SUBSIDIES FOR BULK CARRIERS

HEARING

BEFORE THE

MERCHANT MARINE AND FISHERIES SUBCOMMITTEE

OF THE

COMMITTEE ON COMMERCE
UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

S.J. Res. 160 and S.J. Res. 166

IDENTICAL JOINT RESOLUTIONS TO AUTHORIZE THE SECRETARY OF COMMERCE TO CONTRACT PURSUANT TO THE MERCHANT MARINE ACT, 1936, AS AMENDED, FOR THE CONSTRUCTION OF AT LEAST TWO OCEANGOING ORE OR COAL CARRIERS

MARCH 8, 1962

WASHINGTON, D.C.

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SUBSIDIES FOR BULK CARRIERS

THURSDAY, MARCH 8, 1962

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

The subcommittee met, pursuant to notice, at 10 a.m., in room 5110, New Senate Office Building, Hon. John Marshall Butler presiding.

Senator BUTLER. The subcommittee will come to order.

The Merchant Marine and Fisheries Subcommittee has before it for discussion today two identical joint resolutions, Senate Joint Resolution 160 and Senate Joint Resolution 166, which in effect would give congressional approval to the granting of construction subsidy to the Bethlehem Steel Corp. for the two proposed ore or steel carriers for which subsidy has been denied. One resolution bears Senator Scott's name and mine. The other resolution was introduced by Senator Benjamin Smith for himself and Senator Clark.

The objectives of these resolutions are twofold. They seek first an immediate goal, namely, Government aid toward the construction of these two modern vessels which without Government aid would, it would appear, be built in foreign yards, with all the resultant losses to American labor, industry, and the Nation's economy.

A second objective, of major importance, is to make absolutely clear that it was, and is, the intent of Congress that bulk carriers engaged regularly in the import of iron and other ores are to be considered as "in the foreign commerce of the United States" for the purposes of section 501(a) of the Merchant Marine Act, 1936, and thus entitled to be eligible for construction differential subsidy.

There apparently was no question as to the congressional intent on this point when the present petitioner was granted construction subsidy for four ore carriers in 1945, although I am sure the point was given consideration at that time. The situation couldn't possibly have been as urgent then as it is now. Iron ore imports at that time were little more than a million gross tons, while in 1960 total iron ore imports to this country had reached 35 million gross tons. And that total is increasing year by year.

With only six aging ore carriers now operating under the U.S. flag—total deadweight capacity under 150,000 tons—it is easy to understand why the vast majority of our ore imports, of necessity, are being transported in ships of foreign registry. Similarly easy of comprehension is the danger that would threaten our strategic steel industry in any future war or emergency, if we continued to place our almost complete reliance upon foreign ships, manned by non-citizen crews, for carriage of these ores.

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

One of the reasons advanced by the Secretary in denying the application for aid in the construction of two 51,000-ton vessels was, and I quote, that—

There is implicit a rather fundamental issue of policy which has not been thoroughly considered and passed on by Congress.

It is clear enough in my mind that Congress intended to include as eligible for subsidy any and all bulk carriers bringing ores into this country when it enacted the 1936 act.

The distinguished chairman of this committee, Senator Warren G. Magnuson, who is a leading authority of the Congress in the field of maritime affairs, is definitely on record to that effect, as I will make clear from his correspondence with officials of the prior administration, who also clearly agreed with his views that U.S.-flag bulk carriers in the ore trades were essential to national security, and should be accorded construction subsidy. I shall read a few passages from this correspondence, and from press releases by the Senator, and will include the letters and releases in the record.

Quoting from a letter addressed to Clarence G. Morse, Esq., Maritime Administrator, Maritime Administration, Washington, D.C., dated December 13, 1955, Senator Magnuson had this to say:

I have read with a great deal of satisfaction your letter of December 1, 1955, in reply to my inquiry as to the possibility of granting construction and operating differential subsidy aids to American-flag vessels engaged in the transportation of iron and other ores from abroad.

Your belief that construction subsidies are authorized under the Merchant Marine Act of 1936 coincides with my own feelings in this regard. Likewise, your proviso that granting of operating subsidies be predicated upon the use of the vessels "in an essential service in the foreign commerce of the United States" would seem to be an assurance that such aid could be forthcoming without additional legislation.

Certainly my basic connection in this whole extended controversy with Defense Department officials has been that the national security is imperiled because of the dearth of American-flag vessels, manned by loyal American crews, in this trade which is so essential to both the national economy and the Nation's ability to defend itself in emergency.

Senator KEATING. That is a letter from whom?

Senator BUTLER. That is a letter from Senator Magnuson to Clarence G. Morse, the Maritime Administrator under the Eisenhower administration.

(The above-mentioned material follows the joint resolutions:)

[S.J. Res. 160, 87th Cong., 2d sess.]

JOINT RESOLUTION To authorize the Secretary of Commerce to contract pursuant to the Merchant Marine Act, 1936, as amended, for the construction of at least two oceangoing ore or coal carriers

Whereas the United States must develop and maintain an adequate and well-balanced merchant marine, owned and operated under the United States flag by citizens of the United States, and composed of the best equipped, safest, and most suitable types of vessels constructed in the United States, manned with trained and efficient citizen personnel, and supplemented by efficient American-owned facilities for shipbuilding and ship repair, marine insurance, and other auxiliary services; and

Whereas adequate tonnage of oceangoing ore-carrying vessels under the United States flag is not available to supply the needs of the United States in time of war or national emergency; and

Whereas it is the intent of the long-range bill, Public Law 586, Eighty-second Congress, that operators or prospective operators of United States flag ships in foreign trade who do not enjoy the advantages of operating differential sub-

sidies will, nevertheless, be induced by the award of construction differential subsidies to have their ships constructed in United States shipyards and to operate under the United States flag: Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of Commerce is authorized to contract pursuant to sections 501 and 504 of the Merchant Marine Act, 1936, as amended, for the construction of at least two oceangoing ore or coal carriers and to pay a construction differential subsidy in an amount determined by the Secretary in accordance with section 502 of such Act, as amended, and for the cost of national defense features.

SEC. 2. Any appropriations available to the United States Department of Commerce for ship construction shall be available for the construction of such vessels.

[S.J. Res. 166, 87th Cong., 2d sess.]

JOINT RESOLUTION To authorize the Secretary of Commerce to contract pursuant to the Merchant Marine Act, 1936, as amended, for the construction of at least two oceangoing ore or coal carriers

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SEC. 2. Any appropriations available to the United States Department of Commerce for ship construction shall be available for the construction of such vessels.

DECEMBER 13, 1955.

CLARENCE G. MORSE, Esq.,
Maritime Administration, Washington, D.C.

DEAR Mr. MORSE: I have read with a great deal of satisfaction your letter of December 1, 1955, in reply to my inquiry as to the possibility of granting construction and operating differential subsidy aids to American-flag vessels engaged in the transportation of iron and other ores from abroad.

Your belief that construction subsidies are authorized under the Merchant Marine Act of 1936 coincides with my own feelings in this regard. Likewise, your proviso that granting of operating subsidies be predicated upon the use of the vessels in an essential service in the foreign commerce of the United States would seem to be an assurance that such aid could be forthcoming without additional legislation.

Certainly my basic contention in this whole extended controversy with Defense Department officials has been that the national security is imperiled because of the dearth of American-flag vessels, manned by loyal American crews, in this trade which is so essential to both the national economy and the Nation's ability to defend itself in emergency.

So firm am I in the belief that the Nation must, for its own protection, encourage the construction and operation of vessels for this purpose that I propose to

initiate early in the new session public hearings on the matter. We need a number of these modern-type vessels to handle the flow of ore tonnage that will be required by American industry over the years ahead, and our shipyards need a great amount of new construction projects to keep them active.

Unless we move promptly, however, our steel and other interests will have concluded long-range arrangements for delivery of these ores which would preclude development of our own ore fleet. I would greatly appreciate, therefore, your very prompt attention to all phases of this question, so that we may move ahead promptly with our inquiry at an early date.

Sincerely yours,

WARREN G. MAGNUSON.

U.S. DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington, D.C., June 8, 1955.

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

DEAR SENATOR MAGNUSON: On May 10, 1955 you wrote to Mr. John P. Dennis of the Office of Defense Mobilization, raising certain questions relative to the present and prospective imports of iron ore into the United States. Your letter suggested that a study of the importation of bulk ores into the United States was underway and that you would like to have the results of such study when completed. Such a study has, in fact, recently been completed by the Maritime Administration and, after consultation with Mr. Dennis, it has been agreed that the Maritime Administration should reply to your letter of May 10.

For ready reference, I am setting forth below the questions that you raised in your letter to Mr. Dennis, together with the comments of the Maritime Administration thereon:

"(1) You state that an aggregate of about 14 million tons of iron ore was imported in the calendar year 1954. From press accounts it appears probable that close to 50 million tons per annum will be imported into the United States for the purpose of the steelmaking within the next decade. On the long-range basis, is it not probable that this will substantially change the reported current situation with respect to the nationality of the vessels used in this movement?"

The Maritime Administration is in agreement that there will be a substantial increase in the level of annual imports of iron ore into the United States. Based upon current building programs (see question (2) below), we would agree that there would normally be a decline in the percentage of iron ore imported in U.S.-flag vessels as compared with foreign-flag vessels. This prospect is what has led the Secretary of Commerce to address a letter to 19 different large importers of bulk ores, in which he urged these companies to give serious thought to construction of ore tonnage for operation under American flag and pointed out the assistance which the Maritime Administration could give in the formulation of plans for such construction.

"(2) Is it not a fact that while a number of large ore carriers are being constructed at the present time, all of these are for foreign registry although the capital is being supplied by American citizens?"

Maritime Administration records indicate that at the present time there are 46 bulk ore carriers under construction, all save one of which are being built in foreign yards. It is difficult to determine the precise number of these vessels which are being built specifically for the carriage of iron ore. It is also true that there are currently no vessels of this character being built for U.S.-flag operation. It is very difficult to determine to what extent American capital provides the funds for construction, although we are aware that approximately 18 foreign-built ore carriers are being at least partially financed by U.S. capital.

"(3) As to the 37.1 percent of such ore imported in U.S.-flag vessels during 1954, my information is that practically all of these vessels are owned by one American company. I understand further that the cost of such ocean transportation is substantially higher to that company than to its competing steel manufacturers. Could there be any assurance that it will continue to accept this cost handicap on a long-range basis?"

You are correct in that 84 percent of all the iron ore imported into the United States during 1954 in America-flag vessels was transported in ships owned by the Bethlehem Steel Co. As of this writing, no reply has been received

from this company to Secretary Weeks' letter of April 15, 1955. Such being the case, we believe it would be premature to comment on the second two sentences of question (3) above.

"(4) You state that in 1954, 22.4 percent of the total ore import tonnage was transported by vessels registered under the Panamanian, Norwegian, and Liberian flags, owned or controlled by U.S. corporations. Is there actually a substantial amount of such tonnage under the Norwegian flag? And are such ships 'under our control'?"

It is difficult to determine with any degree of accuracy the proportion of Panamanian- and Liberian-flag vessels engaged in the import of iron ore into the United States which are controlled by U.S. citizens. Presumably a number of vessels of these two flags in this trade are so controlled. As you are aware, the Department of Defense considers a Panamanian- or Liberian-flag vessel owned by a citizen of the United States to be "under effective U.S. control." We understand that Norway precludes a majority stock control of a Norwegian shipping company by a noncitizen of Norway, but are aware that several U.S.-citizen corporations have made substantial investment in Norwegian-flag tonnage.

Mr. Dennis, in his letter to you of April 20, 1955, stated that the remainder of the iron ore tonnage was distributed among ships sailing under the flags of Italy, Sweden, Great Britain, Germany, Greece, Canada, Costa Rica, the Netherlands, and Honduras. You have raised a question as to the reliability of service performed by these vessels in case of emergency. Of the countries mentioned, Italy, Great Britain, Germany, Greece, Canada, and the Netherlands are members of NATO. As such, these Governments have agreed to take effective action immediately on the outbreak of war or grave emergency which would insure that the vessels of their flags would be operated in a manner consistent with the overall interests of the NATO powers. We would presume, therefore, that there would be no question as to the availability of vessels under these flags. Certainly the great majority of vessels operating under flags of Panama, Liberia, Costa Rica, and Honduras are controlled by nationals of countries signatory to NATO and their continued availability would appear to be reasonably assured.

The above answers to your questions, however, do not in any sense lessen in our opinion the desirability, if not necessity, of insuring a continued and growing participation in the imports of iron ores and other strategic bulk materials in vessels of American registry. The Administration is in full agreement with you that such participation should be increased and that the continuous flow of iron ore (and other strategic bulk commodities) is essential for national defense and its interruption could not be tolerated. It is with this in mind that the Secretary of Commerce wrote to the importing companies on April 15 to secure their views as to the possibility of future construction for U.S.-flag operation. The Maritime Administration is deeply interested in this question and intends to pursue it vigorously. The interest that you have expressed in this problem is deeply appreciated by the Administration and will be of the greatest assistance to the Administration in the formulation of its program.

There is enclosed herewith a copy of the statistical study of strategic ore imports into the United States for the calendar year 1954 which has recently been completed by the Maritime Administration. The slight discrepancy between the figures made available to you by Mr. Dennis' letter of April 20 and the figures in the enclosure are accounted for by the elimination from the latter of iron ore imports moving to U.S. ports from Canadian ports on the Great Lakes. There is also enclosed a copy of Secretary Weeks' letter, previously referred to, which was addressed to each of 19 U.S. companies importing substantial quantities of strategic ores.

Sincerely yours,

CLARENCE G. MORSE,
Maritime Administrator.

APRIL 15, 1955.

Mr. I. W. WILSON,
President, Aluminum Co. of America,
Pittsburgh, Pa.

DEAR MR. WILSON: I am concerned with the fact that many U.S. firms, including yours, are importing bulk cargoes which, in many instances, are carried in vessel tonnage under foreign flag. This may occur, I am aware, in one or more of several ways: through subsidiaries operating foreign-flag ships, by chartering foreign-flag ships or by dealing with importers who use foreign-flag ships. In the

best interests of the United States, I deem it desirable to utilize the services of vessels registered and operating under the U.S. flag.

Section 101 of the Merchant Marine Act, 1936, states, as a declaration of national policy, that:

"It is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine (a) sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times, (b) capable of serving as a naval and military auxiliary in time of war or national emergency, (c) owned and operated under the United States flag by citizens of the United States insofar as may be practicable, and (d) composed of the best-equipped, safest, and most suitable types of vessels, constructed in the United States and manned with a trained and efficient citizen personnel. It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a merchant marine."

In the face of that affirmative statement and of existing world conditions I am sure you realize the desirability of maintaining in the active service of the U.S. merchant marine the largest possible number of cargo carriers in order to insure their continued availability in case of an emergency.

I assume that you have given consideration to the problem of American-flag operation. I also assume that various factors entered into your detreminations to utilize foreign-flag vessels to meet your import needs, which factors would include the cost of constructing vessels in American shipyards and the cost of operating vessels under the American flag.

The Maritime Administration of the Department of Commerce can be of aid in the construction-cost factor by means of construction differential subsidy which has the effect of making the cost of a vessel built in an American yard the same as it would be if the vessel were built in a foreign yard. In respect to the second factor, the Maritime Administration believes that it can be of assistance in encouraging management and labor to explore ways and means of reducing the operating costs of bulk cargo vessels. Recent events on the Pacific coast and recent comments made by labor on the east coast, lead me also to the belief that perhaps something tangible can be achieved.

I believe this is an appropriate time to explore this matter and suggest that you indicate your interest in building and operating U.S.-flag bulk carriers which are employed to meet your import needs to the officials of the Maritime Administration at your earliest convenience.

In order that our information will be accurate, it will also be appreciated if the Maritime Administration could be advised of the channels of trade through which your bulk cargo imports are obtained.

Sincerely yours,

SINCLAIR WEEKS,
Secretary of Commerce.

U.S. DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington, D.C., December 1, 1955.

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

DEAR SENATOR MAGNUSON: Reference is made to your letter of November 10, 1955, concerning the advisability of strengthening American supply lines of critical ores from foreign sources. You have asked that I advise you what amendments to present laws, if any, would be required to permit the granting of construction and operating subsidies to vessels engaged in such transportation.

With regard to construction subsidies, the Maritime Administration believes that the Merchant Marine Act of 1936, as amended, authorizes the granting of construction subsidy aid to build ore carriers to be used in the foreign commerce. It must be noted, however, that for the Maritime Administration to proceed along these lines, it must have a firm application in order to seek the necessary implementing appropriations. To date, we have received only one application from American Bulk Carriers, Inc., for construction-differential subsidy under title V to aid in the construction of six combination bulk ore and petroleum

carriers. Under date of November 17, 1955, we sought additional information from the applicant and you may be assured that the Maritime Administration will take every action consonant with the law and the public interest to process this application.

As regards the question of operating subsidies for vessels engaged in such transportation, it is conceivable that if the Maritime Administration received applications for operating subsidy, it could grant such aid within the language of the statute provided the vessels "are to be used in an essential service in the foreign commerce of the United States." However, since operating-differential subsidy assistance has been given only in connection with the operation of common carriers, the Maritime Administration believes that as a matter of policy the extension of operating-differential subsidy assistance to ore carriers should be undertaken only after complete executive and legislative examination into the details thereof, especially the estimated cost.

You have also asked for any suggestions that Maritime Administration might have as to possible alternatives to construction and operating subsidies that might bring about increased participation by American-flag shipping in this rapidly expanding field. The Maritime Administration sees no practical alternative to construction subsidy aid. We have sought and we continue to encourage the construction of ore carriers and other types of ships through the use of the mortgage insurance provisions of the Merchant Marine Act, 1936, as amended, and we stand ready to lend our support to such construction through such other aids as may be available from time to time, i.e., priority assistance and technological assistance. However, it is evident that these types of assistance, important and useful as they may be, are not, by themselves, sufficient incentive to assure the construction of an adequate number of ore carriers in U.S. shipyards for American-flag operation.

As regards possible alternatives to operating subsidies, the Administration suggests that it may be possible for new, efficient, American-flag ore carriers, manned by crews of reasonable numbers, to be operated successfully in this ever-expanding trade. In this connection we would call to your attention the so-called Tonsina agreement, as a result of which a west coast operator was successful in competing for traffic on one voyage by reason of union agreement to operate the ship with 31 men instead of 38. We believe that this type of joint labor-management cooperation may offer a pattern for successful U.S.-flag participation in the bulk movement of large quantities of ore. However, we believe that under such an arrangement the venture may be successful on a long-term basis only if modern, efficient vessels of large size are built. It is possible, however, that the reduced cost of operating new, efficient tonnage with smaller crews may not provide a sufficient incentive to induce substantial American-flag participation in this movement and that the U.S. Government at some future time will be required to decide whether or not American-flag ore carriers must be granted some type of an operating subsidy.

As you are aware, we have approached the major ore importers with a view to furthering American-flag participation in this trade. This group has indicated that the high cost of operating ore ships under U.S. registry constitutes a most serious cost obstacle and in order to maintain their relative competitive status, they have been forced to use foreign-flag ships, usually on a long-term charter, to a large extent. There are indications that several importers of ores appear to be willing to operate vessels of U.S. registry provided they can obtain ocean transportation at costs which are approximately equal to the costs of foreign-flag carriers.

The Maritime Administration has completed a proposed bulk carrier which is known as the bulk class, MA design C5–S–RN–20–a, which incorporates the latest technological developments for ships of this type. An enclosure outlining the design details is forwarded as an attachment to this letter. The Administration has not submitted a request for appropriations to construct the "bulk class" vessel, but has advertised this design as being available for prospective builders of the ship. We will, of course, be prepared to receive and process applications for construction subsidy aid in connection with the building of ships of this design and will submit the necessary appropriation requests upon the receipt of such applications.

I trust that the above information will provide a satisfactory answer to the questions raised in your letter under reference.

Sincerely yours,

CLARENCE G. MORSE,
Maritime Administrator.

[For immediate release from the Senate Committee on Interstate and Foreign Commerce]

Chairman Warren G. Magnuson (Democrat, of Washington) of the Senate Committee on Interstate and Foreign Commerce announced today the Maritime Commission believes the Merchant Marine Act of 1936 authorizes the granting of construction subsidy aid to build ore carriers to be used in foreign commerce.

Magnuson said Clarence G. Morse, Maritime Administrator, expressed also the opinion that the law authorizes the granting of operating subsidies "provided the vessels are to be used in an essential service in the foreign commerce of the United States."

The committee chairman who has urged that modern ore carriers be constructed and manned by American seamen to take over the bringing of essential ores to American plants has expressed the fear such service furnished by foreign vessels with foreign crews might fail in an emergency, asked the Maritime Administration for an opinion as to whether any change in the present law would be needed to grant construction and operating subsidies to bring about greater participation in the hauling by American vessels.

"With regard to construction subsidies," Morse wrote the chairman, "the Maritime Administration believes that the Merchant Marine Act of 1936, as amended, authorizes the granting of construction subsidy aid to build ore carriers to be used in foreign commerce. It must be noted, however, that for the Maritime Administration to proceed along these lines, it must have firm application in order to seek the necessary implementing appropriations."

Morse said that to date the Administration had received only one application for a construction-differential aid for building six combination bulk ore and petroleum carriers. It was filed by the American Bulk Carriers, Inc., and is being investigated.

Turning to the operating subsidies for vessels engaged in essential ore carrying Morse said "it is conceivable that if the Maritime Administration received applications for operating subsidy, it could grant such aid within the language of the statute provided the vessels 'are to be used in an essential service in the foreign commerce of the United States.'"

Morse suggested that a complete study be made of the proposal for the construction-operating subsidy by the executive and legislative branches of the Government.

"So firm am I in the belief that the Nation must, for its own protection, encourage the construction and operation of vessels for this purpose," Magnuson said, "that I propose to initiate early in the new session public hearings on the matter. We need a number of such modern-type vessels to handle the flow of ore tonnage that will be required by American industry over the years ahead, and our shipyards need a great amount of new construction projects to keep them active.

"Unless we move promptly, however, our steel and other interests will have concluded long-range arrangements for delivery of these ores which would preclude development of our own ore fleet. Unless we move promptly we shall awake some day in the not too distant future to the realization that our economy and our security are totally dependent upon foreign shipping and foreign crews, both of which conceivably could fail us in an emergency."

[For immediate release from the Senate Committee on Interstate and Foreign Commerce, Nov. 8, 1955]

Chairman Warren G. Magnuson, Democrat, of Washington, of the Senate Interstate and Foreign Commerce Committee renewed today his demand that the administration act promptly to insure that stategic metals imported into the United States be carried in ships registered in the United States.

He wrote Raymond H. Folger, Assistant Secretary of the Navy, insisting that shipping the ore on ships registered under the flags of friendly nations does not insure protection of the cargoes and their safe delivery to this country in time of an emergency. He said that while the ships may be registered under the flags of friendly nations the masters and crews of the ships are not citizens of those nations and he did not agree with the Defense Department conclusion that such shipping was under "effective U.S. control."

Folger had written Magnuson that the Defense Department considered some 377 vessels under the flags of Panama, Liberia, Honduras, and Venezuela to be under "effective U.S. control" notwithstanding they are mostly manned by

Scandinavian, north European, Italian, or Greek nationals. He said all crewmen involved are from countries that are members of the NATO or of those "traditionally friendly" to the United States.

Magnuson insisted that importation of ores for the manufacture of iron, aluminum, and other strategic metals should be under the control of "our fourth arm of defense, the officers and men of the American merchant marine." He said that it was his memory that some "traditionally friendly" nations were "our allies in one World War and our enemies in the other."

Magnuson urged that the administration speed up its efforts to have strategic metals carried to this country in ships of U.S. registry saying that supplies of steel and other needed metals might well depend upon the safe arrival of such cargoes in an emergency and its production could be vital to the success of our Armed Forces.

Magnuson said he was advised that in the next decade 50,000 tons of iron ore alone must be brought into the United States yearly and apparently all of the increase by foreign ships as no oceangoing ore ships are being constructed now in the United States.

"My information is that such ships are under construction or under contract abroad perhaps to the extent of $100 million," Magnuson said. "The majority of these are in shipyards of Germany and Japan while our American shipyards are scraping the bottom of the barrel, and Congress and this committee are desperately trying to stimulate sufficient work to keep our yards engaged and our shipyard mechanics and labor employed."

The chairman insisted he believed that a risk under the present system does exist and added that if it should be found that it does Congress must decide how it shall be met, whether by creating economic conditions permitting U.S. ships to compete or by controls which will insure uninterrupted flow of the raw material.

Senator KEATING. Could I ask a question with regard to your opening statement?

Senator BUTLER. You may.

Senator KEATING. The position indicated by you is that if the subsidy is not granted these ships will be likely to be constructed outside of the United States?

Senator BUTLER. I don't think there can be any doubt about that. It is necessary that these ships be constructed and time is fast approaching when a decision will have to be made to build them out of the country unless the resolution is passed and the Department of Commerce acts quickly after that resolution has been passed.

Senator KEATING. If the resolution is passed and the Department of Commerce does act quickly, may I have any indication from the chairman, or could he enlighten the Senator from New York as to where the ships might be constructed in the United States?

Senator BUTLER. I don't think that has been definitely settled. It will probably be either Massachusetts or Maryland, or maybe both places. Maybe one would go to New York; I don't know.

Senator KEATING. That was a matter of some interest to me. Also, Senator Saltonstall has told me that he is following this legislation carefully and that he is very interested in it.

Senator BUTLER. I can't answer that question. I do know that they would be built probably on the eastern coast; maybe one on the west.

I don't know the answer to that question. Maybe the gentleman here from Bethlehem Steel Co. can give you more light on that inquiry.

Senator KEATING. Thank you, Mr. Chairman.

Senator BUTLER. Senator Smith, it is a great pleasure to have you here, I can assure you. If you will, you may proceed with your testimony.

STATEMENT OF HON. BEN A. SMITH, U.S. SENATOR FROM THE STATE OF MASSACHUSETTS

Senator SMITH. Thank you very much Mr. Chairman, Senator Keating, Senator Lausche. It is a pleasure to appear here in support of my resolution, Senate Joint Resolution 166, identical to that sponsored by the senior Senator from Maryland, Senator Butler, and the junior Senator from Pennsylvania, Mr. Scott.

I wish to state at the outset that the senior Senator from Pennsylvania, Mr. Clark, who is cosponsor of my bill, wishes to associate himself with the remarks that I am about to make. Our purpose in cosponsoring a separate resolution was to show that there is strong bipartisan support for construction of American-flag ore carriers.

America has an important stake in maintaining her position as the world's leading trading nation. The importance of waterborne commerce to this Nation's national security is so great as to almost defy description. We differ from Russia and many Western European countries in that the bulk of our foreign trade, of necessity, must move by water. Without adequate ships to serve our industrial needs, our mills and factories would slowly grind to a halt.

In colonial America and in the early days of our history, this Nation produced more raw materials than it consumed. In certain areas today this remains the case. Even so, we are now compelled to import many raw materials to insure that our basic industries can keep operating. Our foreign trade has more than doubled in the last decade. During this period we have for some reason let our merchant fleet decline to a dangerous low and this poses a real danger to our present position.

We have been content to let foreign vessels carry an ever-increasing share of our foreign trade. When Korea and other emergencies such as Suez and Lebanon occurred, we have been bailed out by our reserve fleet. These vessels are rapidly becaming obsolete and it will be only a matter of time until they become useless. In the meantime we must build new ships and build them real soon.

In 1960 the tramp or bulk movement of commercial dry cargo commodities—non-AID or military—in our oceanborne foreign trade totaled almost 100 million long tons. U.S.-flag vessels carried less than 4 percent of this total. It is high time that some attention is given to the need for vessels capable of competing in this trade to assure that in time of a national emergency or war, our country could provide this shipping service to keep our basic industries in operation.

We have 60 bulk carriers with a deadweight capacity of 860,000 deadweight tons currently under the U.S. flag. This represents a tonnage increase of approximately 27 percent in the last decade. Only four of these vessels are classed as ore carriers. This tonnage increase resulted primarily from conversion of T–2 tankers, Liberty dry cargo, and other types to bulk carriers. Not a single new bulk carrier has been added from new construction for U.S.-flag private fleet since 1958. Furthermore there are none on order today.

In sharp contrast, bulk carriers under foreign flag have recorded a fivefold tonnage increase and now total 13.3 million deadweight tons. Approximately 4½ million deadweight tons of this total is composed of ore carriers. In addition, foreign-flag interests have orders placed for more than 1.2 million deadweight tons of new ore carriers.

When we examine some of the leading bulk commodities in our foreign trade we can see why more bulk or ore-carrying vessels are urgently needed under the American flag. For example, oceanborne imports of iron ore and concentrates increased from 6.1 million long tons in 1950 to 26.4 million long tons in 1960. Aluminum ore and concentrates increased in the same period from 2.5 to 9.4 million tons. Manganese increased from 1.8 to 2.4 million tons during this same period.

In the case of our bulk commodity exports, bituminous coal increased from 2.3 million long tons in 1950 to 22.2 million long tons in 1960. Wheat increased from 4.1 to 13 million long tons, corn from 1.6 to 4.2 million tons, phosphate fertilizer from 1.4 to 1.6 million tons during this same period.

The two new ore or coal carriers called for by Senate Joint Resolution 166 are vitally needed and will aid in stimulating depressed conditions in our shipbuilding industry. It has long been estimated that the two 51,000 deadweight ton ore carriers recently denied construction subsidy would have provided 1,900 to 2,100 man-years of employment in the shipbuilding industry. In addition, a like amount of employment would have occurred in allied industries.

No American company can be expected to build such ships at home without subsidy. The cost would be almost twice the cost abroad. Therefore, if we are to maintain a fleet which we all know is so necessary for our growing foreign trade, the subsidies asked for are urgently necessary.

I want to thank Senator Butler and the members of this committee and urge them to take action which will be favorable so that we can go ahead with this.

Senator BUTLER. Senator Smith, thank you ever so much for coming here. We appreciate it.

There is one figure that you mentioned in your testimony.

Our data compilation shows a total of 34,620,210 long tons for 1960, instead of the 22.2 million long tons that you have in your statement.

Senator SMITH. I certainly will willingly accept your figures.

Senator BUTLER. It is a discrepancy, but it makes your figure look a little better.

Senator SMITH. Thank you very much.

Senator BUTLER. Are there any questions of the Senator?

Senator SCOTT. May I say to the Senator that I am very glad indeed that he has taken the time to appear and show the interest that he has in this tremendously important subject.

As the Senator knows, Senator Butler and I introduced a resolution, Senator Smith has and I believe Senator Clark has, so that we have a growing interest in support of this measure.

Senator SMITH. I think I mentioned, just before you came in, Senator Scott, that we want to show the strong bipartisan feeling of support for this measure.

Senator SCOTT. I have that in mind. I think if we can enroll some continually increasing bipartisan support we may be able to get some early action on this important measure. I am delighted that the Senator has made that statement.

Senator SMITH. Thank you very much.

Senator BUTLER. Senator Lausche?

Senator LAUSCHE. Does your resolution issue an order upon the Maritime Board to do the subsidizing?

Senator SMITH. That is correct.

Senator LAUSCHE. That is the substance of it?

Senator SMITH. That is correct.

Senator BUTLER. Senator Magnuson?

The CHAIRMAN. I want to express my appreciation to Senator Smith for taking time out on this important matter. He has been deeply interested, coming from New England, in this whole problem of shipbuilding. I think the resolution has some administrative and legal problems involved in it, but it points up what Senator Smith has said: That this is a matter for the Congress to make some policy on, sooner or later.

Senator SMITH. The Senator from Massachusetts knows that well.

The CHAIRMAN. Our shipbuilding is at a very, very low ebb. The last figure I saw, we had dropped from the first 3 in the free world to something like 11th or 12th in shipbuilding.

Without going into another matter that Senator Butler and I are involved in, that is, industry on all coasts, west, gulf, and east, I think what you point out is that either we do something about it or we let it die out.

I am not here to say what this decision should be. Surely it is a big problem.

I find that on the west coast, just last week, the Navy wanted to do some important work in the field of shipbuilding which would add to the employment in Navy yards and naval installations. There was some difficulty, not in finding people but in finding people who had some know-how in this business. With no building you dissipate the labor pool. Shipbuilding is an intricate art, which is specialized, skilled. Whether we want to pay not to lose it or whether we want to let it go is a policy question. This points it up.

We are very rapidly—the American flag subsidized lines—dropping off again. We can't compete, and the lumber people in the Pacific Northwest have lost about 70 percent of the eastern domestic market, our own market, because the Canadians can charter these cheap foreign ships, on which transportation costs will run $6 per thousand square feet less than we can transport it for, and we have lost intercoastal markets because of this situation.

Senator BUTLER. May I supplement that statement by saying that at the present time U.S.-flag ships are carrying less than 10 percent of the U.S. foreign commerce, and carrying about 3 percent of the ore carriage. That is a disgraceful statistic.

Senator SMITH. It certainly is. Further, Mr. Chairman, I think the point that Senator Magnuson has made is that the art of shipbuilding requires highly skilled people and once we lose these people it will take years to get us back into the shipbuilding business again. I would hate to see this happen in this country which, by necessity, depends so much upon shipping.

Senator BUTLER. Senator, we have been assured by the Department of Commerce repeatedly that it was their aim to keep these skills in being, and not to let the merchant marine wither away. Unless some steps are taken immediately I am afraid we will see the merchant marine and the American flag pass from the high seas.

Senator LAUSCHE. Mr. Chairman, may I say something?

I think there is great substance to what has been said, and especially the dwindling share of the transport business that we have in our country. It has been stated that we are getting in a worse position competitively.

The item that bothers me, if we continue to get in a worse position competitively than we were 20 years ago, or 25 years ago, can we continue making up that disadvantage competitively by subsidy? By the granting of subsidies aren't we dealing with a treatment of the symptom and not at all concerning ourselves with the cause that is creating the increased disadvantage that we have in trying to sell our service to the shippers of the world? That is the aspect of this problem that bothers me.

Senator SMITH. That is certainly a part of the problem, Senator.

Senator LAUSCHE. A year ago, with Bethlehem, which is involved here, this committee was asked to increase the limitation on subsidies from 50 to 55 percent, and it was pointed out, when the bill was passed in 1936, it was anticipated that our competitive position would grow better. But instead of growing better it has grown worse.

And so in 1960 we took the 50-percent limitation and increased it to 55. While we were increasing the limitation there was an argument between the Bethlehem Steel and the workers somewhere in the Northeast demanding increased wages, while on the other hand they were begging the Federal Government for subsidies. The two things don't go hand in hand.

Senator SMITH. That is certainly a part of the problem.

Senator BUTLER. Are there any further questions of Senator Smith?

Senator KEATING. Could I make an inquiry of either Senator Smith or the chairman?

As the chairman knows, I am cast in the role of an ingenue on this committee.

Senator BUTLER. A very welcome ingenue.

Senator KEATING. I am not familiar with all the ramifications.

If this resolution were adopted, is there any assurance that these ships would be built in the United States? Or could the subsidy be granted and still the ships be built outside the United States?

Senator BUTLER. No, indeed. These ships, to qualify for a construction differential subsidy, must be used in foreign commerce of the United States, and must be built in an American yard by American labor.

Senator SMITH. That is correct.

Senator BUTLER. And fly the American flag.

Senator KEATING. I was particularly interested in the fact that they would then be built in this country.

The last "whereas" clause is what gave me a little doubt where it says:

> Whereas it is the intent of the long-range bill that operators or prospective operators of U.S. flag ships in foreign trade with do not enjoy the advantages of operating differential subsidies will, nevertheless, be induced by the award of construction differential subsidies to have their ships constructed in U.S. shipyards.

The point I want to make is, Are they required to? If they are required to, I should think they would be more than induced; that it would be necessary.

Senator BUTLER. This is a different subject from the subject you are talking about. The Department of Commerce, in refusing this application, said that it would induce others who don't have an operating differential subsidy to build their ships here, and that will be covered later in the testimony. This has nothing whatever to do with any ship that may be authorized under this resolution.

Senator KEATING. But the law is if they get a construction differential subsidy, they must build their ship in the United States?

Senator BUTLER. That is correct.

Senator SMITH. Absolutely.

Senator BUTLER. And under this resolution, the Secretary of Commerce is authorized to enter into a construction differential subsidy contract. And that being the case, of necessity they must be built here, and be maintained.

Senator KEATING. Thank you.

The CHAIRMAN. Senator Keating, I think you will find, the next witness being from the Department of Commerce, that they have set forth their reasons for not granting this, which will bring out some of the points that you suggest. There are some legal questions and questions of policy. I am sure the Department would have no objection if we determined the policy. They would follow it out. That is what they are there for. This is one of the problems.

I think it will clear up a great deal of that.

Senator SMITH. Again, Mr. Chairman, thank you very much.

Senator BUTLER. Thank you, Senator.

I want to introduce into the record a letter from my distinguished colleague, J. Glenn Beall, to the chairman, dated March 8, 1962, in favor of the joint resolution.

Also I would like to announce for the purpose of the record that Senator Engle has asked that the record be kept open until he has returned from the west coast.

(The letter from Senator Beall follows:)

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
March 8, 1962.

Hon. WARREN G. MAGNUSON,
Chairman, Subcommittee on Merchant Marine and Fisheries,
Senate Commerce Committee, Washington, D.C.

DEAR MR. CHAIRMAN: Because of a previous engagement, I am unable to testify in person this morning on Senate Joint Resolution 160 and Senate Joint Resolution 166 and, consequently, I would appreciate it greatly if you would make this letter of support of the proposed legislation a part of the record.

At the present time, the United States has no giant ore carriers under its own flag. The only ships of this type which it does have are four of 24,000-ton capacity, each of which is nearly 20 years old. Favorable action on the provisions of Senate Joint Resolution 160 or Senate Joint Resolution 166 would pave the way for the addition of two 51,400 deadweight ore carriers to our American fleet. Such an addition would help alleviate the extremely serious condition in which we now find ourselves—namely, without adequate tonnage of oceangoing ore-carrying vessels in time of war or national emergency.

May I urge you, the other members of your subcommittee, and the entire Senate Commerce Committee to give prompt and favorable action on this matter.

With all good wishes, I am,

Sincerely yours,

J. GLENN BEALL.

Senator BUTLER. The Senator from Pennsylvania.

Senator SCOTT. May I have permission at this time to introduce a statement of my own on the bill which you and I have co-sponsored, concerning the necessity and desirability for this legislation, touching on the fact that the U.S.-flag carrying fleet is obviously inadequate and, in fact, almost nonexistent. To save the committee's time I will simply ask permission to insert it in the record.

Senator BUTLER. The statement will be received and inserted in the record.

(The document referred to follows:)

STATEMENT BY SENATOR SCOTT

The heads of the Government departments and agencies and industry and labor groups directly concerned with ship construction in the United States have been asked to join with the subcommittee today in discussions on the resolution introduced by my colleague, Senator Butler, and myself, which in effect would express the will of Congress that the Secretary of Commerce should approve the application by the Bethlehem Steel Co. for ship construction subsidy aid in constructing two large ore or coal carriers. As you know, the Secretary of Commerce has denied the application of the Bethlehem Steel Co. for the construction of these two ships and the Bethlehem Steel Co., in turn, on March 3, announced that it has opened negotiations with foreign shipbuilders to build these two ore carriers in foreign yards.

As I view it, extremely vital matters are involved. First, there is the question of participation by U.S.-flag shipping in bringing in iron ore to maintain the supply of this basic material for our steel industry, which is the very foundation of national defense. Second, there is the question as to whether the Federal Government is properly fulfilling its responsibility as determined by the Congress for the preservation of the shipbuilding industry. Congress has mandated that an adequate U.S. private shipbuilding industry is necessary for our national security and, recognizing it cannot be maintained under present conditions by economic forces alone, has provided certain statutory aids to be administered by the Secretary of Commerce.

The importance of ocean transportation of iron ore is of relatively recent origin. During and after World War II, a number of economists and leaders in the iron mining and steel industries, expressed great concern over the imminent exhaustion of U.S. reserves in direct shipping iron ore. In 1943, for instance, Dr. E. W. Davis, then director of the Mines Experiment Station of the University of Minnesota, the organization that is responsible for certifying the taxable reserves in that State, reported to the War Production Board that the high-grade reserves of Minnesota would be exhausted by 1954. This, and other ominous predictions, spurred exploration programs for new iron ore deposits, not only in this country but also in Canada, South America, and throughout the world.

As a result, large deposits were subsequently discovered in various locations, including Liberia, the specific source of ore which it is reported would be served by the two ore carriers envisioned by the resolution.

The present oceangoing U.S.-flag ore-carrying fleet is extremely small. As of the 1st of January 1961, the entire oceangoing ore carrier fleet under the U.S. flag was only six ships totaling less than 150,000 deadweight tons. All six of these ships were built between 1945 and 1948. Oddly enough, the number of American-flag ore carriers had declined by four ships from 1954 to the end of 1960.

The U.S.-flag ore-carrying fleet is obviously inadequate and, in fact, is almost nonexistent. This is a serious situation in view of the central role our maritime industry must play in war emergency, supplying the raw materials to feed domestic industries and carrying their portion of our troops, their equipment, and supplies to oversea areas.

Senator BUTLER. Is Mr. Martin here?

Will you come forward, Mr. Martin, please, and Mr. Alexander?

STATEMENT OF CLARENCE D. MARTIN, JR., UNDER SECRETARY FOR TRANSPORTATION, DEPARTMENT OF COMMERCE, WASHINGTON, D.C., ACCOMPANIED BY DONALD W. ALEXANDER, MARITIME ADMINISTRATOR

Mr. MARTIN. I want to apologize to the committee. Copies of our statement are expected to be along in a few minutes.

Senator BUTLER. Mr. Martin, I had a brief discussion with the Secretary this morning, somewhat along this line. I had asked the Secretary to be present because, under the Reorganization Plan No. 7 of 1961, the ultimate decision as to whether or not a subsidy shall be granted is that of the Secretary. I felt that he should be here to answer any questions that the committee may ask. He advised me that he was very busy today and would come up at some later time if we wanted him to.

But inasmuch as the decision is solely his, and he asked for the authority, I felt that it was his duty and obligation to be here.

I am perfectly happy to have you here, but whether you can give the ultimate answer to the question of why this subsidy was denied is a question in my mind that I will say gives me some difficulty.

Mr. MARTIN. Senator Butler, the Maritime Administration and Maritime Administrator report to me directly in the Department. I am the Under Secretary for Transportation. We, in turn, recommend up to the Secretary. You are correct, sir, that the Secretary has the ultimate decision. But I think we will be able to clarify, I hope to your satisfaction, the reasons that the Department denied this application.

If you have any further questions I am sure the Secretary will be happy to come up here.

Senator BUTLER. He said that he would come at some future day if we were dissatisfied with the answers that you would give us.

I am not anticipating that we will be dissatisfied, but I am just pointing out that the Secretary of Commerce demanded that he have this right of subsidy determination. And when he gets this right it is a very grave responsibility. The only way he can discharge that responsibility, in my opinion, is to appear here and tell us why he made the ultimate decision which was his.

You may proceed.

Mr. MARTIN. Mr. Chairman, and members of the committee, I am glad to appear before your committee this morning and present to you the views of the Department of Commerce concerning Senate Joint Resolution 160. I am sure you are familiar with the decision of the Secretary of Commerce on February 16 on the application of Bethlehem Steel Corp. for subsidy aid in the construction of two ore carriers.

Wide publicity has been given to that decision and to the precise reasons stated in the Secretary's letter for the decision. However, I would like to read at this time, for the record, the letter which the Secretary sent to Mr. Jurgen, president of the Ore Navigation Corp. [Reads:]

DEAR MR. JURGEN: This is to inform you of our decision on the application by Bethlehem Steel Corp. for subsidy aid in the construction of two ore-carrying ships, for operation as private carriers between the United States and Liberia.

Some months ago the former Federal Maritime Board approved construction subsidy aid for the two private ore carriers in question and this approval was

made expressly subject to certain conditions among which were (1) policy concurrence by the Secretary of Commerce, and (2) availability of funds after provision for all vessel construction under the Government's regular ship replacement program.

I should note at this point that under the law applicable at that time such decisions of the old Federal Maritime Board were contingent on the policy concurrence of the Secretary of Commerce. Therefore, the action of the former Maritime Board in referring this matter to the Secretary of Commerce was entirely consistent with the law in effect prior to the reorganization of the maritime agency.

Following the above-referred-to action by the former Federal Maritime Board the maritime agency was recognized pursuant to Reorganization Plan No. 7 which was approved by Congress last August. The present Maritime Subsidy Board of the Maritime Administration succeeded to the functions and responsibilities of the former Federal Maritime Board. Last fall I wrote to the Maritime Administrator, who also serves as Chairman of the present Maritime Subsidy Board, saying:

"After careful consideration of the numerous factors involved in this case, I have reached the conclusion that it would not be feasible for me to concur in the Board—former Federal Maritime Board—action as a matter of policy until:

"(1) The Secretary of Defense determines that the construction of the two ore carriers proposed takes priority over the construction of liner-type vessels in our regular ship replacement program.

"(2) The chairman of the House and Senate Appropriations Committees advised this Department that funds allocated for the construction of liner-type vessels may be diverted to the construction of the ore carriers under consideration."

The Maritime Administrator proceeded to request the views of the chairmen of the Senate and House Appropriations Committees and the Secretary of Defense.

The chairman of the Senate Appropriations Committee replied that the matter was being held in abeyance pending receipt of an opinion from the Attorney General.

The chairman of the House Appropriations Committee informed the Maritime Administrator that the issue was of such importance as to require further budgetary clearance and resolution by Congress.

The Department of Defense informed the Maritime Administrator that it could not support a subsidy for the construction of ore carriers if this would result in any reduction in the liner-type construction program.

Upon consideration of these responses as well as consideration of all other relevant factors the Maritime Administrator has recommended to me that the application by Bethlehem Steel Corp. for construction of two ore-carrying ships be denied.

In arriving at my own decision in this matter, I have given careful consideration to those factors which "favor" approval of the application, such as the economic benefit in terms of new business to our domestic shipbuilding industry, and the desirability of obtaining additional ore-carrier tonnage for operation under the U.S. flag.

Against these important factors there must be weighed compelling contrary reasons. First, it is quite evident in view of the response from the Appropriations Committee chairman that the Department of Commerce should not approve construction subsidies for private carriers—as distinguished from common carriers—without taking the matter back before Congress. Second, our present requirements for construction of liner-type vessels to be used in common carriage far exceed current budget allocations for maritime construction subsidies. For fiscal year 1963, Congress has been requested to appropriate sufficient funds, which with carryover of funds from the present fiscal year, will permit the construction of at least 18 dry cargo liner-type vessels. It is important to note, however, that the Government already has commitments under the various subsidy agreements with common carriers for the construction of a total of 42 ships which could be contracted for in fiscal 1963 but for fiscal limitations.

Third, providing Government construction subsidy for a private carrier ship—as distinct from common carrier—does pose a very serious question in terms of precedent—that is, would the Government be in a financial position to meet the construction subsidy requirements of all potentially eligible private carrier applicants. Information in the Maritime Administration shows that in 1961 there

were approximately 500 noncommon carrier vessels— including the scheduled bulk industrial carriers—operating in the foreign or domestic commerce of the United States. At least half of these ships, or 250, are engaged in foreign commerce, and it has been estimated by the Maritime Administration that a program of providing construction differential subsidy for this category of shipping would, over a period of time, amount to at least $1.5 billion. Therefore, the question of extending construction subsidy aid for the two ore-carrier vessels now in issue has implications far beyond the Government expenditure of approximately $15 million which would apply in this individual case.

Fourth, aside from the fiscal implications involved in the Government's embarking on a construction subsidity program for private carriers, there is implicit a rather fundamental issue of policy which has not been thoroughly considered and passed on by Congress. That is, to what extent should the Government provide construction subsidy aid for private carriage as distinct from common carrier operation in the shipping industry. While the present law provides no restriction as to the type of vessels engaged in foreign trade which may be eligible for construction subsidity aid, the public benefit and interest is not as clearly delineated in the case of private carriage as it is in the common carrier operation of liner-type vessels. The benefit to the Nation from an investment of public funds in private carriage vessels depends primarily on the national defense value of such ships rather than on their commercial value to American shipping as substitutes for common carriage. However, as indicated previously, from the standpoint of the national defense priority, the Department of Defense has informed us that higher priority should be given to the expenditure of public funds for the construction of liner-type vessels, for use in common carrier service. (I am informed that during World War II, prior to the end of hostilities, the Maritime Commission did approve construction subsidy for four private carriage vessels. It is quite evident from the records that that action was firmly based on the needs of national defense at that time, under circumstances which do not now exist.)

After full consideration and evaluation of the various factors involved I have concluded that I must concur with the recommendation of the Maritime Administration that the application by Bethlehem Steel Corp. be denied.

Sincerely yours,

LUTHER H. HODGES, *Secretary of Commerce.*

Mr. MARTIN. Senate Joint Resolution 160 authorizes the Secretary of Commerce to contract—

for the construction of at least two oceangoing ore or coal carriers and to pay a construction differential subsidy—

in accordance with the Merchant Marine Act of 1936.

As stated in the Secretary's letter which I have just read, there is implicit an issue of policy as to subsidizing the construction of private carriers as distinguished from common carrier vessels. The resolution now pending before this committee would clarify this policy issue with respect to "at least two oceangoing ore or coal carriers."

Apparently the resolution is designed only to obtain administrative approval for this single application. At least in literal language, it does not purport to settle the broad policy question concerning a construction subsidy program for private shipping carriers generally.

Of even greater importance is the fact that this resolution does not appropriate 1 cent for a construction subsidy of any kind. This leads me merely to reemphasize what is stated in the letter of February 16, that is, we have a basic question of priority in our ship subsidy program.

Obviously, we had to take into account the amount of money which the Government could make available for all subsidy ship construction of whatever character. Having done that, we come to the conclusion that our common carriage ship construction program should have first priority. Our needs and commitments for common carriage shipping

under contracts we now have with ship operators involve an expenditure of approximately $1.4 billion over the next 13½ years.

In conclusion, let me reiterate the considerations which the Department of Commerce had to take into account on this application.

(1) The lack of strong defense justification for giving priority to construction of bulk carriers over general cargo liners;

(2) The magnitude of the potential expense of a ship replacement program for all private carriage vessels engaged in foreign trade;

(3) The urgency of keeping the ship replacement program for subsidized common carrier operators as current as possible;

(4) The overall budgetary requirements for the Government, with particular reference to increased military preparedness expenditures which have been made in recent years and which are contemplated for the future; and

(5) The fact that the present appropriations the Department has for ship construction subsidy were justified before the Appropriations Committees for common carrier vessels only, and

(6) Finally, the fundamental policy issue of the Government's embarking on a construction subsidy program for private carriers, as distinguished from common carrier shipping.

Mr. Chairman, I have stated fully the basis for the decision of this one application. We have been completely aware of all of the factors which would argue for its approval, such as providing more employment in American shipyards, and providing for operation of these two vessels under the American flag. The fact that this application was not approved does not mean at all that we were unaware of or ignored the various advantages which could be cited in support of its approval. I will not attempt to elaborate on the shipbuilding employment problem or any of these other considerations, as I am sure you can get ample elaboration on those points from other witnesses.

The Department does not support the passage of this resolution because it does not really meet the issue nor does it provide the money with which to build ships. Neither does the Department support at this time, for overall budgetary reasons, action by Congress in undertaking a program of subsidizing private carriage vessels.

Thank you.

Senator BUTLER. Mr. Secretary, do you have now available a copy of your statement?

Mr. MARTIN. It should be here very shortly, Senator.

Senator BUTLER. Then I will get along as best I can with some questions, but I would like to take up the questions as you have posed them and ask you questions about them.

Mr. MARTIN. Yes, sir.

Senator BUTLER. In the meantime let me ask you some questions which go to some of the points that you have made, as I remember them.

I think that you said that the determinations of the original Maritime Commission and of the Federal Maritime Board prior to the adoption of Reorganization Plan No. 7 of 1961 were subject to the concurrence of the Secretary of Commerce.

Mr. MARTIN. That's correct, sir.

Senator BUTLER. The Merchant Marine Act of 1936, as I understand it, vested in the old Maritime Commission absolute and con-

clusive authority, and section 105–1 of the Reorganization Plan of 1950 had this to say with regard to the Federal Maritime Board:

Provided further, That the actions of the Board in respect to functions transferred under the provisions of this section 105–A shall be final.

May I pursue that a little further in connection with this question.

President Truman sent a message up on that Reorganization Plan of 1950 and in his message dealing with the Reorganization Plan No. 21, insofar as it related to the granting of subsidies, had this to say, and I quote:

In the performance of its subsidy functions the Board will be subject to general policy guidance by the Secretary of Commerce. The Board, however, and it alone, will determine to whom subsidy shall be granted and will make and award the subsidy contracts. Its actions therein will be conclusive and will not be subject to modification by any other agency or officer of the Department of Commerce.

It seems to me that that takes that down pretty thoroughly, that the Secretary of Commerce, under the prior rulings, while he could put up guidelines presumably for the conduct of the affairs of the Commission and the Board, certainly could not veto a subsidy if the Commission were to grant it—the Commission or the Board, depending upon which act you are operating under.

Mr. MARTIN. Senator Butler, the fact remains—I could not disagree with anything you have stated. The fact remains that the Chairman of the Federal Maritime Board at the time of the decision that you are talking about did in fact ask the Secretary of Commerce for policy guidance. I expressly said that in the statement here.

The decision of the Board, in June 1961, made the determination to grant the subsidy, subject to the policy concurrence of the Secretary of Commerce. That was No. 1. It was the main point in there.

Otherwise, why didn't they go ahead and grant it?

Senator BUTLER. Are you saying that the Board didn't discharge its obligations under the law?

Mr. MARTIN. They did discharge their obligations under the law.

Senator BUTLER. They did grant a subsidy, didn't they?

Mr. MARTIN. No sir, they did not. The subsidy was granted subject to two things: the availability of funds and the policy concurrence of the Secretary. They made that in their decision. That was in the Board. That has been a misinterpretation of this thing from the beginning.

It is part of the record.

Senator BUTLER. Have we a copy of the determination of the Board?

Mr. MARTIN. We will be glad to furnish you with one.

Senator BUTLER. I will be glad to see that.

Mr. MARTIN. I am sure you have it. I will be glad to read the exact language out of the decision.

(The decision of the Board follows:)

WASHINGTON, D.C., *June 29, 1961.*

To: Under Secretary for Transportation.

From: Chairman, Federal Maritime Board/Maritime Administrator.

Subject: Bethlehem Steel Corp.—Application for construction-differential subsidy under title V of the Merchant Marine Act, 1936, as amended, to aid in the building of two ore carriers

Attached are copies of the following documents which were fully considered and discussed by the Federal Maritime Board at a meeting on June 29, 1961:

1. Memorandum dated May 4, 1961, from Under Secretary Gudeman to Under Secretary for Transportation Martin and Maritime Administrator Staken, requesting certain information in regard to the subject application.

2. Memorandum dated May 18, 1961, from the Deputy Maritime Administrator to the Maritime Administrator, with attached copies of staff memoranda commenting upon Under Secretary Gudeman's memorandum of May 4, 1961.

3. Memorandum dated June 27, 1961, from the Deputy Maritime Administrator to the Chairman, Federal Maritime Board, with recommendations on the subject application.

It is requested that the documents attached be restricted to internal use within the Department of Commerce.

The Federal Maritime Board today took the following action on the memorandum of June 27, 1961, from the Deputy Maritime Administrator to the Chairman, Federal Maritime Board, relative to the subject application:

Subject to (a) the establishment to the satisfaction of the General Counsel of the United States citizenship of Bethlehem Steel Corp. under section 905(c) of the Merchant Marine Act, 1936, as amended, (b) the favorable reaction thereto by the Secretary of Commerce as a matter of policy, and (c) the availability of sufficient allocated funds remaining for this project after provision has been made for the construction of all ships under the Board's regular construction program:

I. Determined under section 501(a) of the act that (1) the plans and specifications submitted by Bethlehem Steel Corp. call for new ships which will meet the requirements of the foreign commerce of the United States and will aid in the promotion and development of such commerce; (2) the applicant possesses the ability, experience, financial resources, and other qualifications necessary to enable it to operate and maintain the proposed new ships; and (3) the granting of the aid applied for is reasonably calculated to replace obsolete tonnage with new and modern ships or to carry out effectively the purposes and policy of the act.

II. Approved the following approximate basic commercial characteristics of the two proposed new ships, subject to specific approval by the Department of the Navy and the United States Coast Guard as to the proposed speed and location of the navigating bridge:

Speed	knots	16¼–16½
Length overall		765′0″
Length between perpendiculars		732′0″
Breadth, folded		102′0″
Depth, molded to upper deck		56′5″
Draft, summer freeboard, molded		38′3″
Displacement, total, at summer freeboard	tons	66, 200
Total DCT, approx	tons	51, 400
Cargo, cubic including hatches	cubic feet	2, 150, 000
SHP, normal		20, 000
SHP, maximum		22, 000
Fuel oil	tons	4, 150

III. Agreed that with respect to the construction of the two new ships, the Board will determine what it would cost to construct each of these ships if they were constructed under similar plans and specifications (excluding national defense features) in a foreign shipbuilding center which is deemed by the Federal Maritime Board to furnish a fair and representative example for the determination of the estimated foreign cost of ships of the type proposed to be constructed, and will pay to the shipbuilder the cost of national defense allowances, if any, plus the difference between the domestic cost and said estimated foreign cost, as determined by the Federal Maritime Board, provided, however, that if the ships are constructed in any of the Bethlehem shipyards, then the domestic cost shall be the lower of (a) the lowest responsible bid, or (b) actual cost to such Bethlehem shipyard of constructing the said ships, all as determined by the Board.

IV. Authorized the Office of Ship Construction to submit the plans and specifications of the proposed ships to the Department of the Navy in accordance with section 501(b) of the act, for examination thereof and suggestions for such

changes therein, if any, as may be determined necessary in order that such ships shall be suitable for economical and speedy conversion into naval or military auxiliaries or otherwise suitable for the use of the U.S. Government in time of war or national emergency.

V. In the event the Navy should require any changes and they are of a nature that the applicant will not agree to include in the bidding plans and specifications of the commercial ship without additional cost to the Board/Administration, authorized the Office of Government Aid (with the advice of the Office of Ship Construction and other appropriate Offices of the Administration) to negotiate with the applicant to determine the cost of which items and/or the percentage of the cost of which items the applicant will agree to assume, thereafter the Office of Government Aid to promptly make such recommendation to the Federal Maritime Board as it deems appropriate with respect to the distribution of the cost of such changes.

VI. Authorized the applicant, in close cooperation with the Office of Ship Construction, to proceed with the preparation of bidding plans and specifications for the proposed commercial ships based on the above-listed characteristics so timed as not to make it impracticable to give due consideration to such changes, if any, as the Federal Maritime Board may request after it has received its final report from the Department of the Navy, and such changes with respect to operational suitability, if any, as the Board deems appropriate.

VII. After the bidding plans and specifications have been approved by the Office of Ship Construction, and agreement reached and approved by the Federal Maritime Board as to treatment of national defense allowances, if any, and any other appropriate changes, authorized the applicant, in close cooperation with and in a manner satisfactory to the Office of Ship Construction, to prepare invitations for bids under section 504 of the 1936 act, and upon approval thereof by the Federal Maritime Board, to issue said invitations for bids; thereafter, at the proper time, the Office of Ship Construction and the Office of Government Aid, respectively to coordinate appropriate recommendations to the Federal Maritime Board covering the award of the construction contract and the determination of the foreign cost of the ships and as to the provisions to be incorporated in the construction-differential subsidy contract.

It will be appreciated if both yourself and the Secretary of Commerce will indicate your concurrence in the above-described Board action by endorsement on this memorandum.

THOS. E. STAKEM.

The CHAIRMAN. Mr. Chairman, one of the points here, raised either by implication or directly, is whether or not the Maritime Board, the present one, after the Reorganization Act, has the sole authority to grant subsidies, or whether they can grant subsidies subject to the concurrence of the Secretary, or whether the authority of the Secretary is final in all these cases.

Senator BUTLER. I think under the existing law, prior to the adoption of the Reorganization Plan No. 7 of 1961, the granting of the subsidy was solely the province of the Maritime Commission and the Federal Maritime Board.

The CHAIRMAN. I think that is correct.

Senator BUTLER. Since the adoption of the reorganization plan in 1961 the determination is that of the Secretary of Commerce.

The CHAIRMAN. I think that is correct, because you and I have sat many times in testimony where Chairman Morse or the other chairmen testified—this was prior to the reorganization—that they had the sole authority and that the Secretary of Commerce should give advice or guidelines. But they need not follow it.

Senator BUTLER. That is right.

The CHAIRMAN. I think the record ought to be clear that the Reorganization Act that we passed last August subsequently changed that to the effect that the Board now recommends, and that the Board

did have authority to recommend the subsidy, deny it, or recommend it with the concurrence of the Secretary of Commerce. He in turn could overturn any of those decisions.

Is that your understanding, Mr. Alexander?

Mr. ALEXANDER. Yes, sir. I think I should introduce myself. I am Donald W. Alexander, Maritime Administrator.

The Maritime Subsidy Board makes decisions on applications which come before it. Those decisions are subject to review by the Secretary of Commerce.

The CHAIRMAN. Is it your understanding that he can agree with the decisions or deny the recommendation of the Maritime Subsidy Board?

Mr. ALEXANDER. Yes, sir.

Senator LAUSCHE. You are now speaking of the present law under the reorganization?

Mr. ALEXANDER. Yes, sir.

The CHAIRMAN. Under the old Board, I think Senator Butler and I are in complete agreement, under the old Board constituted by President Truman when he abolished the old Commission, the Secretary of Commerce, if the Board decided on a subsidy, could only suggest ahead of time what he thought it might be.

Senator BUTLER. And there can be no question that under the existing law the Secretary of Commerce appoints all of the men who pass on subsidy, and they are beholden to him for their continuance of employment as members of the Board. Isn't that true?

Mr. MARTIN. Senator Butler, under the old law—let's forget about the new law—under the old law in existence at the time this application was first considered, the Maritime Board, the Chairman of the Maritime Board, had the privilege, the prerogative, the access to the Secretary of Commerce for policy guidance. The fact that he did ask the Secretary of Commerce for guidance on this particular case showed that there was some doubt in his mind on the case. He wanted policy guidance on it. He made his decision expressly subject to that. It is in the law. The record shows that.

Senator BUTLER. With all respect to you and the Secretary I say that the law is absolutely positive as to who has the ultimate responsibility, and that was the Federal Maritime Commission under the prior to 1950, and the Federal Maritime Board from 1950 up to 1961. The law says their decision shall be conclusive and final, and nobody can override it, including the Secretary of Commerce.

Mr. MARTIN. Yes, sir, but they did not make a final conclusion before the reorganization plan. They did not make a final decision on it. They made it expressly subject to the Secretary's concurrence. If they didn't have to, why did they do it?

Senator BUTLER. They said that they felt this application should be granted and that the subsidy should be awarded.

Mr. MARTIN. They did not, sir. They did not, sir. I beg to differ. The record does not show that.

Senator BUTLER. Let me have a copy of that.

Mr. MARTIN. I have a copy of the record in front of me. I would like to read a couple of phrases from it.

Senator BUTLER. All right, go ahead.

Mr. MARTIN (reading):

Formal application dated March 6, 1961, as amended April 5, 1961, and filed and recommendation submitted to the Federal Maritime Board on June 27, 1961, in connection therewith for approval of commercial characteristics of the vessels to make certain initial findings under section 601 and to take such other actions as could be taken at that time with respect to the application, all subject to the following conditions:

(*a*) Agreement by Bethlehem Steel Corp. to make such action and accept such conditions as the Federal Maritime Board may require in connection with the recent sale by Bethlehem of the SS *Oremar* to Hudson Waterways Corp. and the SS *Feltore* to Erie Waterways Corp., including, if the Board deems it necessary, the execution of an addendum to contract No. MCc–40055, and any other appropriate documents in form and substance that is satisfactory to the Board; (*b*) the establishment to the satisfaction of the General Counsel of the U.S. citizenship of Bethlehem Steel Corp. under section 905(c) of the Merchant Marine Act of 1936, as amended; (*c*) the favorable reaction thereto by the Secretary of Commerce as a matter of policy; and (d) the allocation of such appropriated moneys for the project. The Federal Maritime Board takes the following action—

It was expressly subject thereto.

Senator BUTLER. What was its action?

Mr. MARTIN. They approved the recommendation with certain minor changes.

Senator BUTLER. Right. They approved. They discharged their legal obligation and approved the application, and they didn't say anything about additional money. They said subject to the allocation of money. I would say that is pretty much of approval by that Board.

Mr. MARTIN. Why did they ask for the policy concurrence of the Secretary then? They didn't have to.

The CHAIRMAN. They were in transition and they didn't know exactly what to do.

Senator BUTLER. That is exactly right. The Chairman has put his finger right on it. They granted this application, there can be no question about it.

The CHAIRMAN. They were very timid on whether they should go this way or that way. But if they had been free and clear they would have done it. But they still had the authority—what I am getting at basically—they had the authority to do what they did.

Senator BUTLER. Yes, they had the legal authority to do it.

Senator LAUSCHE. Mr. Chairman——

Mr. MARTIN. I think that was prior, Senator Magnuson, to the submission to the Congress of the Reorganization Plan No. 7. It was before that.

The CHAIRMAN. At the time they made this they had the authority to do what they did, and make these conditions. There is no question about that.

Senator LAUSCHE. Mr. Chairman, I do think that we have to look to the resolution of the document or the order that was drawn by the Board. You have to look to that document to see whether there was an absolute granting of this application.

The language that has been read said we give it on condition that the following situations be put into effect. And then they enumerate, one, two, three, four, it is a grant subject to the feasance unless the conditions are established to exist. So you have to make an inquiry.

Have those conditions been established?

Senator BUTLER. May I say to the Senator——

Senator LAUSCHE. One of the conditions was that subject to the guidance of the Secretary of Commerce.

Senator BUTLER. Was there any other application? Was the acceptance or granting of an application by the Maritime Board prior to that time on such a ground?

Mr. MARTIN. I don't think I understand the question clearly.

Senator BUTLER. I can understand the Secretary saying that the Bethlehem Steel Corp. must prove that it is a citizen of the United States and it must concur in certain things that have to do with the construction of the ship. But to add the additional one in this period of flux and changeover, even though they didn't have to do it, they added the additional one "subject to concurrence by the Secretary."

Mr. MARTIN. The reason for that——

Senator BUTLER. Is that the usual way to grant an application?

Mr. MARTIN. This was an unusual application, Senator. That is the reason they did it.

Senator BUTLER. I think I can demonstrate to you that there is nothing unusual about this application at all.

Mr. MARTIN. I would like to state for the record that it hadn't been done. There had been no approval for a subsidy of this character granted since the war. The subject applicant applied in 1946 or 1947 for the construction of four ships, the same carrier, and it was denied by the Board. And the fact that it hadn't been done for a period of 15 years, they naturally decided, they thought it was desirous to take it up with the Secretary of Commerce for guidance, for policy concurrence.

Senator BUTLER. Mr. Martin, can you tell me, if the application for the four ore type carriers was granted in 1945?

Mr. MARTIN. Yes, sir.

Senator BUTLER. Why were they granted in 1945 and why was that not a precedent for the granting of this application?

Mr. MARTIN. I think in 1945, when they were granted, I looked up the record, it was before the end of the Japanese war. Obviously with ships being sunk right and left, it might have been the feeling that these were very necessary items for defense purposes. Clearly they were.

The CHAIRMAN. Excuse me, Mr. Chairman. I think you ought to put in the record—I am concerned about this, too—the statement of the Secretary:

> I am informed that during World War II, prior to the end of hostilities, the Maritime Commission did approve construction subsidy for four private carriage vessels.

This statement is made on the basis of the general statement of the policy whether we should go into private carrier applications as against liner type vessels. Whether or not the Maritime Commission granted that under their own authority or whether it was granted under the War Powers Act, which was still in existence, isn't clear.

Senator BUTLER. It was granted under the authority of the Maritime Commission.

I would like to question Mr. Martin a little further on that.

Mr. MARTIN. May I point out one thing, Senator Butler?

Senator BUTLER. Yes, sir.

Mr. MARTIN. The four ships which were built in 1945 and 1946 were authorized at the time of the war.

Senator BUTLER. By the Maritime Commission.

Mr. MARTIN. By the Maritime Commission.

Senator BUTLER. I want to clear it up. Not under any war powers.

Mr. MARTIN. Sir?

Senator BUTLER. It was by the Maritime Commission in the exercise of its functions under the act of 1936. Is that right?

Mr. MARTIN. Yes, sir.

Senator BUTLER. I want to clear that up.

Mr. MARTIN. But it was at the time of the war.

Senator BUTLER. That is all right, it was at the time of the war.

Mr. MARTIN. It was long before the bomb was dropped.

Senator BUTLER. Yes.

Mr. MARTIN. In 1946 they applied for four additional ore carriers to the same Commission—and now we are in peacetime—and the Commission denied it.

Senator BUTLER. Do you know why?

Mr. MARTIN. I can read their letter if you would like it for the record.

Senator BUTLER. Let me ask you this further question. Don't you know that before two of those ships were even laid down that the hostilities had ceased? You know that, don't you?

Mr. MARTIN. No, sir, I don't know that. But I know the contract——

Senator BUTLER. That is true.

Mr. MARTIN. But the contracts were signed prior to the cessation of hostilities.

Senator BUTLER. The Government has no hesitation to cancel contracts if they don't need ships. Don't worry about that. They will cancel a contract at the drop of a hat. If they don't need the ships they cancel. Don't you know, Mr. Martin, that before those ships were built and before those keels were laid after the conclusion of the war that they canvassed around to see what the effect of it would be on the commerce of the United States? Do you know that?

Mr. MARTIN. No, sir, I don't think I would be expected to know that.

Senator BUTLER. I think that can be demonstrated.

Mr. MARTIN. It can also be demonstrated they were denied four other ships, can it not?

Senator BUTLER. They had just built four. They just got the brandnew four and figured that is all the commerce would need.

Mr. MARTIN. Who figured that?

Senator BUTLER. The Department of Commerce must have figured it. The Maritime Board, because they just had four brandnew ore carrier ships, two of which hadn't even been completed. And they must have felt that they were sufficient for a balanced merchant marine under the Merchant Marine Act of 1936. The Merchant Marine Act says that we shall have a balanced merchant marine. We don't have liner types alone. We must have bulk carriers, we must have freight carriers, we must have oil tankers and other things. But if you keep going the way you are going, you are going to have nothing but liner types. Who will carry the bulk cargo when the pinch comes in time of an emergency?

Can you tell me, in addition to that, that the situation today is not more serious than it was at the conclusion of World War II?

If the Maritime Administration authorizes the laying down of two ships after the cessation of hostilities, we are in a much worse situation now.

Mr. MARTIN. Senator Butler, we would have to defer to the Secretary of Defense as to what——

Senator BUTLER. Let me call your attention to that. At that time we weren't importing any iron ore into this country. Now we are importing 35 million tons a year as compared with maybe 1 million tons at the time that application was asked for.

Senator LAUSCHE. Would you read that letter in which the application for four was turned down?

Mr. MARTIN. Yes, Senator Lausche, I would be delighted to.

The copy I have is dated October 30, 1946, addressed to the Ore Steamship Corp., 25 Broadway, New York 4, N.Y. This is the same application we are talking about today. [Reads:]

DEAR SIR: The purpose of this communication is to explain to you the reasons which the Commission in its action of October 2, 1946, felt constrained to deny your application for construction-differential subsidy on four additional ore carriers. While the Commission is cognizant of the fact that postwar changes in our national economy might make desirable Government aid in the bulk movement of important raw materials to our shores, the matter is one more for the development of a general program to be submitted to Congress than to be handled piecemeal on the basis of a particular application. This is particularly true in the light of the Commission's duty to conserve its funds with respect to new construction to the most urgent needs of the American merchant marine.

In this connection, the Commission gave careful consideration to prior negotiations which your company had with Admiral Vickery last year. This, however, did not and could not amount to Commission action and even after giving due weight to the respect which is always accorded to his views, the Commission felt that the developments over the past year outweigh the considerations which Admiral Vickery may have at one time had in mind.

Very truly yours,

A. J. WILLIAMS, *Secretary.*

Senator BUTLER. I don't see anything in that that states any policy questions. Don't you realize that the Bethlehem Steel Corp. is the only American corporation that carries its ore in American bottoms? The only one that operates American ships?

Mr. MARTIN. Senator Butler, there is nothing to stop the Bethlehem Steel Corp. at this time to raise the American flag on these ships, no matter where they are built.

Senator SCOTT. Except the Department of Commerce.

Mr. MARTIN. No, sir; that is not correct, Senator Scott.

Senator BUTLER. Are you asking us to take the construction of these two very valuable assets to the American defense and American commerce abroad?

Mr. MARTIN. No, sir.

Senator BUTLER. Do you want that work to go out and to be given away to some foreign shipyard?

Mr. MARTIN. We are talking about—I am addressing myself to the operation of these vessels, not to the construction of them.

Senator BUTLER. We are not——

Mr. MARTIN. No matter where they were built, if owned by Bethlehem Steel Corp., they can bring those ships back and raise the Amer-

ican flag and man them with American seamen and bring them under the American merchant marine. There is nothing to stop them from doing that. They have other ships that are under foreign carriage now, foreign flags.

Senator SCOTT. Meantime, if I may interrupt, a lot of employment is denied to Americans who might otherwise have that badly needed employment, skills are diverted, technical skills for lack of shipbuilding opportunities, foreign shipyards are preferred to the exclusion of American shipyards, and the general policy of the Department of Commerce, which I understood to be in favor of full employment, seems to have suffered a retrogression.

Mr. MARTIN. Senator Scott, we have funds carried over from 1962, and in the 1963 budget for the construction of 18 ships. There is nothing to prevent—and we would hope that the Bethlehem Steel Corp. could be a successful bidder on some of those ships. They can be built at Sparrow Point, Quincy, Mass.; or anyplace else, providing they are the successful bidder.

Senator SCOTT. At much greater cost, of course.

Mr. MARTIN. No, sir. They will be at lesser cost. Excuse me, I don't understand how they can be at greater cost.

Senator SCOTT. Do you mean that you can build them less expensively in the United States than in Japan or Germany?

Mr. MARTIN. No, sir. I was talking about the ship program that we have in the current budget. We are talking about building 18 ships. You were addressing yourself I thought to the employment problem in the yards.

Senator SCOTT. I am. The shipbuilders council report said that shipyards in major maritime countries throughout the world were building 1,405 merchant ships totaling 18,655,000 gross tons at the beginning of 1962, and U.S. shipyards were in ninth place with only 63 vessels totaling 849,900 gross, about 4.6 percent of the world production.

It seems to me that the purpose of this resolution is to improve our economic growth, to get American moving, to employ people. I must say that I am at a considerable loss to understand why the Department of Commerce takes the position it does. I am a former tanker man myself. In the matter of ore-carrying vessels and tankers, I was on the high seas in World War II. I know what it meant to this country in the sinking of vessels. And I don't think an assumption is justified that we won't have a lot more vessels sunk if another balloon goes up.

I don't think the existence of nuclear weapons means that we aren't going to have vessels sinking. I would hope that the policy of the Government would be to encourage the construction in American shipyards by American workmen and the operation by American operators under the American flag of as many vessels as possible.

I still am somewhat at a loss to find out why there is such an objection to this resolution.

I think that is all that I want to say at this time.

Senator BUTLER. Mr. Martin, may I ask you this question: Have you granted any construction differential subsidies to the United Fruit Co. recently?

Mr. MARTIN. We haven't in our time, sir. They were granted construction subsidy, I think, in 1945–46.

Senator BUTLER. What were they granted? What was the purpose of those ships? Weren't those ships operated by the United Fruit Co. and employed solely for the purpose of bringing in their products?

Mr. MARTIN. I think that that is a limited private carriage and limited common carriage. They usually have the inhaul of their own products and an outhaul of general cargo.

Senator BUTLER. And that would make it——

Mr. MARTIN. This is wartime again, Senator. This was back in 1941, 1942, 1943, when they were blowing those fellows out of the water right and left.

Senator BUTLER. But they granted some in 1949, too. They weren't blowing anybody out of the water then.

Mr. MARTIN. Where do you see that?

The CHAIRMAN. In all fairness, I don't think that——

Mr. MARTIN. 1947, 1949——

The CHAIRMAN. I don't think these gentlemen had much to do with the policy at that time.

Senator BUTLER. But I am trying to establish the fact that there is a precedent here which Mr. Martin says doesn't exist. I say the precedent is a proper one, the law permits it, the law says that any—let me see—the law, in sub-chapter 5, dealing with differential-construction subsidies, says this:

> Any citizen of the United States may make application to the Federal Maritime Board for a construction-differential subsidy to aid in construction of a new ship to be used in the foreign commerce of the United States.

I think when that law says "any" it means United Fruit, Bethlehem, it means any citizen of the United States.

If you are going to give Bethlehem a subsidy in 1945 and 1946 and say that that was a mere accident and didn't mean anything, and didn't establish a precedent, and then you give one to United Fruit in 1945 and through 1949, and you say that doesn't establish a precedent, when do we get precedents established under this law?

Mr. MARTIN. I don't have anything in the record here, Senator. You keep talking about 1949. We see ships built in 1947, 1945, and 1946.

Senator BUTLER. 1947 serves the same purpose. There was no hostility existing in 1947 that I know of.

Another thing I want to point out to you, Mr. Martin, and I am certain you must be familiar with this, there was colloquy on the floor of the House when the Merchant Marine Act was passed.

Mr. MARTIN. I read that.

Senator BUTLER. You are familiar with that?

Mr. MARTIN. Yes, sir.

Senator BUTLER. I would like to read this colloquy for the record, with this preliminary statement: When the Merchant Marine Act of 1936 was first being considered the question regarding the eligibility of citizens, like the Bethlehem Steel Corp., for a contruction-differential subsidy, was specifically discussed on the floor of the House of Representatives. In the debate preceding the passage of the bill, which was introduced in the House by Congressman Bland, then chairman of the Merchant Marine and Fisheries Committee of

the House, the following colloquy took place, Congressional Record, volume 79, part 9, page 10188, and I read the collquy:

Mr. WHITE. Reference has been made to the American merchant marine. Does the gentleman consider a fleet owned by the big industrial organizations which transport their own product as a part of the merchant marine?

Mr. BLAND. Those ships are part of the American merchant marine and can be taken over for war purposes and are in many respects engaged in carrying general commerce as well as their own products.

Mr. WHITE. Is there anything in this bill to prevent those big industrial organizations, such as Standard Oil Co., United Fruit Co., and Henry Ford, from securing under the provisions of the bill taxpayers' money with which to build their ships?

Mr. BLAND. Not at all, because we need ships of that character to build up the merchant marine and to have as auxiliary cruisers in time of war.

Mr. WHITE. Then the gentleman is in favor of giving a subsidy for the building of ships to Henry Ford, Standard Oil Co., and the United Fruit Co. to haul their products?

Mr. BLAND. We need that type of ship under the American flag for use in time of war.

There can be no question that the question was discussed by the Congress, it was understood by the Congress, and the Congress then passed the bill. I say to you with all due respect that when this act says any American citizen can have a differential subsidy, Bethlehem Steel Corp. is just as much entitled to it as I am.

The CHAIRMAN. I think that—

Senator LAUSCHE. May we hear from Mr. Martin?

The CHAIRMAN. Excuse me.

Mr. MARTIN. You should be, I am sure, familar with the letter that the chairman of the House Appropriations Committee wrote to the Maritime Administrator, saying very clearly that if these funds were to be diverted from the ship's program that was presented to the Appropriations Committee, the further budgetary clearance would be required by Congress. This advice was also given us by the chairman of the Senate committee.

Senator BUTLER. I am familiar with that. But that is not a change in the law, and that doesn't go to the point that you make. You turned these ships down because they were being built by a private operator, rather than a man who is operating under differential subsidy on a trade route. I say you are wrong, and I think the record shows you are wrong.

Mr. MARTIN. Where does the record show that? I don't find that.

Senator BUTLER. You say the liner-type vessel as distinguished from the privately owned vessel.

Mr. MARTIN. We have contracts in the Maritime Administration with those liner operators. That is the basis of the whole subsidy program on those ships.

Senator BUTLER. In the Secretary's letter of February 16, 1962, the part designated as "third" reads as follows:

providing Government construction subsidy for a private carrier ship (as distict from common carrier) does pose a very serious question in terms of precedent—

I say it doesn't at all. I say the precedent has been established and the law is perfectly clear, and if the application is otherwise in order, it should be granted.

The CHAIRMAN. I didn't think, Senator Butler, there was any question about the law in this case.

Senator BUTLER. The Department thinks there is a great question.

The CHAIRMAN. The Secretary says, in the last page of his letter:

> While the present law provides no restriction as to the type of vessels engaged in foreign trade which may be eligible for construction subsidy aid * * *.

In other words, they say that these vessels clearly were eligible. I think they clearly are eligible.

Senator BUTLER. Then why does he say—this is his language—

> does pose a very serious question in terms of precedent?

The CHAIRMAN. They go on to say that—

> the public benefit and interest is not as clearly delineated in the case of private carriage as it is in the common carrier operation of liner-type vessels.

And then he equates several reasons why we should deny this. I think we should nail down the fact that the law, the present law, the authority of the Secretary under the Reorganization Act makes these vessels eligible.

Senator BUTLER. I don't think there is any question about that.

Mr. MARTIN. There is no question about that.

The CHAIRMAN. What we are arguing about, what we are discussing is what the Secretary's reasons were to deny these when they were eligible.

Senator BUTLER. Mr. Martin, if that is conceded, then why do you put all these windmills up and joust around with them when they don't mean anything? If you knew, admit we are entitled to it, what is the great policy question involved? What does it all amount to? It doesn't amount to anything, does it?

Mr. MARTIN. I think it amount to a great deal, Senator Butler. I think the letter speaks for itself as to the reasons why, in policy judgment, the application was denied.

Senator BUTLER. With due respect to the Secretary, it raises more difficulties and more questions than it ever solves. It does nothing but raise additional reasons, none of which in my opinion are valid as to why this application should not be granted, when it is clearly the right of the Secretary to grant it, and in the best interests of the United States and in the interests of the Department of Defense.

The CHAIRMAN. Senator Butler, I am a member of the Appropriations Committee of the Senate. I don't think that this should be predicated on what an appropriations committee has to say beforehand about a subsidy.

Senator BUTLER. That is right. Can he change the whole law of Congress, one man sitting in the House of Representatives?

The CHAIRMAN. If the Secretary should decide to grant this, then he will ask the Congress for this money. If the Appropriations Committee after due hearing turns him down, that is another story. Nevertheless, that isn't the way it has happened.

I want to clear up the legal aspects of this, and then I think we can go to the reasons pro and con as to why the Secretary denied this, which I also think he had a right to do. I don't think he should go to the Appropriations Committee ahead of time and get the suggestions.

Senator BUTLER. Unless he wanted to find some reason for denying the subsidy.

The CHAIRMAN. I don't know about that.

Senator BUTLER. That is a good way to do it when you are hunting for reasons.

The CHAIRMAN. People in the executive department are conscious of budgets and problems of subsidies, and I think they rightly should be.

Senator LAUSCHE. Mr. Chairman, may I ask, is there going to be an allocation to the different Senators of time to do some questioning?

Senator BUTLER. Yes, indeed, Senator.

Senator LAUSCHE. Then I will wait.

Senator BUTLER. You can question him right now, if you would like. I may come back to some questions after you finish.

Senator LAUSCHE. Are you able to tell for the construction of how many ships subsidies had been granted since 1936? Approximately?

Mr. MARTIN. I don't think we have that information. We would like to supply that for the record.

Senator LAUSCHE. I would want it.

Are you able to tell the number of subsidies that were granted for the construction of ships used in private carriage?

Mr. MARTIN. Yes, sir; I think we can tell that here.

I think the number is 36, which have some elements of private carriage in them.

Between the years 1941 and 1947 there were 36 ships built whereon construction subsidy was granted that had elements of private carriage in them. They were for private carrier operations.

Senator LAUSCHE. Did those ships also have in them the element of public or common carriage?

Mr. MARTIN. Yes. I think all, with the exception of the four that were granted to the Bethlehem Steel Corp.

Senator LAUSCHE. This number of 36, are you able to tell how it compares with the total number of ships that were subsidized? I assume that based on your former answer you can't make the comparison now?

Mr. MARTIN. We don't have the total of all ships that we built under construction subsidy here with us. We can certainly get it for the record.

Senator LAUSCHE. On this letter sent out by the Secretary of Commerce he states that—

the Maritime Administration shows that in 1961 there were approximately 500 noncommon carrier vessels, including the scheduled bulk industrial carriers operating in the foreign or domestic commerce of the United States. At least half of these ships, or 250, are engaged in foreign commerce.

Do I understand your apprehension to arise out of the fact that if you begin subsidizing Bethlehem Steel in the acquisition of private ships you will in a substantial degree bind yourself into a commitment to subsidize the other 250 that are traveling on the high seas as private carriers?

Mr. MARTIN. Yes.

Senator BUTLER. Will the Senator yield for just a moment?

Senator LAUSCHE. Yes.

Senator BUTLER. At that point, have any applications from such owners been filed with the Maritime Commission, or do you know of any such applications?

Mr. MARTIN. I know of no application similar to this one, Senator, from Bethlehem.

Senator BUTLER. Don't you also know that the reason they haven't been filed is because they can't get an operating subsidy? It would seem to me if your contention is valid, you would have had many applications since 1945. You haven't had any.

Mr. MARTIN. We wouldn't consider it on that basis, Senator.

The subsidized operators—there are now, I think, 16 in the subsidized fleet—they are ships that are engaged in common carrier vessels, operating on essential trade routes, which is part of the program.

Senator BUTLER. That is true. But the people, the 250 ships that the Senator from Ohio refers to, are owned by people who must have an operating subsidy to exist if they build the ship here, and that is why you haven't had any applications.

Bethlehem Steel Co. is able to operate a ship without a subsidy, whereas these other 250 people, I think if you look at the record and see who they are, are not able to operate unless they get construction-differential subsidies, and they haven't been able to get it. Therefore, you have had no applications.

I think that is the answer to that question.

Mr. MARTIN. I think there are companies like the oil companies that operate the tanker fleets, they certainly have the resources to operate without an operating subsidy, and would like to have the Government pay half the cost of building their ships.

Senator BUTLER. Have you had any applications from them?

Mr. MARTIN. No, sir.

Senator BUTLER. How do you account for that? This has been going on for 25 years.

Mr. MARTIN. I think they would assume that they would have a pretty dim prospect with the military considerations as they are.

Senator BUTLER. Then what is to be feared? It seems to me that it goes right back to the same question. The precedent has already been established in the *Bethlehem Steel* case, in the *United Fruit Co.* case, and even though you may have some apprehension about it, it is established and the law permits it.

Senator LAUSCHE. Who are some of the potential applicants, in the event this door is opened, who may appear before your Board?

Mr. MARTIN. I think all the steel companies. I would say United States Steel. I would think all the aluminum companies——

Senator LAUSCHE. Republic Steel?

Mr. MARTIN. Republic Steel.

Senator LAUSCHE. Inland Steel?

Mr. MARTIN. Any of the large industrial carriers. I would think it would have inferences with the——

Senator LAUSCHE. Get to the aluminum.

Mr. MARTIN. Not the dry bulk carriers, the wet bulk.

Senator LAUSCHE. I don't hear you.

Senator BUTLER. The Senator said he didn't hear you.

Mr. MARTIN. Alcoa.

Senator LAUSCHE. That is aluminum.

Mr. MARTIN. The Aluminum Corp. of America, yes.

Senator LAUSCHE. What about Olin Mathieson?

Mr. MARTIN. Yes.

Senator LAUSCHE. Now go to the oil companies.

Mr. MARTIN. Standard Oil of New Jersey. All of the oil companies, all the major oil companies—Texaco, Standard Oil of California.

Senator LAUSCHE. Is that one of the problems confronting you in determining how you shall allocate a limited quantity of money that you have?

Mr. MARTIN. I would say that the implication would be such that the Congress should carefully consider that if they are going to subsidize today the construction of vessels in private carriage, they should be prepared to embark on a program which could cost in excess of $1½ billion to replace these ships.

Senator LAUSCHE. Which is the largest steel company in the United States? It is United States Steel, isn't it?

Mr. MARTIN. Yes.

Senator LAUSCHE. And Bethlehem is second?

Mr. MARTIN. That is my understanding, Senator Lausche.

Senator LAUSCHE. United States Steel has a varied empire, doesn't it, by way of being the owner of minerals and ships and railroads and other facilities needed in the development of their iron industry?

Mr. MARTIN. I am under that general impression, Senator Lausche. I am not an authority on the scope and setup of the steel corporations. They are most substantial.

Senator LAUSCHE. So that in viewing this application for $15 million to be given to Bethlehem, you envision the consequence that will come when others might say "We are in the private carrier business, but here is a chance to get the taxpayers' money to run our business"?

Mr. MARTIN. I would think that conclusion would be very easily reached, Senator Lausche.

In addition to Bethlehem being the operator of the ship, where they are in the business of taking the ore from their own facilities in Liberia to their own mills in Maryland, Sparrows Point, they are also the constructors. They are in the shipbuilding business. So they would be building the ship in their own yards—I think some think it will be built at Sparrows Point.

I saw a statement in the Associated Press on Monday which quoted Senator Butler to the effect that the ships would be built at Sparrows Point.

They also have a yard at Quincy, Mass., and we were under the impression that the ships were to be built there.

It is quite extensive, beyond just the point of private carriage, if permissible. They are in the business of building the ship, operating the ship in their own private business.

Senator LAUSCHE. Are you able to state what the capital structure is of Bethlehem Steel?

Mr. MARTIN. No, sir, I am not.

Senator LAUSCHE. Is there anyone here of your statisticians who can tell what its capital structure is?

Mr. MARTIN. Senator Lausche, I saw Mr. Jurgens here, Mr. Lee, of the Bethlehem Corp., here in the room. I think they are better versed on their affairs.

Senator BUTLER. Mr. Strohmeier is here and will be on the stand next, Senator.

Senator LAUSCHE. For the purpose of getting it in proper order, could I put a question at this time? I am sure it is in excess of $1 billion.

Senator BUTLER. Mr. Strohmeier is the vice president in charge of all ship construction. Whether he is able to answer the financial question that you are asking, I don't know, but if he is——

Mr. Strohmeier, will you answer the Senator's question, if you can?

Mr. STROHMEIER. We are a publicly owned corporation with about——

Senator LAUSCHE. I didn't ask that.

Senator BUTLER. What is the capital structure of the company?

Senator LAUSCHE. How much are your assets on your books?

Mr. STROHMEIER. I can't answer that question offhand. It is in excess of $1 billion.

Senator LAUSCHE. In excess of $1 billion.

Senator BUTLER. I think that is a safe assumption.

Senator LAUSCHE. Safe, yes.

Now we have the proposition here of a U.S. industrial enterprise, with assets in excess of $1 billion, which says that we cannot operate our business unless you give us taxpayers' money.

Senator BUTLER. They don't say that at all, Senator. They say "We want to build these ships in an American yard. We are an American corporation. We want to stay at home. We want to operate with the American flag." They avail themselves of the statutes of the United States, passed by the Congress and signed by the President, and if the Department of Commerce doesn't want to grant the application they are going to build the ships themselves.

If that is taking advantage of anybody, I don't see it.

Mr. MARTIN. Senator Butler, I want to say again, which I have said earlier: I am not aware of anything under present law which would prevent Bethlehem Steel Corp. from having these ships built abroad, bringing them back and putting them under the American flag.

Senator BUTLER. There is nothing to prevent it, but you would be putting men out of work. And what would you be doing to the American economy when it needs a boost?

Mr. MARTIN. If putting men to work is the sole criteria, why don't they bring them back and put the men on those ships?

Senator BUTLER. Because 80 percent of the cost of building a ship, approximately, is labor. And 80 percent of the cost of these two 51,000-ton vessels will be lost to American labor, and Europeans will be employed while Americans walk the streets. That is the difference.

Senator LAUSCHE. On that score, I might give you my view. If you do that for Bethlehem Steel, why don't we do it for all industries which say that "We are being affected by foreign competition and therefore we need taxpayers' money to run our business"?

Senator BUTLER. That is exactly what we do say, and not a single application has been filed. That's exactly the point I am making. We have said that since 1945.

Senator LAUSCHE. Then that brings up the query: Where are we headed? What is the end of our economy? Does it mean that when they cannot operate and others can undersell us that we subsidize?

That's where I come to in my thinking.

Mr. MARTIN. Senator Butler, as far as Bethlehem Steel Corp. is concerned, I am advised by the Maritime Administrator that the Sparrows Point yard in the State of Maryland is the largest shipyard facility in the United States, and secondly, that Bethlehem Steel Corp.

enjoys the highest percentage of work let out by the Maritime Administration of any yard in the United States, and has enjoyed this over the last 10 years.

Senator BUTLER. That may be perfectly true. But don't you know, by like token, that the Bethlehem Steel Corp. is also closing shipyards, and that the employment ratio in Maryland as elsewhere has fallen drastically. And don't you also know that if this resolution passes and you enter into a contract for a construction differential subsidy with Bethlehem Steel Co., they would have to put this out to bids?

Every shipbuilder in America will get on opportunity to bid on it. And unless Bethlehem is low bidder they are not going to get it.

Mr. MARTIN. No, sir. They have the option——

Senator BUTLER. They have the option of paying the difference between the low bid——

Mr. MARTIN. They have the option——

Senator BUTLER. In other words, they have the option to meet the low bid. What is wrong with that?

Mr. MARTIN. There is nothing wrong with that.

Senator BUTLER. I don't think so either.

Mr. MARTIN. We don't quarrel with that. We do say we have funds in the 1963 budget, together with the carryover from 1962, to build 18 ships. That is all the money we have at the moment. It is a budgetary requirement.

If these ore carriers were built it would mean three less liners that otherwise go in some other yard or in their own yards. They are free to bid on each and every one of these 18 ships.

Senator BUTLER. That suggests another question to me.

You are talking about the liner-type vessel. Have you canvassed the owners or the operators of the liner-type vessel to see why their replacement programs have not resulted in more commitments for building their ships? Have you canvassed any of them to try to find out why it is necessary to carry the money over from year to year?

Mr. MARTIN. There are budgetary implications there, Senator, not the operator problems. We have plenty of contracts we could let to build these ships, if we had the money.

Senator BUTLER. I happen to know that some of these operators who wanted to take part in the replacement program have now sort of gotten cold feet about it because business is allegedly poor, and they are hanging back. The result is that you have had money carried over from year to year doing nobody any good.

Have you canvassed those operators to find out what their feeling is?

Mr. MARTIN. Yes, sir. I am aware of certain operators who have particular problems in their own business which they are postponing every year.

Senator BUTLER. They are financial problems.

Mr. MARTIN. Not altogether.

Senator BUTLER. Whatever they are, they amount to the fact that some operators don't want to build ships now.

Mr. MARTIN. Whether they do or don't, I want to assure you that contracts with the Government will be lived up to.

Senator BUTLER. I don't doubt that.

Mr. MARTIN. And the ship-replacement program, and the program of our subsidized operators, is the heart and soul of the Merchant

Marine Act as we interpret it. We have funds this year to build 18 ships and we are going to build them.

Senator BUTLER. Whether or not operators want them?

Mr. MARTIN. We will have no problem. Forty-two ships should be replaced. We are building 18.

Senator BUTLER. The only problem I can see that you have, if you proceed at that rate in the next 10 years, you won't have any merchant marine because they will be gone.

Mr. MARTIN. There are 52 ships under construction today in our yards under our construction subsidy program.

Senator BUTLER. The Department of Defense has been up before this committee on many occasions. They have informed us that an annual construction program of 25 to 30 vessels will be required to replace our aging subsidized fleet alone.

The question, therefore, is not as to the priority of one carrier over another; it is a question of obtaining a balanced merchant marine.

Basically the answer is more funds. Isn't that correct? If you are to retain an adequate merchant marine?

Mr. MARTIN. Yes. I say the budgetary implications are definitely the foremost problem.

The CHAIRMAN. The very minimum is 32 ships a year.

Senator BUTLER. I concur with the Senator.

The CHAIRMAN. I think in all fairness to the new Maritime Board, which will advise now, through the Secretary and other people involved—including this committee—which has just taken over, I hope they have more consciousness of the need to beef up the shipbuilding program than the prior Maritime Board for the past 5 or 6 years who, themselves, wanted to do it but the budget stopped them, and they never asked for it.

The Appropriations Committees have always been, I think fairly liberal in these matters. But we are getting behind. It is a minimum of 32 ships to keep just a modicum of American flags flying.

Senator LAUSCHE. Mr. Chairman, may I say that my questioning is chopped up to the point where it will have to be looked after with a microscope in 25 or 30 pages. I would like to have some continuity in what I am trying to develop.

Senator BUTLER. Senator, you are entitled to it, and you have it. But all of our questioning has been chopped up. I was questioning when you asked me to yield, which——

Senator LAUSCHE. No, I didn't; very little.

May I proceed?

You state the Secretary of Commerce stated:

> It is important to note, however, that the Government already has commitments under the various subsidy agreements with common carriers for the construction of a total of 42 ships which could be contracted for in fiscal 1963 but for fiscal limitations.

Mr. MARTIN. Yes.

Senator LAUSCHE. Is it a fact that you have 42 ships with which you could go forward if you had the money?

Mr. MARTIN. That is correct, Senator Lausche.

Senator LAUSCHE. If you take $15 million out of your available money, you prejudice still more your present inability to go forward with the program.

Mr. MARTIN. If we take $15 million out to build these ore carriers, there will be three less ships on the regular program that won't be built.

Senator LAUSCHE. You are then placed in the position of determining whether, from a psychological standpoint, and from a security standpoint, it is better to go forward with the common carriers rather than help a private carrier.

Mr. MARTIN. Yes.

Senator LAUSCHE. And you have concluded that from the standpoint of the public, from the standpoint of your finance, and from the standpoint of the implications that you see with 250 potential applicants, it is better now to use your money for the common carrier?

Mr. MARTIN. That's correct, Senator Lausche.

Senator LAUSCHE. Have you changed your view at all after this examination here today?

Mr. MARTIN. No, sir, we have not.

Senator LAUSCHE. I think that is all that I have.

Senator BUTLER. Mr. Martin, don't you know that the liner-type vessel now carries 25 percent of the foreign commerce of the United States and the bulk carriers involved in this discussion carry 75 percent? Why would you give priority to a 25-percenter over a 75-percenter?

Mr. MARTIN. I don't think I understand your question, Senator.

Senator BUTLER. It is a question of the type of ship required. The foreign commerce of the United States is being carried in these liner-type ships that you say should have priority. And the bulk carriage is about 75 percent. You need more bulk carriers than you need the liner-type. Why would you give the priority to the liner-type?

Mr. MARTIN. I think the statement of the Secretary of Defense would answer that. The Defense Department, for defense reasons, believes that the construction of the liners, cargo liners, should have first priority on Government funds.

(The Defense Department correspondence follows:)

ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., November 7, 1961.

Hon. CLARENCE D. MARTIN, Jr.,
Under Secretary for Transportation,
Department of Commerce.

DEAR MR. MARTIN: This is in reference to the September 6, 1961, interoffice memorandum from the Secretary of Commerce to the Chairman of the Maritime Subsidy Board on the subject of subsidy for construction of two Bethlehem Steel Corp. ore carriers.

The attached copy of a letter addressed to the Special Assistant to the President sets forth the Department of Defense position on the subject.

Sincerely yours,

THOMAS D. MORRIS.

ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., November 7, 1961.

Mr. FREDERICK G. DUTTON,
Special Assistant to the President
The White House.

DEAR MR. DUTTON: This is in reference to the November 1, 1961, meeting in your office relative to possible subsidy for construction of two ore ships for the Bethlehem Steel Corp.

The Department of Defense requirements for diverse types of ships are reviewed annually to determine mobilization needs. The Department has con-

sistently recognized the importance of America-flag ore carriers as a vital segment of our national requirement. Moreover, our mobilization planning does not include need for ore ships to meet purely military requirements.

While all ship resources are of value to defense, the Department cannot support a subsidy for the construction of ore carriers if this would result in and reduction of liner-type ships now programed.

Sincerely yours,

THOMAS D. MORRIS.

Senator BUTLER. Does that go to cargo liners or to vessels such as the *United States* which they can load with troops in the event of emergency?

Mr. MARTIN. That goes to the extent of cargo liners.

Senator BUTLER. It goes to the extent of cargo liners?

Mr. MARTIN. Yes, sir.

Senator BUTLER. That they can put the berths in real quick and make troop carriers out of them.

Mr. MARTIN. I wouldn't say just troop carriers. They can carry bulk cargoes which are essential for the prosecution of the war.

Senator BUTLER. In the event of war who will bring in the ore to manufacture the steel to keep the war going?

Mr. MARTIN. The liner-type vessel is the best for development and increasing of our foreign trade.

Senator BUTLER. That may be perfectly true.

Mr. MARTIN. On trade routes they tap new markets——

Senator BUTLER. Mr. Martin, the act says that we shall have a well-balanced merchant marine. It seems to me it includes bulk carriers the same as liner-type carriers. At the present moment we only have——

Mr. MARTIN. There is no question about this, Senator. They have these bulk carriers and the bulk carriers are under foreign flag, but they are under the ownership of, to wit, in this case, the steel corporation. We would assume that the Defense Department assumed they would be available to them in case of emergency.

Senator BUTLER. We have but six under the American flag. They are all 15 or 16 years old, and are uneconomical to operate.

I would like to ask you another question. You said you are contemplating building these 42 ships, and if you allocate any of the money to the ore carriers you would lose three ships. If that is true, why do you keep carrying the money over from year to year? If you have so many takers, I would think your funds would be current.

Mr. MARTIN. Senator, the 42 ships are the ships that are eligible under the contracts now to be constructed—to be replaced.

Senator BUTLER. But the operators who are participants in those contracts are dragging their feet and don't want to build them. Is that right?

Mr. MARTIN. No, sir; that isn't right.

Senator BUTLER. That isn't right?

Mr. MARTIN. No, sir. I wouldn't say that is a complete statement.

Senator BUTLER. Why is the money carried over? I go back to the basic question.

Mr. MARTIN. The money was carried over this year—I cannot speak for prior years, I will speak for this year—for budgetary reasons.

Senator BUTLER. What does that mean? I don't understand that. I don't know what you mean when you say "budgetary reasons."

Mr. MARTIN. For fiscal limitations that were involved, they wanted to slow down; a holdup until June on the letting of some contracts. But by the end of the year we will be right on schedule with the funds that were appropriated by the Congress.

I think I said earlier that the Department is going to make every effort to insure that the funds that we now have will construct 18 ships this next fiscal year, which will be built, will be contracted for.

Senator BUTLER. A comment of a friend of mine when I told him I was coming over to hold these hearings to try to get American flags on the high seas, he said, "Can't we get a little bit of that money that would put a man on the moon to put some men on the high seas?" I think that is a pretty good suggestion.

I think it is very important that we have an American merchant marine that is a well-balanced merchant marine. If you need money I think you ought to go and ask for it to carry out the provisions of the Merchant Marine Act.

Mr. MARTIN. Senator, we won't disagree with that at all.

Senator BUTLER. Do you ask for the money?

Mr. MARTIN. I am sure you are familiar with the role the Bureau of the Budget plays in administration, and what we might ask for or recommend at one level might be disallowed at another level.

Senator BUTLER. Do you have any questions, Senator?

The CHAIRMAN. They ask for it but they don't get it all the time. I have a question.

It doesn't necessarily mean—I don't think the Secretary wants the record to stay this way—that if they granted this application that necessarily they would have to stop building three other ships. If they granted this application they would have to come to Congress and add to what they have. One is one program, the other is another. Congress may or may not give it to them.

It shouldn't be predicated upon one program knocking out the other program because they are different. I don't think the record should stay that way.

Senator BUTLER. I will ask one further question, and then I am through examining Mr. Martin.

You say that the resolution does not touch on the issue involved. What amendment would you recommend?

Mr. MARTIN. Excuse me, Senator. I didn't get that.

Senator BUTLER. You said earlier in your testimony that the two joint resolutions filed, and on which we are now holding this hearing, don't go to the issue in the case. How would you amend those resolutions to make them go to the issue?

Mr. MARTIN. I wouldn't want to get down to the business of drafting the resolution. But I would say that the resolution directs itself to the construction of these two ore-carrier ships, ore or coal ships. I think it has been developed here, in the statement we made, in the questions that were asked by Senator Lausche, that the applications here are to build not two ships but 250 ships.

Senator BUTLER. I see. That is what that goes to?

Mr. MARTIN. Yes, sir. A billion and a half dollars cost.

Senator BUTLER. And you haven't had a single application in all these years?

I understand what you mean now.

Mr. MARTIN. If this was allowed, I think under the existing legislation, and without further clarification by the Congress, we would indeed have some applications.

The CHAIRMAN. Isn't it true that in effect the Secretary's letter of February 16 poses some reasons. But he also suggests that this is a matter of policy, and if Congress wants to go ahead you will do the best you can to carry out the objectives of the Congress?

Mr. MARTIN. Yes.

The CHAIRMAN. And you have no objection to Congress suggesting that you build two ore carriers in this particular case, have you, if Congress doesn't——

Mr. MARTIN. If the Congress appropriates the funds, Mr. Chairman——

The CHAIRMAN. Of course, if we appropriate the money.

Mr. MARTIN. Then the ships will be built.

The CHAIRMAN. But it should be separate from the program that we are talking about; that is, the other ships, and it should be clearly so stated. But again I want to reiterate, you do have the authority to do this if you want to do it?

Mr. MARTIN. We currently have the authority.

The CHAIRMAN. And you can turn it down if you want to turn it down?

Mr. MARTIN. Yes.

Senator BUTLER. I have no further questions.

Senator LAUSCHE. You are not wanting to be here as a neutral on the proposal that we direct you to build these ships or subsidize these ships?

Mr. MARTIN. These two particular ships?

Senator LAUSCHE. Yes. That is, you hesitated answering the question of Senator Magnuson.

Mr. MARTIN. We would hope, Senator Lausche, that before the Congress of the United States would direct such a proposal as this, that they would carefully consider the implications involved.

Senator LAUSCHE. What is your own view? Should it be done?

Mr. MARTIN. On this application?

Senator LAUSCHE. Yes.

Mr. MARTIN. As it now stands? No, sir, I don't think it should be granted.

Senator LAUSCHE. I wish you would supply for the record: (1) The assets of the Bethlehem Steel Corp.; (2) the number of ships that you have subsidized since the act was passed in 1936.

Mr. MARTIN. Of that manufacture?

Senator LAUSCHE. How many are there?

Mr. MARTIN. 233 ships were built with construction differential subsidy under the 1936 act.

Senator LAUSCHE. And 36 of those were in private carriage during the war and including the year 1947?

Mr. MARTIN. Yes.

Senator LAUSCHE. How many were in 1947?

Mr. MARTIN. Fifteen in the year 1947.

Senator LAUSCHE. I think that is all that I have, Mr. Chairman.

Senator BUTLER. Are there any further questions?

Thank you, Mr. Martin, very much. It is nice to have had you.

Senator LAUSCHE. May I express my regrets to the chairman. I was so anxious to get my questions through that I possibly thought I was being delayed.

Senator BUTLER. To the acting Senator from Ohio, at the moment, the Senator from Ohio can do no wrong.

Mr. Strohmeier, will you please come forward. Mr. Strohmeier, I see you have a short statement.

Right after Mr. Strohmeier finishes and the Senators finish asking questions, I will suggest that we take a brief luncheon break. We have a lot of witnesses, and I would like to conclude these hearings today if we can.

Mr. Strohmeier, will you go ahead.

STATEMENT OF DANIEL D. STROHMEIER, VICE PRESIDENT OF BETHLEHEM STEEL CO., NEW YORK, N.Y.

My name is Daniel D. Strohmeier, vice president of Bethlehem Steel Co. in charge of its shipbuilding division. I am also a director of the parent corporation, Bethlehem Steel Corp.

I appear in favor of the joint resolution authorizing the construction of at least two oceangoing bulk carriers under the Merchant Marine Act of 1936.

However, I would not wish to have the need for this joint resolution interpreted to mean that the Merchant Marine Act does not now authorize and encourage the construction of such bulk carriers. It is our belief that the act so intended from the beginning.

On March 6, 1961, we filed an application for construction differential subsidy for two 51,000-deadweight-ton vessels to carry our ore and other people's coal to be constructed in this country for operation under the American flag. Our application was denied by letter to us dated February 16, 1962.

Senator LAUSCHE. Mr. Chairman, may I suggest, the supplemental air carriers bill is going to be brought up today. I want to be on the floor when that is brought up. I don't want to be torn between these. I want to be here and there.

Senator BUTLER. If we have a quorum, you can be notified. I would like to stay here for that interim.

Senator LAUSCHE. Then I will stay here.

Senator BUTLER. Will you proceed.

Mr. STROHMEIER. In our opinion the reasons given for denying our application are not sound for they would seem to be contrary to the intent of the Merchant Marine Act. The reasons given for denying our application have such far-reaching implications as to the future of the American merchant marine and particularly the shipbuilding industry that they transcend the issue of whether Bethlehem builds two ore carriers in the United States or is forced to build abroad.

One of the reasons given for denial is that Congress did not intend the Merchant Marine Act to cover so-called private carriers as distinguished from common carriers. We believe that point of view is incorrect. That issue was debated in the House before passage of the Merchant Marine Act of 1936 when the following colloquy took place between Congressman Bland, who introduced the bill, and Congressman White of Idaho. As Senator Butler has previously mentioned,

and I think, if you will forgive a little repetition, I would like to read it again because I think it is fundamental to that issue.

Mr. WHITE. Reference has been made to the American merchant marine. Does the gentleman—

referring to Mr. Bland—

consider a fleet owned by the big industrial organizations which transport their own products as part of the merchant marine?

Mr. BLAND. Those ships are part of the American merchant marine and can be taken over for war purposes and are in many respects engaged in carrying of general commerce as well as their own products.

Mr. WHITE. Is there anything in this bill to prevent those big industrial organizations such as the Standard Oil Co., the United Fruit Co., and Henry Ford from securing under the provisions of the bill taxpayers' money with which to build their ships?

Mr. BLAND. Not at all; because we need ships of that character to build up the merchant marine and to have as auxiliary cruisers in time of war.

Another reason given for denial is the alleged concern over setting a precedent in awarding a construction subsidy to a so-called private carrier. We are unable to follow that argument. As I have just recited, Congress debated the subject and Congress passed the Merchant Marine Act with the clear understanding that private or industrial carriers were covered by the legislation just as are any other kind of carrier. The issue of private versus common carriers cannot now be raised with propriety as to what the act intends. Furthermore, Bethlehem's own Venore-class ore carriers of 24,000 deadweight tons were constructed about 1947 under the provisions of the Merchant Marine Act of 1936. Incidentally these ships were truly pioneers and blazed the trail that lent impetus to the development of the giant supertankers and dry bulk carriers that featured shipbuilding the world over in the 1950's.

How, then, does the act of administering the law, whose intent is so clear, and repeating what has already been done, constitute a precedent?

However, I am greatly concerned that the current action of the Department of Commerce against private or industrial carriers in itself constitutes a precedent and one that Congress should not allow to stand. If this precedent goes unchallenged, we shall find ourselves with a lopsided merchant marine unable to handle any significant part of our vital raw material imports.

The letter denying us the facilities of the Merchant Marine Act says that if our application were granted it would lead to a cost to the Government, over a period of time, of at least $1.5 billion. The letter states that there are roughly 250 noncommon carriers in foreign trade under the American flag and the $1.5 billion cost would result if all were granted the facilities of the act. We think the estimate is preposterous. If all 250 were replaced in an orderly fashion under the act, there would be an average replacement of 12.5 ships a year, based on a 20-year life. Assuming an average construction subsidy of $5 million per ship, we would have about $63 million cost per year. Now, anyone familiar with maritime affairs should know that such vessels are not eligible for operating subsidies under the law as it stands and that only a pitifully few—probably not over 10 percent—would ever be replaced by American-flag ships. Only very large ships, such as Bethlehem's projected 51,000-tonners, would have any chance at all

of making the grade under the American flag without operating subsidies. Therefore, the figure of $63 million per year would shrink to less than $7 million per year—a figure that hardly supports the assertion of $1.5 billion. If there is any doubt as to whether my estimate or the Department of Commerce estimate should be given credence, it might be instructive for your committee to inquire as to the total estimated amount of construction subsidies represented by bona fide applications for vessels ineligible for operating subsidies since the *Venore-class* ore carrier subsidy was granted 17 years ago. I can assure you that the granting of that subsidy caused no run on the bank nor would the granting of the current application.

The requirements of national defense were cited in the letter as the reason why the *Venore*-class subsidy was granted. The record is replete with evidence that the basis motivation for approval was promotion of foreign commerce in U.S.-flag ore carriage. However, the letter said that standard was granted in 1945 before the end of hostilities, and I quote, "under circumstances which do not now exist." I think that statement calls for a little comment. At the end of the war the American steel industry was importing only about 1 million tons of ore a year. Recently that figure rose to 35 million tons in 1 year and that represented about a third of the country's ore requirements. The industry's dependency on overseas ore is expected to grow as the domestic ore bodies play out. Thus, the steel industry, which is perhaps the basic industry underlying the industrial might of the United States, is highly dependent now on foreign ore. The *Venore*-class carriers of only 24,000 tons are currently our only ocean iron ore carriers and are so hopelessly outclassed by newer foreign-flag carriers of twice their size that the United States is carrying only about 3 percent of its ore imports in U.S.-flag tonnage. It would seem to me that if there was a national defense justification for the *Venores*, which had no chance of being completed before the end of the war, there is many times more justification for new U.S.-flag ships to avoid our becoming totally dependent on foreign flag ore carriage for a third of our iron ore requirements.

The letter denying our application strongly implies that the subsidy facilities of the Merchant Marine Act are reserved for liner-type vessels. We do not agree.

This country today is more dependent than at any time in its history on foreign sources of vital raw materials. The importation of such materials is an increasing part of our foreign commerce. Liner-type ships are not used for such service. We do not believe that Congress intended the Merchant Marine Act to be construed to encourage only American liner-type vessels to the exclusion of all other types that make up a balanced merchant marine. I might comment that the current tendency to consider only liner-types for the merchant marine ignores a changing pattern of our oceanborne commerce. When the act was passed the major part of our commerce was moved in so-called liner types. Today the pattern is reversed with bulk cargoes dominating.

Yet, this phase of our commerce is receiving less official attention than ever before.

The law itself is prefaced with a statement of purpose which says in part:

> To further the development and maintenance of an adequate and well balanced American merchant marine—

I stress the term "well balanced."

The statement of policy of the Merchant Marine Act of 1936 is, in my opinion, the standard against which administrative decisions should be made.

This statement is the law of the land and says, in part, in title I:

> It is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine (a) sufficient to carry its domestic waterborne commerce and a substantial portion of the waterborne export and import foreign commerce of the United States and (d) composed of the best equipped, safest, and most suitable types of vessels, constructed in the United States and manned with a trained and efficient citizen personnel. It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a merchant marine.

I call attention particularly to the intent that our merchant marine carry a substantial portion of our foreign commerce, and that our fleet be composed of most suitable types. I also call attention to the declared policy of Congress to foster the development and encourage the maintenance of such a fleet.

Well, how are we doing? I regret to say, not very well. Our merchant marine does not carry a substantial portion of our foreign commerce, our merchant fleet is not well balanced and composed of most suitable types, nor does there seem to be the will to foster the development of a fleet that is well balanced and which carriers a fair share of our foreign commerce.

All maritime nations carry an average 50 percent of their foreign commerce in their own ships. Thus, mediocrity alone calls for 50-percent participation. We are the major Western power. I hope you will agree with me when I say that in all things we should be better than mediocre. Instead, we have slumped to less than 10-percent participation in the movement of our own foreign commerce and that is about the lowest level to which we have dropped in the last 150 years. When the Merchant Marine Act of 1936 was being formulated, we carried 25 percent of our own foreign trade—a participation 2½ times greater than today, but nevertheless so low as to cause anxiety in Congress.

We have roughly 700 ships engaged in the foreign commerce of of the United States and carrying less than ten percent of our own trade. We are scheduled to start 18 new ships in fiscal 1963 under the Merchant Marine Act. In the words of the Acting Maritime Administrator February 14, 1962, and I quote, "these funds will enable us to build a total of 18 ships—a higher number than last year and a higher number than has been built in any year except 1961." On a 20-year life basis we should be building an average of 35 ships a year just to stand still at about 10-percent participation in our own trade. The replacement rate will support only half that participation, or about a tenth of what we ought to be doing if we were just an ordinary, average maritime nation. I see nothing but shipwreck

ahead for the American merchant marine as visualized by Congress in 1936 unless we alter our present downward course.

I sometimes wonder if in this space age we are not so preoccupied with glamour projects that we neglect the less spectacular fundamentals on which the very security of this country depends. A great nation like ours, dependent for a third of its ore requirements on imports, does not now have a modern competitive ore carrier under its flag. I would think that even consideration of minimum security would dictate that we remedy that fundamental neglect.

Of all the importers of iron ore, only Bethlehem has made any effort to remedy that situation and do its part to help balance our unbalanced fleet and improve the shockingly low participation of American-flag ships in U.S. foreign trade. Bethlehem is also the only company to have ocean-going vessels under the American flag which were designed for the carrying of iron ore. Yet we have been rebuffed for our efforts, our shipyard workers have been rebuffed, and our American seamen have been rebuffed. Financially, Bethlehem stands to gain by being forced to go abroad, but we are an American company and we sincerely hoped we could build these ships in the United States for operation under the American flag.

The foregoing raises, I think, a fundamental question. We do not have the merchant marine to which Congress aspired in the Merchant Marine Act of 1936 and we appear to be headed in the opposite direction. I wonder if Congress restates the objectives of the Merchant Marine Act to state that our country is satisfied to be carrying only 10 percent of our own trade in our own ships, that we should rely entirely on foreign ships for our raw material imports, that we should have a lopsided merchant fleet consisting only of liner types, and that it is the policy of the Government not to encourage or foster the development of an adequate, well-balanced fleet capable of carrying a substantial portion of our own trade? Or should Congress reaffirm the objectives of the act and follow through with whatever action is necessary to achieve those objectives?

I would strongly favor the latter course. In any event, I would not think Congress would wish to have the objectives of the act and the results under it so far apart as at present.

I appreciate the opportunity to appear before your committee.

Senator BUTLER. Thank you, Mr. Strohmeier. I think the record should show that Mr. Strohmeier is vice president of the Bethlehem Steel Co. in charge of all ship construction operations throughout the United States.

Mr. Strohmeier, I have three or four questions to ask you in connection with your statement that you have just given.

Is the Bethlehem Steel Co. committed to build these ore carriers abroad?

Mr. STROHMEIER. I could answer that by saying that a year has already gone by since we filed our application. We are currently in detailed discussions with several foreign shipyards. Whether a contract will be signed next week or next month I can't say. However, early deliveries are now one of our objectives.

Senator BUTLER. If the Department of Commerce, by reason of the adoption of the resolutions now pending before this committee or otherwise were to grant the subsidy, would you construct these vessels in America?

Mr. STROHMEIER. I think we would wish to have an indication as to how long it would take the Department of Commerce to act. We are still looking for early deliveries at this point.

Senator BUTLER. In other words you have now reached the point, after almost a year, that you must have some positive answer if these ships are to be built here?

Mr. STROHMEIER. Yes. Time is running out.

I think that we already have done a great deal of work in the matter of obtaining foreign bids.

Senator BUTLER. Could you tell us what countries, or what shipyards you have been dealing with?

Mr. STROHMEIER. I would prefer not to talk about the shipyards, but the countries that are represented by these yards include Holland, Sweden, Germany, Japan, and Yugoslavia.

Senator BUTLER. Yugoslavia?

Mr. STROHMEIER. Yes, Yugoslavia.

Senator BUTLER. I didn't know they were a ship construction——

Mr. STROHMEIER. They are a well-established shipbuilder. In some respects they have made us the most attractive proposal of all, which would result in a price well below competitive world levels.

Senator BUTLER. Mr. Strohmeier, I happen to know that we are granting subsidies to Yugoslavia for many things. Are you implying that Yugoslavia can quote under the world price and use a part of America's own largess to them to make up the difference?

Mr. STROHMEIER. If it isn't coming from us then it must be coming from behind the Iron Curtain.

Senator BULTER. Outside of Yugoslavia. Japan?
from Yugoslavia, received bids under the world market?

Mr. STROHMEIER. They are prepared to make such a proposal, and actually have made such a proposal, that would place the net cost to us substantially lower than anything we can get in Japan, Germany, Sweden, or anywhere else.

Senator BUTLER. Where can you build the cheapest ship in the world?

Mr. STROHMEIER. Right now, Yugoslavia.

Senator BUTLER. Outside of Yugoslavia. Japan?

Mr. STROHMEIER. I would hope that you wouldn't press me too much on that, because we are in very active discussions with shipbuilders from many different countries.

Senator BUTLER. The point is, you can have these ships constructed in Yugoslavia at a price substantially under the world market, which would be the lowest bidder in the world market on ships of this type?

Mr. STROHMEIER. That is the way it appears to us.

Senator BUTLER. You mentioned that approval of your Venore subsidy application did not result in a run on the bank. Have you any estimate of how much subsidy was requested for vessels not eligible for operating subsidies that you referred to in you statement?

Mr. STROHMEIER. We have made an estimate, based on our information of the applications that have been made, and the applications that were granted, and it comes out to about $3 million a year on the average since the Venore-class subsidy was granted. I previously arrived at a figure under $7 million in my prepared testimony and that compares with what has actually happened, as we understand it, of about $3 million.

Senator BUTLER. Senator Lausche?

Senatorf LAUSCHE. How long have you been with Bethlehem Steel?

Mr. STROHMEIER. I have been with Bethlehem since 1934.

Senator LAUSCHE. And you have been vice president how long?

Mr. STROHMEIER. I have been vice president since 1948.

Senator LAUSCHE. About how much is the capital structure or the assets of Bethlehem Steel?

Mr. STROHMEIER. In the order of $1 billion. I would be glad to provide the exact figure.

Senator LAUSCHE. I wish you would.

(Under date of March 21, the witness supplied the information requested; also data (also requested by Senator Lausche, as to the number of vessel built by Bethlehem under the subsidy statute). The document follows:)

BETHLEHEM STEEL CO.,
SHIPBUILDING DIVISION,
New York, N.Y., March 21, 1962.

Hon. JOHN M. BUTLER,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BUTLER: At the hearing before your subcommittee March 8, Senator Lausche asked me about the capital structure of Bethlehem Steel Corp. and the number of subsidized ships Bethlehem has built since the beginning of the Merchant Marine Act of 1936.

Please be advised that as of December 31, 1961, Bethlehem's capital consisted of long-term debt of $138,667,500 and capital stock and surplus aggregating $1,656,793,135.

Our records show that since the inception of the Merchant Marine Act of 1936, we have built 112 ships for which construction subsidy was made. These include 70 ships forming part of the war program.

Very truly yours,

DANIEL D. STROHMEIER,
Vice President.

Senator LAUSCHE. Are you able to estimate how much subsidy has been paid by the U.S. Government to Bethlehem Steel in the ships which it has constructed for navigating companies traveling on the high seas since 1936?

Mr. STROHMEIER. I have no idea.

Senator LAUSCHE. Do any of the other steel companies construct ships?

Mr. STROHMEIER. None that I know of at the present time.

Senator BUTLER. Does National? National Steel?

Mr. STROHMEIER. They are not a steel company in that sense.

Senator LAUSCHE. Is Bethlehem Steel the largest constructor of ships in the country?

Mr. STROHMEIER. I believe it is.

Senator LAUSCHE. You have great benefits out of this Merchant Marine Act, haven't you?

Mr. STROHMEIER. Surprisingly, Senator, most of our shipbuilding has been unsubsidized shipbuilding, until recently.

Senator LAUSCHE. To the extent that the contract has gone to you, you have benefited by it?

Mr. STROHMEIER. To that extent we have.

Senator LAUSCHE. And you take the position that you will build in a foreign country in spite of these benefits that you have had under this law unless you get a subsidy to operate your private ship?

Mr. STROHMEIER. The benefits that we have received under the

Merchant Marine Act as shipbuilders have not added up to very much in terms of profits. I think that is the history and experience.

Senator LAUSCHE. Apparently what has been the volume of money that has come to you under this program of 1936?

Mr. STROHMEIER. I would rather supply that figure to you, Senator. I don't have it——

Senator LAUSCHE. Who is your principal competitor in the construction of ships?

Mr. STROHMEIER. We have several competitors.

Senator LAUSCHE. You have them on the west coast I take it?

Mr. STROHMEIER. Yes.

Senator LAUSCHE. By how far do you exceed in capacity the highest capacity of your competitors, of your single nearest competitor?

Mr. STROHMEIER. We have perhaps double the capacity of our nearest competitor.

Senator BUTLER. Which is very expensive when you are not building ships.

Mr. STROHMEIER. That is correct.

Senator LAUSCHE. Do you know what the difference was in the cost of producing a ship in the United States in 1936, compared to the cost of producing it in a foreign country? What was the differential in 1936, in building a ship in the United States, from building one in a foreign country?

Mr. STROHMEIER. It was less than it is now.

Senator LAUSCHE. I think it was about 33 percent. Am I right in that?

Mr. BOURBON. It was around that figure.

Senator LAUSCHE. My recollection is that it was 33 percent. What is the differential now?

Mr. STROHMEIER. The differential now is in excess of 50 percent.

Senator LAUSCHE. So the fact is, instead of the differential being narrowed, it has broadened.

Mr. STROHMEIER. That is correct. The differential has broadened.

Senator LAUSCHE. Do you think that is a contributing factor dissuading the development of our American fleet compared to the development of the foreign fleets?

Mr. STROHMEIER. There is no question about it in my mind.

Senator LAUSCHE. Is the gap getting worse?

Mr. STROHMEIER. The gap appears to be getting worse.

Senator LAUSCHE. Has anything happened in your company within the last year that indicates that the gap will get worse?

Mr. STROHMEIER. We are always under great pressure from all sources and causes of cost.

Senator LAUSCHE. That is, the cost pressure is with you.

Mr. STROHMEIER. The cost pressure is with us all the time.

Senator LAUSCHE. Is it right with you now?

Mr. STROHMEIER. It has always been with us.

Senator LAUSCHE. How far above 50 percent is the differential now? Has it gone to 55 yet?

Mr. STROHMEIER. Perhaps on some types of vessels it has. On others it has not.

Senator LAUSCHE. Because of the worsening of the gap we had to change the law in 1960, you recall that?

Mr. STROHMEIER. I recall that.

Senator LAUSCHE. Do you think we will have to change the law again to raise it from 55 to probably 60 or 65 percent?

Mr. STROHMEIER. I think that all depends on how much restraint we experience the country over.

Senator BUTLER. In addition to that, that increase was only a temporary increase and goes back to the original 50 percent figure after 2 years.

Senator LAUSCHE. It does?

Senator BUTLER. Yes.

Mr. BOURBON. Senator, may I say something there?

The figures we had from the Maritime last week show that since that 55 percent provision was put into effect, subsidies have ranged from 46.9, I think it is, to 50.3 for construction and 55 percent for reconversion. I would say 40 percent of the subsidies determined have been above 50 percent and 60 percent have been at 50 percent or slightly below.

Senator LAUSCHE. The fact is then that if we were priced out of the world markets in the construction of ships back in 1936, we are priced out still more deeply in 1962.

Mr. STROHMEIER. That is correct.

Senator LAUSCHE. This is departing from the subject: That is about true generally in all of the things that we are trying to sell.

I wish you would supply the figures, if you can, of how many of the ships subsidized by the Maritime Commission were built by your plant.

(See Mr. Strohmeier's letter on p. 48.)

Senator LAUSCHE. Mention has been made that you will haul ore. Will you haul ore from Liberia into the United States and coal from the United States into probably Europe?

Mr. STROHMEIER. We hope to use the proposed vessels for coal carrying on the outbound leg of our voyages. And we have designed the vessels specifically for that purpose.

Senator LAUSCHE. Do you own coal mines?

Mr. STROHMEIER. We own some coal mines for the production of metallurgical coal.

Senator LAUSCHE. Will you be able to haul your own coal to foreign countries?

Mr. STROHMEIER. In all probability, no.

Senator LAUSCHE . Where are your coal mines located?

Mr. STROHMEIER. Our coal mines are mostly in eastern Pennsylvania.

Senator LAUSCHE. Do you have mineral holdings other than coal and iron ore? Do you have limestone?

Mr. STROHMEIER. Yes, we have quarries.

Senator LAUSCHE. Do you haul any of that by ship?

Mr. STROHMEIER. There is some carriage on the Great Lakes.

Senator LAUSCHE. Do you envision hauling any of that across the seas anywhere?

Mr. STROHMEIER. No, we have no prospect at the present time of carrying limestone at sea.

Senator LAUSCHE. Whose coal would you anticipate hauling?

Mr. STROHMEIER. I don't believe we have anticipated any particular supplier of coal.

Senator LAUSCHE. But you would try to avoid a deadhead run from the United States over to Liberia?

Mr. STROHMEIER. Oh, yes. An ore carrier, if properly designed with that in mind, can work very nicely, interchanging coal and ore on different legs of the voyage.

Senator LAUSCHE. How many ships that you own have been subsidized by the U. S. Government?

Mr. STROHMEIER. Four.

Senator LAUSCHE. And those were authorized in what year?

Mr. STROHMEIER. Those ships were—I believe the year was 1945, although we had discussed the subsidy applications perhaps as much as 2 years before that.

Senator LAUSCHE. Did you have any of the subsidies granted to you prior to the war, the beginning of the war, in 1941?

Mr. STROHMEIER. No, sir.

Senator LAUSCHE. So the subsidies for the four ships were authorized during the war and some of the ships were constructed after the war?

Mr. STROHMEIER. All of the ships were constructed after the war.

Senator LAUSCHE. How many ships do you own?

Mr. STROHMEIER. I am not sure I can answer that question.

Senator LAUSCHE. Approximately.

Mr. STROHMEIER. We have at the present time six oceangoing bulk carriers, two of which we have already converted for the carrying of steel products. In addition to that, we have a fleet of Liberty ships operating intercoastally.

Senator LAUSCHE. These six oceangoing ships, how old is the oldest.

Mr. STROHMEIER. The last one was constructed in 1948.

Senator LAUSCHE. The last one in 1948; was that constructed under the subsidy?

Mr. STROHMEIER. No, it was not.

Senator LAUSCHE. You did not ask for a subsidy on that 1948 ship then, did you?

Mr. STROHMEIER. Yes, we did, and we were promised a subsidy, and subsequently it did not materialize.

Senator LAUSCHE. Why did it not materialize?

Mr. STROHMEIER. That is for the Maritime Commission to answer.

Senator LAUSCHE. Was it because they probably decided that during the war they were justified in granting the subsidies for four, but after the war they were not?

Mr. STROHMEIER. I don't believe that entered into it. But I do think that raises a point that I should answer.

Senator LAUSCHE. All right, go ahead.

Mr. STROHMEIER. The *Venore* class application, subsidy approval, has been represented as being motivated primarily by defense considerations. The record, I think, points the other way.

It is rather interesting to recall that before the subsidies were granted for the construction of those vessels, four steamship lines operating over the general trade route which these vessels would serve, from the east coast to Chile, were asked if the granting of a subsidy to Bethlehem to construct ore carriers would in any way injure their commercial business. These companies were International

Freighting, Grace Line, Moore McCormack, and Atlantic, Gulf, and West Indies.

It doesn't seem to me that the U.S. Government in time of war would bother to ask other commercial interests if a purely defense measure would in any way interfere with their own commercial activities.

Senator LAUSCHE. Do you still have those four ships which were constructed under the ore project, as you call it?

Mr. STROHMEIER. We sold two of them. We have two left. We had eight Venores in all and we sold two of the eight.

I would like to refresh my memory.

Senator LAUSCHE. You sold two of the four that were constructed prior to 1947 and after 1941?

Mr. STROHMEIER. I don't know that we have sold any of them. We have sold two of the eight Venore class ships.

Senator LAUSCHE. How many high sea ships have you acquired since 1947?

Mr. STROHMEIER. We haven't ourselves acquired any. But we have acquired the services through charter arrangements, several ships of 45,000 tons deadweight.

Senator LAUSCHE. Have you built any since 1947?

Mr. STROHMEIER. We have not.

Senator LAUSCHE. How is it that you have not made any application since 1947?

Mr. STROHMEIER. We were turned down on our second group of four Venores, and we were discouraged from making application.

Senator LAUSCHE. So you were turned down and you thought that there was a different policy to be applied after the war from that which was applied during the war?

Mr. STROHMEIER. No, we did not differentiate between considerations of the war or the peace that followed.

Senator LAUSCHE. Why were you discouraged?

Mr. STROHMEIER. One gets discouraged.

Senator LAUSCHE. For 15 years you felt that you ought not to ask because you were discouraged in the belief that is would be granted?

Mr. STROHMEIER. We were offered very attractive charters on foreign-flag ships.

Senator LAUSCHE. Frankly, I don't believe that Bethlehem Steel dares go to Yugoslavia or any other country to have its ships built there. If it were my way, I would say go.

That is all I have to say.

Senator BUTLER. Mr. Strohmeier, after the refusal on the 1947 ships, the United Fruit Co. had ships subsidies offered to them, didn't they, and accepted?

Mr. STROHMEIER. Yes, I believe United Fruit constructed 12 ships with construction subsidies, but there were no operating subsidies in connection with those vessels.

Senator BUTLER. I gather from the last remarks of the Senator from Ohio that all American industry, no matter what it may cost, will have to disregard the interest of their investors and stockholders and everybody else and the board of directors charged with protecting the rights of the people and spend more money than is needed to operate.

Mr. STROHMEIER. We seem to be under criticism because we are the only American steel company that is offering to do the job under the American flag.

Senator BUTLER. That is right. You are the only ones that are operating under the American flag——

Mr. STROHMEIER. I could have avoided that last comment by going abroad without even coming to Washington.

Senator BUTLER. It just seems to me that that was a little bit of an unfair criticism, because, after all, it would seem that many, many U.S. companies are now operating abroad, and many, many people and companies are buying things from abroad. Just to say that Bethlehem Steel, because it can now buy a ship abroad is some sort of a culprit I think is not called for.

Mr. STROHMEIER. I think somehow there is the implication that a subsidy to Bethlehem represents a handout of Government public funds to Bethlehem. Actually, that is not the case. It will cost us a little bit more to do the job under the American flag than to go abroad.

Senator BUTLER. And what percentage of money that you receive as a subsidy and paid to you as a shipbuilder would go directly into the hands or pockets of labor and suppliers?

Mr. STROHMEIER. One hundred percent.

Senator BUTLER. I have no further questions. Thank you.

Senator SCOTT. Mr. Strohmeier, I have no questions except to say that I would assume that the Chairman, Senator Butler, has thoroughly covered it. I have your statement and I will read it carefully.

The fact that I am cosponsor of the resolution indicates how strongly I feel about it. I do hope that we can provide more employment and protect the American maritime service and the shipbuilding industry. This seems to me to be a way of doing it.

As I have said, I am entirely unable to comprehend the position taken by the Department of Commerce, which seems to me consists more of excuses than reasons. Perhaps we can persuade them to be a little bit more concerned about this.

I won't go into any questions. Thank you very much.

Mr. STROHMEIER. Thank you, Mr. Chairman. I appreciate your introduction of the joint resolution.

Senator BUTLER. I have one other witness who is from out of town. He would like to be heard. He has a very short statement of about 5 minutes.

Will Mr. O'Connell please come forward?

STATEMENT OF WILLIAM A. O'CONNELL, CHAIRMAN, QUINCY SHIPBUILDING COMMITTEE

Mr. O'CONNELL. Thank you very much, Senator. My name is William A. O'Connell. I am chairman of the Quincy Shipbuilding Committee. This committee was formed 17 years ago. It is composed of official representatives of the municipal governments of Quincy, Weymouth, and Braintree, with a total population of some 170,000.

Its membership roll includes six unions who represent workers at the Quincy Yard of Bethlehem Steel Co.; representatives from the Fore River Long Service Club, the Fore River Graduate Apprentice Asso-

ciation, all the veterans' organizations, the division of employment security, the South Shore Automobile Merchants' Association, the Quincy Grant Manufacturers' Association, the United Brotherhood of Carpenters & Jointers of America, the Quincy-South Shore Chamber of Commerce, the Quincy and South Shore Board of Realtors, the Quincy Kiwanis, Lions, and Rotary Clubs, our daily newspaper, the Patriot Ledger, and radio station WJDA, the Leadingmen & Quartermen's Association, and the Quincy Merchants' Association.

Bethlehem Steel Co. management does not have a representative on this committee. There are no dues paid by members, and they pay their own travel expenses.

Today we have about five of these members here with us, including the mayor of the city of Quincy.

The committee was created with two objectives in mind: To stabilize the peaks and valleys of the shipbuilding industry, and thereby maintain the high skills necessary to build good ships and to publicize the need for a strong U.S. Navy and merchant marine. This would deter aggressors and maintain, we believe, peace.

Naturally we assume that the Quincy yard of Bethlehem Steel Co.'s shipbuilding division will be able to receive a share of any ship construction work.

My father worked at the Quincy yard during World War I. My brother worked there during World War II and suffered a serious injury while employed. My uncle was killed in a nearby shipyard during World War II.

Shipbuilding is Quincy's major industry. It provides 50 percent of the city's industrial employment.

During World War II approximately 35,000 people worked in shipyards in Quincy. In nearby Hingham another 22,000 were employed. Presently about 6,000 people are employed in the Quincy yard of Bethlehem Steel Co.

Shipbuilding is a major industry in New England. Five of this Nation's greatest shipyards are located here: the Electric Boat Co. at Groton, Conn.; the Portsmouth, N.H., Navy Yard; the Bath, Maine, Iron Works; the Boston Navy Yard; and the Quincy yard of Bethlehem Steel Co.'s shipbuilding division.

Approximately 45,000 skilled people are working in these yards, presently building the most modern defense vessels for the U.S. Navy—surface and subsurface, nuclear-powered and armed with missiles.

But while we applaud the vision of Congress in modernizing our Navy during the periods of a cold-war peace, we deplore the neglected condition of our American-flag merchant marine.

This is the time to take a new look at our merchant marine. The Merchant Marine Act of 1936 as amended says:

> An act to further the development and maintenance of an adequate and well-balanced American merchant marine, to promote the commerce of the United States, to aid in the national defense, to repeal certain former legislation, and for other purposes.

Under title I, declaration of policy, this intention is related in clear language.

In part it says:

* * * the United States shall have a merchant marine (a) sufficient to carry its domestic waterborne commerce and a substantial portion of the waterborne export and import foreign commerce of the United States, (d) composed of the best equipped, safest, * * * and most suitable types of vessels, contructed in the United States and manned with a trained and efficient citizen personnel.

A new declaration of policy seems to be needed to keep Mr. Hodges within the law. Bethlehem applied in March 1961 and it has taken until February 1962 to get an answer. The issue of a company carrying its own products was debated on the floor in Congress in 1936. At that time Mr. Bland, the "father" of the legislation, made it clear that United Fruit and Standard Oil, et cetera, should be included.

Mr. Hodges avers he would be setting a precedent if he granted application. Actually, he would be setting a precedent in not granting the application. Subsidies have been granted to the following noncommon carriers: Venore-Bethlehem ships—granted in 1945; United—built by Sparrows Point and Newport News; Alcoa conversions—Oregon Ship (Kaiser).

American-Hawaiian application was turned down. The aforementioned are the only applications for subsidies in 17 years. How can Mr. Hodges figure that he would set a precedent that would cost $1½ billion.

There are about 200 of the noncommon carrier type with a 12-year life. If all were eligible for subsidy, the cost would be $63 million per year. Actually operators cannot make out without operating differential except for a few large ships and, therefore, only a few applications could result, an estimated 10 per cent, or an annual cost of $6,300,000 to $7,000,000 is more realistic.

Bethlehem carried 1 million tons a year when subsidy was granted to the ship *Venore*. Now it carries 35 million tons per year—one-third dependent on foreign source. The United States is down to 10 percent participation, the lowest in 150 years. In 1936, when the Merchant Marine Act was passed, the United States was at 25 percent participation.

We feel that the present Merchant Marine Act of 1936, as amended, provides the necessary authority to grant the construction differential subsidies requested by the Bethlehem Steel Co. We urge Congress to take whatever action is necessary to grant the construction subsidies for these ships.

Before it was reorganized, the Federal Maritime Board under the previous administration approved the application for these two ore carriers. Why was the reversal made by the new Secretary of Commerce? The explanation given appears very weak.

American companies are being compelled for economic reasons to build ships in foreign countries. Most of these countries are in one way or another receiving aid from the United States.

We are undermining and neglecting a large segment of our work force—some 450,000 trained, unionized, and an unknown number of nonunion workers in the United States. We plan to mobilize these people on a national level to fight this unfair decision on the part of Mr. Hodges.

This is a nonpartisan matter in our opinion. Actually it is a nonpartisan committee. It is a matter of vital concern to the economy of

our area, of our New England, and of the shipbuilding industry in the United States of America.

We, therefore, feel compelled to seek justice in obtaining a fair interpretation of the Merchant Marine Act of 1936 as amended, and we go on record in favor of this resolution.

Thank you very much.

Senator BUTLER. That is a very good statement, Mr. O'Connell, and I thank you very much for coming here and giving us the benefit of your views.

Mr. O'CONNELL. Thank you.

Senator BUTLER. We will now recess until a quarter of two.

(Whereupon, at 12:52 p.m., the committee was recessed, to reconvene at 1:45 p.m. of the same day.)

AFTERNOON SESSION

Senator BUTLER. The subcommittee will come to order.

Is Mr. John Grogan here?

Will you come forward, Mr. Grogan. It is nice to have you with us today. We will be very happy to have your testimony.

STATEMENT OF JOHN J. GROGAN, PRESIDENT, INDUSTRIAL UNION OF MARINE & SHIPBUILDING WORKERS OF AMERICA, CAMDEN, N.J.; ACCOMPANIED BY ANDREW A. PETTIS, VICE PRESIDENT AND WASHINGTON REPRESENTATIVE

Mr. GROGAN. Mr. Chairman, I am John J. Grogan, international president of the Marine & Shipbuilders Workers.

I would like to present Mr. Andrew A. Pettis, our national vice president and Washington representative, and our expert in the shipbuilding field.

Senator BUTLER. And a good friend of mine.

Mr. GROGAN. I would like at the outset to thank you for the opportunity of appearing before this committee, and in order to save time for the committee I would like to submit to the reporter, with your permission, the statement of our organization, and then briefly comment on it.

Senator BUTLER. It will be so ordered.

(Document referred to follows:)

STATEMENT OF JOHN J. GROGAN, PRESIDENT, INDUSTRIAL UNION OF MARINE & SHIPBUILDING WORKERS OF AMERICA, AFL-CIO

In March of 1961, Thomas E. Stakem, Chairman of the Federal Maritime Board and Maritime Administrator, announced that an application for construction-differential subsidy aid in the building of two new 51,400 deadweight ton ore carriers had been filed with the Federal Maritime Board, by the Ore Navigation Corp., a subsidiary of the Bethlehem Steel Corp.

The ships were for carrying iron ore, manganese, chrome ore, coal, and similar bulk commodities, and would be operated under U.S.-flag in foreign trade, but were not to be used as common carriers, and no operating subsidy was applied for.

The vessels were to be used on a new route or service between Liberia and the east coast of the United States, principally Sparrows Point, Md., and Philadelphia, Pa., beginning in 1963.

In the announcement issued by the Maritime Administrator, in March of 1961, it was stated:

"The company expects that the steel industry in the United States will increase its consumption of foreign ores in the years to come. Approximately 50 percent of the iron ore used by its subsidiary, Bethlehem Steel Co., in the production of iron and steel is now imported. The company estimates that the gross tonnage of iron ore to be transported from Buchanan to the United States will increase from a quarter million tons in 1963 to 2½ million gross tons in 1968."

Total estimated cost of the two vessels was $28 million of which Bethlehem was requesting approximately $15 million as construction differential subsidy.

On June 29, 1961, the Federal Maritime Board (as constituted prior to the effective date of Reorganization Plan No. 7) approved the granting of the construction-differential subsidy subject to concurrence of the Secretary of Commerce.

Such concurrence was not forthcoming. The Secretary of Commerce in September of 1961, notified the parties that he would not concur in the June 29th action of the Maritime Board unless (1) the Secretary of Defense determined that the construction of the two ore carriers "took priority over the construction of liner-type vessels in the regular ship replacement program," and (2) the chairmen of the House and Senate Appropriations Committees advised that funds allocated for the construction of liner-type vessels could be diverted to the construction of the ore carriers.

The Bethlehem Steel Corp. was informed that further processing of its application by the Secretary of Commerce was being deferred pending clarification on the above-mentioned points.

In the interim between the approval by the old Federal Maritime Board and nonconcurrence by the Secretary of Commerce, all legislators from the State of Massachusetts pointed out to the Department of Defense and Department of Commerce the grave loss of highly trained technical personnel who were being laid off at the Fore River Shipyard in Quincy, Mass. All members of the Congress from the State felt that the award of the contracts for the two iron ore carriers of the Bethlehem Fore River Shipyard would provide from 1½ to 2 years work for 3,000 men, while the employment situation in the 13th Congressional District of Massachusetts was at a perilously low ebb. More than 6,000 workers had been laid off in this interim.

Meanwhile, in September of 1961, the Maritime Administration informed the Appropriations Committee of the U.S. Senate that an unallocated balance of $18,650,000 in the Nation's vessel construction subsidy fund was sufficient to provide for the construction subsidy for two ore carriers.

Finally, toward the end of January, the Bethlehem Steel Co. in a telegram to Daniel W. Alexander, Maritime Administrator, stated that immediate action was essential in deciding whether or not to grant construction-differential subsidy for the carriers, because in case the applications were refused, the company planned to build the two vessels in foreign shipyards. The company pointed out that the maritime agency had been studying the company subsidy application for over 10 months, and that there were not enough suitable American-flag carriers at present to carry a significant portion of the Nation's import commerce. The two 51,400-ton ore carriers it plans to build were "urgently required," the company said. It is "in the best interest of our country" to have them constructed in a domestic yard, it added.

The company had advised the Federal Maritime Board, predecessor agency of the present Maritime Administration and Federal Maritime Commission, that it planned to develop a new route for service between Liberia and east coast United States ports. The service was scheduled to begin in 1963, to increase the imports of Liberian ores from 250,000 tons annually to more than 2,500,000 tons.

Finally, on February 16, the Secretary of Commerce informed the Ore Navigation Corp., and Bethlehem Steel Corp., of an adverse decision, disapproving the subsidy request.

We might respectfully point out that this entire action took over 11 months. If this is an indication of the method which is going to be used by an administrative agency of the Government to approve construction-differential subsidies, we may as well close down all vessel construction yards. It takes a great deal of time, from approval of subsidy application to the time a vessel actually goes on the ways; and the employment situation presently obtaining in vessel construction yards in this country is so perilous that such a hiatus will decimate them until yard after yard will be forced to close.

Bethlehem promptly announced that it would expect to place the contracts for the construction of the two vessels in a foreign yard, and to operate them ultimately under a foreign flag, thereby leaving no ore carriers operating under the

American flag at the present time. It was learned that at least one bid for construction of the carriers was received from a Japanese yard.

The Secretary of Commerce in refusing the application for construction-differential subsidy had stated that the construction-differential subsidy was to be applied only to public carriers. However, prior to the end of World War II four ore-carrying ships were built with construction-differential subsidy—the ore carriers presently flying the American flag and owned by the Bethlehem Steel Co.

This subsidy denial by the Secretary of Commerce seems to seal the fate of ocean transportation of iron ore in vessels of the U.S. registry. Approximately 150 ore carriers have been built abroad since the early 1940's compared with four built in the United States in the last 20 years.

Probably in line with this denial of construction-differential subsidy funds for ore carriers was a cutback of some $48 million in the administration's budget request for private vessel construction differental subsidy funds for fiscal 1963. In other words, the administration by denying the subsidy for the ore carriers had saved itself $15 million. We will be pointing out to the Committees on Appropriations of the Congress of the United States that we consider the decline of appropriated moneys in the budget request for fiscal 1963 to be most alarming.

The request of the executive department of the Government in the fiscal 1963 budget under title V., private oceangoing vessel construction-differential subsidy, was for only $41,450,000, to cover the Government's share of subsidized ship building costs. 64 million of unexpended funds has accumulated from previous years (due to a virtual freeze in allowing vessel construction subsidies to be allocated in fiscal 1962), which will mean that 18 subsidized vessels might be ordered in fiscal 1963.

It is unlikely that this allocation for vessel construction subsidy will be sufficient to ease the plight of the shipyards, our merchant marine, or the replacement program for vessel construction. It would be necessary to have an extra $40 million for title V construction, which would permit another 8 or 10 ships to be built, in order to overcome the lag in vessel construction which has taken place recently.

Total funds for vessel construction subsidy (inclusive of title V construction) since 1956 have been as follows:

Private vessel construction subsidy funds

[In millions of dollars]

Fiscal year ending	Budget	Appropriated	Fiscal year ending	Budget	Appropriated
July 1, 1963	[1] $50.0		July 1, 1959	$160.0	$141.475
July 1, 1962	98.0	[1] $98.0	July 1, 1958	94.5	(2)
July 1, 1961	129.0	120.3	July 1, 1957	164.6	[3] [4] 100.7
July 1, 1960	129.0	129.0	July 1, 1956	103.0	90.450

[1] Only $45,600,000 will be committed; $52,400,000 will be uncommitted and carried over to fiscal year 1963.
[2] $108,0 0,000 carried over into this year as unexpended.
[3] Supplemental.
[4] 82.7 plus 18.0.

Certainly, one cannot condemn the Defense Department, upon being faced with a request which in fact said "if you approve subsidy for ore carriers we will eliminate subsidy for passenger carrying construction," for stating that it could not approve subsidy for ore carriers instead of passenger vessel construction. However, as we have pointed out above, the 1963 allocation for vessel construction subsidy, in order to alleviate the present plight of the shipyards, would have to be increased by an extra $40,000,000 for title V construction, which would permit another 8 or 10 ships to be built, and certainly would permit construction of the ore-carrying ships.

At present there are only four bona fide American-flag ore carriers; and merely 11 bulk carriers, that can be used with any efficiency in the transportation of iron ore under this country's flag. These 11 vessels are practically, to all intents and purposes, obsolete. There were 327 vessels in the world ore fleet as of July 1961, according to W. G. Weston, Ltd.

The determination of the U.S. Department of Commerce is now a ruling that we will have no ore carriers under our flag, and will rely completely upon foreign-flag vessels for the carriage of ore.

With close to 35 percent of the iron ore consumed in this country being imported from abroad, it is inconceivable that the Defense Department would rely wholly on foreign shipping. With the availability and quality of domestic ores depleted, it is unrealistic to assume any change in the future. The following shows the tonnage imported and consumed for the last 5 years:

	Iron ore (gross tons) imported by United States	Iron ore (gross tons) consumed by United States	Percent of total U.S. iron ore consumption imported
1956	30, 358, 424	133, 730, 000	22
1957	33, 653, 615	139, 743, 000	24
1958	27, 832, 616	100, 451, 000	28
1959	35, 623, 416	105, 655, 000	34
1960	34, 620, 201	114, 461, 000	30

Again it shoul be remembered that only 11 bulk carriers under the American flag are available to move this ore. This is less than 5 percent of world's ore carrier fleet.

In addition, the Bethlehem Steel Co. was completely agreeable to having these vessels put out for competitive bid. Bethlehem itself was prepared to bid on these vessels for the Quincy yard at cost without profit.

At the time the Secretary of Commerce was making up his mind to deny the request for subsidy for the two vessels, it was pointed out that if a precedent were set for the Bethlehem ore carriers, it would very likely cost the Federal Government at least $1½ billion in subsidy for other bulk carriers. This was utterly ridiculous. Since Bethlehem received construction differential subsidy for its ore carriers in 1945–46, not a single other company has requested construction-differential subsidy for ore carriers. It must further be remembered that Bethlehem operated these vessels without operating-differential subsidy, and no other company was willing to undergo the increased cost of American-flag operation in order to receive construction differential subsidy.

Evidently other concerns operating ore-carrying vessels, despite the 20-year availibility of construction-differential subsidy, still preferred to operate their vessels under foreign flags and to build them abroad. Bethlehem was the only company in the United States operating its vessels under the American flag.

We have searched, and cannot find, any requirement in the Merchant Marine Act of 1936, that for a vessel to be eligible for a construction-differential subsidy, it must also be eligible for operating-differential subsidy. On the contrary, the language of paragraphs 1151(A) and 1156 would seem to indicate that a vessel built with the aid of a construction-differential subsidy must be used exclusively in foreign trade, but not on any particular route; while the Federal Maritime Board's approval of an application for operating-differential subsidy must be based on a consideration of the competitive situation on the particular route to be served.

Counsel could not find any provision in title V which specifically forbade the applicant for a construction-differential subsidy to be affiliated with the shipbuilder awarded the construction contract, provided the contract was awarded by true competitive bid; which, as has been pointed out above, Bethlehem specifically requested. Bethlehem also pointed out to the Maritime Administration that it was not going to reject the lowest possible bid, and there was no indication from any other yard which might have constructed these vessels, of hesitation to bid against the Quincy yard. Inasmuch as Bethlehem had previously announced that the Quincy yard would build these vessels without a profit, other yards would be forced to do the same, and might have been reluctant to bid, but all indications were that other yards were interested in bidding.

In addition, the Maritime Administration had also proposed, in its original approval of the request for subsidy, that if the ships were built in the Quincy yard, subsidy would be figured on the basis of a domestic cost no greater than actual cost without any profit allowance. This would seem to be an adequate safeguard against any possibility of conflict of interest.

On the basis of the present employment situation in this shipyard alone, it is vitally necessary that these vessels be built. If the 3,000 men in the Quincy yard do not work for the next 2 years they will drain unemployment compen-

sation funds close to $6 million—almost one-half the cost of the construction-differential subsidy for both vessels.

In the past the Navy, particularly, has stressed the fact that large, fast, bulk carriers under U.S. flag are required for defense purposes. These vessels do not require operating-differential subsidy, and it is impossible for us to understand how the Secretary of Commerce will rule in the case of other bulk carriers; because every bulk carrier built today is built for a specific company for a specific purpose, either on lease or directly. Presumably, in the light of the present ruling, it would be all right for another company (not a subsidary of the Bethlehem Steel Co.) to construct the bulk carriers that Bethlehem requires, and to lease them to Bethlehem for a period of 20 or 40 years under firm contract; but the Secretary has ruled that it is not all right for the Bethlehem Steel Co. to build its own carriers. Of course, in this particular case vertical integration would have reduced eventual cost of the ore and therefore would reduce eventual cost of steel. If another company were to lease the vessels to the Bethlehem Steel Corp., that other company's profit would have to be added in. This is simple economics and, therefore, the ruling of the Secretary makes no sense as far as the economic theory of ore carriers is concerned.

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

The funds appropriated by the Congress, predicated on Administration recommendations, for construction-differential subsidies for the past 6 years have averaged less than one ship per shipyard per year if equally distributed. The recommendations presently in the budget for fiscal 1963, if funds are appropriated by the Congress as a result thereof and in accordance therewith, will have little effect upon that average.

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

With the depletion of iron ore resources of the United States, the importation of this vital material becomes more and more the concern of the Congress of the United States. In peace and war, iron ore is a basic and strategic necessity.

As world conditions are in a very unsettled way, we must be prepared for emergencies of all kinds. Our national defense mobilization base must be assured of a stockpile of iron ore.

The U.S. Maritime Administration has, in September 1961, reported the imbalance in the Nation's bulk carrier problem.

In January of 1962, Congressman James J. Burke, from the 13th Congressional District of Massachusetts, pointed out to Congressman John H. Dent, chairman of the House Subcommittee Studying the Effect of Foreign Trade on U.S. Employment:

"In these serious and critical times our Nation cannot afford to lose the know-how of these expert shipbuilders and technicians. Two world wars have demonstrated that we must not wait for war to start building ships. A crash shipbuilding program in wartime is a colossal financial burden on our people and a hungry user of valuable manpower which could be more usefully applied in other war industries.

"Russia is building a mighty armada of naval and merchant ships. It is reliably reported that Russia has over 450 submarines. Russia has a cold war crash program of shipbuilding of all types of ships, including atomic submarines. We in this country cannot afford to allow either our Navy or our fourth arm of defense, our merchant navy, to become weak or obsolete.

"We need a stronger Navy and a stronger merchant navy to protect our freedom and our democratic way of life. To implement this we must have work for our people in the shipyards and we must not allow that work to leave our shores. It is our duty to be alert in keeping the mobilization base of our great Nation strong in all respects."

In our testimony before the Maritime Evaluation Committee of the Business Council of the Department of Commerce (formerly the Business Advisory Council of the Department of Commerce), this union pointed out that private shipyards are so far today below minimum defense requirements that if an emergency were to occur at any time within the year, the industry would be

completely unprepared. We stated then and we state now that administrative hesitation, such as we have seen in present administrative action on the request of subsidy for the ore carriers, and study after study, have effectually stifled initiative, investment, and sensible corporate planning within the entire industry. Uncertainty in the entire transportation complex of the United States has probably done more to decimate the ranks of skilled workers in shipbuilding than any possible national emergency could have accomplished in this short period of time.

We are forced to the inescapable and regrettable conclusion, in view of the action of the Secretary of Commerce with respect to the Bethlehem request for ore carrier subsidy that operation in this industry is going to get much worse under the present administrative concept of lack of requirement for vessel construction. The entire long-range replacement program of the subsidized shipping lines is being stretched out to the point where we probably have in this country the oldest fleet of any maritime nation, the most inefficient, and one which is definitely lacking in capacity to meet national emergency.

Indications from the Navy and by others in maritime circles are that in order for the United States to maintain adequate merchant shipping to meet its initial conventional wartime needs, it is vital that ships of both subsidized and nonsubsidized operators be periodically replaced under an orderly and progressive program.

Even during the limited war in Korea our allies were in no position to furnish us with ships.

American-flag vessels carried 80 percent of the troops and supplies for Korea and 600 vessels had to be broken out from the Nation's reserve fleet.

It is interesting to note that during the Korean conflict freight rates increased, despite the shortage of shipping, only 10 percent as contrasted with increases of more than 1,100 percent in World War I, when the United States was at the total mercy of foreign-flag fleets because we had virtually no fleet of our own.

This action of the Secretary of Commerce in denial of this subsidy, is going to mean that in the event of any future limited war or all-out emergency, we will be totally and completely dependent for bulk carriage upon foreign flags. We will be faced with exactly the same situation we were faced with in World War I. Construction cost of bulk carriers will skyrocket probably up to 2,000 percent. Operating cost of bulk carriers and charges by foreign-flag operators will also skyrocket. This not only applies to ore carriers, it also applies to tankers.

Vice Admiral John Slyvester, Deputy Chief of Naval Operations (logistics), recently pointed out that American shipowners have built a sizable number of modern tankers in the past few years—some constructed in the United States for registry under U.S. flag, but most built abroad for registry under foreign flag. He estimated that of the U.S.-flag tanker tonnage, 26 percent is under 5 years of age.

Therefore, this union submits to this subcommittee that the action of the Secretary of Commerce has been ill conceived, and will unfortunately have an adverse effect upon the vital defense of our country.

Mr. GROGAN. Most of the facts in this case have already been presented, so I would like to speak of some of the practical problems involved in this present legislation.

I was very interested to hear the statement of the Senator from Ohio and some of the questions he asked of Mr. Strohmeier, the vice president of the Bethlehem Steel Co. I might say that over the period of 31 years that I have been associated in this industry I have had the privilege to serve on possibly every Government committee that there is in connection with this industry over the past 31 years. So that I have a little knowledge of the problems of this industry and the great contribution that it has made to our national defense.

I would like to say further that in reference to the question as to whether or not Bethlehem Steel Co. would build these ships in foreign shipyards, I am personally convinced, from my humble knowledge of the industry, that they will.

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I question whether or not a great corporation like the Bethlehem Steel Co. would ever build a ship in Yugoslavia, I doubt it very much. But I think we have to keep in mind the plight that we find our industry in today.

We heard testimony before another Senate committee recently where a great industrialist, representing the General Dynamics Corp., explained the reasons why they sublet work to a foreign country concerning a Government contract. And the newspapers throughout the country said this was a courageous statement, a businesslike statement.

We are faced with this fact: That we in the United States of America are in a great competitive position. We in the unions realize this. And for the first time in my knowledge every union connected with the maritime industry is supporting this legislation.

All industry that I know of is supporting this legislation. So it must be good legislation first for the benefit of our country, the shipbuilding industry, and the people who are employed.

I would like to say briefly that I was very shocked and very frankly I say this very sincerely, and I don't mean it to gain publicity, and I hope as a result of this hearing we will not have headlines in the newspapers of the statement made by Hon. Senator Lausche from Ohio and what he said to Mr. Strohmeier in reference to he doesn't think they would build in a foreign country, they are not going to build in a foreign country, and something else.

I have some experience, Mr. Chairman, in the field of public service. I have been in public office 19 years in the State legislature and mayor of my town. I unfortunately lost a bid for the U.S. Senate recently by 6,000 votes. So that I know something about government operations.

I know the great problems that you are faced with in the situation. I know that as much as we try to urge you to adopt this legislation, there probably are just as many asking you to oppose it and to reject it.

But I think that we are faced in the United States of America with doing something about our industry. I saw in my young life the Federal Shipbuilding & Drydock Co., which employed 48,000 people during the war, closed down, a United States Steel subsidiary. I saw only the last year and a half ago the Bethlehem Steel Co. close down the Staten Island plant. I saw only on March 1, Bethlehem Steel Co. closed their Brooklyn 27th Street plant, and an announcement that they anticipated closing the other big plants in Brooklyn in the very near future.

I know that the ship repair industry, as well as the shipbuilding industry, is one of the most competitive industries in the United States of America. As you well know, with the great contribution that you have made personally to this industry in trying to keep it alive and going, when you have a bid for a ship, we have 18 to 20 shipyards bidding on it, and the competitive position is recognized by the union.

I would like to say this: I don't think we are asking for charity for Bethlehem Steel. As a union representative that would be the last thought we would ever have. We feel we are asking you to do something that will make a contribution.

I remember a statement made here this morning in reference to that we can have the ship fly under American flags if it's built in Europe. I want to say that I am shocked to hear the Under Secretary, Mr. Martin, make a statement like that, and I think if he speaks for the Secretary of Commerce, Mr. Hodges, in my humble opinion if they advocate that American industry, because it might be cheaper for them or more profitable for them, for their stockholders that they put their profits before their country and go all over Western Europe and develop the underdeveloped countries, to have their ships built and products manufactured, I think if that is their belief then both of them ought to resign from office and return to private life and let someone more practical, with more knowledge of the facts of life with reference to this great country, take over in their place.

I might say that we enjoy a great standard of living in the United States of America. We are privileged to live in the greatest democracy in the world, and that we are willing to pay for, and naturally we cannot compete with underdeveloped countries, or countries that are 20 or 30 years behind our ways of life and our standard of living.

I would like to say in reference to our situation, we find ourselves in a position where our industry is a dying industry. We know from practical experience that we are a war industry. We boom in wartime; and please God we hope there will never be another war. But in peacetime we are falling apart and we are forgotten about.

I would like for a moment to state that in World War II we found ourselves in the same position. I remember when we had to come to Washington to set up emergency committees and set up training citizens in the State of New York, in Philadelphia, in San Francisco, in Los Angeles, and other parts of the country, to train machinists and electricians and tool and die workers and put them overnight into industry.

We are permitting the skilled trades of this industry to leave the industry, and I will say that the record will show that 90 percent of them never return to this industry.

If we permit the really highly skilled, qualified mechanics to leave this industry because of lack of work, there will not be the necessary skilled working force if we ever do need them in time of emergency.

I think this is one of our defense industries and we should do something about it. I think the subsidy will not solve all our problems, but I think it may encourage other shipping companies to do the same thing.

I am at a loss to understand the position where they may hint that there was favoritism shown to Bethlehem Steel Co. and the ore carriers that were subsidized in 1945–46, because as you so clearly state, this subsidy was applicable to everyone else, they were eligible for it, they could have applied for it. But no one did. I think the obvious reason is that Bethlehem was operating on a nonoperating subsidy and no other company was willing to apply, to make application for the subsidy under that basis.

I would like to briefly state that we in the Quincy yard, for example—you know the problem in Maryland—we have continuous layoffs. In Quincy we recently had a layoff of 3,000 people. Very frankly, we have figured out that these people will be drawing $6 million this year in unemployment compensation. We are talking

about a $15 million subsidy, and unemployment compensation alone in 2 years would make up for it.

So I would like to state, in closing, that we in the shipbuilding industry believe that this is a just subsidy, we believe it is a just bill, and we respectfully want to extend to you and to the members of the committee our sincere appreciation for everything you have done in trying to keep this industry alive, not for the benefit of any corporation or company, not for the benefit of any union or individual, but for the benefit of the United States of America and its defense.

I was shocked, too, to hear the Under Secretary state that the reason for these subsidies in 1945 and 1946 was that then it was declared a problem of defense and an emergency. I can only repeat your words, sir, that it was an emergency then; there is a greater emergency in the world today than there ever has been in the history of the world in my humble opinion.

I have just returned from a visit to six countries in Europe. I was privileged to speak to many people throughout the world, and I know if there ever was a time in our history that we should build our defenses and support this administration, it is now. And I sincerely believe that the shipbuilding industry is one of the key industries in the world, and that we should do everything possible to keep it alive, to keep these shipyards open, to keep our skilled people employed, and if it means subsidies, even more than is being spoken about and acted upon in this bill, we should do it, because it is for the defense of our country, the protection of the people, and I think that is our first thought.

I might say that I want to thank you again for the opportunity, and I hope sincerely, realizing all the problems you have, that this committee will make its recommendation and that it will be successful in passing this legislation in the hope that we can revive this great industry and make our contribution to our defense.

Senator BUTLER. Thank you so much.

I appreciate your kind remarks in connection with my efforts in this field. It is very nice to have you.

Andy?

Mr. PETTIS. Senator, President Grogan has pretty well covered the whole situation. There are a few points that concern me very much, because I have been very close to this situation.

One of them is the declaration here—many times it has been printed—that the Defense Department has stated that in the matter of priority, that liner types should supersede the ore carriers.

We are quite well familiar with the fact that a loaded question was put to the Defense Department. As far as I can find out, there never was any answer that the Defense Department believes that liner-type should take precedence over ore carriers.

My understanding is that they said that all ship resources are of value to the Defense Department, and the only reason that they stated that they didn't subscribe to the ore carriers in regard to the liners was simply that they didn't believe that money that was appropriated for liner-type ships should be used for the ore carriers.

I think it ought to be very clear, and I think that this committee ought to have from the Defense Department a clarification of their position in regard to this.

I would say also in regard to this matter, from my experience listening to appropriations hearings over the years, that there are unobligated funds many times from departments which are not turned back to the Treasury of the United States, and even the Defense Department uses them for other purposes, diverts them from the original purpose, because we today see a controversy in the Armed Services Committee as to whether money should be used for one type of missile or a bomber or something else.

I believe that we ought to get clarified the situation in regard to the $18,650,000 that was unobligated, that we ought to get it clarified in everybody's mind that this money was not specifically going to be used at the time that the petition was put in for ore boats. It was not specifically going to be allocated to subsidy for any ships at the time.

This was clearly explained in a letter by Mr. Metz, of the Maritime Administration, to both the Appropriations Committee of the House and the Senate. I think that this committee ought to get a copy of that letter because it breaks down in figures exactly where the moneys that they had in the department were going to be used, and that it finally ended up that the difference between funds available and estimated funds required was $18,650,000.

Senator BUTLER. I will ask the staff to secure a copy of that letter and make it a part of the record.

(Under date of March 14, 1962, the Acting Deputy Maritime Administrator, Julian H. Singman, submitted a letter with copies attached of letters addressed by the then Maritime Administrator to the chairman of the Senate and House Committees on Appropriations on September 15, 1961, and September 19, 1961, with reference to the Bethlehem Steel Corp. application. The documents and the replies thereto follow:)

U.S. DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington, D.C., March 14, 1962.

Mr. A. J. BOURBON,
Merchant Marine and Fisheries Subcommittee,
New Senate Office Building, Washington, D.C.

DEAR MR. BOURBON: At your request, we are forwarding attached copies of letters dated September 15 and September 19, 1961, addressed to the Senate and House Appropriation Committees with respect to construction subsidy for the two ore carriers for the Bethlehem Steel Co. The September 19 letter reported an unallocated balance of construction subsidy funds of $18,650,000.

It must be stated, however, that circumstances have changed since last September. At that time no provision had been made for four cargo ships of Grace Line which had a contract award date of June 1, 1962. Subsequently, the unallocated balance of $18,650,000 was earmarked for the Grace Line freighters and on this premise there has been no provision for Grace's ships in our fiscal year 1963 budget request. At this time, therefore, there are no excess funds in either the current appropriation or the proposed 1963 appropriation which can be used for Bethlehem's ore carriers.

Sincerely yours,

JULIAN H. SINGMAN,
Acting Deputy Maritime Administrator.

SEPTEMBER 15, 1961.

Hon. CLARENCE CANNON,
Chairman, Committee on Appropriations,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to an application of the Bethlehem Steel Corp. dated March 6, 1961, as amended April 5, 1961, for the payment of a construction-differential subsidy to that company with respect to the construction of two ore carriers of 51,400 deadweight tons each, to be operated in the for-

eign commerce of the United States, principally in the carriage of iron ore from Buchanan, Liberia, to Bethlehem's steel plant at Sparrows Point, Md.

The Federal Maritime Board approved the Bethlehem application on June 29, 1961, subject to certain conditions, among them being the favorable reaction thereto by the Secretary of Commerce as a matter of policy. Copy of the Board action is enclosed.

There is also enclosed a copy of an interoffice memorandum from the Secretary of Commerce dated September 6, 1961, to the Chairman, Maritime Subsidy Board, in which it is to be noted the Secretary stated that after consideration of the numerous features involved he had reached the conclusion that it would not be feasible to concur in the Board action, as a matter of policy until two specific conditions are met, one of which being of concern to your committee, is quoted for your convenience:

"(2) The chairman of the House and Senate Appropriations Committees advise this Department that funds allocated for the construction of liner-type vessels may be diverted to the construction of the ore carriers under consideration."

It would be greatly appreciated if you would kindly let us have your comments at your earliest convenience as to the question of whether funds allocated for construction of liner-type vessels may be diverted to the construction of ore carriers as raised in the Secretary's memorandum on September 6, 1961.

The files of the Maritime Administration on this ore carrier construction project are available to your staff if you desire any additional information.

Sincerely yours,

THOS. E. STAKEM,
Acting Maritime Administrator.

SEPTEMBER 19, 1961.

Hon. CLARENCE CANNON,
Chairman, Committee on Appropriations,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Supplementing our letter of September 15, 1961, the following information is presented for your use in considering the availability of funds in fiscal year 1962 to provide construction subsidy for the two ore carriers of Bethlehem Steel Co.

Our planned program for fiscal year 1962, together with the best current estimate of the cost to the Government is:

Gulf & South American Steamship Co	2	$9,500,000
Lykes Bros. Steamship Co., Inc	4	17,700,000
Moore-McCormack Lines, Inc	6	33,000,000
United States Lines Co	7	34,800,000
Total	19	95,000,000

Our surplus funds for 1962 are estimated as follows:

Total available for fiscal 1962	$131,500,000
Cost of planned program as shown above	95,000,000
Estimated cost for acquisition of trade-in ships (21) at $650,000	13,650,000
Subtotal	108,650,000
Balance	22,850,000
United States Lines Co.—6 ships to replace 7 shown above—saving	5,000,000
Balance	27,850,000
Revised estimate for 1 combination for Grace Line	9,200,000
Difference between funds available and estimated funds required	18,650,000

The unallocated balance of $18,650,000 is sufficient to provide construction subsidy for the two ore carriers, which amount has been estimated at a maximum of $15,000,000.

Although Grace Line has a contractual obligation to award contracts for four freighters on June 1, 1962, this group of ships has actually been planned for fiscal year 1963 and has been included in our estimated budget for that year. It is doubtful that Grace Line can meet a June 1, 1962, award date, but in any event the available funds of $18,650,000 is not sufficient to provide construction subsidy

for these ships, the cost of which to the Government is estimated at $20 to $22 million, depending upon the speed of the ships.

If there is any further information which you desire, please call upon us.

Sincerely yours,

(Signed) ELMER E. METZ,
for THOS. E. STAKEM,
Acting Maritime Administrator.

UNITED STATES SENATE,
COMMITTEE ON APPROPRIATIONS,
September 23, 1961.

Hon. THOMAS E. STAKEM,
Acting Maritime Administrator,
Department of Commerce,
Washington, D.C.

DEAR MR. STAKEM: I have your letter of September 15, with attachments, and supplementary letter of September 19, with regard to the proposed subsidized construction of two ore carriers for the Bethlehem Steel Corp.

It would appear, on the basis of the information presented, with regard to the availability of funds that this could be accomplished with funds presently available and already appropriated.

However, members of the committee are concerned with certain legal problems that might arise and a request is being made as of this date for an opinion from the Attorney General. The file submitted with your letter of September 15 is accompanying the request for an opinion. Until this information is available to the committee, the matter will be held in abeyance.

Yours very sincerely,

CARL HAYDEN, *Chairman.*

HOUSE OF REPRESENTATIVES,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C., September 20, 1961.

Mr. THOMAS E. STAKEM,
Maritime Administration,
Department of Commerce,
Washington, D.C.

DEAR MR. STAKEM: Responding to your letter of September 15 concerning proposed transfer of ship construction funds, am not acquainted with the details of the proposition as compared to the original premises on which the Congress made the appropriation, but would suggest it is of such importance as to require further budgetary clearance and resolution by the Congress.

Would be glad to give every consideration to it in event it is submitted.

With best wishes.

Sincerely,

CLARENCE CANNON, *Chairman.*

Mr. PETTIS. I think it is very important that we get a clarification from the military as to whether there is any differential in regard to ore boats or liner types.

Each year the Defense Department makes a determination of its mobilization requirements, and each year the Defense Department has said that the ore boats are very important as a segment of our national defense as far as maritime defense is concerned.

And I think it is very important that we find out whether they were talking about funds or talking about ships.

Senator BUTLER. I think it is very clear that the Department was talking about funds. There is no doubt in my mind that they feel that these ships are very vital to the defense of the country.

I think, as you say, the question was loaded, and the way it was asked it could only be answered in one way, and that was the answer that the Department wanted.

Mr. PETTIS. That's correct. The same as all the other questions that were posed to everybody were loaded questions.

For instance, the question that was posed to the Senate Appropriations Committee was such that the chairman, Carl Hayden, sought advice and counsel from the Justice Department, and the Justice Department replied that they don't usually give any counsel of this kind because it is generally asked by the President of the United States, that the Secretary of a department should operate as a Secretary of the department and act accordingly.

Also in the letter that they sent to the chairman of the Senate Appropriations Committee they point out that at no place in the act does the act prohibit a shipbuilding company, a steel company, or something else, from building a ship in their own shipyard. They specifically bring that out. I think that letter is very important and should be requisitioned from the Senate Appropriations Committee.

Finally, sir——

Senator BUTLER. I will ask the Senator from Arizona to make that available.

(Copies of letters sent to the Senate and House Appropriations Committees' chairmen and the replies will be found beginning at p. 65.)

Mr. PETTIS. I think another thing that we ought to have for this record is the question of where the funds have gone over the last 10 years, or at least the last 5 years, that were appropriated by the Congress for the Maritime. I remember in 1961 that the following was said:

> The Maritime Administration is hopeful that the Congress may provide sufficient funds in fiscal year 1962 for the construction of 25 new cargo ships to cover the agency's ship replacement program. The budget for fiscal year 1962 submitted to the Congress by President Eisenhower requested a total of $98 million for ship construction. It was estimated this figure would cover the 14 new cargo vessels. However, of the $98 million requested, $10.5 million would be used for acquisition of replaced ships and $2.5 million for administrative and warehouse expenses, leaving a total of $85 million for ship construction. Maritime Administration now has a carryover of some $28 million in previous years in shipbuilding funds.

It goes on in this vein.

This is important to show that there isn't any difference, somewhat, in the past, the carryover of funds, the unobligated funds, and that they were used and that in the part the Maritime Commission, the Maritime Board, the Maritime Administration, has used unobligated funds for various other reasons than that that was subscribed to in the appropriation.

I think it ought to be brought out here, too, that very recently the Tramp Ship Association testified before a committee in the Department of Commerce on maritime evaluation in regard to manpower mobilization, that they were seeking an updating of their ships, not new construction, but some relief so that they can replace their old wornout tramps with the ships that have been turned in in replacement of new ships by the subsidized lines.

And I think that this is something that will prove that they are not going to open any Pandora's box, that the Government will have to build a whole lot of ships for these tramps and others in the bulk carrier business, world transportation, because they will be replacing them all at once over a short period of time.

I think along with this that this committee ought to give deep consideration, serious consideration, to the fact that all ore-carrying boats should be built in the United States and put under the American flag, for the defense of this country.

Senator BUTLER. Thank you ever so much.

It is always nice to have you come here.

As far as I am concerned, I will do everything I can to get this resolution passed.

Mr. PETTIS. I am sure you will.

Senator BULTER. Mr. Peter McGavin.

Mr. McGavin, it is nice to have you here this afternoon.

STATEMENT OF PETER M. McGAVIN, EXECUTIVE SECRETARY-TREASURER, MARITIME TRADES DEPARTMENT, AFL–CIO, WASHINGTON, D.C.

Mr. McGAVIN. Senator Butler, Paul Hall, the president of the Maritime Trades Department was to be here and was detained and is scheduled in New York. He asked me to appear in his behalf for the department.

Senator BUTLER. We are very glad to have you, and we are sorry you both couldn't be here.

Mr. McGAVIN. On behalf of the Maritime Trades Department, AFL–CIO, we wish to express our thanks and appreciation for the opportunity to state our position with respect to proposed legislation, Senate Joint Resolution 160, which this department favors and strongly recommends enacted. The maritime trades department was chartered by the American Federation of Labor in 1946, and is the official method of the AFL–CIO for transacting that portion of its business as indicated by the name of the department. The Maritime Trades Department, AFL–CIO, consists of 30 national and international unions of the AFL–CIO and 32 port maritime councils with offices in various ports throughout the United States, the Commonwealth of Puerto Rico, and the Dominion of Canada. We also want to thank the chairman and the committee for its deep and continuing interest in the welfare of the American merchant marine.

The marine worker has a great stake in maritime policy. If that policy does not pay off in a visible merchant fleet he pays the ultimate economic price—he loses his job.

The Nation has an interest in the American seaman. The equipment available are not more reliable, loyal, and efficient than the men who man them. The bona fide seaman is the real backbone of the merchant marine. Without his services the most modern ships afloat are something less than they were designed to be. The fact about lost employment opportunities and the instability of employment make it that much more difficult to attract and retain the caliber of seamen commensurate with the role played by the merchant marine in American economy, and with the part that our fleet is to take in the event of a national emergency.

Senator BUTLER. Senator Lausche has asked that the he be permitted to call Mr. Grogan and others back, if, after reading your testimony, he would like to ask you some questions.

Mr. McGAVIN. That is perfectly all right.

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Senator BUTLER. I have agreed that the record will be kept open for that purpose and that he will be accorded that opportunity.

Mr. MCGAVIN. As background information on this proposed legislation for the construction of at least two oceangoing ore or coal carriers, we wish to advise the following facts for the consideration of the committee:

1. Percentage of American foreign trade carried in American ships, 1830–1960

	Percent		Percent
1830	89	1920	42
1940	82	1930	30
1850	72	1938	26
1860	66	1939	22
1870	35	1945	68
1880	17	1950	44
1890	12	1955	22
1900	9	1960	11
1910	8		

2. Iron ore imports into the United States

	Tons imported		Tons imported
1945	1,189,000	1955	23,443,220
1950	8,215,865	1960	34,620,201

3. Coastwise and intercoastal shipping

The decline in the coastwise and intercoastal fleets since 1939 is well known. In the intercoastal trade, for example, the number of ships has declined from 200 as of July 1934 to 31 as of January 1962. The present vessels are obsolete with high operating costs. The doom of those once flourishing trades is foreshadowed. Unfortunately, little or nothing is being done to stimulate the continued existence of the remaining fleets, the revival of former fleets or the birth of new fleets.

4. Labor force aboard U.S.-flag ships

Sailors on U.S.-flag ships:	
1947	111,000
1961	48,000
Percent decline in jobs	56

5. Use of bulk ore carriers in national defense

In World War I specially designed bulk ore carriers, which were built in American yards and operated under the American flag, were used by the U.S. Government in the war effort, including their use in transporting locomotives to France.

In World War II similar bulk ore carriers, but larger than those used in World War I, were likewise found by the U.S. Government to be useful in the war effort and were so used, including their use in transporting grain to Great Britain.

The present Venore vessels were required to be built in the midst of hostilities despite shortages of material and of manpower, because the need for same during the period of national crisis had not been anticipated before the crisis arose.

There are indications that the Defense Department would at this time support a subsidy for construction of ore carriers except that it fears that the contemplated liner-type construction program would be cut back. This is understandable. The United States presently

transports in its own ships only 11 percent of its foreign trade; yet plans are presently underway for the replacement of less than half of the ships which ought to be replaced in order to stand still. Against this background the reported response of the Defense Department seems to reflect anxiety over the inadequacy of the present program rather than a forthright finding that private carriers designed for movement of ore are not necessary to the national defense.

6. Policy of Congress regarding common carrier vs. private carrier construction aid

The Merchant Marine Act, 1936, sets forth a declaration of policy of the Congress to foster the development and maintenance of a merchant marine for the United States, which states in part:

> It is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine (a) sufficient to carry its domestic waterborne commerce and a substantial portion of the waterborne export and import foreign commerce of the United States. * * * and (d) composed of the best equipped, safest, and most suitable types of vessels, constructed in the United States and manned with a trained and efficient citizen personnel. It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a merchant marine.

Denial of the ore carrier construction aid application would appear to be inconsistent with this policy.

7. Who is entitled to a construction subsidy

Any citizen or company is entitled to a construction differential subsidy under the Merchant Marine Act of 1936. Subchapter V, construction differential subsidy, section 501 of the act provides in part:

> (a) Any citizen of the United States may make application to the Federal Maritime Board for a construction-differential subsidy to aid in the construction of a new vessel to be used in the foreign commerce of the United States * * *

By law the Bethlehem Steel Corp. is fully entitled to approval of its application covering two 51,000 dead weight ton ore carriers to be built in this country for operation under the American flag. Mr. Hodges has taken it upon himself as czar of the Merchant Marine to deny that legal right.

Mr. Hodges says that to grant about $15 million subsidy under the application could lead to $1.5 billion cost to the Government. That argument is painfully contrived and not worthy of the Deartment of Commerce. If his estimate of 250 American noncommon carriers in foreign trade is accepted, one would expect a replacement rate of say 12.5 ships per year on the basis of 20-year life. If one assumes on average subsidy of $5 million per ship, there would be a cost of about $63 million per year. That does not make quite the same kind of sound that $1.5 billion does. Furthermore, $63 million would result only if all 250 were replaced in this country on a subsidy basis. Mr. Hodges' staff must surely know that such ships, though eligible for a construction subsidy are not eligible for an operating subsidy. His staff, if experienced in practical maritime affairs, would surely know that only a few of such ships would be replaced under present law, even if it were properly administered, because of the lack of operating subsidy under present law. Only very large ships such as Bethlehem's projected 51,000 tonners would have any chance of making the

grade under the American flag without operating subsidies. Therefore, the figure of $63 million per year could be cut to about a tenth of that or say $7 million per year. This hardly supports a figure of $1.5 billion and raises the question as to why Mr. Hodges has had to resort to such a contrived and thoroughly misleading argument.

As to the matter of the four vessels referred to above, Mr. Hodges tries to distinguish between them and the ships covered by the present application on the grounds that they were approved before the end of World War II for purposes of national defense, "under circumstances which do not now exist."

There is, if anything, a more pressing national defense requirement now than before. At the time the four Venore ships were approved, the steel industry of this country was importing about 1.2 million tons of foreign ore. Recently the steel industry has imported as much as 35.6 million tons of foreign ore in 1 year, a figure which is growing. Yet the United States has only the same Venore-class ships left. These are already obsolete because of age and small size. This country is now virtually dependent on foreign-flag bulk carriers for the transportation of ore on which about a third of American steel production is based. With the world in turmoil and our steel industry more dependent than ever on foreign ore, how can Mr. Hodges dismiss, in such an offhand manner, the present national defense implications in not having sufficient U.S.-flag ships of suitable types to carry a substantial portion of our imports of vital raw materials? Are national defense considerations to be considered only after the outbreak of war as Mr. Hodges implies?

At present there is not a single modern ore carrier under the American flag. As previously stated there are only the Venore-class ships which are 15–16 years old, and are obsolete because of small size. In fact, these ships are now so unsuitable for requirements of modern ore carriage that only one is being used for this purpose. All other ore carriers serving the United States import trade are foreign-flag vessels. This one American-flag vessel accounts for only about 3 percent of the foreign ore imported by this country.

Less than 10 percent total U.S.-flag participation in our foreign trade at present, the lowest ebb to which our merchant marine has sunk in over 150 years with the one exception when we dipped to 8 percent more than 50 years ago. Considering a factor of only 3 percent for our foreign ore imports, Mr. Hodges' denial of the application hardly represents the kind of administration called for by the Merchant Marine Act which charges that our Maritime Administration "foster the development and encourage the maintenance" of a merchant marine to carry a substantial portion of our foreign commerce. Furthermore, his denial of that application makes one wonder just what he meant when he induced Congress to adopt Reorganization Plan No. 7 by the following statement on July 11, 1961, to the Bonner committee. I quote Mr. Hodges:

> Mr. Chairman, I would like to express to your committee my personal concern as to the present-day position of the U.S. merchant fleet. American ships sailing under the American flag are carrying smaller and smaller percentages of the goods which move in the world commerce. American ships sailing under the American flag are carrying smaller and smaller percentages of the goods which move in American trade alone. This is cause for concern to all of us; and it is certainly of particular concern to the Secretary of Commerce. I believe this country needs and I believe this country should and can have a strong, vigorous

merchant marine. I think that the Federal maritime programs which are adopted by future Congresses will and should take this into account. I also think that we must take all necessary action to insure that we have the best possible administration of all the regulatory functions.

His current action on the Bethlehem application in the light of the foregoing statement raises some questions pertinent to the future of the U.S. merchant marine.

Has Mr. Hodges changed his mind about the U.S. merchant marine?

Does his authority permit him to decide that the merchant marine should be denuded of certain types essential to the carrying of a substantial portion of our foreign commerce?

Is he satisfied that a U.S. merchant fleet that carries only 10 percent of our foreign trade is what the Congress had in mind when it enacted the Merchant Marine Act of 1936?

If not, will a mere 18 new ships for fiscal 1963 do anything to alter our dismal participation in our own foreign trade?

In what way is he fostering the development of a U.S. merchant marine sufficient to carry a substantial portion of our foreign trade as he is required to do by law?

Does he have all the funds he needs to carry out the policies of the Merchant Marine Act?

If not, what is he doing about it?

Is Congress satisfied that the U.S. merchant marine under the control of Mr. Hodges is the kind of merchant marine intended under the Merchant Marine Act of 1936?

In summary, Mr. Hodges' denial of the application is disappointing. The reasons he has given for this action cannot be accepted as valid, since they are based on errors of fact, misinterpretation of law, disregard of law, and the introduction of irrelevancies.

We, therefore, respectfully urge enactment of Senate Joint Resolution 160.

Senator BUTLER. That was a good statement, and I thank you very much for coming here and letting the committee have the benefit of your views.

Mr. MCGAVIN. Thank you.

Senator BUTLER. Mr. Hood.

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

Mr. HOOD. Senator, realizing that I will probably be a little late on the agenda, I have tried to come up with some new thoughts that might be helpful to the committee.

Though the hour is late, I would like to read this statement, if I may.

Senator BUTLER. Let me say that you have all the time that you want.

I will sit here as long as anybody wants to give us light on this question. I am very happy to have you here. I know that your statement will be one that is very excellent in content.

Mr. HOOD. Thank you, Senator.

My name is Edwin M. Hood. I am president of the Shipbuilders Council of America. The membership of the council, a national industry trade association, is composed of practically all principal U.S. private shipbuilding companies constructing large merchant and naval vessels. Included, also, are many major shipyards which engage in

repair, alteration, and conversion work on all types of merchant and Navy ships.

We also have many allied industries represented in our membership.

We view with concern the progression of events and conditions which have led to the introduction of Senate Joint Resolution 160 and Senate Joint Resolution 161. But, we are agreed that this hearing can serve a useful and timely purpose in spelling out once again—for all to see and hear—the original and lasting intentions of the Congress with respect to construction subsidies.

Unfortunately, Mr. Chairman, our industry is constantly in a state of "limbo," with actions continually pending and decisions never really solving basic problems. On more than one occasion we have wavered on the brink of famine and oblivion. As they say, this has been the story of our existence. For months, we have been presenting this story to various Government groups—in fact to anyone who will listen—in the hope that out of these efforts will come a realization by the decision and policy makers of the essentiality of a strong merchant marine with adequate privately owned shipbuilding and ship repairing facilities.

We view this essentiality not alone from the standpoint of national defense requirements but also as an instrument of economic stability, a mechanism for the expansion of foreign trade, and an element in maintaining the balance of international payments. For these reasons, the members of the Shipbuilders Council have asked me to express to this subcommittee their appreciation for the opportunity to present these observations here today.

We look forward with some misgivings, born of experience, to the forthcoming presidential message on transportation policy. Recent events account for those misgivings.

Considering the reduced fiscal 1963 appropriation request for the continuation of the cargo ship replacement program, the probable refusal of ship mortgage insurance on three ships to engage in the fast vanishing coastal and intercoastal trades, and the rejection of an application for Federal aid to enable the construction in U.S. shipyards of two large modern ore and coal carriers for operation under the U.S. flag—the outlook for a favorable message is dim to say the least.

Only time will tell, and the very fact that this transportation message is delayed may be a good omen. It may mean that those who would give the U.S. shipbuilding industry the "deep six" are not having their way. Let us hope that is the case.

History demonstrates that the continued existence of a private shipyard industry is vital to national survival and necessary to the development and maintenance of the adequate merchant marine.

Despite the best intention and efforts of the Congress and improved management and production techniques, the industry has undergone great fluctuations in the volume of business throughout the years, with a definite lack of that continuity which is almost mandatory for the operation of any successful and healthy business. Someone has said it is an industry plagued by official "fits and stops."

Since 1914, two tremendous ship construction programs were started and completed under the stimulus of worldwide hostilities. In both cases, fortuitous circumstances provided several years of preparation which enabled the industry to expand sufficiently to undertake the war programs. However, even with the advantage of preparatory periods,

much time passed before the first deliveries of merchant and naval vessels could begin under war contracts.

In both instances, an adequate merchant and naval fleet in being would have minimized the time, cost, and manpower of the ensuing war production programs.

Between World Wars I and II, the industry was at a low ebb, with periods of little or no activity and with absolutely no continuity of business. Facilities and technical staffs were seriously reduced, finances depleted and many shipyards liquidated. Others barely escaped liquidation. Since 1946, for example, more than 20 yards on all coasts have gone out of business for a lack of work.

At the beginning of World War II the combined fleets of all of the Allies that could be made available proved to be entirely inadequate. Offsetting 100 ships obtained from the Allies, the United States furnished these same Allies under lend-lease, approximately 6½ times that number. Even though this country built some 5,000 ships during that horrendous period, we never seemed to have enough at any one time to meet all of the demands for sea transport. Those who would suggest reliance on foreign nations for maritime and shipbuilding needs in times of emergency might ponder on these undeniable facts.

The shipping emergency created by the crisis in Korea was a classic example of the proposition that a maritime nation must have ships readily available at all times. Our control of the seas and the splendid support and supply of our forces in Korea at the end of a 6,000-mile sea communication line was an outstanding achievement. Over an 18-month period, beginning with the opening of hostilities in June 1950, almost 800 Government-owned ships were withdrawn, repaired, and refitted in private facilities and put into service at a rate of more than 3 vessels every 2 days. The action in Korea emphasized that commitments of arms and men overseas cannot be made without ships for initial support and follow-on supply.

An important outgrowth of the Korean affair was the realization that while our reserve fleets of World War II ships had stood us in good stead, if the United States is to remain in its unsought role of leader of the free world, the time had arrived for these ships to be replaced. While the Merchant Marine Act of 1936 had provided the basis for the development of the American merchant marine, with maximum reliance on the operators in the liner trades, and on the whole had proven itself to be a sound piece of legislation, the Korean experience emphasized that the act did indeed need to be strengthened and broadened.

To meet these newly evident ship construction and ship replacement problems the Congress, after exhaustive study, enacted the so-called long-range shipping bill. In addition to improving the 1936 act so as to make it feasible for the subsidized ship operators to replace their war-built fleets, the principal 1952 amendment was a refinement of the basis of the 1936 act to permit the award of construction subsidies to any operator irrespective of whether an operating subsidy was involved.

The 1952 amendment was enacted by the Congress in recognition of the fact that ship construction for the subsidized operators alone would not provide over the years a sufficient market to guarantee an adequate merchant fleet or a reasonably steady shipyard order book.

The Congress was obviously convinced that a volume of ship construction larger than would have been provided by the original act was necessary if this country were to continue as a first-class maritime power, with vessels at least equal to, if not better than, those of other maritime nations.

It was clear then, as it is now, that unless the construction differential provisions extend to all vessels to be employed in our foreign commerce, the unsubsidized segment of our fleet would become less and less competitive and perhaps eventually disappear from the seas.

To repeat. The intent of the 1952 amendment was that operators or prospective operators of American-flag ships in foreign trade who do not enjoy the advantages of operating subsidies might nevertheless be induced by construction subsidies to have their ships built in American shipyards. However, the 1952 amendment has failed completely as not a single large ship has been built for a nonsubsidized operator based on this provision.

There have been various contributory factors. Perhaps the most obvious is that while the 1952 amendment provided the formula under which aid could be granted, it made no provision for the appropriation of funds.

There should be no question of priority as between the planned ship replacement program of the subsidized lines and ship construction for nonsubsidized operators when applications for construction differential subsidy are being considered. Some system should be adopted so that funds will be readily available for all applications. We have recommended the establishment of a separate revolving fund for this purpose. In any event, some advance planning by the Maritime Administration to support the program envisioned by the 1952 amendment seems imperative to avoid situations similar to that which has arisen in connection with the request by an unsubsidized operator for a construction subsidy to permit the building in the United States of two large ships for ore-carrying trade, which your subcommittee is now reviewing.

For just one more moment, may I comment on an oddity which in recent years has been a bane of our existence and which seems to plague us "coming and going." On the one hand, as the Under Secretary of Commerce this morning suggested, Federal appropriations for merchant shipbuilding are the result of an annual exercise in reducing. That might be good for some of us poor mortals, but not for the maritime and shipyard industry. On the other hand, foreign shipyards are cited as low-cost operations by those who would cast stones at U.S. shipyards.

The frequent charge that our foreign shipyards have new and modern shipbuilding facilities ignores the impetus of wartime rehabilitation, and to a large extent the wherewithal by which this low-cost foreign competition has come to pass. Through the means of U.S. foreign aid, more than $600 million has been spent to build up and support shipyards in foreign countries since 1948. In addition, the amount of dollar assistance given to foreign steel plants and other millworking plants which play a vital role in shipbuilding could bring the total to nearly $1 billion.

Despite Executive directives affecting the balance of payments and the implementing policies of the Department of Defense, offshore

contracts for the modernization and procurement of vessels and vessel equipment in foreign shipyards will continue under the military assistance program. The Department of Defense says that the nature of cost-sharing formulas with other countries precludes the hope for much reduction in this type of offshore procurement.

Thus, the United States has not only aided and abetted the low-cost foreign shipbuilding competition, but apparently this policy is to continue. At this very moment, according to accounts in the press, we understand the Government is negotiating an arrangement whereby U.S. technical know-how and $300 million will be exported to permit the construction of naval vessels in shipyards in Spain—which heretofore has not been regarded as a leading shipbuilding nation. The net effect of this development will be that our Government is, and has been, contributing to an already excessive capacity in world shipbuilding, while permitting the U.S. shipyard industry—a vital national asset at all times—to deteriorate. An oddity, indeed.

Thank you very much, Mr. Chairman.

Senator BUTLER. Thank you very much for that very concise and illuminating statement.

Mr. BOURBON. In the last paragraph of your statement you talk about the accounts in the press that the Government is negotiating an arrangement for helping the Spaniards to build some shipyards. Is that being done under the AID?

Mr. HOOD. I think this comes under the mutual security program. The last account that I saw in the press was, I think January 21, in the Washington Post and Times Herald.

Mr. BOURBON. For the record, would you give us some idea of the contrast in the experience of commercial yards during recent years as compared to the naval shipyards.

Mr. HOOD. Our figures and those of the Department of the Navy, Mr. Bourbon, indicate that in terms of naval shipwork there are at this moment twice as many people employed in the naval shipyards as there are in the private yards. This, to our way of thinking, is perhaps the most intense form of Federal invasion of the arena of private business.

Mr. BOURBON. How many naval shipyards are operating now?

Mr. HOOD. There are 11 naval shipyards and one repair facility.

Mr. BOURBON. Is that the same number that operated during the height of the war?

Mr. HOOD. Exactly the same number.

Mr. BOURBON. What has happened to the number of personnel in those 11 shipyards or 12 shipyards as compared to wartime employment?

Mr. HOOD. I don't have the figures with me, Mr. Bourbon, but naturally the level of employment in the naval shipyards was greater during the wartime. I think it was in the neighborhood of 300,000 people.

Mr. BOURBON. To put it another way, could you comment on the number of men who are employed in the naval yards now in relation to the work that is being done, compared to the number of men that are in the private yards compared to the work that is being done?

In other words, does it require more men to turn out a job in the naval shipyards than it would to turn out the same job in commercial shipyards?

Mr. HOOD. I think here you are getting into an area of comparisons of productivity, which is always difficult to make. I did see one report and I am not prepared to say that it is totally accurate. But I saw one report which indicated that for every one person in the private yards, the naval shipyards needed three people.

Mr. BOURBON. To get back to something that pertains to the matter we have been discussing today, what are the real facts about the replacement program and the amount of new ships that will be required each year to complete the replacement of the subsidized fleet before some of the new ships begin to be obsolescent?

Mr. HOOD. As you know, the replacement program extends into 1972–73. There have been various estimates as to what the rate, annual rate of progress, should be. I have seen some which started at 60, others urged 30. As of last year I think the official testimony before the Appropriations Committee was that it should be at the rate of 25 ships a year. That would be a reasonable basis.

I believe I saw a report the other day coming out of the Department of the Navy which indicated that we should be building 25 to 30 ships a year on the replacement program.

Mr. BOURBON. And actually how many are we building on an average?

Mr. HOOD. The average since 1958 when the program started has been 16 ships per year.

Mr. BOURBON. On that basis have you any idea how long it will be before we complete the replacement of the ships that are now being considered, rather than any that may at that time need replacement?

Mr. HOOD. Frankly, I have not estimated it because within the last 2 years it has been compounded by the fact that the subsidy life, or the useful life, of the vessels for the calculation of subsidies, has been changed from 20 to 25 years.

Actually, as I see it, any reduction in yearly increment can only tend to spread the program out. In so doing the ultimate cost to the Government would be greater.

Mr. BOURBON. Have you any foreboding that eventually you may have to determine the normal life at 30 years to come within the program?

Mr. HOOD. I was a little surprised to see in the President's budget message that though the statutory life is 25 years, the President referred to it as 25 to 30 years. I don't know whether this is a portent of something to come. I hope not.

Mr. BOURBON. I believe you will remember that it was Mr. Eisenhower who first suggested that maybe we ought to go to 25, and the following year that happened.

Mr. HOOD. Yes, sir. As a matter of fact, in comparing this particular budget message with some during the Eisenhower years, President Eisenhower referred to it as 20 to 25 years, and the law was eventually changed to 25 years.

Mr. BOURBON. Can you tell us what happened to that unobligated $18 million that the Maritime had suggested might be available for subsidy payments for the two ore carriers?

Mr. HOOD. Frankly, Mr. Bourbon, I have had trouble through the years in following exactly how much carryover there is and where it is ultimately applied. I presume it is eventually lumped together and that it is figured in in some fashion.

Mr. BOURBON. But there was that specific amount mentioned.

Mr. HOOD. I recall that there was a letter that went to one Appropriation Committee, I think the Senate Committee on Appropriations.

Mr. BOURBON. One final question, to set at rest the possibility that you may have to put in $1½ billion in replacing the tramp ships and others. Do you have any information as to any owners of those unsubsidized bulk carriers who have made inquiries at any of the yards about the cost of new replacements for their vessels?

Mr. HOOD. I have no knowledge of that, Mr. Bourbon.

Mr. BOURBON. You haven't heard of a single instance?

Mr. HOOD. That is right.

Mr. BOURBON. That is all that I have.

Senator BUTLER. Do you have any figures in connection with the present shipbuilding activities of the Soviet Union?

Mr. HOOD. Yes, sir. We have been collecting all sorts of information with respect to the activities of the U.S.S.R. in terms of both merchant and naval shipbuilding.

Senator BUTLER. Does it show that they are decreasing in number or increasing in number?

Mr. HOOD. Mr. Alexander, the Maritime Administrator, said in January, in New York, that by 1965 the merchant fleet of the U.S.S.R. would be doubled in size.

Senator BUTLER. Do you have any indication of its present size?

Mr. HOOD. I don't with me, but I will be happy to provide it for the record.

Senator BUTLER. I would like to have that. And the indicated growth over the next 5 or 10 years.

Mr. HOOD. If I may, Mr. Chairman, may I observe that the Russian merchant fleet is totally subsidized as a state-owned and state-operated function.

Senator BUTLER. If you could do it, I would like to have information—if you have it—of the types of ships that they are building.

Mr. HOOD. We have that; yes, sir. We will provide it for the record.

Senator BUTLER. And the numbers of ships.

Mr. HOOD. I must say, Senator, that obviously much of this information is unreliable. We don't put our hand up and swear that it is absolutely accurate. Even the State Department, in furnishing maritime statistics affecting the U.S.S.R. says the same thing.

Senator BUTLER. Do you have any intercommunications with foreign shipbuilders?

Mr. HOOD. Yes, we do. Not on any extensive basis, but we do.

Senator BUTLER. Is that the basis of your information?

Mr. HOOD. No, sir. I would have to say that practically all of this information is publicly available for those who seek it out.

Senator BUTLER. Thank you ever so much.

Mr. HOOD. Thank you, Senator.

(Mr. Hood's letter of March 14, with attached data regarding the Russian merchant fleet, follows:)

SHIPBUILDERS COUNCIL OF AMERICA,
Washington, D.C., March 14, 1962.

Mr. AUGUST J. BOURBON,
Subcommittee on Merchant Marine and Fisheries,
Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR MR. BOURBON: As a supplement to the discussion which took place on the occasion of my testimony before the Subcommittee on Merchant Marine and Fisheries in connection with Senate Joint Resolution 160 and 166 on March 8, I respectfully submit the attached memorandum summarizing recent developments with respect to the Russian merchant fleet.

Should you desire any further information in this respect, do not hesitate to call on me.

With all good wishes, I am,
Cordially,

EDWIN M. HOOD, *President.*

RUSSIAN MERCHANT MARINE FLEET

In 1939 it is reported that the Soviet merchant fleet consisted of 716 ships, totaling 1,315,000 gross registered tons. As the Russians' own registry of ships uses specifically Russian rules of measurement, it is impossible to obtain full information about the ships from non-Soviet sources. However, it is reported in "The Soviet Navy," by Commander M. G. Saunders, Royal Navy, Frederick A. Praeger, publisher, New York, 1958, that in 1958 the Russian fleet of merchant ships was approximately 3 million tons and comprised about 1,000 ships. The breakdown was as follows:

	Tons
Dry cargo (about 500 ships)	1,000,000
Passenger	200,000
Tankers	800,000
Reefers	200,000
Icebreaking freighters	50,000
Icebreakers and special types	150,000
Coastal and sailing ships	250,000
Whale and fish factory ships	150,000
Coastal ships	200,000
Total	3,000,000

The chart, "Merchant Fleets of the World," published by the Maritime Administration (which states that U.S.S.R. "source material" is "limited and unreliable") as of June 30, 1961, sets the Russian fleet at 910 vessels of 1,000 gross tons and over for a total of 3,839,000 tons including 83 vessels of 515,000 gross tons under U.S. lend-lease and not returned. The fleet is broken down on the chart as—

Type	Number of ships	Gross tons	Deadweight tons
Combination passenger and cargo	73	362,000	277,000
Freighters	570	1,958,000	2,821,000
Freighters, refrigerated	17	68,000	71,000
Bulk carriers	110	454,000	636,000
Tankers (including whalers)	140	997,000	1,448,000
Total	910	3,839,000	4,253,000

The following item appeared on page 57 of the National Defense Transportation Journal, November–December 1961:

"FACTS ABOUT THE RUSSIAN MERCHANT FLEET

"In 1939, Russia ranked 21st among world traders. In 1958, she had moved to 6th place.

"By 1965, it is predicted that 75 percent of Russia's import-export trade will be carried in Soviet bottoms. This compares with roughly 10 percent of all American export-import cargoes currently being carried in American flagships.

"In 1939, the Russian merchant fleet consisted of 680 ships—mostly obsolete. In 1960, Russia's fleet consisted of 1,138 ships of 3.4 million gross tons.

"By 1965, giant tankers will comprise 40 percent of the Russian tanker fleet and giant cargo ships will form 15 percent of the dry cargo fleet."

Senator BUTLER. Mr. Altman.

STATEMENT OF E. N. ALTMAN, EXECUTIVE VICE PRESIDENT, AMERICAN MARITIME ASSOCIATION, WASHINGTON, D.C.; ACCOMPANIED BY RAY R. MURDOCK, LEGISLATIVE DIRECTOR, AMERICAN MARITIME ASSOCIATION

Mr. ALTMAN. I would like to introduce our legislative director, Mr. Ray R. Murdock, who is here with me today.

Senator BUTLER. I am very happy to have you.

Do you want to read your statement or introduce it in the record and comment on it?

Mr. ALTMAN. I was prepared earlier in the morning to read the statement. By now so much of it has been covered that I would appreciate having the document introduced into the record. I would like to summarize it and then comment on some of the things that have been said today and supplement it.

Senator BUTLER. It will be so ordered.

(The statement follows:)

TESTIMONY OF E. N. ALTMAN, EXECUTIVE VICE PRESIDENT AMERICAN MARITIME ASSOCIATION, WASHINGTON, D.C., ON SENATE JOINT RESOLUTIONS 160 AND 166

My name is Edwin N. Altman, and I am executive vice president of the American Maritime Association. The association is composed of 96 American-flag shipping companies, and is dedicated to the protection and promotion of the American-flag merchant marine. The association is alarmed at the implications of the letter addressed by the Secretary of Commerce to Mr. Robert J. Jurgen, president, Ore Navigation Corp. (Bethlehem Steel Corp.) denying that company's application for a construction-differential subsidy in the amount of about $15 million to build two 51,400 dead weight ton ore carriers to carry iron ore from Liberia to the United States.

Our alarm is greatly enhanced by the fact that in setting forth the reasons for his denial, the Secretary has in effect, amended the construction subsidy law so as to restrict its application to liner-type common carriers, and to exclude from its benefits private industrial carriers, contract carriers, and others.

On several occasions, this association has previously indicated to the Secretary its support of the Bethlehem application, based (1) on the great inadequacy of the ore-carrying fleet now operating under the American flag; and (2) the resulting increasing dependence of our economy and national defense upon foreign-flag ships for the importation of indispensable war materials. Repre-

sentatives of this association have also been present at meetings with the Secretary attended by Congressmen, maritime management and labor representatives, and others interested in the maritime industry, at which he was urged to approve the application in the national interest.

1. ACTIONS OF THE SECRETARY OF COMMERCE PRIOR TO THE EFFECTIVE DATE OF REORGANIZATION PLAN NO. 7

In his letter, as reported by Congressional Information Bureau, volume 66, cargo No. 39, February 16, 1962, the Secretary stated that some months ago the former Federal Maritime Board approved the application for construction subsidy subject to certain conditions, among which were: "(1) policy concurrence by the Secretary of Commerce, and (2) availability of funds after provision for all vessel construction under the Government's regular ship-replacement program." Then, in a parenthetical aside, the Secretary states that "under the law applicable at that time such decisions of the old Federal Maritime Board were contingent upon the policy concurrence of the Secretary of Commerce," and therefore the reference of the matter to him by the Board "was entirely consistent with the law in effect prior to the reorganization of the maritime agency."

We are wholly unable to agree with these conclusions. We believe that the law applicable before the reorganization of the maritime agency was the Merchant Marine Act of 1936, as particularly set forth in section 1151 of title 46, United States Code, which in the code is entitled "Subsidy authorized for vessels to be operated in foreign trade—." We are unable to find even any reference to the Secretary of Commerce in that section, which in the code is the first section under subchapter V, or in the succeeding sections related to construction subsidies, namely, section 1152 (a), (b), (c), (d), and (e) of title 46, United States Code. On the contrary, we think these sections are most specific and unambiguous in vesting in the Federal Maritime Board full authority with respect to the granting of construction-differential subsidies for new vessels to be used in the foreign commerce of the United States. Thus, section 1151(a) provides that any U.S. citizen may make application to the Federal Maritime Board for a construction subsidy; that no such application shall be approved "by the Board" unless it—that is, the Board—determines that the plans and specifications call for a vessel which will meet the requirements of our foreign commerce; will aid in the promotion and development of such commerce; will be suitable for use for national defense or military purposes in the event of war or national emergency; that the applicant possesses the necessary ability and other qualifications to operate and maintain the vessel, and that the subsidy is reasonably calculated to replace worn-out or obsolete tonnage and carry out the purposes and policy of the chapter.

Section 1151(b) provides that the Board shall submit the plans and specifications to the Navy Department to determine that it will be suitable for economical and speedy conversion in the event of war or national emergency, and that the Secretary of the Navy, if he approves, shall certify such approval to the Board.

Section 1151(c) authorizes any citizen to apply to the Federal Maritime Board for a construction-differential subsidy to reconstruct or recondition any vessel to be used in our foreign commerce. "If the Board, in the exercise of its discretion"—note that it is within the discretion of the Board, not the Secretary of Commerce—determines that the granting of the subsidy would carry out the purposes and policy of the chapter, "the Board may approve such application and enter into a contract * * *" providing for the payment of the construction-differential subsidy, in accordance with rules and regulations "the Board has adopted as provided in section 1114(b) of this title."

Section 1114(b) of title 46, United States Code provides that "the Federal Maritime Board and the Secretary of Commerce are authorized to adopt all necessary rules and regulations to carry out the powers, duties, and functions vested in it or him by this chapter." But it is quite clear that, since section 1151 vests powers, duties, and functions with respect to the construction subsidy directly and only in the Board, and vests no powers, duties, or functions in the Secretary, this subsection cannot be construed so as to vest in the Secretary powers vested in the Board, and withheld from the Secretary. Such a construction would be in open conflict with the language and intent of Congress. Section 1151(c) goes on to provide that the subsidy shall be extended for reconstruc-

tion or reconditioning "only in exceptional cases and after a thorough study and a formal determination by the Board that the proposed reconstruction or reconditioning is consistent with the purposes and policy of this chapter."

Section 1152(a) of title 46, United States Code, provides that after the Secretary of the Navy has certified for approval under section 1151(b), "and the Federal Maritime Board approves the application, it may sceure, on behalf of the applicant, bids for construction of the proposed vessel," etc. It must be noted that the language specifically states that it is the Board—not the Secretary—which approves the application, and the Board—not the Secretary—which secures bids. The section then provides that after the Board has determined the lowest responsible bid to be fair and reasonable, "the Board may approve such bid, and if such approved bid is accepted by the applicant, the Board is authorized to enter into" the construction contract, which will provide "for the payment by the Board to the shipbuilder * * *" the contract price out of the construction fund, or other available funds. Concurrently with entering into such contract, "the Board is authorized to enter into a contract with the applicant for the purchase by him of such vessel upon its completion, at a price corresponding to the estimated cost, as determined by the Board," etc.

Section 1152(b) establishes the basis for fixing the subsidy; (c) the terms of sale to the applicant; (d) provides a preference to Pacific coast bidders with respect to vessels to be operated from that coast; and (e) provides that if the Board determines that the bids received were unsatisfactory, "the Board may have such vessel constructed, outfitted, or equipped" in a navy yard of the United States, "under such regulations as may be promulgated by the Secretary of the Navy and the Board." It will be noted that in this subsection certain powers are conferred upon the Secretary of the Navy, but in none of the sections hereinabove referred to is there any reference to the Secretary of Commerce.

On the other hand, section 1152(f) does confer upon the Secretary of Commerce and the Secretary of the Navy authority to survey shipbuilding capabilities, and to correct inadequacies, etc.

Only by reading unwarranted interpolations between the lines could anyone imagine that under these sections the Maritime Board had any duty to refer construction subsidy matters involving ships to be used in our foreign commerce to the Secretary, or that the Secretary, on his own motion or otherwise, had any authority to consider, approve, or disapprove the actions of the Board with respect to such subsidies.

As you know, the maritime agency was affected by 1950 Reorganization Plan No. 21, which became effective May 24, 1950. Section 105 of that plan transferred all functions of the former U.S. Maritime Commission with respect to subsidies to the Federal Maritime Board, and this specifically referred to the authority to consider and grant construction subsidies (see 46 U.S.C. 1111, pp. 282, et seq.). The plan, so far as we have been able to ascertain, transferred no authority over construction subsidy on vessels to be used in our foreign commerce to the Secretary of Commerce.

That our interpretation of the law, and of the intention and effect of the 1950 Reorganization Plan, is correct was demonstrated by Reorganization Plan No. 7 of 1961, which, as you know, again reorganized the maritime agency. In his message to the Congress on Reorganization Plan No. 7, the President stated that "There would be transferred from the Federal Maritime Board to the Secretary of Commerce the award of subsidies and related promotional functions." It seems quite clear that if ultimate power with respect to the awarding of construction subsidies had already been vested in the Secretary, there would be no reason at this late date to transfer such power from the Board to the Secretary. Again, the President said, "* * * nonregulatory functions, including the determination and award of subsidies and other promotional and operating activities, would be concentrated in the head of the Department of Commerce * * *. The vesting of all subsidy functions in the Secretary of Commerce will make it possible for the Congress and the President to hold a single official responsible and accountable for the effective conduct of all aspects of this program * * *." (See Congressional and Administrative News, 1961, pp. 2293, et seq.). Surely if supreme power over the award of construction subsidies had hitherto been vested in the Secretary, there was no need for the President in 1961 to concentrate this power in the Secretary of Commerce; and if under existing statutes the Secretary was already ultimately responsible and accountable for the construction subsidy program, no change was necessary which would make it possible for the Congress and the President to hold the Secretary responsible and accountable. These conclusions are patent in the text

of Reorganization Plan No. 7. Thus, the plan provides in section 202(a) that, except to the extent inconsistent with the provisions of section 101(b) or 104(b) of the plan, "There shall remain vested in the Secretary of Commerce all the functions conferred upon the Secretary by the provisions of Reorganization Plan No. 21 of 1950." But, as we have seen, that reorganization plan vested no functions with respect to the construction subsidy in the Secretary. Immediately thereafter, section 202(b) of the 1961 reorganization plan provides:

"There are hereby transferred to the Secretary of Commerce:

(1) all functions of the Federal Maritime Board under the provisions of sections 105(1) to 105(3), inclusive, of Reorganization Plan No. 21 of 1950."

Now, as we have also seen, section 105 of the 1950 reorganization plan specifically transferred from the U.S. Maritime Commission to the Federal Maritime Board all of the old Commission's functions with respect to receiving, considering, and awarding construction subsidies for ships to be used in our foreign commerce, etc. If such functions had been already vested in the Secretary, then section 202(b)(1) would have been a nullity and wholly superfluous.

It is apparent that these were the Secretary's own views at the time he appeared before the House Committee on Merchant Marine and Fisheries in support of Reorganization Plan No. 7. Thus, he stated, "The principal justification for vesting the award of subsidies and related promotional functions in the Secretary of Commerce is the fact that it will, as pointed out in the President's message, make it possible for the Congress and the President to hold a single official responsible and accountable for the effective conduct of all aspects of the maritime program. The duty of policy guidance which the Secretary of Commerce has at the present time (that is, prior to the effective date of Reorganization Plan No. 7) with respect to the Board in subsidy matters leaves room for possible conflict and confusion in the administration of our maritime laws. * * * The subsidy award powers are promotional in nature. * * * It is my belief that the responsibility for the exercise of this function, and thereby the maintenance of a first-class merchant marine should be in a Federal policy official of the highest possible level. * * * Vesting these functions in the Secretary of Commerce would also enable the award of subsidies to be better coordinated with the other transportation and related economic programs administered by the Department. * * * I wish to emphasize at this point that I do not consider the placing of ultimate responsibility in the Secretary of Commerce for the award and determination of construction and operating subsidies as being vastly different from the final responsibilities which he now has for other programs of the Department" (p. 7, hearings before the committee on Reorganization Plan No. 7 of 1961, July 11, 12, and 13, 1961).

2. THE ACTIONS OF THE SECRETARY OF COMMERCE IN DENYING THE BETHLEHEM APPLICATION

As we have just seen, Reorganization Plan No. 7 transferred to the Secretary of Commerce all functions heretofore performed by the Federal Maritime Board with respect to construction subsidies on ships to be used in our foreign commerce. But neither the law, nor Reorganization Plan No. 7, vested in the Secretary of Defense or in the chairmen of the House and Senate Appropriations Committees, any powers with respect to receiving, considering, and awarding of such construction subsidies. But according to the Secretary's letter addressed to Mr. Jurgen, last fall he wrote to the Maritime Administrator informing him that it would not be feasible for the Secretary to concur in the approval of the Bethlehem subsidy by the former Federal Maritime Board until: "(1) the Secretary of Defense determines that the construction of the two ore carriers proposed takes priority over the construction of liner-type vessels in our regular ship replacement program. (2) The chairmen of the House and Senate Appropriations Committees advised this Department that funds allocated for the construction of liner-type vessels may be diverted to the construction of the ore carriers under consideration." In other words, without the benefit of either statute or the reorganization plan, the Secretary transferred vital elements of the construction subsidy powers which had just been vested in him to the Secretary of Defense and to the chairmen of the congressional committees. We cannot see this transfer as anything else but an abdication of the Secretary's own powers and responsibilities under the law, and under the reorganization plans.

We feel that the following comments are pertinent. We have been unable to find in sections 1151, 1152 of title 46, United States Code, or in the reorganiza-

tion plan, any legal authority for the establishment, either by the Secretary of Commerce, or the Secretary of Defense, or any other person or agency, of a priority for liner-type vessels as against any other type of vessel engaged in our foreign trade. If such a priority exists and is enforced, we believe that it is not only unlawful, but against the best interests of our economy and national defense. By comparison, the operators of American-flag liner vessels are doing pretty well; but we do not have an ore-carrying fleet adequate to move even a substantial fraction of the ores which are indispensable to our economy and defense. Furthermore, the Secretary of Commerce's implied announcement of the existence of such a priority serves notice on American companies engaged in the movement of strategic ores by American-flag ships that they can expect no help from our Government. They therefore have a choice between (1) going out of business, or (2) building their ships in foreign yards and manning them with foreign seamen, thereby increasing our dependence upon foreigners who owe no allegiance to this country, and who, at least in the case of seamen, are frequently hostile to our institutions. We therefore believe that the illegal and unwarranted priority which the Secretary has announced, unless it is eliminated as it ought to be, sounds the death knell of our hopes of establishing an ore fleet.

But the Secretary was not even content with dividing his authority with the Secretary of Defense. He also sought to divide it, or to transfer responsibility for his actions, to the chairmen of congressional Appropriations Committees. We are unable to find in any law, or any reorganization plan, any word indicating that it was the intention of Congress that the Secretary's responsibility with respect to construction subsidies under Reorganization Plan No. 7 was to be transferred to, or divided with, Members of Congress. At worst, this was a violation of our basic principle of checks and balances between the various branches of Government; at best, it was an effort to escape responsibility for what ought to have been, and appears to have been, the Secretary's own decision. This is exemplified by the fact that after, as his letter states, he had imposed upon the Maritime Administration conditions which made it impossible for them to approve the application, he stated that he had concluded that he "must concur with the recommendation of the Maritime Administration that he application by Bethlehem Steel Corp. be denied."

We can only view this action, which at once shunted the duties and responsibilities of the Secretary of Commerce to another Cabinet official and to legislators, as in conflicts with our basic political philosophy. Thus, he stated that the chairman of the Senate Appropriations Committee replied that he would not make a decision, on a question over which the Secretary had responsibility, until he had received an opinion from the Attorney General. Thus, the announced purposes of Reorganization Plan No. 7 are already being defeated. The President and the Congress, instead of being able "to hold a single official responsible and accountable," must now search for responsibility in the Secretary of Commerce, in the Secretary of Defense, in congressional Appropriations Committees, and in the Attorney General. The evasion of responsibility has become a vicious circle.

We must also take exception to the Secretary's decision that he, or any other Government official, has the right to establish, with respect to construction subsidies, a priority in favor of common carriers and against private carriers. This amounts to legislating by guess, by hunch, or by prejudice. Section 1151 of title 46, United States Code, says that "any citizen of the United States may make application" for a construction subsidy. Presumably, if any citizen may apply, all citizens are entitled to fair and equal treatment. We have been unable to find anything in the law which justifies conferring special privilege upon a common carrier, while denying basic statutory rights to citizens because they happen to be, or are assumed to be, private carriers.

I have attached hereto as a part of my testimony a letter prepared by our lawyers, signed by me, and addressed to the Secretary of Commerce, in which the facts to which I have referred are analyzed from a legal standpoint, the legislative history of the construction subsidy program is recited, and other questions discussed in more detail.

On the basis of the reasons set forth above, and in the attached letter, the American Maritime association deplores the denial of the application of the subsidy for two ore carriers, and rejects the reasoning given in support of the Secretary's action. We believe this approaches a national tragedy. The inadequacies of our ore-carrying fleet are too well-known to be belabored here. Only four ore carriers now sail under the American flag. We can sum up the situation by saying that, for all practical purposes, for strategic imports we are

dependent upon foreign ships manned by foreigners, over which we would have very little control in the event of war.

We therefore urge most strongly that the resolutions now pending before this committee, which would authorize construction subsidy for two ore carriers constructed in American shipyards to be operated under the American flag, be adopted and implemented at the earliest possible date.

COPY OF LETTER TO SECRETARY OF COMMERCE, HON. LUTHER H. HODGES, BY THE AMERICAN MARITIME ASSOCIATION

We have had opportunity to examine press release G62–21, containing your letter presumably of February 16, 1962, in which you deny the Ore Navigation Corp.'s application for construction-differential subsidy to aid the construction of two ore carriers. American Maritime Association, an association of American steamship operators endeavoring to advance U.S. shipping, has previously communicated its hope that this application would be granted, and is therefore disappointed in the immediate result, which has evidently been to lose two fine vessels to foreign flag, a concomitant outflow of American investment capital to foreign yards (presumably with ponderable effect on the balance of payments), and deprivation of employment opportunities to American shipyards, construction workers, and crews. Beyond these more or less direct effects, the decision seems to announce rules broader than the particular case, and founded, so far as we understand them, on a construction of law and a determination of policy which, with respect, we consider alike erroneous. We submit the following remarks so that there shall not be wanting a complete public statement of the issues, which involve more than the superficially popular denial of a particular industrial carrier's application.

1. We have been struck by the emphasis your letter places on procedural aspects of the case. The matter seems to have been referred to you by the former Federal Maritime Board before your statutory assumption of its functions under Reorganization Plan No. 7 of 1961; and we cannot help observing that the decision betrays a certain discomfort in defending the jurisdiction of your office. Under Reorganization Plan No. 21 of 1950 the Board's decision on such an application was not subject to review. Section 105(1) provided that the Board should exercise "the functions with respect to making * * * subsidy contracts, and with respect to conducting hearings and making determinations antecedent to making contracts * * * under the provisions of title * * * V * * *: *Provided*, That, for the purposes of this section 105(1) of this reorganization plan, the term 'subsidy contract' shall be deemed to include, in the case of a construction-differential subsidy, the contract for the construction * * * of the vessel and the contract for the sale of the vessel to the subsidy applicant or the contract to pay a construction-differential subsidy and the cost of national defense features * * *; *Provided further*, That actions of the Board in respect of the functions transferred by the provisions of this section 105(1) shall be final." This was reenforced by President Truman's message transmitting the plan: "In the performance of its subsidy functions the Board will be subject to general policy guidance by the Secretary of Commerce. The Board, however, and it alone, will determine to whom subsidies shall be granted and will make an award the subsidy contracts. Its actions therein will be conclusive and will not be subject to modification by any other agency or office of the Department of Commerce."

Your decision makes clear that the Federal Maritime Board granted Ore Navigation's application for subsidy but that for unexplained reasons it conditioned its grant on the policy concurrence of your office. What question of "policy" could be reserved where the statute was specific and the agency's power unconditional is not apparent; as formulated in your letter, it came to no more than whether industrial carriers should have priority over liner replacements, an issue in the first place administrative and in the second place capable of ready resolution by asking sufficient appropriations for both. If the problem had been, as intimated in the last paragraph of your letter, whether private industrial carriers could be subsidized at all, we venture with much deference to suggest that this would not have been a policy question at all but a mere legal question for the Board's own law officers, the affirmative answer to which we assume no responsible lawyer could have entertained a serious doubt.

This departure from statutory procedure disturbs us. The decision, as we have noted, is made to go out of its way to defend what was evidently felt as awkward; but there must remain a fundamental doubt of the Secretary's jurisdiction to have passed at all on a completed action of the Federal Maritime Board well within the sphere of its statutory power. The condition in that action respecting available appropriations was of marginal validity but at least constituted a commitment to lay the question before Congress, as we must assume would have been done. It would seem that subject to the appropriation action by Congress the applicant's rights had vested before the Board's abolition.

2. The procedural position is confused even if the case be deemed before the Department under Reorganization Plan No. 7 of 1961, which transferred the Board's jurisdiction to the Secretary. Section 6 of Department Order No. 117, revised as of August 12, 1961, reposes in the Maritime Subsidy Board the powers of the former Federal Maritime Board in respect of the making of construction-differential subsidy contracts, including the conduct of hearings and the making of determinations antecedent to award of contracts. Section 7 of the order provides for the finality of Maritime Subsidy Board determinations subject to review by the Secretary sua sponte or on request. It seems evident from your letter that this explicit procedure was not followed in the instant case. It appears that you referred certain questions to the Maritime Administrator which the latter then in turn referred to the Secretary of Defense and the chairman of the respective Senate and House Appropriations Committees: following their several responses, the Maritime Administrator recommended denial of the applications to you; upon review of this recommendation you approved it. So far as these recitals show, the Maritime Subsidy Board did not function at all in a matter which you had officially reposed in their jurisdiction in an order which you had never revoked. This departure from published procedure is a well recognized breach of law. Once an agency has elected a procedure that procedure must be followed. *Service* v. *Dulles* (354 U.S. 363 (1957)).

3. The major question in the case revolves around the four grounds your decision states for rejecting the application. These reasons are really various ways of saying that (a) it would be necessary for Congress to appropriate the money because funds now available are earmarked for other purposes; and (b) that private carriers should not be subsidized.

4. As to the appropriation problem, no one would doubt that this might be the case with any new project. The Federal Maritime Board itself had so indicated in its original approval. The solution was to submit the request to Congress. We can scarcely help noticing that this is precisely what has not been done. Yet your office enunciated its questions to the Maritime Administrator as far back as September 7, 1961, ample time to have included the two ships in the 1963 budget.

5. We address ourselves to the issue of private carriage which appears in each of the four separate grounds for your decision, and is therefore advanced as the critical consideration. Thus, you say special appropriation would be required, and that perhaps this should not be sought because contractual commitments for liners have not been met; besides, indefinite commitments might arise to help replace hundreds of nonliner vessels, a prospect to give pause to the budgetary mind; all this with respect to a program "which has not been thoroughly considered and passed on by Congress." In considering this second major reason, we cannot help observing that to reject nonliner vessels so long as "full" liner commitments are not met has something of the true Procrustes flavor; since the Department will not ask for the funds to meet its "full" liner obligations, it will never build nonliners. Thus we are to get neither. The proof lies in the fact that fiscal 1963 is to see only nine new keels laid beyond previous authorizations not yet used. The descending scale is manifest and precipitate.

We pass for the present whether this may not be the true problem before us, and examine the suggested reasons. Is it really true that Congress has not "thoroughly considered and passed on" the propriety of subsidizing construction of private carriers?

In the first place there was really no doubt that Congress had determined that private carriers were eligible for construction subsidy even under the orig-

inal version of the law.[1] The only administrative question was as to the requirement of section 501 that the vessels had to be operated on some regular route. Thus, before World War II substantial fleets were subsidized for Alcoa and United Fruit, and the Government paid for the higher speed of the first T–2 tankers as defense features. Postwar, Ore Navigation received aid for four ore carriers. (Testimony of Commissioner McKeough, Senate hearings on S. Res. 50, 81st Cong., pt. 2 (1950), p. 447.) We have no doubt that the ships proposed by Ore Navigation could also be used for outbound public carriage of some sort, as are many bulk carriers, if that were any longer critical. But the trade route requirement of section 501 was expressly eliminated in 1952, after congressional consideration during a period of 4 or 5 years; and it was eliminated with a view to accommodating, among others, the case of the ore carriers specifically—even including the applicant whose project you have rejected. What is all the more decisive in this context is that the administration of the day opposed the amendment, and that, based on the evidence, including that of the very Government officials who formally resisted it as "premature," Congress nevertheless enacted it. We offer some of the specific testimony:

"Senator MAGNUSON. * * * I think it is important to clear up one point. When you mentioned the industrial carrier as a possibility of coming under subsidy, I wonder if you believe that that should include industrial carriers which are carriers themselves of an industrial company or whether or not they should be independent carriers?

"General FLEMING. I meant very definitely those which are subsidiaries of industrial companies. I had in mind the Alcoa people who carry bauxite from New Guinea up to Gulf ports generally. They, as you know, are building two ships for that service in England. They are doing it because they very frankly told me that they asked for bids from United States and foreign yards. The bids they got for the two vessels to be built in American yards were $8 million for the two. The bid they got for building them in a foreign yard was $4 million for the two.

"They say, 'We are patriotic but we are not patriotic to the extent of $4,000-000.' If we do not help them there will be maybe more of those driven to foreign yards and serviced by foreign crews.

"Senator MAGNUSON. But you would not differentiate, in the case of an industrial carrier, as to whether or not the carrier itself was an independent?

"General FLEMING. No; I would not." (S. Res. 50, 81st Cong., part 7 (1950), p. 1697.)

"Admiral COCHRANE. But, if we rely solely on the present Mariner class as the answer to our overall maritime needs to meet our commitments in the present state of world problems, we may well again find ourselves in the 'too little and too late' category.

"The Mariners under construction will not—cannot—be the full answer. First, we need more than 35 of them; second, there is an urgent and continuing need for tankers to carry the petroleum products needed in this country and abroad. In this particular field, private enterprise is making considerable progress toward fulfilling this need. At present, 58 big new supertankers are on order or already under construction in this country. Some will be ships of 45,000-deadweight-ton capacity. There is also a great need for oceangoing ore carriers, which will permit our country efficiently and speedily to import from overseas the sorely needed cargoes of metallic ores vital to our industrial output, and to export bulk cargoes of coal and grain." House hearings on S. 241, 82d Cong. (1952), p. 400.)

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[1] Cf. colloquy between Congressman Bland, of Virginia, and Congressman White, of Idaho on the floor:

"Mr. WHITE. Reference has been made to the American merchant marine. Does the gentleman consider a fleet owned by the big industrial organizations which transport their own products as part of the merchant marine?

"Mr. BLAND. Those ships are part of the American merchant marine and can be taken over for war purposes and are in many respects engaged in the carrying of general commerce as well as their own products.

"Mr. WHITE. Is there anything in this bill to prevent those big industrial organizations, such as the Standard Oil, the United Fruit Co., and Henry Ford from securing under the provisions of the bill taxpayers' money with which to build their ships?

"Mr. BLAND. Not at all; because we need ships of that character to build up the merchant marine and to have as auxiliary cruisers in time of war.

"Mr. WHITE. Then, the gentleman is in favor of giving a subsidy for the building of ships to Henry Ford, Standard Oil, and United Fruit Co. to haul their own products?

"Mr. BLAND. We need that type of ship under the American flag for use in time of war." (79 Congressional Record, pt. 9, p. 10181 (June 26, 1935).)

"Mr. GARMATZ. Admiral, on page 5 of your statement you say, the first paragraph: 'There is also a great need for oceangoing ore carriers, which will permit our country efficiently and speedily to import from overseas the sorely needed cargoes of metallic ores vital to our industrial output and to export bulk cargoes of coal and grain.'

"We have heard quite a bit lately about the ore from Chile, Liberia, and Venezuela. Tell us something about the timing of this program to import these ores.

"The reason I say that, I know there is quite a bit of that coming into the city of Baltimore and the port there for Bethlehem Steel Co. I think you also made a statement yesterday there were only approximately seven or eight ships in that activity.

"Admiral COCHRANE. Mr. Garmatz, the Bethlehem Steel Co. was the first of the big operators to recognize the importance of importing ore from outside the continental limits of the United States, and they have had this operation from Chile in existence for a number of years, and there have been a few others.

* * * * * * *

"We would like to see, therefore, ships which can be used with lighter bulk cargoes, somewhere around 40 cubic feet per ton for export, and then be suitable to be loaded with dense metallic ore cargoes which would average somewhere around 15, 18, 20 cubic feet per ton for the inbound operation. If that were possible—and there are one or two places in the world where I believe that could be done—both outbound and inbound cargo could be picked up by the same bulk cargo carrier.

* * * * * * *

"So there is need for bulk carriers not only in supplying our wants here on imports, but also, in my judgment, in meeting exports." (House hearings on S. 241, 82d Cong. (1952), pp. 419, 420, 421.)

"Mr. STROHMEIER. It is, therefore, important that the Federal Government create conditions favorable to the building of ships in this country. Senate bill 2786 seeks to create a more favorable economic atmosphere under which vessels may be constructed in this country and operated under the American flag. It is not likely that this bill alone will create any substantial volume of shipbuilding, but it is a step in the right direction; for instance, about the only new tonnage requirements in any substantial amount to be acquired by American interests in the near future is in the large-scale movement of iron ore and bauxite. It is doubtful whether any substantial part of this projected tonnage would be eligible for construction subsidies under the present Merchant Marine Act in view of the present limitation as to operation on an essential trade route. The proposed bill would remedy that deficiency by providing construction differential subsidies on vessels in any foreign trade." (Senate hearings on S. Res. 50, 81st Cong., par. 2 (1950), p. 160.)

"Mr. WILLIS. About a year ago Mr. Grace made a statement and ordered two 25,000-ton ore carriers. That is our own line, the Bethlehem Line, Ore Steamship Co., at Sparrows Point.

"Of course those ships wil carry our own ore from either Venezuela or from Chile. About a month or a little over 6 weeks ago when we were just about ready to lay these ships down, they were canceled. It is obvious as to why they were canceled: Because at the same time we were dealing with another company for carrying ore from Venezula and various other places on the continent. We were pretty well along in negotiations. After the devaluation of the pound, however, it was determined that these ships could be built over there for $100 or less than $100 a ton, which was $2,400,000 against our price that we had given them of $6,850,000. So those ships now have been placed definitely in Europe—in England—in Fairfield. That is just one instance where the Sparrows Point——

"Senator MAGNUSON. What company was that?

"Mr. WILLIS. I would prefer not to say.

"Senator MAGNUSON. Very well.

"Mr. WILLIS. However, it is, I should say, the interests of the Republic Steel. I do not see any reason why it should not be known.

"Whether Bethlehem will build these ships eventully in America, I think, depends largely on whether or not this bill goes through. Of course the bill is not entirely the answer because we also have the operating subsidy and the cost of operating an American-flag ship as compared with the foreign-flag ship. However, this bill is highly desirable and should be passed." (Senate hearings on S. Res. 50, 81st Cong., pt. 2 (1950), pp. 369–370.)

In order to see how sharply the issue was posed, we may cite opposing witnesses, one of whom said:

"Mr. DAGGETT. The ship operations which comprise the American merchant marine fall into six broad categories. These are (1) the subsidized foreign liner services; (2) the nonsubsidized foreign liner services; (3) the proprietary carriers, which include the large oil and steel companies; (4) the coastwise, intercoastal, and territorial services; (5) the American tramp operators; and (6) the independent America tanker companies.

* * * * * * *

"As we review S. 2786, it appears that the types of aid offered by this bill will benefit primarily the subsidized foreign liner services and the proprietary carriers and thereby provide the most aid to those operators who need it least." (Senate hearings on S. Res. 50, 81st Cong., pt. 2 (1950), p. 354.)

"Mr. KEOUGH. This bill provides, as I understand it, Mr. Chairman, that anyone engaged in foreign commerce activities is eligible to a construction-differential subsidy, regardless of whether or not he is confined to a regularly established route, service, or line.

"Senator MAGNUSON. Yes, that is correct, and that you believe is not advisable?

Mr. MCKEOUGH. Not at the moment. I say it is somewhat premature. I think the requirement is one of additional time in which to make the further investigations and studies.

* * * * * * *

"They have built some vessels under the 1936 act. United Fruit also has been given a construction-differential subsidy. The Alcoa, subsidiary of Aluminum Co. of America—they have had a construction subsidy.

"In the cargo field the Ore Steamship Co., which is a subsidiary of the Bethlehem Steel, has been given a construction subsidy on, I think, two ore vessels. They have an application for two more. It may be four that they got it on, and then for four more they were not given the construction subsidy.

* * * * * * *

"I hope I will be pardoned for throwing out a note of caution: that if this bill, as it is now provided in the language of the bill, would extend it to tanker—now, the great bulk of the tanker operators are the large oil companies and I don't know that they are really in such dire shape that we ought to be concerned about granting them additional benefits in the way of tax benefits from this bill and the construction differentials with relation to their tankers. I think there ought to be a differentiation in connection with any grant for tanker operation.

"Senator MAGNUSON. Of course, it could be construed that tanker operators would be under the bill. There is a percentage of their business that is involved or could conceivably be involved in new ship construction, and they could only set up those reserves to that portion of their gross income, which would be very small in comparison to the oil company itself.

"Mr. MCKEOUGH. I think it goes a little further than that.

"Senator MAGNUSON. It may. I am just saying that we are only dealing with that portion of it." (Senate hearings on S. Res. 50, 81st Cong., pt. 2 (1950), pp. 446–447, 453–454.)

Based on this extensive legislative history, it is not possible to doubt that Congress intended to permit private carriers, including ore carriers, to be constructed with subsidy aid.

So clear is congressional intention in this regard that we must regard the suggested doubt as a rhetorical makeweight for an underlying policy which has not, as yet, received public expression, but of whose existence an additional proof may already be found in the sharp contraction of the whole construction program just announced for fiscal 1963. Time will show and, as we fear, very soon, whether we read the portents aright.

Respectfully,

E. N. ALTMAN.

Mr. ALTMAN. Our basic document directs itself at the actions of Secretary Hodges with respect to the Bethlehem application. I would like to make a point at the outset that we direct our attention to the Bethlehem application because it happens to be the case in point.

Our concern, however, is equal for Bethlehem and other operators who may be affected by the Secretary's decision and the manner in which it was arrived at. Our testimony here——

Senator BUTLER. And the length of time it took to arrive at it.

Mr. ALTMAN. Yes; I think that is a factor, too.

Senator BUTLER. At that rate, our whole fleet will be obsolete before we can get a ruling out of these fellows.

Mr. ALTMAN. We go to the existing law as it was prior to the Reorganization Plan 7. We deal with the authority as vested in the Federal Maritime Board during that period and prior to it, stemming from the act of 1936. And we contend in our document that the Secretary, while he might have had the right of policy or guidance, did not have the right to in any fashion mitigate the decision of the Board or its recommendation to award the subsidy.

Senator BUTLER. Would you go so far as to say that a commission that rendered a qualified acceptance of an application, such as was done by the Board, was exceeding its authority?

Mr. ALTMAN. I would say so.

Senator BUTLER. Don't you think the law required them to make up their minds, yes or no, and so state?

Mr. ALTMAN. I think inherent in the law and the policy and the procedures that have been followed throughout the years indicate that this is the format to be followed. I don't think the Board was proper in abdicating its authority, if that is what they actually did. But, literally, I believe the award was made and referred to the Secretary for policy guidance, and that is about all.

Senator BUTLER. I asked this question this morning, and I will ask you because you seem to have a great experience in this line. Do you know of any other application that has been granted on a conditional basis, such as referenced back to the Secretary?

Mr. ALTMAN. None in my experience.

Senator BUTLER. There had been conditions made on perhaps construction and things of that kind. But you have never known of a case where an application was granted on a conditional basis that the Secretary approved?

Mr. ALTMAN. No. Usually it is a matter of finances or minor matters, but never with respect to the items that were referred to here.

Senator BUTLER. It is a policy that was entrusted by law to the Board.

Mr. ALTMAN. Correct.

We go on in this document to the actions of the Secretary subsequent to the institution of Reorganization Plan No. 7, wherein the Secretary requested and was vested with the powers which had heretofore been vested in the Maritime Subsidy Board.

The Secretary, and I am not going to attempt to quote, although we do in detail in our document, stated that the vesting of the powers within the Office of the Secretary of Commerce would then make it possible for the President and the Congress to look toward one individual to be responsible for the pursuance of the subsidy awards and policies and all matters pertaining thereto.

Immediately that an item comes up which is of some substance, and apparently in the mind of the Secretary of some controversial nature, we state in our document that he abdicates this authority which he had requested since he goes to the chairman of the Appropriations Committees requesting advance guidance, he goes to the Office of the Secretary of Defense, he goes to the Attorney General for an opinion which he is not entitled—which, rather, one of the chairmen of the Appropriations Committees was not entitled to receive. And the

circle is complete, but the circle of people who have been handed this authority are completely outside the Office of the Secretary who sought the authority and then refuses to exercise it.

Senator BUTLER. You recited the "goes"; I will recite the "comes". He didn't come here, as he should have come, to justify his decision.

Mr. ALTMAN. That is equally correct. We also contend in our document that the matter should have properly been placed before Congress in the light of the requests for appropriation, and Congress could have made its decision. I think Senator Magnuson this morning made a similar point with respect to this particular problem.

We feel, in this document, the Secretary has done all of these things procedurally which are not contained within the law.

Then he goes further, and I might state at this point a little tardily that the organization in whose behalf I appear here today, the American Maritime Association, represents 96 steamship operators throughout the country who operate more than 400 American-flag ships, only a portion of which are under operating subsidy, and a great number of which have not applied for, have not requested but might in the future, some construction subsidy.

All of these people, I might say all of the industry who operate American ships, are very much concerned with respect to the utterance by the Secretary wherein he indicates that there is adichotomy between the common carriers and the private carrier.

This one, if I may say so, has been bounced all over the lot today. There have been statements read into the record from the Secretary's letter which clearly indicate that he has carved a line between these two groups in his thinking and has used it as a part of his thinking in refusing to grant the subsidy, using it as a shield.

However, and we again trace in a letter which is attached to this document and has been sent to the Secretary, we trace the legislative history under which the construction subsidy stands before us today, and we reiterate what has been said so many times today, that the legislative history in no way indicates any dichotomy, any separation of any nature whatsoever, and that anyone who operates an American ship, who qualifies under the law, is entitled to be heard and considered in the application for a construction subsidy, and that this was not the intent of the law as expressed by the Secretary today.

It was mitigated to some extent by Under Secretary Martin's statement this morning, late in his testimony. He reluctantly admitted to some extent I think that maybe the law didn't have any variations in it, and maybe it did apply. But the testimony, as I heard it, was again all over the lot.

I think there is no question that the law as outlined, as written, as intended by the colloquy presented by yourself and other colloquies subsequent in later years which we have quoted in our document, all point toward this one question which has been raised pretty much in the same vein that the good Senator Lausche raised this morning, and that, namely, is the dragging of a large company out on to the table and trying to make it an example.

I am not going to quarrel with Senator Lausche's feelings, but nevertheless our problem is not whether Bethlehem Steel, as a major American corporation, gets the benefit of two ships, the construction subsidy on two ships. Our problem is what is the law and what does the law read. I know of no law in this country which dictates one

method of application for the little man and another one for the large man.

If we begin to apply our law that way, we then lose sight of our objectivity and we begin to operate on an emotional basis which, I am afraid, we did a little bit of this morning.

With respect to some of the other items that have been discussed here, again one which came up on I think a fairly emotional plane, the business of why can't this company go abroad, build the ships, and bring them back under the American flag; that is not germane to our problem. Our problem is that we have a law.

There are all sorts of things we can do if we don't want to pay attention to the law or utilize it. But utilizing this type of extraneous discussion provides nothing to the solution of the existing problem or interpretation of an existing statute. It is just another extraneous item that has no even remote bearing on the problem. What does have a bearing on the problem is where we are as a nation with respect to our ships, our defense needs, and our requirements.

You asked a question or two of the gentleman who appeared here before me. I am in no way better informed than he; but, accidentally, as a matter of some recent investigation on our part, we have one or two figures which might interest you. We have figures which indicate that the combined Russian and Red Chinese ships outnumber our American fleet today as of the present moment. They have some 70 or 80 units over and above the 897 privately owned ships that we have under the American flag. This is ships of all descriptions. And they are growing by leaps and bounds.

I have some information here with respect to U.S.S.R. insofar as its bulk carriers are concerned. In 1952 the U.S.S.R. had 16 bulk carriers. In 1961 they have 110 bulk carriers. This is over the period of 11 years.

We had more bulk carriers under the American flag operating in 1950 than we do today. There are today 357 ore carriers in the world fleet; we have 4, period.

Of the two that were discussed here today, with respect to their application on the construction subsidy, they are not replacements for the four. They are two that would be put into operation in addition to the existing four ships now in service.

I might draw this distinction. We have talked about construction subsidies for liners. Liner construction subsidy is basically for the purpose of replacing existing ships which become a little old, a little outmoded, but nevertheless they are here. The construction subsidy on these two ships are for ships that are not here and would be in addition to a fleet in an area where we are basically horribly weak, and perhaps if we get into some trouble internationally wherein we will be tragically weak, because there isn't any question—I don't need to belabor with this committee the fact that our ore situation with respect to imports, ninety-some-odd percent of it is coming in in foreign-flag ships. We may own some of them through American ownership; but we don't own the people that operate them; we don't own the companies whose flags they fly—the countries whose flags they fly. And, ultimately, when it comes to the handling of the ship, the crew on the ship is the yardstick as to whether that ship serves its country or not. This was proven by the Portuguese ship, *Santa Maria*, about 18

months ago, Portuguese ship picked up by the crew and sailed into various countries and finally one of our gunboats had to go out and round it up.

We must have the ability to protect ourselves. We don't with the import of these strategic materials. This kind of thing, wherein somebody feels, I am sure—because of what has been said here today—that perhaps this large corporation should not get this construction subsidy. I think that was implicit in some of the things that were uttered here today.

But what relationship has this got to do with the law? What is the relationship with the law? Let's forget the companies.

Dealing with the law, the law is clear; it is explicit; it is meaningful; its intent has been clarified almost annually since it was put into the record. And at this late date to come out with an interpretation which removes a major segment of the maritime industry from any possibility of getting governmental assistance in order to perhaps deny assistance to a major corporation on two ships, I think it is a little bit like burning the house down in order to get the bird's nest out of the attic.

I sincerely hope that the committee, in considering the resolutions which are before it, will deal with the law, the requirements of the law, its previous administration, what it was intended to do, and then proceed forthwith to do it.

Senator BUTLER. Thank you ever so much for that very lucid statement. I am sure your testimony will be of help to the Senators.

Mr. MURDOCK. May I address himself to one of the questions?

You asked if the Federal Maritime Board, prior to Reorganization No. 7, had not perhaps exceeded its authority in making the grant conditional on approval of the Secretary of Commerce. We think that under the old law the Federal Maritime Board not only had the power but the duty to award subsidies if they found them properly to be awarded.

We think if they referred a subsidy grant to the Secretary for his concurrence, we think in doing that they exceeded their authority. We think this whole proceeding as it was described in the Secretary's letter is a statement or procedural misconduct.

After the Maritime Board had granted the subsidy, or had announced the grant of the subsidy, then the Secretary sent it back to the new Administrator under the new Reorganization 7. But in doing so he already imposed conditions which made it impossible for the Administrator to arrive at any other conclusion except that it must be disapproved.

He said it required first a statement from the Defense Department that an ore ship is entitled to a priority. He said, second, it required assurances from the Appropriations Committee that funds would be available.

Under the circumstances the Administrator I am sure could have done nothing else except to disapprove or to recommend its disapproval.

Let me call attention to one other example of procedural misconduct. At least so far as the Secretary's letter is concerned, this matter was never even referred to the newly created Subsidy Board which had been created specifically for the purpose of considering applications and making recommendations to the Secretary.

If that Board ever considered this application, certainly there's no record of it in the Secretary's statement.

But in our prepared statements we analyze these things at great length.

I am glad that Mr. Hood referred specifically to the 1952 amendment. The very purpose of that amendment was to eliminate any question about the propriety of an award of subsidy to a nonliner carrier. That was the purpose of it. That law was passed after consideration for many years by Congress.

Mr. Chairman, we have been involved in this project for a long, long time. It has been a terrifying experience. The statements made by the Secretary of Commerce seem to us to indicate that this important policy of our Government may be in bad hands. We hesitate to think of the consequences that will flow if this attempted precedent is allowed to stand. We hope sincerely that your committee will report out favorably the resolution and that it will work for its early passage by the Congress.

As always, we greatly appreciate the pleasure of appearing before you.

Senator BUTLER. Thank you very much.

I think it would be helpful to put in the record at this point the report of the chairman of the Committee on Merchant Marine and Fisheries of the House of Representatives, or that portion of it which clearly shows that it was the intent of the long-range shipping amendment to include nonsubsidized operators under the subsidy program, and I quote:

> The first principal point of this bill provides for amendment to the Merchant Marine Act of 1936 so as to allow operators to receive the advantage of construction-differential subsidy irrespective of whether they also receive an operating subsidy.
>
> Your committee believes that by enactment of this provision a significant stride will be made in achieving the balanced merchant marine contemplated under the basic act.

In the Senate Report 295, which accompanied Senate bill 241, which was submitted on April 24, 1961, by my former colleague, Senator Herbert O'Conor, of Maryland, who was at that time the chairman of the subcommittee. He had language to the same effect, I think, that shows that both Houses of the Congress knew the intent of the amendment they were passing and intended that nonsubsidized operators should have the advantage of the construction-differential subsidy.

I will supplement the record further by saying that this is from the report that I have just referred to, from my senior colleague, the late Senator O'Conor:

> The evidence is clear that in the light of present-day conditions, unless the construction-differential subsidy provisions are extended to apply to all vessels employed in the foreign commerce of the United States, we can reasonably expect the unsubsidized segment of our fleet to become less and less competitive and perhaps eventually to disappear from the seas.

Is Mr. Kurrus here?

(No response)

Senator BUTLER. If there are no other witnesses to be heard, according to the previous ruling of the Chair, the record will be held open for the purpose of according Senator Lausche the right to cross-

examine the witnesses who testified in his absense, and also for supplement by Senator Engle and other Senators.

(Whereupon, at 3:20 p.m., the subcommitee was adjourned.)

(Subsequently, the following letter concerning the two joint resolutions was received from Ralph E. Casey, president, American Merchant Marine Institute, Inc., for inclusion in the record:)

AMERICAN MERCHANT MARINE INSTITUTE, INC.,
New York, N.Y., March 12, 1962.

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

DEAR SENATOR MAGNUSON: The American Merchant Marine Institute is the largest national association of owners and operators of American-flag vessels of all types—cargo liners, tankers, dry bulk carriers and passenger ships. Our members operate U.S.-flag vessels to and from all United States coasts, including the Great Lakes, in our foreign and domestic trade—some under subsidy contracts with the Government.

An examination of the two identical resolutions, Senate Joint Resolution 160 and Senate Joint Resolution 166, heard before your committee last Thursday, including the vital background in which they are set and an analysis of the important period we are now in, in regard to basic maritime issues, convinces us that at stake are some of the most fundamental decisions in our merchant marine's history.

Initially we want to go on record indicating our strong support for the object sought to be accomplished by these resolutions. We must, however, point out that these bills in their present form add nothing to existing law. The Merchant Marine Act of 1936, as amended in the 82d Congress, already contains the authority to grant construction aid toward the building of these two ore carriers. I would suggest, therefore, that the resolutions be amended so as to "direct" the Secretary of Commerce to act rather than merely "authorize".

Only by colsing one's eyes to existing realities can one fail to approve and promote the purpose of both the 1936 act and the resolutions before you. These realities include the following:

(A) The status of the shipbuilding industry in this country, the well-being of its employees, and the condition of our national defense preparedness would all be advanced by stimulating vessel construction in this country by operators who find it economically unsound to build here without construction aid. In this connection, I am sure the committee will be interested in the fact that there are no dry bulk carriers on order or under construction in the United States, while 49 vessels of 1.2 million deadweight tons are building abroad.

(B) The preponderance of our foreign trade volume is in bulk commodities—ores, coal, grains, petroleum, etc. To fail to promote U.S.-flag movements of these commodities through the availability of construction-differential subsidies for citizen carriers, not only repudiates a congressional mandate but frustrates the achievement of a balanced American merchant marine. This failure to act forfeits the movement of these vital commodities to foreign-flag ships.

(C) The situation characterized in (B) above, becomes even more dangerous in time of emergency when the availability of raw materials and the pipeline for their delivery both become vital for our very survival as a free nation.

(D) Our Government has taken many steps to ameliorate a balance-of-payments deficit which threatens the very sanctity of the dollar. A substantial part of this deficit results from excessively heavy foreign-flag participation in our total trade but our bulk trade, in particular. This can be seen in the following table:

U.S. foreign trade—1960

	Exports (thousands of long tons)	Percent U.S. flag	Imports (thousands of long tons)	Percent U.S. flag	Total (thousands of long tons)	Percent U.S. flag
Dry cargo liner trade	32.8	32.5	17.1	32.3	49.9	32.4
Dry cargo nonliner trade	49.1	6.7	59.4	7.6	108.6	7.2
Tanker trade	15.1	18.6	101.0	3.4	116.0	5.4
Total	97.0	17.2	177.5	7.6	274.5	11.0

Source: Maritime Administration, Division of Cargo Data, Jan. 11, 1962.

To me it seems fantastically myopic to miss this opportunity to help our balance-of-payments deficit for the lifetime of the vessels that may be built with construction subsidy, and hence operated under U.S. flag at so little direct real cost to the Government.

(E) Much has been said and even more implied about confining the benefits of construction subsidy exclusively to common carriers. This unfortunate conclusion results from a failure to appreciate the importance of bulk trades to our Nation. It also represents a prime example of an administrative agency nullifying the will of Congress. However, perhaps of greatest significance, such a conclusion manifests a lack of understanding of the pattern and character of international trading in bulk commodities. This trade is not now, never was, and probably never will be a common carrier movement to any substantial degree.

I am reminded that precisely 20 years ago, in the spring of 1942, the Government in one fell swoop requisitioned the entire American merchant marine for emergency service in World War II. No one thought to stop then and ask whether the vessels were common or contract or even private carriers. It made no difference. All were necessary in our Nation's interest, all became equally available to the Government, and all served nobly in that emergency.

(F) The failure to make construction-differential subsidy available to bulk carriers also implicitly contains a rejection of assisting the so-called larger industrial or proprietary carriers. Thus, the Commerce Department has here, as well as in connection with assisting contract carriers, superimposed upon congressional determinations a set of standards on eligibility for construction-differential subsidy without legal authority to do so. Existing law establishes the ground rules for eligibility for construction-differential subsidy as follows:

1. Citizen.
2. To serve foreign commerce requirements of the United States.
3. Suitable in emergency for military purposes.
4. Ability, experience, and financial resources.
5. Operational and maintenance experience.
6. Consistent with the policies of the 1936 act.

Congress gave the administrative agency the right to judge eligibility within the foregoing framework of law.

(G) There has been reflection by the Commerce Department that to depart from the limited types of carriers and vessels recently awarded construction-differential subsidy would constitute some type of precedent setting. I submit that a failure at this time to grant construction-differential subsidy to bulk carriers, since this has been done in the past, will be in conflict with prior precedents rather than the establishment of new precedents.

(H) We think the administrative agency has presented this issue both to the Congress and the Department of Defense on a distorted "either/or" basis, the choice, as described by it, being one of in effect saying "for that money which we seek to have appropriated for construction-subsidy purposes, you naturally have less available for liner type of vessels if some is to be used for the construction of bulk-type ships."

There should be in fact no "either/or" concept involved. The construction of both types is necessary to create a healthier, better balanced fleet. The responsibility to see that this is done lies squarely with the Commerce Department. They should not lean on other agencies in an attempt to justify the unwholesome conclusions which they apparently reached some 6 months back.

(I) Finally, I believe it is incumbent upon us to indicate that we are not here in an attempt to rehash a conclusion already reached whose specific results we can clearly see as being unfortunate. We felt compelled, however, to point out that if we are ever to achieve the merchant marine we want and need in the Nation's interest, and which Congress has mandated that we have, this administrative decision must be reversed.

Only because of their relatively large size and resulting per unit economy in operation, is it even possible to operate bulk carriers in foreign competition. If by denying construction subsidy to vessels of this type there is added to the operating disadvantage a construction-cost disadvantage, we might as well here and now recognize that it is impossible to develop a balanced American merchant marine.

Yet these types of carriers should be under American flag, manned by American seamen, and built in American yards. We cannot continue to shear our Nation's economic well-being and its total defense posture of these vital instruments in today's world. Thus we urge the committee to act favorably and promptly on the resolutions before it.

Sincerely yours,

RALPH E. CASEY.

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