton	Liberian	T-SE-A1	10,505	1944, United States.
	Texaco Texas	Panamanian	Tanker	17,892	1949, United States.
	Texaco Utah	do	do	26,253	1959, Japan.
	Texaco London	Liberian	T-SE-A1	14,394	1944, United States.
	Raban	do	Tanker	5,011	1949, United States.
Texas Petroleum Co., United States (owned by Texaco, Inc.).					
Theatre Navigation Corp., Liberia (owned by Peco Tankers, Inc., United States).	Lyric	do	T2-SE-A1	10,521	1943, United States.
	Aldine	do	T2-SE-A1	10,670	Do.
	Palace	do	T2-SE-A1	10,655	Do.
Tidemar Corp., Liberia (owned by Tidewater Oil Co.).	J. Paul Getty	do	Tanker	40,906	1960, France.
Tide Water Tankers, Ltd., Liberia (owned by Tidewater Oil Co.).	Veedol	do	do	28,339	1955, Japan.
	Wafra	do	do	28,339	1956, Japan.
Titan Tankers, Inc., Liberia (controlled by Intercontinent Tankers, Inc., Panama, which is owned by Barber Oil Corp., United States).	Intercontinent	do	do	22,043	1960, Germany.
Transoceanic Shipping Corp., Liberia (owned by Tidewater Oil Co.).	Massachusetts Getty	do	do	28,681	1958, Japan.
	Pennsylvania Getty	do	do	28,674	Do.
	Maryland Getty	do	do	28,648	1959, Japan.
	Virginia Getty	do	do	28,648	Do.
	Denmark Getty	do	do	28,805	1961, Japan.
Theopan	do	EC2-S-C1	7,240	1943, United States.	
Transpacific Transport Corp., Liberia (owned 100 percent by United States citizens).					
Transworld Carriers, Inc., Panama (owned 75 percent by United States corporations).	Rio Barima	do	Ore carrier	12,858	1959, Germany.
	Rio Caroni	do	do	12,858	1957, Germany.
	Rio Macareo	do	do	12,858	Do.
	Rio Manamo	do	do	12,858	1959, Germany.
	Rio Orinoco	do	do	12,757	1957, Germany.
Trinity Marine Corp., Liberia (owned 60 percent by United States citizens).	Trinity Mariner	do	T2-SE-A1	10,496	1943, United States.
Trinity Navigation Corp., Liberia (62 percent owned by United States interests).	Trinity Challenger	do	Tanker	26,579	1960, Sweden.
	Trinity Navigator	do	do	26,626	1959, Sweden.
	Trinity Shipper	do	do	26,579	Do.
	James Monroe	do	EC2-S-C1	7,231	1943, United States.
Union Shipping Corp., Panama (owned by Hugo Neu Corp. and Terrylin Shipping Corp., United States).					

Foreign-flag ships insured under interim war risk program title XII, Merchant Marine Act, 1936, as amended—Continued

Owner	Ship	Flag	Type	Gross tonnage	Built
United Steamship Corp., Panama (owned 100 percent by United States citizens).	Continental Pioneer.	Liberian	Freighter	9,144	1957, Germany.
	Continental Trader.	do	do	9,168	1958, Germany.
Venport Tankers, Ltd., Canada (charterer, British American Tankers, subsidiary, British American Oil Co., Ltd.; over 58 percent owned by Gulf Oil Corp.).	B. A. Canada	do	Tanker	13,172	1953, Japan.
Anglo American Telegraph, Ltd. (leased by Western Union Telegraph Co.).	Lord Kelvin	British	Cable ship	2641	1916, France.
Arabian American Oil Co. (owned by Standard Oil, New Jersey, Standard Oil, California, Texaco, and Socony).	Aramco Drilling Tender No. 1.	Arabian	Tender	2614	1957, United States.
	Dammam 7	do	Tug	29	1947, United States.
	Dammam 8	do	do	29	1948, United States.
	Dammam 9	do	do	75	1954, Netherlands.
	Dammam 10	do	do	75	Do.
	Dammam 11	do	do	75	Do.
	Dammam 12	do	do	80	1955, Netherlands.
	Dammam 13	do	do	85	1956, Netherlands.
	Dammam 14	do	do	85	Do.
	Ma'Agla 4	do	Launch	28	1949, England.
	El Alat 3	do	do	38	Do.
	El Alat 4	do	do	38	Do.
	Qatif 7	do	Tug	66	1957, England.
	Qatif 8	do	do	66	Do.
	Abu Hadriya 15	do	Launch	7	1955, Netherlands.
	Abu Hadriya 18	do	Crew boat	34	1957 United States.
	Abu Hadriya 19	do	do	34	Do.
	Abu Hadriya 20	do	do	34	Do.
	Abu Hadriya 21	do	Launch	25	1958, Netherlands.
	Abu Hadriya 22	do	do	25	Do.
	Abqaiq 1	do	Tug	233	1945, Canada.
	Abqaiq 2	do	do	233	1945, England.
	Barge 114	do	do	215	1947, United States.
	Barge 116	do	do	215	1948, United States.
	Barge 118	do	do	215	Do.
	Barge 119	do	do	215	Do.
	Barge 120	do	Pile driver	215	Do.
Barge 122	do	Bulk carrier.	400	1946, United States.	
Barge 123	do	House barge.	250	1948, United States.	
Barge 124	do	Drill barge.	250	Do.	
Barge 125	do	Derrick barge.	490	1942, United States.	
Barge 126	do	Bulk carrier.	250	1948, unknown.	
Barge 128	do	Oil transport.	250	1947, unknown.	
Barge 129	do	do	250	Do.	
Barge 133	do	do	400	Do.	
Barge 134	do	do	250	1948, unknown.	
Barge 141	do	Pipe layer	450	1956, unknown.	
Aramco Drilling Platform No. 1.	do	Drilling platform.	453	1957, unknown.	
Queen Mary	do	Drilling barge.	2,500	1948, United States.	
Abu Hadriya 17	do	Launch	13	1956, unknown.	
Cyprus Field	British	Cable repair.	1,288	1924, France.	
British Western Union, Ltd. (leased by Western Union Telegraph Co.)	Tender Bateau Olie.	Venezuelan.	Towboat	5	1955, United States.
	Barge McDermott 300.	do	Deck barge	405	Do.
	Barge McDermott 301.	do	do	388	Do.
	Barge McDermott 302.	do	do	388	Do.
Trans-Arabian Pipe Line Co., Inc. (owned by Standard Oil, New Jersey, Standard Oil, California, Texaco, and Socony).	Sandy	Lebanese	Tug	20	1950, United States.
	Noble	do	Launch	20	1957, Lebanon.
	Habib	do	Tug	20	1949, United States.
	Horne	do	do	20	1950, United States.
	Swigart	do	do	20	1951, United States.
	Britton	do	do	20	1952, United States.
	Zahrani	do	Launch	64	1959, Netherlands.
Barge 150	do	Pontoon barge.	300	1950, Italy.	

EXHIBIT II

General Order 82, 5th Revision

[REPRINT FROM FEDERAL REGISTER JAN. 9, 1962 (27 F.R. 226)]

TITLE 46—SHIPPING

Chapter II—Maritime Administration, Department of Commerce

SUBCHAPTER G—EMERGENCY OPERATIONS

[General Order 82, 5th Rev.]

PART 309—VESSEL VALUES FOR WAR RISK INSURANCE

Part 309 is hereby revised by changing the existing text to read as follows:

FINDINGS AND SCOPE

Sec.

309.1 Findings.

309.2 Scope.

BASIC VALUES

309.3 Vessels built during or after 1939.

309.4 Vessels built prior to 1939.

GENERAL PROVISIONS

309.5 Adjustments for condition, equipment, and other considerations.

309.6 Definitions.

309.7 Modifications.

309.8 Vessel data forms.

VALUES FOR INDIVIDUAL VESSELS

309.101 Determination of values.

AUTHORITY: §§ 309.1 through 309.8 and 309.101 issued under sec. 204, 49 Stat. 1987, as amended, sec. 1209, 64 Stat. 775, as amended, 70 Stat. 984; 46 U.S.C. 1114, 1289.

FINDINGS AND SCOPE

§ 309.1 Findings.

The Maritime Administrator has found that the values provided in this part constitute just compensation for the vessels to which they apply, computed in accordance with subsection 902(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1242), pursuant to section 1209(a), Merchant Marine Act, 1936, as amended (46 U.S.C. 1289(a)), Public Law 958, 84th Congress, and the authority delegated to the Maritime Administrator by the Secretary of Commerce in section 3, of Department Order No. 117 (Revised) (26 F.R. 7713, August 17, 1961).

§ 309.2 Scope.

(a) *Vessels included.* This part establishes values for self-propelled ocean-going iron and steel vessels (other than vessels excluded pursuant to paragraph (b) of this section) for which war risk insurance is provided by the Maritime Administrator pursuant to Title XII, Merchant Marine Act, 1936, as amended (46 U.S.C. 1281-1294), Public Law 763, 81st Congress, Public Law 209, 84th Congress, Public Law 958, 84th Congress. The values established by this part represent the maximum amounts for which the Maritime Administrator will provide war risk hull insurance for damage to or actual or constructive total loss of the vessel and for which claims for damage to or actual or constructive total loss of such insured vessels may be adjusted, compromised, settled, adjudged, or paid, by the Maritime Administrator with respect to insurance attaching on or after July 1, 1961, under the Standard Forms of War Risk Hull insurance Interim Binder or policy prescribed by §§ 308.106 and 308.107 of this chapter (General Order 75, 2d Rev., 26 F.R. 4541, May 26, 1961). Revised values will be prescribed in subsequent revisions of this part, which are expected to be issued at least every six months. The latest published values will remain in effect until new ones are published.

(b) *Vessels excluded.* The values established pursuant to §§ 309.3 through 309.5 do not apply to passenger vessels, lumber schooners, car ferries, seatrains, cable ships, bulk cement and ore carriers other than colliers built prior to 1939, vessels operated on the Great Lakes and inland waterways, fully refrigerated vessels, vessels of less than 1,500 gross tons, or any other vessels or class of vessels to which the Maritime Administrator finds that the provisions of said sections would not be appropriate. Values for vessels excluded by this paragraph (b), shall be specifically determined by the Maritime Administrator and set forth in § 309.101.

(c) *Fuel, stores, and supplies.* Values for fuel, stores and supplies will be prescribed at a later date.

BASIC VALUES

§ 309.3 Vessels built during or after 1939.

(a) *Basic values.* The values of vessels built during or after 1939 shall be determined in accordance with this section, subject to the applicable adjustments provided in § 309.5.

(b) *War-built vessels.* (1) The values of the standard types of war-built vessels listed in this subparagraph (1) which have the lawful right to engage in the coastwise trade of the United States are as follows:

<i>Standard-type vessel</i>	<i>Value</i>
EC2-S-C1.....	\$260,000
EC2-S-AW1.....	300,000
VC2-S-AP2.....	512,500
C1-M-AV1.....	325,000
C1-A and B (Steam).....	400,000
C1-A and B (Diesel).....	380,000
C2-S-B1.....	700,000
C3-S-A2.....	900,000
C4-S-B5.....	1,000,000
T1-M-BT.....	350,000
T2-SE-A1.....	430,000
T3-S-A1.....	475,000
T3-S-BZ1.....	1,015,000

(2) The values of the standard types of war-built vessels (whether under United States or foreign flag) listed in this subparagraph (2) which do not have the lawful right to engage in the coastwise trade of the United States are as follows:

<i>Standard-type vessel</i>	<i>Value</i>
EC2-S-C1.....	\$240,000
EC2-S-AW1.....	280,000
C1-M-AV1.....	300,000
VC2-S-AP2.....	470,000
C1-A (Diesel).....	355,000
T2-SE-A1.....	265,000
T1-M-BT.....	225,000

(3) The values of the standard subtypes of warbuilt vessels listed in this subparagraph (3) shall be determined as follows:

(i) If the subtype vessel has the lawful right to engage in the coastwise trade of the United States, by multiplying the basic value of the standard-type vessel listed in subparagraph (1) of this paragraph by the factor shown opposite the subtype in the table set forth in this subparagraph (3), or

(ii) If the subtype vessel does not have the lawful right to engage in the coastwise trade of the United States, by multiplying the basic value of the standard-type vessel listed in subparagraph (2) of this paragraph by the factor shown opposite the subtype in this table, set forth in the subparagraph (3).

TABLE

Subtype	Factor
VC2-S-AP3	112% VC2-S-AP2
VC2-M-AP4	90% VC2-S-AP2
C1-M-AV6	100% C1-M-AV1
C1-M-AV8	100% C1-M-AV1
C2-S-A1	85% C2-S-B1
C2-S-AJ1	100% C2-S-B1
C2-S-AJ2	110% C2-S-B1
C2-S-AJ3	100% C2-S-B1
C2-S-AJ5	105% C2-S-B1
C2-Cargo	100% C2-S-B1
C2-S-E1	100% C2-S-B1
C2-F	100% C3-S-B1
C2-S	103% C2-S-B1
C2-SU	95% C2-S-B1
C3-Cargo	100% C3-S-A2
C3-S-A1	100% C3-S-A2
C3-S-A3	80% C3-S-A2
C3-S-A4	109% C3-S-A2
C3-S-A5	109% C3-S-A2
C3-E	74% C3-S-A2
C3-M	100% C3-S-A2
C3-S-BH1	100% C3-S-A2
C3-S-BN2	105% C3-S-A2
C4-S-A4	100% C4-S-B5
T1-M-BT1	100% T1-M-BT
T1-M-BT2	100% T1-M-BT
T2-SE-A2	108% T2-SE-A1
T2-SE-A3	108% T2-SE-A1
T2	108% T2-SE-A1
T3-M-AZ1	112% T3-S-A1
T3-S-BF1	132% T3-S-A1

(c) *Other vessels.* The value of a vessel built during or after 1939 which is not included in paragraph (b) of this section shall be the current domestic market value as determined by the Maritime Administrator.

§ 309.4 Vessels built prior to 1939.

The basic values of vessels built prior to 1939 shall be as follows, subject to applicable adjustments provided in § 309.5:

- For dry cargo vessels, \$6.25 per deadweight ton;
- For tank vessels, \$6.00 per deadweight ton;
- For collier vessels, \$6.25 per deadweight ton.

GENERAL PROVISIONS

§ 309.5 Adjustments for condition, equipment, and other considerations.

The basic values provided in § 309.3 shall be adjusted for individual vessels to the extent provided in paragraphs (a) to (d) of this section. The basic values provided in § 309.4 shall be adjusted for individual vessels to the extent provided in paragraphs (a) to (f) of this section.

(a) *Adjustment for a vessel of substandard condition.* If the Maritime Administrator is of the opinion that a vessel is not in class or is in substandard condition for a vessel of her type or subtype and age, there shall be subtracted from the basic value of such vessel, as determined pursuant to §§ 309.3 and 309.4, the amount estimated by the Administrator as the cost of putting the vessel in class or the amount estimated by the Administrator as the difference in value of the substandard vessel and a vessel in standard condition.

(b) *Special equipment.* For any special equipment of material utility in the handling of cargo or utilization of the vessel, not otherwise included in determining the basic value pursuant to § 309.3 or § 309.4, if the depreciated reproduction cost less construction subsidy, if any, of all such special equipment is in excess of \$50,000.00, an allowance in such amount as the Maritime Administrator shall determine to be the fair and reasonable value of such equipment less construction-differential subsidy thereon, shall be added to the basic value.

(c) *Government installations.* The values provided by this part shall not include any allowance for any special installations or equipment to the extent that their cost was borne by the United States.

(d) *Construction subsidized vessel.* In the case of a construction-subsidized vessel, for the period of insurance prior to requisition for title or use the valuation determined in accordance with § 309.3 shall be reduced by such proportion as the amount of construction subsidy paid with respect to the vessel bears to the entire construction cost and capital improvements thereof (excluding the cost of national defense features), and for the period of insurance after requisition for use the valuation determined in accordance with § 309.3 shall not exceed the amount which would be payable under section 802 of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1212), in the case of requisition for title or use.

(e) *Speed.* The basic values determined pursuant to § 309.4 for vessels built prior to 1939 shall be adjusted as provided in subparagraph (1) or (2) of this paragraph.

(1) *Allowance for speed of more than 11 knots.* For vessels having a speed of more than 11 knots, there shall be added to the basic values provided in § 309.4 \$0.15 per deadweight ton for each knot thereof in excess of 11 knots (fractions of knots to be prorated to the nearest one-fourth).

(2) *Deductions for speeds of less than 9 knots.* For vessels having a speed of less than 9 knots, there shall be deducted from the basic values provided in § 309.4 \$0.15 per deadweight ton for each knot thereof less than 9 knots (fractions of knots to be prorated to the nearest one-fourth).

(f) *Refrigeration.* (1) The basic values determined pursuant to § 309.4 shall be adjusted for refrigerated space as provided in this paragraph, subject to the limitation provided in paragraph (e) of this section.

(2) The net cubic capacity of each separately insulated refrigerated compartment of the vessel, exclusive of any refrigerated space ordinarily required for vessel's stores, shall be computed, and the total cubic capacity of all such compartments shall then be ascertained.

(3) The number of net cubic feet of the sum of all refrigerated compartments of the vessel, exclusive of the refrigerated space ordinarily required for the vessel's stores, shall then be multiplied by \$0.05 for vessels built prior to 1939.

§ 309.6 Definitions.

(a) *Date vessel is built.* The date a vessel is built is the date upon which the vessel is delivered by the shipbuilder.

(b) *Deadweight tonnage.* The deadweight tonnage of a vessel means her deadweight capacity established in accordance with normal Summer Freeboard as assigned pursuant to the International Load Line Convention, 1930, and shall be her capacity (in tons of 2,240 pounds) for cargo, fuel, fresh water, spare parts and stores, but exclusive of permanent ballast.

(c) *Speed of vessel.* The speed of a vessel means the speed determined in accordance with the formulae provided in Part 246 of this chapter (General Order 43, 3d Revision, 24 F.R. 3793, May 12, 1959).

(d) *Passenger vessel.* A passenger vessel is a ship which carries more than twelve passengers.

(e) *Construction subsidized vessel.* A construction subsidized vessel is a vessel built, reconstructed, or reconditioned with the aid of a construction-differential subsidy under Title V of the Merchant Marine Act, 1936, as amended, or a vessel sold by the United States which is subject by operation of law or contract to the provisions of section 802 of the Merchant Marine Act, 1936, as amended.

(f) *Vessel.* The stated valuation of a vessel in this order applies to a vessel in Class A-1 American Bureau of Shipping or equivalent, with all required certificates, including but not limited to marine inspection certificates of the Coast Guard, Treasury Department, with all outstanding requirements and recommendations necessary for retention of class accomplished; and so far as due diligence can make her so, tight, staunch, strong and well and sufficiently tackled, appareled, furnished and equipped, and in every respect seaworthy and in good running condition and repair, with clean swept holds and in all respects fit for service. A vessel in substandard condition is subject to section 309.5(a). The stated valuation of a vessel provided in this order does not include vessel stores and supplies, which consist of (1) Consumable Stores, (2) Subsistence Stores, (3) Slop Chest, (4) Bar Stock, and (5) Fuel, as defined in Maritime Administration Inventory Manual, Vessel Inventories, Part 1, and Maritime Administration Inventory Books, Forms MA-4736, A through K, which will be valued separately.

§ 309.7 Modifications.

The Maritime Administrator reserves the right to exempt specific vessels from the scope of this part, or to amend, modify, or terminate the provisions hereof.

§ 309.8 Vessel data forms.

(a) *To accompany application for insurance.* Each application for war risk hull insurance submitted in accordance with § 308.101 of this chapter (General Order 75, 2d Rev., 26 F.R. 4541, May 26, 1961) shall be accompanied by information relating to the vessel for use by the Maritime Administrator in determining the value pursuant to this part. The information shall be submitted in duplicate on the applicable form prescribed in this section, copies of which may be obtained from the American War Risk Agency, 99 John Street, New York, N.Y., or the Chief, Division of Insurance, Maritime Administration, Washington 25, D.C.

(b) *Vessels of 1,500 gross tons or over—(1) War-built vessels.* If the vessel is a standard or subtype war-built vessel listed in § 309.3(b) (1), (2), or (3), vessel data shall be submitted on Form MA-470.

(2) *Construction subsidized vessels.* If the vessel is a construction subsidized vessel as defined in § 309.6(e) or a vessel for which the purchase price was adjusted under section 9 of the Merchant Ship Sales Act of 1946, vessel data shall be submitted on Form MA-471.

(3) *Other vessels built during or after 1939.* If the vessel was built during or after 1939, and if it is not included in subparagraph (1) or (2) of this paragraph, vessel data shall be submitted on Form MA-472.

(4) *Vessels built prior to 1939.* If the vessel is a dry cargo, tank or collier vessel built prior to 1939, vessel data shall be submitted on Form MA-473.

(5) *Vessels excluded by § 309.2(b).* If the vessel is 1,500 gross tons or more and is excluded by § 309.2(b), vessel data shall be submitted on Form MA-474.

(c) *Vessels of less than 1,500 gross tons.* If the vessel is of less than 1,500 gross tons, vessel data shall be submitted on Form MA-63.

(d) *Modifications to vessels.* Revised vessel data shall be submitted on the appropriate form prescribed above whenever a vessel undergoes a physical change which increases or decreases its value by five percent or more.

VALUES FOR INDIVIDUAL VESSELS

§ 309.1 Determination of values.

(a) *Vessels covered by §§ 309.3 through 309.5.* (1) Whereas, the Maritime Administrator has found that the values established pursuant to §§ 309.3 through 309.5 constitute just compensation for the vessels to which they apply, computed in accordance with section 902(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1242); and section 1209(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1289), Public Law 958, 84th Congress (70 Stat. 984); and pursuant thereto has determined the values of vessels covered by interim binders for war risk hull insurance, Form MA-184, prescribed by Part 308 of this chapter (General Order 75, 2d Rev., 26 F.R. 4541, May 26, 1961).

(2) Therefore, it is ordered that the interim binders listed below shall be deemed to have been amended as of July 1, 1961, by inserting in the space provided therefor or in substitution for any value now appearing in such space the stated valuation of the vessels set forth below for the binders and vessels as designated. Nevertheless, the Assured shall have the right within sixty days after date of publication of this order or within sixty days after the attachment of the insurance under said binder, whichever is later, to reject such valuation and proceed as authorized by section 1209(a) (2) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1289).

Binder No.	Name of vessel	Official No.	Stated valuation	Binder No.	Name of vessel	Official No.	Stated valuation
870	Achilles	281702	\$9,550,000	353	Buckeye State	244577	\$900,000
94	Afoundria	244018	700,000	642	Bulkcrude	245480	627,000
732	African Glade	245035	700,000	644	Bulkklube	244616	627,000
723	African Glen	247294	700,000	226	Byron D. Benson	246173	430,000
724	African Grove	244877	700,000	645	Callabee	245560	430,000
727	African Patriot	245795	700,000	609	Calmar	246161	520,000
728	African Pilgrim	245431	700,000	284	Camp Namau	955	265,000
729	African Pilot	245725	700,000	426	Canada Bear	247385	574,000
1135	Agia Thalassini	442	240,000	941	Canada Mail	252476	900,000
369	Aimee Lykes	245548	700,000	124	Canfamy	247452	430,000
605	Alamar	245810	520,000	837	Captain Nicholas Sittas	248133	430,000
939	Alaska Mail	247420	574,000				
208	Alaskan	245965	430,000	07	Carbide Seadrift	241851	430,000
1047	Alexander S. M	898	240,000	08	Carbide Texas City	242532	430,000
659	Alice Brown	249027	700,000	374	Charlotte Lykes	247157	512,500
923	Almena	247291	430,000	333	Chemical Transporter	244942	1,485,000
352	Aloha State	243297	900,000				
424	America Bear	251970	700,000	243	Chena	242704	282,000
529	American Builder	247201	700,000	964	Chevron	250641	350,000
530	American Chief	246732	700,000	610	Chilore	253219	1,620,000
831	American Eagle	278327	\$,450,000	427	China Bear	245837	700,000
533	American Flyer	247417	700,000	872	Chris H	244656	240,000
534	American Forester	248074	700,000	1134	Chrissy S. M	491	240,000
537	American Gunner	252677	700,000	100	City of Alma	247592	700,000
539	American Hunter	252679	700,000	955	Clarke's Wharf	247758	430,000
541	American Leader	249517	700,000	920	Coaling Hills	246810	430,000
940	American Mail	247321	900,000	244	Coastal Monarch	248699	325,000
542	American Manufacturer	247643	700,000	245	Coastal Nomad	248382	325,000
543	American Marketer	245539	700,000	246	Coastal Rambler	248648	325,000
545	American Miller	243873	700,000	266	Coeur D'Alene Victory	247113	574,000
546	American Packer	243982	700,000	273	Coe Victory	247894	574,000
548	American Planter	254670	700,000	186	Colina	242775	430,000
549	American Press	247590	700,000	676	Colorado	248786	574,000
550	American Producer	254616	700,000	632	Columbia	243852	430,000
553	American Retailer	253572	700,000	141	Concord	247870	300,000
554	American Scientist	254653	700,000	711	Constitution State	245985	574,000
671	American Starling	246427	240,000	712	Copper State	244137	900,000
557	American Supplier	253289	700,000	713	Cotton State	248440	512,500
558	American Surveyor	252356	700,000	704	Cottonwood Creek	246864	265,000
662	American Trader	247306	430,000	128	Council Grove	247896	430,000
569	American Trapper	252678	700,000	363	C. R. Musser	246754	260,000
163	America Sun	247296	700,000	583	Custis Woods	245009	430,000
272	Ames Victory	240147	425,000	137	Cynthia Olson	253441	205,000
95	Andrew Jackson	247292	574,000	131	David D. Irwin	242354	464,000
1099	Andros Fighter	539	700,000	212	David E. Day	248880	2,625,000
1100	Andros Lady	1045	240,000	229	David McKelvy	246355	430,000
1101	Andros Laurel	533	240,000	319	Del Campo	241923	426,000
979	Angelo Petri	243882	4,250,000	102	De Soto	245398	700,000
977	Anne-Marie	245176	430,000	377	Dolly Turman	249747	700,000
879	Anne Quinn	243521	260,000	1143	MV Dolpveverett	1507	355,000
96	Antinous	245979	700,000	1142	MV Doneverett	1372	355,000
282	Arickaree	952	265,000	74	Dorothy	242902	260,000
675	Arizona	247721	574,000	876	Dorothy Boylan	245895	260,000
97	Arizpa	251507	700,000	700	Eagle Courier	277561	7,100,000
139	Arlington	243886	700,000	699	Eagle Transporter	277710	7,100,000
164	Atlantic Sun	244086	532,000	697	Eagle Traveler	278442	8,125,000
953	Atlantic Victory	248749	512,500	698	Eagle Voyager	278624	8,125,000
418	Attleboro Victory	247475	470,000	167	Eastern Sun	270025	6,000,000
789	Andrey J. Luckenbach	248884	1,000,000	75	Edgar F. Luckenbach	248882	1,000,000
210	Avila	257181	2,700,000	921	Edith	248564	300,000
707	Badger State	245136	700,000	76	Elemir	247155	430,000
980	Barbara	248079	430,000	77	Elizabeth	245183	771,000
62	Barbara Friethie	244708	260,000	705	Emilla	245198	966,000
347	Barbara Jane	278103	\$,175,000	78	Empire State	248212	700,000
371	Barbara Lykes	245664	700,000	354	Evelyn	247951	300,000
283	Battle Rock	954	265,000	855	Evergreen State	257827	900,000
708	Bayou State	254012	\$700,000	858	Exilona	252303	720,000
949	Bay State	254130	700,000	865	Expeditor	251971	720,000
72	Beatrice	252036	792,000	103	Express	252376	720,000
709	Beaver State	245583	574,000	285	Fairport	249072	700,000
122	Bents Fort	248910	430,000	1018	Ferore	1568	240,000
121	Berwindvale	247645	300,000	365	F. E. Weyerhaeuser	245594	260,000
606	Bethcoaster	256886	145,000	611	Flomar	247261	520,000
419	Biddeford Victory	248433	470,000	218	Flying A—California	286216	2,500,000
710	Blue Grass State	253866	700,000	219	Flying A—Washington	268783	2,550,000
140	Boston	247161	300,000	812	Flying Clipper	252991	700,000
1146	MV Bradeverett	590	300,000	813	Flying Cloud	247000	700,000
123	Bradford Island	247640	430,000	814	Flying Eagle	251664	700,000
1066	Brighton	4445-59	5,975,000	816	Flying Enterprise II	245374	700,000
821	Brooklyn Heights	247872	512,500	825	Flying Gull	240462	721,000

Binder No.	Name of vessel	Official No.	Stated valuation	Binder No.	Name of vessel	Official No.	Stated valuation
826	Flying Hawk	240632	\$721,000	105	Hurricane	246798	\$700,000
818	Flying Independent	245131	400,000	106	Iberville	248489	700,000
819	Flying Spray	246217	400,000	679	Idaho	252271	900,000
820	Flying Trader	248750	512,500	968	Idaho Standard	245461	430,000
286	Fort Bridger	956	265,000	249	Ilamma	246846	282,000
584	Fort Fetterman	244935	2,325,000	680	Ilianois	247454	574,000
956	Fort Mims	248736	430,000	432	India Bear	252568	700,000
247	Fortuna	245880	260,000	943	India Mail	251767	900,000
498	Four Lakes	244971	2,400,000	81	Ines	249290	723,000
79	Frances	245541	771,000	875	Issac Mann	242477	260,000
222	Frank Haskell	246507	430,000	1019	James Monroe	522	240,000
380	Frank Lykes	245540	700,000	878	Janet Quinn	242949	260,000
177	Fruitvale Hills	248716	430,000	945	Java Mail	252478	900,000
359	F. S. Bell	244714	260,000	82	Jean	244612	943,000
962	F. S. Bryant	250827	470,000	107	Jean La Fitte	243814	700,000
248	Galena	248122	325,000	274	Jefferson City Victory	247345	574,000
948	Garden State	248057	574,000	108	John B. Waterman	249234	700,000
382	Genevieve Lykes	252444	700,000	366	John Weyerhaeuser	245356	260,000
383	George Lykes	245132	400,000	63	Josefina	247042	260,000
138	George Olson	217800	205,000	647	Joshua Tree	247055	430,000
1048	Georgia S. M.	1446	240,000	586	Julesburg	243523	2,450,000
361	Geo. S. Long	245913	260,000	83	Kathryn	252479	794,000
374	Gibbes Lykes	245182	700,000	612	Kenmar	246062	520,000
814	Golden State	246544	512,500	150	Kenneth H. Stevenson	244980	260,000
21	Gold Stream	275391	2,250,000	598	Keystone	266780	2,675,000
355	Gopher State	244979	900,000	356	Keystone State	247763	1,000,000
884	Green Bay	244287	640,000	600	Keytrader	267905	2,675,000
885	Green Cove	247268	700,000	109	Kyska	248654	700,000
886	Green Harbour	247760	512,500	178	Lake George	247455	430,000
887	Green Island	247079	470,000	288	Lake Palourde	957	265,000
950	Green Mountain State	247158	512,500	1058	La Salle	1379	7,850,000
888	Green Point	248050	700,000	110	Lena Luckenbach	251504	700,000
889	Green Valley	247950	512,500	788	MV Lenevertt	244049	900,000
890	Green Wave	252351	700,000	1141	Letitia Lykes	588	300,000
276	Gulf Banker	245169	700,000	391	Lexington	246897	700,000
790	Gulfbear	247309	2,150,000	142	Lisa B.	248276	300,000
791	Gulfbear	243657	2,150,000	603	Lonestar	247279	240,000
792	Gulfbest	279334	7,650,000	715	Longview Victory	242765	900,000
797	Gulf Farmer	244598	700,000	267	Losmar	247077	574,000
274	Gulfjaguar	246972	2,250,000	613	Lucile Bloomfield	245111	520,000
795	Gulfging	275193	7,625,000	658	Madaket	249291	700,000
796	Gulfknight	277183	8,025,000	111	Madison Bell	246992	700,000
797	Gulfion	246990	2,300,000	84	Mae	481	\$240,000
808	Gulfube	254406	500,000	716	Magnolia State	248165	300,000
278	Gulf Merchant	252445	700,000	112	Maiden Creek	247144	512,500
799	Gulfpanther	246543	2,250,000	143	Malden	248998	700,000
810	Gulfpass	248080	430,000	394	Mallory Lykes	247987	300,000
801	Gulfprince	276034	7,800,000	275	Mankato Victory	244881	700,000
802	Gulfqueen	275583	7,700,000	395	Margaret Lykes	248739	574,000
805	Gulfseal	247557	2,400,000	660	Margaret Brown	245853	700,000
811	Gulfservice	264224	2,450,000	86	Marine Courier	249174	700,000
279	Gulf Shipper	252443	700,000	20	Marine Electric	248019	275,000
807	Gulfstag	251066	2,300,000	23	Marine Leader	245675	430,000
804	Gulftiger	247767	2,325,000	87	Marine Pioneer	247868	300,000
250	Gulfwater	243694	240,000	88	Marine Progress	245060	295,000
646	Hampton Roads	248748	1,015,000	89	Marine Ranger	245086	285,000
824	Hans Isbrandtsen	277703	7,925,000	90	Marine Shipper	246574	280,000
300	Hawaiian Builder	247386	1,139,000	91	Marine Trader	247596	300,000
301	Hawaiian Craftsman	247826	983,000	92	Marine Transport	247274	300,000
302	Hawaiian Educator	247322	955,000	93	Marine Voyager	247991	335,000
303	Hawaiian Farmer	245860	1,011,000	168	Maryland	247680	512,500
304	Hawaiian Merchant	248845	1,139,000	664	Maryland Sun	246101	430,000
305	Hawaiian Packer	243929	1,134,000	615	Maryland Trader	247178	2,325,000
306	Hawaiian Pilot	245016	700,000	397	Marymar	246331	520,000
307	Hawaiian Planter	248741	974,000	616	Mason Lykes	252446	700,000
308	Hawaiian Rancher	246204	1,120,000	617	Massmar	246828	520,000
309	Hawaiian Refiner	245594	1,078,000	922	Maxton	248800	430,000
310	Hawaiian Retailer	252477	900,000	01	Mayflower	284049	11,675,000
311	Hawaiian Tourist	248171	574,000	398	Mayo Lykes	247405	512,500
430	Hawaiian Bear	247194	574,000	289	McKittrick Hills	959	265,000
954	Hedge Haven	247650	430,000	969	M. E. Lombardi	240228	270,000
385	Helen Lykes	245245	700,000	952	Mermaid	246868	430,000
634	Hess Bunker	243804	430,000	681	Michigan	240590	900,000
635	Hess Diesel	248127	630,000	188	Mobil Aero	278471	7,500,000
636	Hess Fuel	242867	1,550,000	189	Mobil Fuel	274588	6,600,000
637	Hess Mariner	247229	430,000	190	Mobilgas	271449	5,650,000
961	Hillyer Brown	266233	2,550,000	191	Mobil Lube	275651	6,800,000
80	Hilton	245110	260,000	192	Mobiloil	279064	7,575,000
706	Hoosier State	247762	1,000,000	193	Mobil Power	247966	6,150,000
360	Horace Irvine	246933	260,000	420	Moline Victory	247346	512,500
787	Horace Luckenbach	245644	900,000	682	Montana	247478	574,000
386	Howell Lykes	239905	900,000	290	Montebello Hills	960	265,000

Binder No.	Name of vessel	Official No.	Stated valuation	Binder No.	Name of vessel	Official No.	Stated valuation
32	Mormacdove	245337	\$700,000	631	P & T Voyager	248787	\$574,000
33	Mormacelm	248393	574,000	868	Rachel V	248785	574,000
34	Mormacfir	248650	574,000	145	Reading	248271	300,000
35	Mormacfuel	243450	430,000	1145	MV Rebeverett	591	300,000
36	Mormacguide	252347	900,000	822	Remsen Heights	247865	512,500
38	Mormachawk	248033	700,000	291	Republic	963	265,000
44	Mormacoak	245955	574,000	966	R. G. Follis	251140	470,000
45	Mormacowl	245338	700,000	1109	Ridgefield	1021	240,000
47	Mormacplne	247477	574,000	223	Robert E. Hopkins	247757	430,000
50	Mormacrio	248745	900,000	155	Robin Goodfellow	247254	900,000
53	Mormacsun	252346	900,000	156	Robin Gray	252626	900,000
56	Mormactael	245040	700,000	157	Robin Hood	247255	900,000
60	Mormacwren	245914	700,000	158	Robin Kirk	254272	900,000
832	Mount Evans	245087	260,000	160	Robin Mowbray	255316	900,000
833	Mount McKinley	245415	260,000	162	Robin Trent	254641	900,000
836	Mount Rainier	245641	260,000	957	Rock Landing	248802	430,000
838	Mount Shasta	246632	260,000	130	Royal Oak	247574	430,000
281	Mount Vernon			879	Russell L.	247511	260,000
	Victory	284178	10,975,000	1140	MV Rutheverett	1373	355,000
835	Mount Whitney	243226	260,000	172	Sabine Sun	241558	450,000
250	Nadina	245864	274,000	194	Sachem	243525	475,000
588	Naeco	244063	1,160,000	195	Sacoma	244641	475,000
648	Nashbulk	247307	1,015,000	196	Saconnet	245543	475,000
927	Natalie	245322	700,000	828	Sag Harbor	244117	260,000
251	Nenana	247015	260,000	225	Samuel Q. Brown	246982	430,000
661	Neva West	249283	700,000	422	San Angelo Victory	248842	512,500
421	Newberry Victory	248460	512,500	181	San Jacinto	248894	1,425,000
180	New Market	247276	430,000	1056	Sansinena	1314	7,625,000
144	Newton	247414	300,000	891	Santa Adela	242243	700,000
683	New York	248742	900,000	893	Santa Anita	245130	400,000
1144	MV Noreverett	589	300,000	64	Santa Emilia	246833	240,000
268	Northwestern Victory	247492	574,000	899	Santa Fe	246602	400,000
936	Oakey L. Alexander	247479	420,000	900	Santa Flavia	242762	700,000
929	Ocean Dinny	244215	700,000	903	Santa Juana	242111	700,000
931	Ocean Evelyn	249217	1,000,000	906	Santa Malta	245459	700,000
946	Ocean Mail	241750	665,000	211	Santa Maria	263781	2,550,000
869	Ocean Victory	248013	512,500	909	Santa Mariana	246038	700,000
684	Ohio	246388	900,000	619	Santore	254624	1,620,000
170	Ohio Sun	244089	430,000	348	Saroula	277935	8,075,000
265	Olympic Pioneer	245529	260,000	198	Satucket	245227	475,000
947	Oregon Mail	248844	900,000	199	Saucon	244796	475,000
971	Oregon Standard	246773	430,000	185	Saconnet	247412	300,000
1093	Oswego Leader	1258	265,000	10	Seafair	245215	260,000
933	Overseas Eva	244878	700,000	26	Sealady	244457	350,000
934	Overseas Joyce	243008	700,000	620	Seamar	246507	520,000
935	Overseas Rebecca	245532	700,000	67	Seatrain New Jersey	239688	750,000
785	Overseas Rose	245923	900,000	68	Seatrain New York	231905	470,000
11	Pacificus	245519	260,000	69	Seatrain Savannah	231916	470,000
717	Palmetto State	247823	512,500	70	Seatrain Texas	239549	750,000
149	Pandora	243923	240,000	300	Shabonee	244028	475,000
718	Pelican State	245354	574,000	336	Sierra	247831	919,000
342	Penn Explorer	246761	240,000	823	Sir John Franklin	244734	400,000
617	Pennmar	245945	520,000	201	Sivanoy	244362	475,000
343	Penn Mariner	247376	240,000	337	Sonoma	252413	1,024,000
344	Penn Shipper	244682	260,000	357	Sooner State	247139	700,000
171	Pennsylvania Sun	280202	11,250,000	582	Spirit of Liberty	243263	430,000
345	Penn Trader	246934	240,000	439	Steel Advocate	245731	900,000
346	Penn Voyager	245333	240,000	440	Steel Age	244161	900,000
183	Penobscot	247706	300,000	441	Steel Apprentice	252498	900,000
589	Perote	243661	265,000	442	Steel Architect	247168	900,000
562	Pioneer Cove	249748	700,000	443	Steel Artisan	247835	900,000
565	Pioneer Isle	246787	770,000	444	Steel Chemist	252037	900,000
575	Pioneer Reef	244020	778,000	445	Steel Designer	247832	900,000
577	Pioneer Surf	254842	782,000	446	Steel Director	244978	900,000
578	Pioneer Tide	249030	700,000	447	Steel Executive	248843	900,000
184	Plymouth	247867	300,000	448	Steel Fabricator	251781	900,000
938	Pochontas Fuel	248655	600,000	449	Steel Flyer	244831	900,000
294	Point Arena	245225	430,000	450	Steel King	252499	900,000
16	Ponca City	244335	430,000	451	Steel Maker	247221	900,000
618	Portmar	246063	520,000	452	Steel Navigator	248846	900,000
701	Prairie Grove	246660	430,000	453	Steel Recorder	251847	900,000
1130	Praxiteles	1036	240,000	454	Steel Rover	252500	900,000
504	President Fillmore	245754	574,000	455	Steel Scientist	245730	900,000
507	President Harding	245565	574,000	456	Steel Seafarer	248738	900,000
919	Producer	245888	430,000	457	Steel Surveyor	244968	900,000
228	Providence Getty	254689	350,000	458	Steel Traveler	247198	900,000
624	P & T Adventurer	247220	574,000	459	Steel Vendor	244644	900,000
625	P & T Builder	247121	574,000	460	Steel Voyager	252501	900,000
626	P & T Explorer	252524	900,000	461	Steel Worker	247834	900,000
627	P & T Forester	242941	900,000	173	Sunoil	246908	430,000
628	P & T Leader	245244	574,000	252	Susitna	248389	325,000
629	P & T Navigator	252304	900,000	85	Suzanne	253226	780,000
130	P & T Seafarer	243869	900,000	404	Sylvia Lykes	247841	700,000

Binder No.	Name of vessel	Official No.	Stated valuation	Binder No.	Name of vessel	Official No.	Stated valuation
203	Syosset.....	247458	\$475,000	882	Transcaribbean.....	247986	\$512,500
253	Talkeetna.....	245733	260,000	231	Transeastern.....	279438	10,125,000
702	Tampico.....	246344	430,000	633	Transnorthern.....	248011	430,000
254	Tanana.....	247310	325,000	883	Transunion.....	247060	260,000
1114	Tascalusa.....	3254-FP	286,000	1068	Trinidad.....	4336-58	5,775,000
255	Tatalina.....	247995	325,000	686	Utah.....	248206	574,000
462	Texaco Alabama.....	246968	430,000	338	Ventura.....	252633	1,123,000
463	Texaco California.....	266910	3,150,000	978	Vicksburg.....	244703	430,000
1073	MV Texaco Cristobal.....	2905-53	225,000	703	Village.....	246124	240,000
470	Texaco Indiana.....	244244	445,000	1204	Vi la Marion.....	554	240,000
473	Texaco Louisiana.....	245053	430,000	409	Virginia Lykes.....	245135	700,000
1078	Texaco Maine.....	4500-59	6,075,000	666	Virginia Trader.....	244789	430,000
480	Texaco New Jersey.....	245831	2,525,000	928	Vivian.....	247467	512,500
484	Texaco Oklahoma.....	275882	7,700,000	719	Volunteer State.....	247792	512,500
1084	Texaco Southampton.....	1165	265,000	116	Wacosta.....	245189	700,000
209	Texan.....	249352	\$1,975,000	117	Warrior.....	243815	700,000
174	Texas Sun.....	283897	11,850,000	974	Washington Standard.....	246203	430,000
665	Texas Trader.....	246753	430,000	667	Washington Trader.....	245566	430,000
497	The Cabins.....	246143	2,525,000	364	W. H. Peabody.....	246065	260,000
1137	Theopan.....	582	240,000	146	Winchester.....	247708	360,000
925	Thetis.....	279027	9,200,000	1059	Winnebago.....	213747	265,000
182	Tillamook.....	245104	430,000	362	W. L. McCormick.....	244894	260,000
834	Titan.....	281177	11,675,000	224	Wm. F. Humphrey.....	246557	430,000
256	Tonsina.....	252547	267,000	358	Wolverine State.....	248740	1,000,000
115	Topa Topa.....	247906	700,000	687	Wyoming.....	248243	574,000
880	Transamerican.....	245780	260,000	622	Yorkmar.....	246067	520,000
881	Transborinquen.....	246540	400,000				

(b) *Vessels of less than 1,500 gross tons—as of July 1, 1961.* (1) Whereas, the Maritime Administrator has determined for certain vessels of less than 1,500 gross tons the values which constitute just compensation for the vessels to which they apply, computed in accordance with section 902(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1242); and section 1209(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1289), Public Law 958, 84th Congress (70 Stat. 984); and pursuant thereto has determined the values of vessels covered by interim binders for war risk hull insurance, Form MA-184 prescribed by Part 308 of this chapter (General Order 75, 2d Rev., 26 F.R. 4541, May 26, 1961).

(2) Therefore, it is ordered that the interim binders listed below shall be deemed to have been amended as of July 1, 1961, by inserting in the space provided therefor or in substitution for any value now appearing in such space the stated valuation of the vessels set forth below for the binders and vessels as designated. Nevertheless, the Assured shall have the right within sixty days after date of publication of this order or within sixty days after the attachment of the insurance under said binder, whichever is later, to reject such valuation and proceed as authorized by section 1209(a)(2) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1289).

Binder No.	Name of vessel	Official No.	Stated valuation	Binder No.	Name of vessel	Official No.	Stated valuation
1186	Barge 114.....		\$14,000	1168	Dammam 10.....		\$63,000
1187	Barge 116.....		17,000	1169	Dammam 11.....		63,000
1188	Barge 118.....		14,000	1170	Dammam 12.....		80,000
1196	Barge 128.....		14,000	1171	Dammam 13.....		69,000
1197	Barge 129.....		14,000	1172	Dammam 14.....		80,000
1198	Barge 133.....		36,000	674	Golden Eagle.....	241402	50,000
1199	Barge 134.....		15,000	1150	Habil.....	112	22,000
1153	Britton.....	119	26,000	1151	Horne.....	115	23,000
673	Curlaw.....	243213	73,000	672	Kingfisher.....	252862	103,000
1138	Cyrus Field.....	147699	253,000	1176	Qatif 7.....		93,000
1165	Dammam 7.....		20,000	1177	Qatif 8.....		93,000
1166	Dammam 8.....	255059	21,000	1148	Sandy.....	114	23,000
1167	Dammam 9.....		63,000	1152	Swigart.....	118	24,000

NOTE.—The recordkeeping and reporting requirements contained herein have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

Dated: December 22, 1961.

By order of the Maritime Administrator.

JAMES S. DAWSON, Jr.,
Secretary.

EXHIBIT III

STATEMENT OF WAR RISK INSURANCE VALUES ON SS "AMERICA"

The contract for the resale of the SS *America* to United States Lines Co. after World War II under the Merchant Ship Sales Act of 1946, as amended, provided for application of the language of section 802 of the Merchant Marine Act, 1936, as amended, giving it the same comparability as a construction-differential subsidy ship. Therefore, the valuations for war risk insurance purposes would be determined as follows:

(a) *The statute as it presently exists.*—The ship would be valued in accordance with the provisions of section 1209(a)(2). For the period prior to requisition for title or use, the value would be the domestic market value (\$6,800,000) reduced by the percentage of construction subsidy (33 percent) or a value approximating \$4,556,000. After requisition for title or use, the value would be determined in accordance with section 802 and would not exceed the depreciated construction cost less depreciated subsidy, or the scrap value, whichever would be greater. In this instance, the scrap value of approximately \$437,000 would prevail.

(b) *The present statute as recommended for amendment by the Maritime Administration.*—The value for war risk insurance purposes for the period prior to requisition for title or use would be domestic market value reduced by the percentage of construction subsidy, or the amount payable under section 802, whichever is higher. After requisition for title or use, the value would be determined in accordance with section 802. In the case of the SS *America*, since the market value decreased by the percentage of construction-differential subsidy is higher than the section 802 value, the Administration's proposed amendment would not change the values as determined under the existing law. Prior to requisition, the value would still be approximately \$4,556,000 and, after requisition, approximately \$437,000.

The Administration's proposed amendment would affect the values only in cases where the market value reduced by the percentage of construction-differential subsidy is less than the section 802 value, in which case the section 802 value would prevail. This becomes more readily discernible in the case of a new ship with a domestic market value of \$6,250,000, a construction cost of \$12 million, and a construction-differential subsidy of 50 percent, or a cost to the owner of \$6 million. Under the Maritime Administration recommended amendment, the valuation would be not less than that determined under section 802 or \$6 million, the cost of acquisition to the owner after construction subsidy, which is 50 percent of the construction cost of \$12 million. Under the present law, the valuation prior to requisition would be \$3,125,000, the domestic market value (\$6,250,000) reduced by the percentage of construction-differential subsidy (50 percent).

(c) *The present statute as recommended for amendment by S. 2829.*—If it is intended to apply the domestic market value for all war risk purposes, then referring again to the SS *America*, the valuation before and after requisition for use would be \$6,800,000. If it is intended that section 802 would apply after requisition for title, the valuation for that purpose would be approximately \$437,000.

We do not agree with the statement contained on page 1 of the prepared statement of Alexander Purdon before the Senate Commerce Committee on the following points:

1. That the current Maritime Administration requirement for marine total loss insurance purposes on the SS *America* is \$8,600,000. The present requirement is \$6,800,000, representing the estimated domestic market value of the ship.

2. The statement also refers to the "ultimate insurable value under section 1209" which would imply "ultimate" as meaning the time when the ship was requisitioned for title or use. No indication is given in Mr. Purdon's statement to the fact that under the present law the Government war risk insurance value for the period prior to requisition for title or use would be the domestic market value reduced by the percentage of construction-differential subsidy, or approximately \$4,556,000. The value of \$437,000 would only apply to the period after requisition for title or use.

AUGUST 25, 1961.

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

DEAR MR. CHAIRMAN: Since the war risk insurance program under title XII of the Merchant Marine Act, 1936, as amended, has been in effect for a period of almost 10 years, it is our purpose to give your committee a résumé of major developments since inception of the war risk insurance program and to indicate plans for future activities under this statutory authority.

In 1952, our war risk insurance program was inaugurated which in effect filled the gap created by the so-called 48-hour automatic termination clauses then in effect in commercial war risk insurance policies issued by American and British underwriters. Under this clause, commercial war risk insurance terminated automatically 48 hours after the outbreak of war involving the four major powers: France, Great Britain, and/or any of the British Commonwealth of Nations, the Union of Soviet Socialist Republics, and the United States of America. Under this program, hull, protection and indemnity and second seamen's war risk insurance binders were issued. These binders provided for underwriting of the risks by the Government upon automatic termination of the commercial policies.

On March 4, 1953, a war risk builder's risk insurance program was announced which provided for the underwriting of war risk builder's risk insurance on ships being built in American yards. This coverage was made available pursuant to the finding of the Secretary of Commerce that such insurance was not available in the commercial markets. Such coverage is available commercially once a ship is launched, i.e., waterborne; consequently, the Maritime Administration has never written this form of insurance beyond the time of launching. Provision is made, however, under the program for such coverage beyond the time of launching if required. The present rate for prelaunching insurance which has been in effect for several years is 4½ cents per \$100 per month based on the average value at risk during the previous calendar month. The program has been in effect for almost 8 years, and the total premiums received to date is approximately \$2 million. While the total premiums received to date is small, the Maritime Administration has the right under the terms of the policy to increase the rate without notice if emergency conditions should warrant such action.

With respect to insurance of cargo, there has been no active program inaugurated because there is no automatic termination clause in commercial war risk cargo insurance policies. However, a standby program was announced in July 1954, ready to be activated as soon as the Maritime Administrator determines that such coverage is not obtainable from companies authorized to do a marine insurance business in a State of the United States. The statutory authority under title XII is very broad, as it covers not only cargo owned by citizens or residents of the United States, but includes all cargo imported to or exported from the United States or in which United States citizens have an interest. We have 21 insurance companies signed up as underwriting agents under this program. At all times since World War II, an adequate war risk cargo insurance market has existed, both in this country and abroad. There is a 48-hour cancellation clause in commercial war risk policies which permits underwriters to terminate coverage upon giving assureds 48 hours' notice, but this applies only to new shipments going forward. The Government program has never been activated because the need has not existed.

The hull, protection and indemnity and second seamen's war risk insurance binder program continued without any substantial change until October 1, 1959, when both the American and British underwriters revised the automatic termination clauses, thereby reducing the risks covered under commercial war risk policies. The clause provided for automatic termination of coverage upon the occurrence of the first hostile act resulting in a state of war between any member of NATO and any member of the Warsaw pact and/or Red China. Some months prior to the effective date of this revision, the Maritime Administration was made aware of the proposed changes and every effort was made to discourage underwriters from effecting termination under circumstances that might be retroactive. We felt that it was imperative that this Government know at any given time when it was on risk so that appraisal of conditions could be made and satisfactory premium rates announced. Furthermore, our thinking has been conditioned to a large extent by the belief that Congress would not want the Maritime Administration to assume, even by way of reinsurance, the risks of war prior to the time that the United States becomes involved. This is based upon the belief that risks of war involving other than the United States is a commercial risk which

should be assumed by firms engaged in foreign trade with commercial insurance if available and in the usual case without participation by the U.S. Government.

Underwriters, including those at Lloyd's who have written most of this business on American ships, refused to modify their proposed termination clauses upon the ground that they could not undertake to cover the risks of a major and perhaps nuclear war. They maintained that they were quite able and willing to assume the risk of so-called "brush fire" wars, strikes, riots, and civil commotions, and the risks of floating mines from previous wars which are still a hazard to ships trading internationally.

After consideration of a proposal by owners that the Maritime Administration directly underwrite a full war risk insurance program, replacing the binder program and including risks previously covered by commercial underwriters, the Maritime Administration, in order to protect owners who were exposed by reason of the reduced coverage in the new clauses, agreed to extend its binders by attaching the insurance at the same time the commercial underwriters' policies automatically terminate. This action was on a temporary basis with the understanding that the owners would endeavor to induce commercial underwriters to offer more satisfactory termination clauses or to consider other means of solving the problem within the following 6 months. That 6-month period expired April 1, 1960, and was then extended to September 7, 1960, the natural expiration date of all binders, to give owners additional time for further study. In the meantime, the Maritime Administration conferred with representatives of American owners and it was recommended by the Administration that the owners look into the possibility of setting up a shipowners' mutual war risk association similar to those which have been continuously in existence since the beginning of World War I in Great Britain and the Scandinavian countries. The owners' trade associations have looked into this matter and at present do not appear to be prepared to consider the formation of these associations which would assume the risks of war during peacetime, with or without commercial reinsurance, and have the benefit of Government reinsurance under title XII from the time the United States becomes involved in hostilities. Such a program would not involve the Maritime Administration's insurance program prior to the time the United States becomes involved in hostilities and, in view of the fact that there has been no major war loss to an American ship in the past 15 years, it is reasonable to assume that this program would permit American owners to accumulate funds by charging association members a reasonable premium in peacetime, which would enable them to pay, at least in part, some of the premium which the Government would be required to assess in wartime.

In September 1960, negotiations were again underway for a further amendment of the automatic termination and cancellation clauses in commercial war risk insurance policies. After protracted negotiations involving both American and British underwriters, brokers and owners trade associations, new clauses were adopted which in effect reduce the number of powers to five—United States of America, United Kingdom (or any other member of the British Commonwealth), France, the Union of Soviet Socialist Republics, and the People's Republic of China, terminating on the outbreak of war involving these countries but excluding any prior hostile acts involving these same countries within a period of 90 days prior to the outbreak if war resulted. It was decided that it was preferable to tie our binders to these new clauses and accordingly our binders have been amended so as to tie in with these clauses. The new attachment is considered advantageous since by reducing the number of countries involved in war or hostile acts and reducing the retroactive period to 90 days, the Maritime Administration's exposure is reduced. The method employed to accomplish this purpose was to attach binders substantially as heretofore upon the outbreak of war involving the five great powers or upon the inception of the first hostile act or acts involving these same powers that leads to war but excludes all losses recoverable under commercial insurance including war-risk insurance. Self-insurers are given protection on the same basis as those commercially insured. The amended binder form is now available and by its terms expires May 7, 1962, at which time the binders will be renewed unless further changes in commercial coverage makes amendments necessary. No additional binding fees will be assessed until the need for funds becomes apparent for appraisals, agency fees, etc.

The revision of General Order 75 was drafted with national defense interest primarily in mind. Formerly ships regularly trading to and from the United States, under long-term charter to a U.S. Government agency or in a service deemed to be in the interest of our national defense or national economy were considered eligible. Under the new revision, however, foreign-flag ships are

restricted to U.S.-controlled ships of PanHonLib registries which have been committed to the Maritime Administration for use in time of national emergency. Such ships must be over 1,500 gross tons and self-propelled and not over 20 years old. Undocumented U.S. ships and other watercraft are also excluded by the new order unless they are used in essential trade within the territorial waters of the United States. This restriction was imposed upon the basis of unavailability of small craft for use in time of emergency if they were not within the territorial waters of the United States. The Maritime Administrator, however, in his discretion, has the authority to cover any other ship or watercraft which he determines to be trading in the interest of the national defense or the national economy of the United States.

We are of the opinion that the program carries out the policy of the statute and provides owners with needed protection of the best which can be provided under the current pattern of commercial insurance arrangements. We are not satisfied with the 90-day retroactive exclusion contained in the commercial war risk insurance policy since the Maritime Administration still does not know precisely when the binders attach. If commercial underwriters further restrict coverage to exclude all nuclear losses, we should then reconsider, at that time whether or not they are really providing sufficient coverage to warrant the continuance of commercial insurance in the marine war risk insurance field. Perhaps the Government should then write it entirely direct or offer to reinsure U.S. shipowners' mutual associations referred to previously. We have been hesitant to undertake underwriting because of the enormous exposure to the Government in peacetime, and we have been relying upon the initiative and enterprise of the marine insurance industry to provide acceptable coverage at reasonable rates.

Another problem which has been present since the inception of the war risk insurance program is whether ships of NATO nations should be covered under our war risk program. Soon after the binder program was announced, several maritime nations asked the Maritime Administration to provide binders on their fleets by reason of their trading in the interest of our national defense through NATO membership. The Maritime Administration determined that eligibility should not be extended to ships of these countries on this basis. When the new automatic termination clauses were attached to the commercial war risk insurance policies from October 1, 1959, other NATO nations requested the Maritime Administration to provide war risk reinsurance on their national fleets. Before any action could be taken on these requests for reinsurance, the formation of an international war risk insurance pool covering ships of all NATO countries was suggested, presumably based on each country's assuming liability to the extent of its contributing tonnage for any loss occurring to any of the ships, including their own, entered in the pool. While such a pro rata arrangement appears fair, some of the small countries whose shipping interests represent a high percentage of their total wealth might be committing themselves to payment of greater losses than they can afford to assume. This general area is now under consideration.

Recently the National Foreign Trade Council, which is a trade organization representing export-import business interests, approached the Maritime Administration with a proposal that cargo reinsurance be made available to American underwriters to protect them against nuclear war risks. The underwriters' records show that in the event of a major catastrophe, their assets would not permit them to pay all losses which could occur even in one major port such as the port of New York. It is not expected that the billion or two cargo values at risk worldwide, at any given time would be a total loss; perhaps the highest single area risk at any given time would be that of the port of New York, which has been estimated at approximately \$65 million on an average at any given time. They have proposed in effect that the Government enter into a war risk reinsurance agreement with the underwriters which would protect them against a major catastrophe, by the Government assuming all losses in excess of \$30 million in return for which the underwriters will agree to pay a binder fee of several hundred thousand dollars each year, and will pay over to the Government all premiums accruing after the date of the incident bringing about the attachment of the reinsurance. They likewise have requested that the reinsurance be made to attach upon the inception of a hostile act involving NATO countries or Warsaw Pact countries and Red China. While we are sympathetic with the predicament in which war risk cargo underwriters would find themselves in the event of a nuclear attack, we feel that it is necessary to point out to your committee the great risk which the Government will be assuming by this means. We believe underwriters are paid to take a certain amount of risk and that the Government should

not be asked to reinsure most of it. If they discontinue writing war risk cargo insurance coverage, our standby program could be made effective at once. We do believe that from the time hostilities involve the United States, it is a legitimate function of the Government to either assume or underwrite war risks directly or by way of reinsurance, based on conditions which seem most favorable at the time or under the circumstances, considering the nature of the subject matter to be insured.

Believing that title XII contemplates that generally Government war risk insurance or reinsurance should not be made effective prior to the inception of hostilities involving the United States, we propose that our present program be continued in substantially the present form, i.e., issuing binders for hull, protection and indemnity and second seamen's war risk insurance effective upon termination of commercial coverages on American-flag ships and foreign-flag ships in approved categories or reinsurance of shipowners' mutual war risk associations, if established; direct underwriting of war risk builder's risk insurance during the period required and, as to cargo coverage, continued study of the request for reinsurance with the standby cargo war risk insurance program remaining in suspense for use in the event that commercial underwriters withdraw from this field. The amount potentially at risk under the various programs in effect or contemplated would appear to aggregate or exceed approximately \$10 billion.

We are submitting this report for purposes of informing your committee concerning our activities to date under this program, as well as the various proposals which have been made, and our present plans for future operations under this statutory authority.

Sincerely yours,

THOS. E. STAKEM,
Acting Maritime Administrator.

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