

1041
89-52
275/2
89-52

CONSTRUCTION DIFFERENTIAL SUBSIDIES

Y4
. C 73/2
89-52

GOVERNMENT

Storage

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES

OF THE

COMMITTEE ON COMMERCE

UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

SECOND SESSION

ON

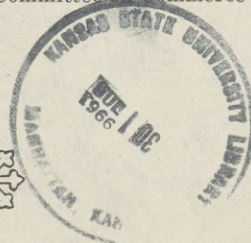
S. 2858

A BILL TO AMEND SECTION 502 OF THE MERCHANT MARINE
ACT, 1936, RELATING TO CONSTRUCTION DIFFERENTIAL
SUBSIDIES

MARCH 31, 1966

Serial No. 89-52

Printed for the use of the Committee on Commerce



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1966

61-534

KSU LIBRARIES



✓
A11900 501012

3042
10/10/5
10/10/5

CONSTRUCTION DIFFERENTIAL SUBSIDIES

89-25
C. 13/2
Y4

HEARING

COMMITTEE ON

COMMERCE

COMMITTEE ON COMMERCE

WARREN G. MAGNUSON, Washington, *Chairman*

- | | |
|-------------------------------|------------------------------|
| JOHN O. PASTORE, Rhode Island | NORRIS COTTON, New Hampshire |
| A. S. MIKE MONRONEY, Oklahoma | THRUSTON B. MORTON, Kentucky |
| FRANK J. LAUSCHE, Ohio | HUGH SCOTT, Pennsylvania |
| E. L. BARTLETT, Alaska | WINSTON L. PROUTY, Vermont |
| VANCE HARTKE, Indiana | JAMES B. PEARSON, Kansas |
| PHILIP A. HART, Michigan | PETER H. DOMINICK, Colorado |
| HOWARD W. CANNON, Nevada | |
| DANIEL B. BREWSTER, Maryland | |
| MAURINE B. NEUBERGER, Oregon | |
| ROSS BASS, Tennessee | |
| RUSSELL B. LONG, Louisiana | |

- GERALD B. GRINSTEIN, *Chief Counsel*
 EDWARD JARRETT, *Chief Clerk*
 JEREMIAH J. KENNEY, Jr., *Assistant Chief Counsel*
 RALPH W. HORTON, *Assistant Chief Clerk*
 WILLIAM C. FOSTER, *Staff Counsel*

SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES

WARREN G. MAGNUSON, Washington, *Chairman*

- | | |
|-------------------------------|------------------------------|
| JOHN O. PASTORE, Rhode Island | WINSTON L. PROUTY, Vermont |
| E. L. BARTLETT, Alaska | PETER H. DOMINICK, Colorado |
| PHILIP A. HART, Michigan | NORRIS COTTON, New Hampshire |
| DANIEL B. BREWSTER, Maryland | |
| MAURINE B. NEUBERGER, Oregon | |

CONTENTS

	Page
Text of S. 2858.....	1
Agency comments—	
Federal Maritime Commission, dated February 8, 1966.....	1
General Accounting Office, dated February 14, 1966.....	2
Statement of—	
Brewster, Hon. Daniel B., U.S. Senator from Maryland.....	2
Gulick, James W., Deputy Maritime Administrator, Maritime Administration, Department of Commerce; accompanied by Donald Frye, Chief, Division of Estimates, Office of Ship Construction.....	3
Hood, Edwin M., president, Shipbuilders Council of America, 1730 K Street, N.W., Washington, D.C.....	47
Nuse, Gilbert F., naval architect, J. J. Henry Co., Inc., 21 West Street, New York, N.Y., on behalf of the Committee of American Steamship Lines.....	31, 41
Teige, Peter N., chairman, Vessel Replacement Committee, Committee of American Steamship Lines, 1155 15th St. N.W., Washington, D.C., and vice president, American President Lines, Ltd.....	25
Letter submitted—	
Grogan, John J., president, Industrial Union of Maritime & Shipbuilding Workers of America, 100 Indiana Ave., N.W., Washington, D.C., dated April 7, 1966.....	49

CONTENTS

..... 1

..... 2

..... 3

..... 4

..... 5

..... 6

..... 7

..... 8

..... 9

..... 10

..... 11

..... 12

..... 13

..... 14

..... 15

..... 16

..... 17

..... 18

..... 19

..... 20

..... 21

..... 22

..... 23

..... 24

..... 25

..... 26

..... 27

..... 28

..... 29

..... 30

..... 31

..... 32

..... 33

..... 34

..... 35

..... 36

..... 37

..... 38

..... 39

..... 40

..... 41

..... 42

..... 43

..... 44

..... 45

..... 46

..... 47

..... 48

..... 49

..... 50

..... 51

..... 52

..... 53

..... 54

..... 55

..... 56

..... 57

..... 58

..... 59

..... 60

..... 61

..... 62

..... 63

..... 64

..... 65

..... 66

..... 67

..... 68

..... 69

..... 70

..... 71

..... 72

..... 73

..... 74

..... 75

..... 76

..... 77

..... 78

..... 79

..... 80

..... 81

..... 82

..... 83

..... 84

..... 85

..... 86

..... 87

..... 88

..... 89

..... 90

..... 91

..... 92

..... 93

..... 94

..... 95

..... 96

..... 97

..... 98

..... 99

..... 100

CONSTRUCTION DIFFERENTIAL SUBSIDIES

THURSDAY, MARCH 31, 1966

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

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

Senator BARTLETT. The subcommittee will be in order.

The subcommittee meets this morning to consider S. 2858, a bill to amend section 502 of the Merchant Marine Act, 1936, relating to construction differential subsidies. This bill would extend to June 30, 1968, the 55-percent maximum construction differential subsidy for the construction of cargo ships and the 60-percent rate for reconstruction of certain passenger ships.

The text of S. 2858 will be placed in the record at this point, and also agency comments on this particular legislation.

(The above-mentioned material follows:)

[S. 2858, 89th Cong., 2d sess.]

A BILL To amend section 502 of the Merchant Marine Act, 1936, relating to construction differential subsidies

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the proviso in the second sentence of subsection (b) of section 502 of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1152(b)), is amended by striking out "June 30, 1966", and inserting in lieu thereof "June 30, 1968".

FEDERAL MARITIME COMMISSION,
February 8, 1966.

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

DEAR MR. CHAIRMAN: This is in reply to your request of February 3, 1966, for the views of the Federal Maritime Commission with respect to S. 2858, a bill to amend section 502 of the Merchant Marine Act, 1936, relating to construction differential subsidies.

Inasmuch as the bill does not affect the responsibilities or jurisdiction of the Commission, we express no views as to its enactment.

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

Sincerely yours,

(Signed) JOHN S. PATTERSON,
Vice Chairman.

Staff counsel assigned to this hearing: William C. Foster.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., February 14, 1966.

XXXXXXXXXX

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

DEAR MR. CHAIRMAN: Your letter of February 3, 1966, invites our comments on S. 2858, a bill to amend section 502 of the Merchant Marine Act, 1936, relating to construction differential subsidies. The bill would postpone from June 30, 1966, to June 30, 1968, the reduction of the present maximum 55 percent subsidy rate to 50 percent.

We have no special information or knowledge that would assist in the consideration of S. 2858, and therefore have no comments to offer.

Sincerely yours,

FRANK H. WEITZEL,
Acting Comptroller General of the United States.

Senator BARTLETT. Before we begin testimony, I would like to place in the record a copy of Senator Brewster's statement.

**STATEMENT BY SENATOR DANIEL B. BREWSTER, SUBCOMMITTEE
 ON MERCHANT MARINE AND FISHERIES, SENATE COMMERCE
 COMMITTEE**

Mr. Chairman, as a member of the Senate Commerce Committee, I urge enactment of S. 2858. It is absolutely essential that we extend the 55-percent differential subsidy on construction of merchant vessels.

Under normal circumstances, a nation whose economy is based upon the free enterprise system must regard subsidies as alien and undesirable. There are, however, certain national purposes which can only be achieved through subsidy. There are always needs to be met, and we have long recognized the common responsibility of all citizens to contribute to the common good. Our constitution was drawn "to provide for the common defense and promote the general welfare." These are the purposes of our Government.

Traditionally, we have utilized subsidy programs to maintain and revitalize essential sectors of the economy. We have also utilized subsidy to promote the growth of industry and economic activity in areas we know to be vital or expect will contribute to national power and influence. The early days of railroad transportation provide a salient example of this kind of support. Air service today is another example.

The National Maritime Act of 1936 states that this country has goals of defense and commerce that can be achieved only through the maintenance of healthy shipping and shipbuilding industries. Today these industries are sick. Their eventual recovery and rejuvenation lie in the adoption of bold, new policies. In the meantime, however, construction differential subsidies are crucial to insuring the adequacy of the merchant marine and the capacity of our shipyards to construct, repair, convert, and service it. In other words, while subsidy is not the ultimate solution, it is essential for the moment.

For this reason, Mr. Chairman, I urge that S. 2858, a bill concerning a practical matter that requires immediate attention, be kept out of the current bitter controversy over general maritime policy. In view of the fact that under the present statute, subsidies would expire June 30 of this year, it would be fatal to delay action on this measure.

Not only must construction differential subsidies be retained, but they must be kept at the existing 55-percent level. At present, the

Maritime Administration uses construction costs in Japan, the leading nation in ship building today, as a basis for determining the differential. This differential between costs here and in Japan continues to be more than 50 percent, and we have no indication that this figure will diminish in the near future.

I doubt that there is any need to remind this subcommittee that we are now 90 vessels behind in our ship replacement schedule. If Congress fails now to extend construction subsidy programs, all hope of ever catching up will evaporate. Only 16 new ships were delivered to the entire U.S. merchant marine last year, a figure that falls 84 below the number of ships added to the Russian fleet. Of the 44 merchant ships now on order in our shipyards, 37 are being built by means of the present subsidy system. Statistics like these demonstrate clearly, I think, just how vital construction subsidies are to the continued operation of our merchant marine.

In closing, Mr. Chairman, I should like to point out that, compared to subsidies granted to other transportation industries, those given to the merchant marine are relatively small. The indirect subsidy of the trucking industry, the Federal highway construction program, totals \$1 billion annually. The Federal Aviation Agency, which exists for the benefit of air transportation, operates on a yearly budget of three-quarters of a billion dollars. This figure includes direct subsidy of local service carriers, as well as huge grants for flight control equipment and airport construction, without which air transportation could not exist.

The annual merchant marine subsidy, divided between operation and construction differentials, comes to roughly \$300 million. This appropriation is one-third of that for highway building and on less than one-half of that for the FAA.

Mr. Chairman, these statistics only underline the basic fact that our merchant marine needs legislation in the form of S. 2858 to keep going. For this reason, I hope that this subcommittee will report this bill favorably as soon as possible.

Senator BARTLETT. The first witness will be Mr. James W. Gulick, Deputy Maritime Administrator.

STATEMENT OF JAMES W. GULICK, DEPUTY MARITIME ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE

Senator BARTLETT. Do you have a prepared statement, Mr. Gulick?

Mr. GULICK. We do, Mr. Chairman. We will be glad to read it or brief it down, whichever suits your convenience.

Senator BARTLETT. It is short, why don't you read it.

Mr. GULICK. Thank you. With your permission, Mr. Chairman, I would like to have with me Mr. Donald Frye, Chief of our Division of Estimates of the Office of Ship Construction.

Senator BARTLETT. We are very glad to have you.

Mr. GULICK. Mr. Chairman, thank you for this opportunity to appear before your subcommittee to present the views of the Maritime Administration of the Department of Commerce, and of the Department, on S. 2858.

The bill would extend to June 30, 1968, the 55 percent maximum construction-differential subsidy rate for the construction or recon-

struction of ships, except for the reconstruction of certain passenger ships for which 60 percent maximum rate would be continued to that date.

We have no objection to a 1-year extension of the present percentage limits. Pending the results of the executive branch review of maritime policy, we believe a 1-year extension of the current ceiling is adequate.

A review of the construction-differential subsidy rates approved by the Maritime Subsidy Board, demonstrates that the differential between shipbuilding costs in the United States and in Japanese shipyards continues to be in excess of 50 percent of U.S. costs.

The construction-differential subsidy rates for new construction approved by the Maritime Subsidy Board from January 1957 to the present show an increasing trend until June of 1963. Since June of 1963, they appear to have stabilized.

While I will not read each of these rates unless the committee desires me to do so, I thought the committee would like to have these rates for their information.

Senator BARTLETT. The rates given in the table are very useful and will be incorporated as a part of your statement.

Mr. GULICK. Thank you, sir.

(The aforementioned rates follow:)

Operator	Number of ships	Type	Bid date	Construction-differential subsidy percentage
Moore-McCormack	4	Cargo	Oct. 8, 1957	45.2
Lykes	5	do	Oct. 23, 1957	44.5
Export	4	do	Oct. 30, 1957	45.3
American President Lines	2	do	Dec. 2, 1957	49.5
Lykes	4	do	July 2, 1958	47.6
Moore-McCormack	3	do	Oct. 27, 1958	48.5
Export	4	do	Dec. 18, 1958	48.3
Mississippi	3	do	Mar. 17, 1959	48.6
American Mail	3	do	April 15, 1959	50.7
P. F. E. L.	2	do	June 25, 1959	50.7
Grace	3	P. & C	Oct. 29, 1959	50.2
States	4	cargo	Nov. 30, 1959	46.8
Moore-McCormack	1	do	May 2, 1960	52.4
Lykes	4	do	June 16, 1960	52.9
Farrell	6	do	June 29, 1960	48.4
United States Lines	5	do	July 13, 1960	50.2
Do	6	do	Oct. 18, 1960	46.9
Export	4	do	Nov. 1, 1960	48.0
Lykes	4	do	Nov. 4, 1960	50.8
States	2	do	Nov. 30, 1960	47.7
Lykes	4	do	Aug. 24, 1961	49.5
G. S. A.	2	do	do	48.4
Grace	1	P. & G	Nov. 14, 1961	50.3
Moore	6	Cargo	Apr. 3, 1962	49.1
United States Lines	5	do	July 16, 1962	48.6
American Mail	2	do	Sept. 17, 1962	52.6
Lykes	4	do	Jan. 10, 1963	49.8
Grace	4	do	Mar. 21, 1963	54.0
Do	2	do	do	52.5
G. S. A.	3	do	Apr. 16, 1963	53.9
American President Lines	3	do	Apr. 25, 1963	54.5
Lykes	4	do	Aug. 15, 1963	55.0
Prudential	2	do	Jan. 31, 1964	53.4
Lykes	4	do	Apr. 3, 1964	53.9
United States Lines	5	do	Aug. 11, 1964	52.8
American President Lines	4	do	Sept. 11, 1964	54.0
Do	1	do	do	52.6
Delta	5	do	May 19, 1965	53.3
A. E. I. L.	3	do	Aug. 19, 1965	54.2

We cannot anticipate at this time that the difference between U.S. and foreign shipbuilding costs will not continue to exceed 50 percent of U.S. costs during the coming fiscal year.

We, of course, hope that we will not need to use the full extent of the authority for 55 percent construction-differential subsidy during the coming fiscal year.

But, it is clear from these figures that the construction-differential subsidy rates have recently been consistently between 50 and 55 percent of the total cost, excluding national defense features.

We have the obligation to review, constantly, our administration of the construction-differential subsidy program and to endeavor to administer this program as economically and efficiently as possible in accordance with the governing statutes.

To the maximum extent practicable, we require applicants for construction-differential subsidy to duplicate designs on ships previously approved by the Board for subsidized ship construction.

Standardization reduces the cost of constructing the ships. It also reduces the subsidy rate. Because of higher labor costs in the United States, standardization is more advantageous to U.S. shipyards than it is to foreign shipyards.

We also require that ships be bid in groups. It cannot be over-emphasized that subsidies decrease when the number of ships in the project increases. The difference in cost to the Government between a project involving two ships of a new design and a project involving five ships has averaged about \$1 million per ship.

There has been a substantial increase in the average cost per ship to the Government since the start of the program.

(Table follows:)

	Number of ships	Total Government cost	Government cost per ship
1958.....	19	\$107,000,000	\$5,600,000
1965.....	9	60,000,000	6,700,000
Increase.....			1,100,000
Percent increase.....			20

This net increase in the cost to the Government is the result of a combination of cost increase or decrease factors, as follows:

1. The overall price level of shipbuilding in American shipyards as of 1965 has declined somewhat from the 1958 level, tending to decrease the Government's share of the cost.

2. The price level of shipbuilding in foreign shipyards has declined sharply from the high 1958 level, and although the formerly low prices have increased during the past 2 years, they have not nearly reached the high 1958 levels, tending to increase the Government's share of the cost.

3. The ships involved in the program have become considerably larger, faster, have more specialized features and are mechanized, thereby increasing the Government's cost per ship.

4. The number of ships involved in each award has increased, from about 2½ ships per award in 1958 to about 4 or more during 1963, 1964, and 1965, thereby decreasing the Government's cost per ship.

5. The ships have become more standardized, although the program still does not employ "standard ships" per se, thereby decreasing the Government's cost per ship.

It will be noted that, while the construction-differential subsidy rates went through a period of gradual increase, they appear to have stabilized between 52.5 percent and 55.0 percent since June 1963.

Generally speaking, the reason for this stabilization is that foreign and domestic prices have advanced in recent years by approximately the same ratio. Upward pressures on both foreign and domestic prices appear to be about the same in the shipbuilding industry. Thus, to assume that the subsidy rates will remain about the same would not be unreasonable.

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

Senator BARTLETT. Thank you, Mr. Gulick.

A hasty glance at the table reveals that 54.2 percent is the highest.

Mr. GULICK. I think, if I may suggest, Mr. Chairman, that on page 3, toward the bottom of the page, a Lykes bid in August 15, 1963, received 55 percent, so the range is from the second item in the listing. Lykes, five ships, 44.5 to 55 percent.

Senator BARTLETT. Another one at 54.5, a three-ship bid.

Mr. GULICK. Yes.

Senator BARTLETT. Now, you said that the subsidy rates have recently consistently been between 50 and 55 percent of the total cost, excluding national defense features.

What do they cost an average per ship?

Mr. GULICK. National defense features?

Senator BARTLETT. Yes.

Mr. GULICK. I will ask Mr. Frye to check me. My recollection is somewhat around \$7,000 per ship. I have seen that in one recently.

Mr. FRYE. From the program as a whole, the cost is about \$60,000 a ship, but recent ships have had much fewer—perhaps on the average of maybe \$10,000 a ship.

Senator BARTLETT. Who pays for that?

Mr. FRYE. The Government pays for that, Maritime.

Senator BARTLETT. Maritime?

Mr. GULICK. Yes, sir.

Senator BARTLETT. Now we bring this bill up every year, and every year we are told that the executive branch is in favor of a 1-year extension only and the words are generally just about the same—"pending the results of the executive branch review of maritime policy."

The years are going by. Some of us are getting more and more white haired, and some of us wonder when that executive branch review is going to be completed. Can you give an estimate, rough as it may be, as to that?

Mr. GULICK. I can only forecast a personal guess on this. I would hope sincerely that before this year is over we would be either in a position to come forward with proposals or we would be prepared to come forward early next year. I may say that in the present context we are much further advanced and have much more reason to make that statement.

The executive branch is studying the situation, for the first time, to my knowledge, so that the policy considerations are now being taken under review at the highest level in Government.

Heretofore, the studies have been within the shipping agencies and by the various committees of the Congress and others. I take some hope from this that we are now at the door to a new policy.

Senator BARTLETT. How do we interpret this, that the study is moving from the realm of the experts into the area of the layman?

Mr. GULICK. No, sir. I would say that there are experts throughout the Government in the area of shipping policy and there are many things to be considered. Maritime has put in its input; the Commerce Department has added its touch to this; and the matters are now before the President, largely, I suppose, in the form of the interagency task report, the Maritime Advisory Committee report, and the minority members report of that group.

Senator BARTLETT. Let's assume—we have to make lots of assumptions around here—that a recommendation were finally made that foreign shipyards be permitted to build some or all of the ships used in American merchant marine. Would you agree with me where we state that debate on this recommendation might take even more than a year in Congress?

Mr. GULICK. I would have to say that you might well be right, Mr. Chairman, unless the facts and figures and the report supporting the policy recommendations are so clear as to indicate the possibility of earlier action.

Senator BARTLETT. Now, aside from that, is there any evidence before maritime that a differential might be radically reduced or somewhat reduced between June 30, 1967, and June 30, 1968? My whole point here is that we bring this up every year and it takes time and effort. There isn't always unanimity on the subject within the Congress as to whether it ought to be done at all or not.

It would seem to me that unless there are very valid strong reasons to the contrary, it would be the orderly procedure to do this for 2 years. That doesn't reach into eternity.

I know your situation. I know that the executive branch has determined that a 1-year extension is enough. But I just merely want to record my views for the record. No reply will be necessary, Mr. Gulick.

Mr. GULICK. Thank you, sir.

Senator BARTLETT. It is encouraging to note the overall price levels in shipbuilding has declined in American yards since 1958, and it is highly encouraging to learn from you that when these ships can be put out to bid in groups or flocks or fleets, whatever the right word ought to be, that the Government saves as much as a million dollars a ship. I suppose your whole drive is to encourage building under those circumstances and those conditions?

Mr. GULICK. Definitely, sir.

Senator BARTLETT. And naturally the ship operators themselves, if they can do so, would endorse this policy because they too save a lot of money, right?

Mr. GULICK. Yes, sir.

Senator BARTLETT. Now, this program has been in effect since when?

Mr. GULICK. Since 1958, in round figures, or 1957—probably it goes back one more year.

Senator BARTLETT. That is the differential program?

Mr. GULICK. Yes, sir; the present construction program.

Senator BARTLETT. How long has the subsidy program been in effect?

Mr. GULICK. The subsidy program itself has been in effect since 1936 under the present act.

Senator BARTLETT. What classes of ships are included within the subsidy provisions as to construction and as to operations?

Mr. GULICK. The act, I believe, does not specify the type of ship. I would prefer to have the statute before me in order to be specific, but my recollection is that the act is in its own terms broad enough to cover ships engaged in foreign trade.

Senator BARTLETT. All right, then. Let me try to be more specific. What element of the American merchant marine has been subsidized as to construction and as to operation?

Mr. GULICK. Berth liner ships.

Senator BARTLETT. And what classes have not been subsidized?

Mr. GULICK. Tankers, bulk carriers, tramps, and if we want to go this far, the ships engaged in the domestic services.

Senator BARTLETT. We read, we hear, we know that the American merchant marine is in a sorry state. The ships are becoming old, obsolescent, and more and more of our cargo is being carried by ships of foreign flags.

What I want to ask you, Mr. Gulick, is whether the program involving subsidies has had constructive results? Has the liner fleet been modernized? Is the liner fleet the subsidized fleet, carrying an appropriate share of American cargo?

In summation, in your judgment, has this program been successful?

Mr. GULICK. Mr. Chairman, I say unqualifiedly that as to the berth liner ships, we have one of the finest, if not the finest, fleet of ships in the world. They are the fastest, they carry more cargo, more safely than any other ships. They participate in the trade to a very reasonable percentage. They are serving the United States and the principal difficulty in the area of the berth liners is that we are about halfway through our replacement of those ships.

Senator LAUSCHE. What does halfway through mean? How many have you replaced and how many more have to be replaced?

Mr. GULICK. We have a little over 300 ships in the berth liner subsidized fleet. We have replaced, to date, approximately 154 of those ships.

Senator BARTLETT. Now, this process of replacement is directly dependent upon congressional appropriations?

Mr. GULICK. Yes, sir.

Senator BARTLETT. How many are contemplated for the next fiscal year?

Mr. GULICK. The budget requests include a figure of \$85 million, which at a 50-percent rate, the basis for the \$85 million figure, would cover between 11 and 13 ships at the present rates.

Senator BARTLETT. Which in itself precludes an operator with a bold, imaginative new scheme, which might require the building of eight ships at one time, to carry out his plans, because he is hampered by budgetary considerations; is that right?

Mr. GULICK. This would pose the issue of choosing between such an operator and others who also want to come in and get their replacement schedules filled.

Senator BARTLETT. But what you tell us essentially, Mr. Gulick, that whatever the plight, the state of the American merchant marine

may be, taken as a whole, this segment, the liner fleet, the subsidized fleet is modern, is as good as any in the world and is doing the job envisioned under the 1936 act?

Mr. GULICK. Yes, sir.

Our complaint at the moment, if it might be termed a complaint, and rather I would put it on the basis of an effort to improve the fleet, requires us to look at the cost of supporting these ships. We are endeavoring in our studies to come up with proposals which will provide more results for the subsidy dollar, and we think this is worth while. We cannot continue to pay the existing subsidy costs, because they are going to increase as the years go by.

Some way must be found to reduce this cost to give us a better value for the subsidy dollar, and this is the basis for the study now going on.

Senator BARTLETT. You are talking about operating subsidy now?

Mr. GULICK. I am talking about operating subsidy, and I am also talking about construction differential subsidy to the extent that where ways may be found to reduce that cost, this automatically offers the possibility of more ships, more ship capability per construction subsidy dollar.

Senator BARTLETT. The facts that costs abroad are going up at a very rapid percentage rate acknowledging that they started from a very, very low base—

Mr. GULICK. Yes, sir.

Senator BARTLETT (continuing). Will be helpful in this; will it not?

Mr. GULICK. It will be helpful.

Senator BARTLETT. Now, as to operating subsidies, is it true that some of the modern liners require fewer members than the older ships and in some cases at least the operators have made suitable arrangements with the labor unions so that they are crewed by fewer members?

Mr. GULICK. In our judgment, this has been a very excellent development and one which we encourage.

Senator BARTLETT. I have no further questions.

I thank you for your statement.

Senator LAUSCHE?

Senator LAUSCHE. Do you know, Mr. Gulick, when this program was adopted, it was envisioned that in the course of time, the gap between the cost of building ships in the United States and that in foreign countries would grow less?

Mr. GULICK. This was certainly, Senator, a fond hope of the proponents of the 1936 act. I was serving at that time with the House Merchant Marine Committee and I speak of this as my own personal knowledge.

We were at that time, however, faced with a fact of lower foreign costs, and a subsidy running up to 33½ percent or something in that area at that time, was considered essential.

Senator LAUSCHE. Well, it was a fond hope that the cost in the foreign countries would go up and ours would not move upward with the same velocity and, therefore, the gap would be reduced.

Mr. GULICK. Yes, sir.

Senator LAUSCHE. Now what is the fact as to whether or not that has become a reality. In 1936, I understand, the percentage of subsidy was about 33 percent of the cost.

Mr. GULICK. Yes, sir.

Senator LAUSCHE. It then gradually moved upward until it reached the ceiling of 50 percent in about 1959?

Mr. GULICK. 1959; yes, sir.

Senator LAUSCHE. We then raised the ceiling to 55 percent and since 1959, it has moved upward where the cost is now pressing at the 55-percent ceiling?

Mr. GULICK. Yes, sir.

Senator LAUSCHE. How long do you think it will be before the gap or the differential reaches the point where you will have to break through the 55?

Mr. GULICK. I would hope very much that this will not be necessary. I would hope that the actions which are being taken to encourage standardization, the bidding of ships in groups, the improved ship construction techniques of our own shipyards would all combine to produce lower construction costs which itself would help.

Senator LAUSCHE. That is your hope, but isn't it a fact that the graph shows that since 1959 the additional 5 percent authorized is gradually being absorbed and that by 1965, you are already in the 54 percent, 53 percent subsidy?

Mr. GULICK. Yes, sir; we have, the last one offered was 54.2.

Senator LAUSCHE. And that was on August 1965?

Mr. GULICK. Yes, sir.

Senator LAUSCHE. This is pretty close to the 55 percent.

Mr. GULICK. But, we have also said in our statement that since June of 1963, there appears to have been some leveling off of the percentage differential. Now if we can keep it going that way, then we will stay under the 55.

Senator LAUSCHE. Your optimism is far better than mine.

My own interpretation is that when you fix it at 55, the pressures begin to be applied to consume the whole 55 and when you bring it to 60, then begin applying the pressure to consume the whole 60. And time will only tell which of the two conclusions is sound.

Now with respect to the gap between foreign costs and the U.S. costs, last year's testimony, and transcript of the hearings, contains a graph showing the average hourly earnings, in the United States of America, Germany and Japan, and this graph shows that in 1957, the differential between that of Japan and the United States was \$2.12 per hour.

Mr. GULICK. Yes.

Senator LAUSCHE. The gap in 1964 is \$2.59. So the gap in hourly earnings instead of improving has worsened and the American per-hour cost is 47 cents an hour more than Japan's in 1964 as compared to 1957. Are you familiar with the figures?

Mr. GULICK. Yes, sir; I do not have that before me at the moment, I will be glad to get a copy if it will be helpful.

Senator LAUSCHE. The gap in 1957, between the hourly cost of labor in Japan and the United States, was \$2.12; in 1961, it is \$2.50; in 1963, \$2.58; and in 1964, \$2.59. Doesn't that indicate that the gap is not being lessened, but increasing?

Mr. GULICK. The gap itself has increased, which is clear from the chart which was introduced by CASL into the hearings last year, but the percentage differential from June of 1963 to the present time has fairly well stabilized.

Senator LAUSCHE. What part of the costs of a ship goes into labor, what percentage?

If you don't have it, it would be well to supply it for the record.

Mr. GULICK. Thank you. We will give right now an estimate, and we will check it, if we may, for the record.

Domestically, approximately 40 percent; foreign, approximately 20 percent.

Senator BARTLETT. Say that again, please.

Mr. GULICK. Domestic cost for the labor portion of a ship construction costs is around 40 percent. Foreign, is around 20 percent.

(The information requested above follows:)

Since the amount of labor expended varies from shipyard to shipyard and to some extent from project to project, no precise answer can be given to this question. Maritime Administration data indicates that the percentage of shipyard labor (both direct and indirect) in the total cost of an American-built ship varies from about 30 percent in a shipyard which subcontracts a major amount of work to around 40 percent in a shipyard which subcontracts only a minor amount. Information available to the Maritime Administration regarding foreign shipyards is much more limited but indicates that the percentage of labor in the cost of cargo ships is in the range of 15 to 20 percent.

Senator LAUSCHE. Mr. Gulick, you stated that it is your belief and hope that out of these studies being made by the Administration there may be evolved a program under which savings will be achieved obviating the need of this large cost in subsidizing these ships. Can you immediately now put your finger on some avenues upon which they are moving in a hope to achieve that?

Mr. GULICK. We have already listed a few, such as the standardization of ships, the offering of ships in larger groups in order to reduce the costs per ship, the improvements in construction techniques in the shipyards themselves.

To this, I think we might add our hope that out of the studies will come new types of ships, new concepts of transport capability such as the surface effects ship. This is too early to forecast the possibilities in this direction, but certainly, the theory indicates that this is worth pressing toward.

Apart from this you get into the area of the operating subsidy. If it is found possible to reduce the operating subsidy cost per ship, and if at the same time it is not found possible to go quite as far as had been hoped in the construction side, then at least there is the possibility of more funds which would ordinarily have gone to ODS, being funneled into the ship construction side.

Senator LAUSCHE. Do you possibly have with you a tabulation showing what we have pegged in the form of ship construction since this program was adopted? I thought it was 1934. Is it 1936? When was it adopted?

Mr. GULICK. The act was passed in 1936.

Senator LAUSCHE. Do you have a tabulation of the annual costs that we have entailed?

Mr. GULICK. We will be delighted to furnish this for the record. I do not have it with me at the moment.

(The information requested above follows:)

*Statement of construction-differential subsidies cumulative through fiscal year 1949,
by fiscal year thereafter*

	Number of ships contracted during year	Subsidy
July 1, 1937, through June 30:		
1949.....		\$87,768,000
1950.....		16,722,000
1951.....		16,877,000
1952.....		9,008,000
1953.....		(896,000)
1954.....		5,538,000
1955.....		5,359,000
1956.....	4	1,614,000
1957.....		16,379,000
1958.....	15	22,638,000
1959.....	14	21,762,000
1960.....	13	68,218,000
1961.....	31	102,119,000
1962.....	13	136,861,000
1963.....	18	90,523,000
1964.....	15	77,234,000
1965.....	14	87,648,000
Total.....	1 137	765,382,000

¹ Represents subsidized ships as reported by the Office of Ship Construction, shipbuilding progress report and includes only those ships in the current replacement program beginning in 1956.

Senator LAUSCHE. Now likewise, I would like to have furnished for the record a tabulation of the operating subsidy that we have paid.

Mr. GULICK. Yes, sir.

Senator BARTLETT. May I interrupt?

Senator LAUSCHE. Yes; but don't confuse me.

Senator BARTLETT. Is that possible?

Don't you think it would be useful if we had accompanying those tables the number of ships involved each year as to construction and as to operations?

Senator LAUSCHE. Yes.

Mr. GULICK. Yes, sir; we will be glad to include that, Mr. Chairman.

(The information requested above follows:)

NET OPERATING-DIFFERENTIAL SUBSIDIES PAID FROM 1936 TO JAN. 31, 1966,
BY CALENDAR YEARS OF OPERATION

Calendar year	Ships subsidized	Amount
1937	138	¹ \$5,956,694.49
1938	170	
1939	156	
1940	139	² 10,644,517.00
1941	132	
1942	49	
1943-46	0	0
1947	159	3,209,961.81
1948	213	13,571,304.81
1949	241	29,682,083.69
1950	254	48,626,359.48
1951	254	46,040,472.84
1952	273	63,548,311.78
1953	269	93,340,111.96
1954	281	104,509,768.66
1955	290	103,190,611.18
1956	297	105,520,498.85
1957	308	118,410,363.28
1958	309	139,404,564.90
1959	313	158,029,797.89
1960	309	160,288,184.40
1961	300	163,926,240.68
1962	302	169,711,540.34
1963	316	179,748,832.54
1964	318	190,467,298.83
1965	317	148,357,125.68
1966	307	
Total		2,056,184,645.11

¹ Temporary subsidy.² Prewar subsidy (1936-41).

NOTES

1. Amounts are net of recapture collected and/or applied.
2. Amounts shown are the amounts paid to all operators for each calendar year of operations without regard to the year or years in which such payments were actually made. Actual amounts paid during each fiscal or calendar year are not readily available, except for very recent years.
3. Breakdown by years prior to 1947 is not available in the accounting records.
4. From Mar. 31, 1942 to Dec. 31, 1946, the American merchant marine was operated for the Government; no operating differential subsidy was paid except on 4 voyages terminating in the first quarter of 1942.

Senator LAUSCHE. Do I understand you correctly to say that if we can reduce the operating subsidy, it will be an achievement and that issue is also being studied by the administration?

Mr. GULICK. Very definitely, sir.

Senator LAUSCHE. What has been the great obstacle in reducing the operating costs as you know it now?

Mr. GULICK. There are several factors involved in this. One obviously is the cost of manning the ship, the number of persons required to be on board by the collective bargaining agreements, by the necessity of ship operation.

Another would be the type of ship and its propulsion machinery, its capability to carry large quantities of cargo rapidly and at reduced rates.

It is entirely conceivable and some of the new ships coming off the construction ways offer now the possibility of one ship to do the work of two heretofore.

We have also in this area of reducing costs the matter of the unusually large and admittedly very fine components which make up this ship. Can we without sacrificing efficiency or safety reduce the high costs or, in fact, the need for some of these components? Are there better ways of providing for cargo handling? Can we reduce

the turnaround time of ships in port? The more we can keep these ships at sea, moving backward and forward between their ports of loading and discharge, the more money we are getting out of the investment in the ship.

I think all of these combine and offer ways and means to seek reductions of the subsidy costs.

Senator LAUSCHE. In other words, isn't one of the real issues concerning the efficient carrying of cargoes and use of these subsidized ships the objective to introduce modern loading and unloading machines?

Mr. GULICK. Yes, sir.

Senator LAUSCHE. Eliminate employees that are unnecessary and are there only as a sinecure and thus reduce the costs.

Mr. GULICK. And, I think the record will show that both management and labor have striven toward this end with some success.

Senator LAUSCHE. When did that success manifest itself?

Mr. GULICK. We have some ships in operation now with less crews than previous ships were operated with. We have ships—

Senator LAUSCHE. Is that the east coast or the west coast or the gulf, where?

Mr. GULICK. This would be largely the east coast and gulf areas.

Senator LAUSCHE. Why hasn't that been achieved on the west coast?

Mr. GULICK. I think this has been more, sir, a matter of the construction requirements in the operator's subsidy contract. At the moment, the west coast operators are just beginning to come in and present their questions of contract construction. The east coast just happened to be ahead of them in this regard.

We have ships now proposed by various operators with new concepts, one of which offers a new concept to eliminate cargo handling costs in ports. Lykes, with its sea-barge clipper-type ships, seeks to do exactly the same thing. Containerization coming into the picture now offers further possibilities in this regard.

Senator LAUSCHE. Now does the compulsion of cargo, I think it is 55 percent of our Public Law 480 material in American bottoms add to this aggregate cost of maintaining our merchant marine fleets? We have (1) the construction subsidy, (2) the operation subsidy, and (3) the compulsion that the Government carry its Public Law 480 shipments in American bottoms. Does that or doesn't it add to the overall cost of the taxpayer of the United States?

Mr. GULICK. I think it adds to the overall costs, but I think also it should be borne in mind, Senator, that this is not a support of the subsidized operators nearly as much as it is a support of the presently unsubsidized independent operators.

Senator LAUSCHE. But does the subsidized fleet also participate in this rule?

Mr. GULICK. To a limited extent.

Senator LAUSCHE. Now, what is your estimate of the cost that was entailed in the program last year? Can you give that, your program?

Mr. GULICK. Our construction program?

Senator LAUSCHE. Yes; that is right.

Mr. GULICK. Pretty close to \$100 million.

Senator LAUSCHE. One hundred million.

And for 1966 or 1967, you contemplate asking for \$85 million?

Mr. GULICK. Eighty-five million dollars.

Senator LAUSCHE. And that will, if the subsidy is 50 percent, that would mean there would be \$170 million spent in all. Is that right?

Mr. GULICK. I'm not quite sure I follow you on that.

Senator LAUSCHE. If the Government puts up \$85 million, and the private operator puts up \$85 million, it is \$170 million.

Mr. GULICK. Yes, sir.

Senator LAUSCHE. And how many ships do you envision will be built with that?

Mr. GULICK. Approximately 11 to 13, depending upon the kind of ship and the ship contract construction costs.

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

No; there is just one thing further. I wish you would provide for the record a tabulation of the strikes, the labor strikes that we have had in this industry. I have a tabulation of my own, beginning in 1945. Will you provide that?

Mr. GULICK. We will be glad to. Would you like to have this begin at the same year, 1945?

Senator LAUSCHE. We might as well have it, if you have the tabulation, from 1936.

Mr. GULICK. We will endeavor to do this, and one more point, for clarification if I may, you are talking about strikes affecting the industry which would be those in the seagoing as well as the long-shore labor areas?

Senator LAUSCHE. Yes, sir.

Mr. GULICK. Thank you, sir.

Senator LAUSCHE. My point is that so long as you have this subsidy available, it will be taken in the fullest degree in one manner or another, and we have got to put a stop to it or the other course would be to keep increasing it to meet the demands which are constantly expanding and I don't think we can do that.

Thank you very much.

(The information requested above follows:)

Summary of strikes and work stoppages, maritime industry, from 1945 to 1964

Year and industry category	Unions involved	Com-menced	Number of—		Area
			Days	Workers	
1945					
Shipyard.....	IUMSWA.....	Sept. 24	4	17,000	Camden, N.J.
Longshore.....	ILA.....	Oct. 1	19	30,000	Port of New York.
Seamen.....	CIO unions.....	Dec. 3	1	13,000	Atlantic, gulf and Pacific coasts.
1946					
Longshore.....	ILWU.....	Jan. 2	15	1,100	Port Hueneme, Calif.
Do.....	ILA.....	Feb. 4	9	30,000	Port of New York.
Harbor.....	UMW.....	Apr. 5	6	18,000	Harbor craft, Philadelphia, Pa.
Longshore.....	ILWU.....	June 15	1	1,000	Port of Los Angeles.
Seamen.....	NMU/SIU.....	July 10	4	11,500	Atlantic coast ports.
Longshore.....	ILWU.....	July 12	1	4,050	Port of Los Angeles.
Do.....	ILWU.....	July 15	1	2,500	Port of Seattle, Wash.
Do.....	ILWU.....	July 31	3	12,000	Ports of San Francisco, Los Angeles.
Seamen.....	AFL/CIO.....	Sept. 5	17	132,000	Atlantic, gulf and Pacific coasts.
Do.....	MMP/MEBA.....	Oct. 1	54	142,000	Pacific coast ports (approximately 8,000); Atlantic and gulf ports.
Do.....	MMP(A. & G.).....	do.....	26		
Do.....	MEBA (A. & G.).....	do.....	22		
Longshore.....	ILWU.....	do.....	54	13,000	California ports.
Do.....	ILWU.....	Nov. 23	16	2,150	Puget Sound ports.

¹ Includes related idleness, seamen strikers only—approximately 70,000.

Summary of strikes and work stoppages, maritime industry, from 1945 to 1964—Con.

Year and industry category	Unions involved	Com-menced	Number of—		Area
			Days	Workers	
1947					
Seamen.....	NMU/ARA.....	June 15	5		All ports (stoppage incomplete).
Longshore.....	ILWU.....	do.....	5	12,000	California ports.
Shipyards.....	IUMSWA.....	June 26	134	50,000	All coasts (some settled in 30, 60, 90 days).
Longshore.....	ILWU.....	Oct. 1	6	2,700	Port of Los Angeles.
Do.....	ILWU.....	Nov. 7	1	2,350	Port of San Francisco.
Do.....	ILA.....	Nov. 10	17	37,000	Atlantic coast ports.
1948					
Longshore.....	ILWU.....	Feb. 29	20	3,500	Ports of Los Angeles, Long Beach.
Clerical.....	UPWA.....	Aug. 16	2	50	Alabama State docks, Mobile.
Seamen.....	MEBA/ROU MCS/MFOW	Sept. 2	93	28,000	All Pacific coast ports.
Longshore.....	ILWU.....	Sept. 2	93		
Do.....	ILA.....	Nov. 10	18	45,000	Atlantic coast ports.
Do.....	ILA.....	Dec. 18	4	5,000	Port of Philadelphia, Pa.
Do.....	ILWU.....	Dec. 21	9	2,000	Ports of Seattle, Tacoma, Wash.
Do.....	ILA.....	Dec. 23	3	3,000	Port of Houston, Tex.
1949					
Longshore.....	ILA.....	Oct. 29	1	3,000	Do.
1950					
Longshore.....	ILA.....	June 10	35	400	Port of Gulfport, Miss.
Do.....	ILA.....	July 6	43	4,500	Jersey City and Hoboken piers.
1951					
Longshore.....	ILA.....	Jan. 3	5	5,000	Port of Philadelphia, Pa.
Seamen.....	MEBA/ARA/ NMU	June 16	11	15,000	Atlantic and gulf ports.
Longshore.....	ILA.....	Oct. 15	26	17,000	Ports of Boston and New York.
1952					
Seamen.....	SUP.....	May 23	67	9,000	Pacific coast ports.
Do.....	MMP/ARA.....	July 29	3	1,000	Do.
Longshore.....	ILWU.....	Sept. 10	1	12,000	Do.
Seamen.....	SUP.....	Nov. 5	5	1,800	Do.
Longshore.....	ILA.....	Nov. 11	34	300	Port of Seattle, Wash.
1953					
Seamen.....	NMU.....	June 19	1	2,000	Atlantic coast ports.
Shipyards.....	IAM.....	July 1	26	8,200	Pacific coast shipyards.
Harbor.....	UMD.....	July 3	5	80	Harbor tugs, port of New York.
Longshore.....	ILA.....	July 7	6	72	Port of New York (local pier).
Shipyards.....	USW.....	July 16	2	350	Moore drydock, Oakland, Calif.
Do.....	IBB.....	July 24	5	50	Todd Shipyards, Pacific coast.
Longshore.....	ILA.....	July 27	1	234	U.S. Lines pier, port of New York.
Shipyards.....	IBB.....	July 28	46	1,270	Puget Sound shipyards.
Do.....	IUMSWA.....	July 29	8	500	Bethlehem Steel yard, 27th St., New York.
Longshore.....	ILA.....	Aug. 4	11	400	Moore-McCormack piers, New York.
Shipyards.....	IUMSWA.....	Aug. 11	1	200	Todd-Johnson yard, New Orleans.
Seamen.....	MMP.....	Aug. 12	2	8	Harbor pilots, San Francisco.
Do.....	MMP.....	Aug. 16	4	14	Harbor pilots, Seattle.
Longshore.....	ILA.....	Aug. 25	2	300	Cunard piers, New York.
Shipyards.....	IAM.....	Sept. 1	48	260	Brown Shipyard, Port Lauderdale, Fla.
Longshore.....	ILA.....	Sept. 2	2	425	AEL and APL piers, Jersey City.
Shipyards.....	IAM.....	Sept. 10	22	175	Seattle, Wash., shipyards.
Longshore.....	ILA/IBL.....	Sept. 22	1	110	Pier 25, N.R., New York.
Do.....	ILA.....	Oct. 1	5	30,000	Atlantic and gulf coast ports.
Seamen.....	MMP.....	do.....	8	450	Tankers—Atlantic and gulf coast ports.
Longshore.....	ILA/IBL.....	Oct. 7	7	15	Local pier, New York.
Do.....	ILA/IBL.....	do.....	5	96	Local stevedore firm, New York.
Do.....	ILA.....	Oct. 10	2	184	Holland-America Line piers, Hoboken.
Do.....	ILA/IBL.....	do.....	2	225	Isthmian Line piers, New York.
Do.....	ILA/IBL.....	Oct. 11	56	130	Stevedore piers, New York.
Do.....	ILA/IBL.....	do.....	49	200	Local Jersey City piers.
Do.....	ILA.....	Oct. 14	3	96	Do.
Do.....	ILA.....	Oct. 16	10	300	Jarka stevedoring piers, New York.
Shipyards.....	IAM.....	Oct. 19	12	560	American shipbuilding yards, Toledo and Lorain.
Longshore.....	ILA.....	Oct. 20	1	46	Pier 74, N.R., New York.
Shipyards.....	IAM/TBB.....	Oct. 27	4	465	Savannah M & F yard.
Harbor.....	UMD.....	Nov. 11	55	121	Harbor tugs, port of New York.
Seamen.....	MMP/MEBA.....	Nov. 20	18	353	P & O SS Co., Miami, Fla.

Summary of strikes and work stoppages, maritime industry, from 1945 to 1964—Con

Year and industry category	Unions involved	Com-menced	Number of—		Area
			Days	Workers	
1953					
Longshore.....	ILWU.....	Nov. 23	1	51	APL piers, San Francisco.
Do.....	ILA.....	Dec. 1	1	6,300	Hudson River piers, port of New York.
Shipyards.....	MTA.....	Dec. 1	36	2,000	California shipyards.
Longshore.....	ILWU.....	Dec. 3	1	6,000	California ports.
1954					
Longshore.....	ILA.....	Jan. 2	16	300	Brooklyn piers, port of New York.
Harbor.....		Jan. 2	40	10	Tank barge personnel, New Jersey Re- fineries.
Shipyards.....		Jan. 18	34	100	Marine welding, New Orleans (plumbers).
Do.....		Jan. 18	1	48	Hampton Engineer, California (repair- men).
Clerical.....	ILA.....	Jan. 28	1	103	Argentine State Line office, New York.
Do.....	ILA.....	Feb. 4	2	460	A.E.L. Offices and piers, New York.
Do.....	ILA.....	Feb. 4	1	273	Argentine State Line office, New York.
Do.....	ILA.....	Feb. 4	2	332	Luckenbach offices and piers, New York.
Do.....	ILA.....	Feb. 18	2	75	Royal Netherlands office and piers, New York.
Longshore.....	ILA.....	Feb. 19	8	22	Isthmian piers, New York.
Do.....	ILA.....	Feb. 23	2	125	Moore McCormack piers, New York.
Do.....	ILA/IBT.....	Feb. 26	10	4,000	Longshore versus teamsters, port of New York.
Do.....	ILA.....	Mar. 5	29	30,000	Port of New York.
Shipyards.....	IBB.....	Mar. 9	1	500	Marine repair yards, port of New York.
Longshore.....	ILA.....	Mar. 17	1	5,000	Port of Philadelphia, Pa.
Shipyards.....	USW.....	Apr. 1	2	4,500	Bethlehem Steel Shipyards, Baltimore.
Do.....	IBB.....	Apr. 6	3	6,600	New York Shipbuilding Corp., Camden, N.J.
Longshore.....	ILA.....	Oct. 5	2	20,000	Port of New York.
Seamen.....	SUP/ILWU.....	Oct. 27	91	45	(SS <i>Pacificus</i> case—one ship.)
Longshore.....	ILA.....	Nov. 6	15	5,000	Port of Philadelphia, Pa.
Seamen.....	ARA.....	Dec. 2	6	1,000	Ships in Pacific coast ports.
1955					
Longshore.....	ILWU.....	June 6	1	13,000	California ports.
Seamen.....	MMP/MEBA ARA/NMU.	June 14	7	28,000	Atlantic and Gulf ports (tankers).
Harbor.....	ILA.....	July 13	17	125	Baltimore tug operators.
Rivers.....	MMP/MEBA.....	July 18	3	450	Mississippi River Barge Lines.
Shipyards.....	IUMSWA.....	Aug. 1	2	150	Mathis Shipyards, Camden, N.J.
Longshore.....	ILA.....	Aug. 23	2	600	Port of New York (local piers).
Do.....	ILA.....	Sept. 7	8	32,000	Port of New York (spread to A and G ports).
Do.....	ILA.....	Oct. 1	20	650	Port of New York (scalemen, weighers).
Shipyards.....	IUMSWA.....	Oct. 10	45	1,500	Sun Shipyards, Chester, Pa.
1956					
Harbor.....	IBU.....	Jan. 6	3	85	San Francisco Bay tugs.
Do.....		Mar. 9	34	60	Norfolk, Va., tug operators.
Seamen.....	MMP/MEBA SIU.	May 11	8	6,800	Atlantic and Gulf coast ports.
Harbor.....		May 28	4	300	Great Lakes ports.
Shipyards.....	IUMSWA.....	July 24	3	1,300	Merrill-Stevens yard, Jacksonville.
Seamen.....	MEBA.....	Aug. 3	32	1,800	{Pittsburgh SS Co. (Great Lakes). {Pittsburgh SS Co. (Great Lakes).
Do.....	MMP.....	Aug. 7	28	1,800	{Pittsburgh SS Co. (Great Lakes).
Shipyards.....	IAM.....	Sept. 18	5	2,400	Bethlehem Steel repair yards, New York.
Longshore.....	ILA.....	Nov. 16	9	60,000	Atlantic and gulf ports.
1957					
Harbor.....	UMD.....	Jan. 30	36	4,000	Tugs, harbor craft, port of New York.
Longshore.....	ILA.....	Feb. 12	10	45,000	Atlantic coast ports.
Seamen.....	MMP/MEBA SIU.	Aug. 19	64	1,178	Bull Line piers and ships, New York.
Shipyards.....	IUMSWA.....	Nov. 11	28	1,500	Bath Iron Works yard, Bath, Maine.
1958					
Harbor.....	MMP.....	Apr. 25	7	30	Harbor pilots, Cleveland and Chicago.
Longshore.....	ILA.....	May 1	1	900	Cleveland, Chicago (support of pilots).
Seamen.....	MMP/MEBA ARA/NMU.	June 16	3	6,500	A. & G. ports (30 ships delayed due MEBA).
Clerical.....	OEU/.....	July 9	5	75	Greek and Belgian Lines piers, New York.
Seamen.....	MEBA.....	July 25	4	1,200	Atlantic and gulf ports (tankers).
Shipyards.....	IAM.....	Aug. 4	64	1,200	American shipbuilding yards, Toledo, Lorain, Buffalo.
Do.....	IUMSWA.....	Sept. 12	8	2,100	Maryland shipbuilding yard, Baltimore.
Do.....	IUMSWA.....	Sept. 12	40	175	Craig Shipyards, Long Beach, Calif.
Seamen.....	MMP.....	Oct. 1	7	6,100	AMMI operators, Atlantic ports.

Summary of strikes and work stoppages, maritime industry, from 1945 to 1964—Con.

Year and industry category	Unions involved	Com-menced	Number of—		Area
			Days	Workers	
1959					
Shipyards	MTA/IAM	Jan. 1	69	1,250	Ship repair yards, New Orleans.
Seamen	MOW/MCS	Jan. 14	1	600	San Francisco.
Harbor	UMD	Feb. 1	7	4,000	Tugs and oil craft, port of New York.
Shipyards	UMSWA	Mar. 1	1	1,100	Alabama drydock and shipbuilding Mobile.
Longshore	ILWU	Mar. 9	3	1,000	San Francisco.
Harbor	SIU	Mar. 16	20	24	Tug crews, New Orleans.
Longshore	ILA	Mar. 19	7	4,500	Port of Philadelphia.
Harbor	IBU	Apr. 1	165	110	Tug crews, port of Los Angeles.
Do	IBU	May 15	259	175	Tug crews, port of San Francisco.
Do	TWU	June 15	4	1,250	Railroad tugs, port of New York.
Rivers	MMP/MEBA	July 1	122	1,500	Mississippi River Barge Line.
Longshore	ILA	July 3	19	2,000	Sugar piers, Philadelphia.
Shipyards	MTA/IAM	Aug. 24	156	8,000	Ship repair yards, San Francisco to Seattle.
Do	MTA/IAM	Sept. 2	47	11,500	Pacific coast shipyards.
Longshore	ILA	Oct. 1	8	52,000	Atlantic and gulf ports (approximately 220 ships).
Shipyards	UMSWA	Nov. 23	42	1,100	Todd Shipyard, Los Angeles.
1960					
Shipyards	UMSWA	Jan. 22	149	18,500	Bethlehem Steel yards, Atlantic coast.
Longshore	ILA	Mar. 8	92	60	Grain trimmers, port of New York.
Clerical	OEU	Apr. 14	8	20,000	Port of New York (including longshore).
Longshore	ILA	May 15	19	3,800	Great Lakes ports.
Do	ILA	May 16	7	150	American Export Line piers, New York.
Longshore	ILWU	Aug. 12	14	3,500	Container ship <i>Hawaiian Citizen</i> , Los Angeles.
Do	ILA	Sept. 1	8	700	Grain elevator piers, Chicago.
Do	ILA	Sept. 8	14	75	Grain elevator piers, Buffalo.
Shipyards	UMSWA	Oct. 31	37	110	Merrill-Stevens yard, Jacksonville.
Do	IAM	Nov. 2	12	1,100	Ship repair yards, New York.
Clerical	OEU	Nov. 21	4	120	American Export Line piers, New York.
Longshore	ILA	Dec. 7	2	3,000	South Atlantic ports.
1961					
Harbor	MMP/MEBA, SIU	Jan. 10	13	600	Railroad tugs, port of New York.
Longshore	ILWU	Feb. 9	5	125	East Bay piers, San Francisco.
Do	ILWU/IBT	Mar. 9	4	10,000	Automation—Los Angeles and San Francisco.
Do	ILWU	Mar. 27	2	1,500	Stop-work meeting, Seattle.
Clerical	OEU	Apr. 28	8	106	French Line office and piers, New York.
Do	OEU	May 15	1	120	American Export piers, Jersey City.
Seamen	MMP/MEBA, ARA/NMU	June 16	18	13,200	Atlantic and Gulf ports.
Do	MMP/MEBA, ARA	June 16	18	2,600	Pacific coast ports.
Shipyards	IAM/IBE	July 1	70	1,300	National Steel Shipbuilding, San Diego.
Clerical	OEU	July 13	4	150	Hellenic (Greek) Line piers, New York.
Seamen	MMP	Sept. 28	14	2,200	Pacific coast (resumption of June 16).
Longshore	ILWU	Oct. 9	19	60	Scrap metal piers, Los Angeles.
1962					
Clerical	OEU	Feb. 1	1	250	American Export piers, Jersey City.
Seamen	SUP/MFOW, MCS	Mar. 16	27	5,300	West coast operators (excludes tankers).
Do	MEBA	Mar. 28	14	(2)	Isbrandtsen transfer of ships to AEL.
Shipyards	UMSWA	Mar. 29	13	100	American Shipbuilding yard, Buffalo, N. Y.
Seamen	MEBA	Apr. 12	7	(2)	Resumption of dispute with Isbrandtsen.
Do	MEBA	May 3	5	(2)	Resumption of dispute with Isbrandtsen.
Do	NMU/SIU	May 16	27	1,600	Robin Line (19 Mormac ships idled).
Do	MEBA	June 13	53	(2)	Resumption of dispute with Isbrandtsen.
Shipyards	MTC	July 19	2	9,000	Metropolitan Trade Council/Electric Boat.
Seamen	MMP/ARA, NMU	July 31	13	105	NS Savannah, Yorktown, Va.
Shipyards		Aug. 3	1	200	Welders, Todd yard, San Pedro.
Longshore	ILA	Oct. 1	5	70,000	Atlantic and gulf coasts.
Seamen	MEBA	Dec. 5	9	105	NS Savannah, Los Angeles.
Longshore	ILA	Dec. 24		70,000	Atlantic and gulf coasts (ended in 1963).

*MEBA picketing caused some dislocations in American export operations of former Isbrandtsen ships and also some AEL ships. No loss in shipboard employment; approximately 300 longshoremen affected along several Brooklyn piers for sporadic periods.

Summary of strikes and work stoppages, maritime industry, from 1945 to 1964—Con.

Year and industry category	Unions involved	Com-menced	Number of—		Area
			Days	Workers	
1963					
Longshore	ILA		33	70,000	(Continuation of Dec. 24 strike; ended on Jan. 25, 1963; see above).
Shipyards		Mar. 4	2		Ship carpenters; New Orleans, yards.
Longshore	ILA	Mar. 22	2	375	North Carolina State docks, Wilmington, N.C.
Do	ILA	Mar. 22	2	125	North Carolina State docks, Morehead City, N.C.
Seamen	MMP/AMO	May 14	14	40	SS <i>Dearborn</i> , Brooklyn, N.Y.; MMP picketed due to AMO (MEBA) manning of deck officers.
Do	MEBA	May 16	(3)	120	NS <i>Savannah</i> , Galveston; engineers refuse to sail; implement resignations of Nov. 30, 1962; sailing canceled by MA.
Do	SUP/NMU	May 19	22	90	SS P. & T. <i>Forester</i> , P. & T. <i>Navigator</i> at New Orleans; ships transferred by sale from SUP to NMU company; SUP refused to relinquish shipboard jobs.
Do	NMU/SUP	May 20	30	48	SS <i>Mormacmar</i> , San Francisco; NMU retaliation for P. & T. ships at New Orleans.
Do	NMU/MEBA	June 10	10	850	SS <i>Maximus</i> at Philadelphia, 1st voyage with new owners; ship manned by NMU and BMO; MEBA picketed against BMO, NMU retaliated by picketing MEBA ships on 3 coasts. 19 U.S.- and 17 foreign-flag ships idled by 10th day. Truce ended stoppage June 20 to permit SS <i>Maximus</i> sail Cuba assignment.
Longshore	ILA	June 17	1	150	Port of Miami, ILA picketed 5 foreign-flag cruise ships for using nonunion labor handling passenger baggage.
Seamen	NMU/MMP, MEBA	June 28	28	48	At Marcus Hook, Pa.; SS <i>Sinclair Texas</i> delivered by shipbuilders; unions delayed maiden voyage departure demanding increased manning; subsequently withdrew demands.
Do	MMP	July 25	20	48	Los Angeles; expiration lumber schooner contracts; SS <i>Cynthia Olsen</i> and <i>Alaska Spruce</i> strikebound; resumed operation Aug. 13.
Do	NMU/MEBA	Sept. 16	14	600	SS <i>America</i> at New York; NMU charged discrimination against NMU members by MEBA engineering officer. Sailings canceled, crew paid off, ship laid up. Sailings resumed Feb. 7, 1964.
Shipyards	Welders	Sept. 6	14	368	Alabama Drydock & S. B., Mobile; wildcat strike. Welders returned to work Sept. 20, 1963. Grievances settled with management.
Do	Ironworkers	Sept. 23	7	400	National Steel and Shipbuilding, San Diego; seniority grievance; employees returned to work Sept. 30, 1963, pending negotiations with NASSCO.
Harbor workers	UMD	Nov. 4	4		Port of New York; UMD Local 333 (MNU) pickets set out against ships of Seland & Sea Train lines for using nonunion tugs in Puerto Rico; 2 Sea train and 2 Sea-land ships delayed at New York.
Ship repair	IAM	Nov. 6	9		Port of New York; machinists strike against 16 New York ship repair firms; 1 MSTs transport and 1 commercial ship strikebound in repair yards; FMCS acted to establish new contract; work resumed Nov. 15, 1963.
Longshore	ILA	Dec. 18	1	100	Port of New York; Norwegian-American Line pier; wildcat strike of 4 gangs; issues not given.
1964					
Seamen	MMP/TOA	Jan. 3			SS <i>Point Vicente</i> (tanker) picketed by MMP (Pac) due to mates supplied by TOA, an MEBA affiliate. Minor delay to ship; Cole, AFL-CIO impartial umpire ruled against MMP action.
Seamen	MMP/AMO	Jan. 8			SS <i>Christopher</i> at Baltimore picketed by MMP due to deck officers supplied by AMO, and MEBA affiliate. Minor delay to ship; Cole found MMP in violation.

³ Indefinite.

Summary of strikes and work stoppages, maritime industry, from 1945 to 1964—Con.

Year and industry category	Unions involved	Com-menced	Number of—		Area
			Days	Workers	
1964 Seamen—Con. Do.....	MEBA.....	Jan. 16	3	9	SS <i>President Wilson</i> at San Francisco, MEBA refuses to sign on until pension demands met. 12 other ships in Pacific coast ports affected but without delay to sailings.
Harbor.....	UMD(NMU)...	Feb. 1	33	3,000	Port of New York; commercial tug contract expired Jan. 31; crews of tugs, barges, and scows included in total workers.
Seamen.....	MMP/AMO.....	Mar. 3	-----	-----	SS <i>Columbia</i> : picketed by MMP due to mates supplied by AMO (MEBA affiliate) ship harassed but sails; Mar. 15 longshoremen from Philadelphia join demonstration, Philadelphia, cargo activity suspended 4 hours; Apr. 10 MMP (Pacific) pickets ship at Pittsburg, Calif., terminal of U.S. Steel; MMP joined by ILWU in picketing; ship harassed but maintains schedule. Apr. 21 at Morrisville (Philadelphia) ship picketed by MMP and ILA; picketing resumed at Pittsburg, Calif., May 9, and again at Morrisville, June 4. June 8, SIU crew supports ILA and leaves ship; June 18, Federal court halts ILA picketing; SIU crew rejoins ship; June 20, ship sails for west coast. July 7, ship arrives Pittsburg, Calif.; steelworkers cross MMP and ILWU picket lines. July 9, ILWU enjoined against picketing, ship departs for east coast; MMP plans for future picketing uncertain.
Longshore.....	ILA.....	Mar. 5	1	250	Brooklyn, wildcat strike re penalty cargo rate for handling tale rubber; 2 ships immobilized.
Shipyard.....	IBB.....	Mar. 16	16	3,500	N.Y. Shipbuilding Corp., boilermakers in wildcat walkout due to employer's disciplinary actions; strikers return to work Apr. 6.
Longshore.....	ILA.....	Mar. 19	1	1,200	Port of New York; dispute with N.Y. Waterfront Commission re seniority hiring.
Shipyard.....	Moulders.....	Apr. 6	7	15	Puget Sound Bridge and drydock, work on MST'S 68a; moulders stage walkout over yard's contracting out work on capstan, winches, windlass, other castings. Moulders returned a.m., Apr. 13.
Longshore.....	ILA.....	May 18	1	2,500	Port of New York; 500 changes charge diversion of work to longshoremen; 2,000 longshoremen immobilized by pickets.
Seamen.....	NMU.....	May 28	5	550	NMU charge 4 Colonial Tankers sold to Western Tankers, Inc. (Isbrandtsen subsidiary) manned by SIU. 11 AELL ships strikebound. Arbitrator calls meeting; NMU declines attendance; strike action suspended by NMU; \$40,000,000 damage suit filed by NMU; rejected by courts.
Clerical.....	OEIU.....	June 5	17	110	New York, office workers picket French Line; no ships in port. Strike action extended to Baltimore June 16; French Line cargo ship delayed; new contract reached June 20, workers returned June 22.
Longshore.....	ILA.....	June 27	1	40	Pier 97, NR, New York, 2 gangs stage wildcat walkout due to pier superintendent's refusal to hire 1 objectionable individual. Passengers from 2 inbound ships handle own baggage. Pier normal following day.
Seamen.....	MEBA.....	June 29	2	-----	SS <i>Inger</i> (Reynolds Aluminum) at Galveston, picketed by MEBA claiming 75 percent ship's engineers were members MEBA although represented by ALOA (Amer. Licensed Off. Association) of Collin's Independent Tkrs. Pickets removed by court order.

Summary of strikes and work stoppages, maritime industry, from 1945 to 1964—Con.

Year and industry category	Unions involved	Com-menced	Number of—		Area
			Days	Workers	
1964 Seamen—Cen. Shipyard	IAM et al.	July 1	20	1,100	NASSCO Yard, San Diego; contracts expired June 30 for machinists, ironworkers, carpenters, electricians, operating engineers, painters and truck drivers. (Moulders' contract expires September 1 but moulders joined walkout in sympathy.) 5 other local shipyards/repair yards in area also strikebound; 5 MA-CDS hulls at NASSCO involved. August 17, machinists, painters, electricians and carpenters vote to accept terms; August 19 teamsters and ironworkers vote to accept; pickets withdrawn noon August 19; work resumes August 20.
Seamen	MEBA	July 6			SS <i>Walter Rice</i> (Reynolds Aluminum) at Longview, Wash., picketed by MEBA (same grievance as SS <i>Inger</i> , above). Reynolds grants representative election; both SS <i>Inger</i> and <i>Walter Rice</i> vote against affiliation with MEBA.
Longshore	SIU	Aug. 1	159	35	Port of Galveston; grain elevator leased by Bunge (new lessee) resulted in discharge of 35 plant personnel; United Industrial Workers (SIU affiliate) picket in protest; temporary injunction halts picketing Aug. 4; no ships delayed or affected until Nov. 8 when foreign-flag ship attempts to load 390,000 bushels grain; picketing limited to elevator, foreign-flag ship SS <i>Jupiter</i> sails Nov. 12 without loading; dispute ended Jan. 7, 1965.
Do.	ILA	do.	5	12	Galveston, grain samplers ILA local 1849, contract expiration; longshoremen honor picket line; 1 ship affected Aug. 3; samplers return to work while negotiations resume; agreement reached Sept. 9 (20 cents over 2 years).
Do.	do	Aug. 3	25	15	Honston, grain samplers, contract expires; pickets affect 50 percent of port activity; 17 ships idled when longshoremen honor picket lines; Aug. 6, picketing limited to grain elevators; 2 ships idled; Aug. 7 SS <i>Transyork</i> sailed without loading; agreement reached Aug. 28 (20 cents over 2 years).
Building trades.	BTC	Aug. 4	6		Galveston, pickets protest wage scale in city contracts for pier renovation work; all port facilities idled except banana piers; Aug. 6, picketing restricted to pier 14, Aug. 13 pickets removed; port returns to normal.
Longshore	ILA	Aug. 19	1	1,500	Philadelphia, longshoremen protest location of new hiring center, 14 ships affected. Hiring center originally introduced May 1962, meeting with similar objection then; center is to eliminate 14 shapeup points on waterfront. Port returned to normal Aug. 20.
Seamen	MEBA	Aug. 19	7		SS <i>Mormacargo</i> at Pascagoula, engineers dispute mechanized ship duties, refuse to sail vessel when delivered by builders; agreement between Mormac and MEBA reached Aug. 26; ship sailed Aug. 28, for Boston to load.
Seamen	MEBA	Aug. 20			SS <i>Margaret Brown</i> (Bloomfield) G. Beaumont, engineers cause 33-hour work stoppage on rumors of ship's sale to States Marine; status of engineers' job security at issue.
Longshore	ILA	Aug. 25	4	2,000	Philadelphia, longshoremen resume work stoppage of Aug. 19 rehiring center; 27 ships affected Aug. 26; ILA executive committee ruled shapeup hiring to be resumed; port normal Aug. 29.

Summary of strikes and work stoppages, maritime industry, from 1945 to 1964—Con.

Year and industry category	Unions involved	Com-menced	Number of—		Area
			Days	Workers	
Seamen-----	MMP-----	Sept. 23	16	36	SS <i>Gulf Trader</i> (GSA) at Avondale yard, N.O., MMP refuse to sign on due to chief officer required to stand watch; dispute suspended at arbitrator's findings; GSA filed suit in Federal court to compel MMP to provide deck officers; ship commenced loading Oct. 10, sails Oct. 20.
Longshore-----	ILA-----	Oct. 1	2	60,000	Atlantic and gulf ports; contract expired Sept. 30, 1964; 30 U.S. and 167 foreign-flag ships immobilized 1st day; restraining order Oct. 2, ports returned to normal Oct. 3; (ships crews remained assigned to their ships).
Do-----	ILA-----	Dec. 21	Var.	Var.	Atlantic and gulf ports, Taft-Hartley injunction expired Dec. 20; tentative agreement reached at port of New York; wild-cat strikes erupted at most principal ports on Dec. 21, 22, and 23; New York back to normal Dec. 23; Baltimore idle; Houston/Galveston provide 50 percent of labor required, no night gangs; Dec. 24 all Atlantic ports working except Baltimore, all gulf ports working except west gulf; Dec. 28 all Atlantic ports working, west gulf still hampered; Dec. 29 Houston longshoremen fill 70 percent of demand; Dec. 30, all ports normal except for Houston supplying 70 percent of demand.
1965					
Longshore-----	ILA-----	Jan. 11	61	60,000	A. & G. ports—resumption of strike of Dec. 21, 1965.
Shipyards-----	MTC-----	Feb. 16	24	6,000	Ingalls Shipyards, Pascagoula, metal trades contracts expired.
Seafaring-----	MEBA-----	Mar. 9	Var.	166	Gulf South American Steamship Co., 3 retrofit ships—manning dispute.
Harbor-----	MEBA-----	May 5	4	180	Staten Island, N.Y., ferries justificational dispute.
Seafaring-----	MMP-----	Apr. 9	12	40	Manning dispute with Marine Transport Lines, New York.
Do-----	MMP, ARA, MEBA.	June 16	75	8,000	A. & G. contract expiration, tankers strike—bound 24 days. Subsidized cargo ships 75 days.
Shipyards-----	IAM-----	July 2	59	1,500	Machinist at Seattle, Portland, San Francisco—contract expiration.
Do-----	OE-----	June 10	5	6,000	Ingalls Yard, Pascagoula, Operating Engineers—contract compliance.
Do-----	MTC-----	July 1	29	12,000	Electric Boat, Groton, Conn., metal trades council contract expired.
Seafaring-----	ARA-----	Oct. 15	5	650	Radio officers, Pacific coast contract negotiations.

Senator BARTLETT. Thank you, Senator.

I just want to get this in proper focus, about the manning of the ships. You said fewer crewmembers are being required on the modern vessels that are being launched and put into service. Now, this doesn't necessarily mean that the older vessels were overmanned. Is that right?

Mr. GULICK. I think we would have to define, Mr. Chairman, what we mean by overmanned. The answer would normally be no, they are not overmanned. The manning is arrived at by a process of collective bargaining, agreement between the operator and the union as to the people necessary to operate the ship. Third parties can exercise independent judgment and question this. This the Maritime Administration has been doing, and with some success, in some of the new ships which are coming out. We would hope that we would establish a trend here which would provide for considerably less manning requirements.

Senator BARTLETT. In my view, these changes are by way of being revolutionary, the naval architects are coming out with new types of vessels, much more efficient which simply don't require as many crewmembers as the older craft did. That was the only point I wanted to make.

Mr. GULICK. That is correct.

Senator BARTLETT. Thank you very much.

Mr. GULICK. Thank you.

Senator LAUSCHE. On this subject, with the inability to introduce loading machinery and unloading machinery that is modern and efficient, you of course, had to have more workers on the ship and therefore you probably would have to say that the workers were all needed. But the moment you introduce modern machinery to load and unload, the number needed is far less. Is that correct?

Mr. GULICK. Yes, sir.

Senator BARTLETT. For example, hasn't one American line, U.S. Lines, I believe, started a container program across the Atlantic?

Mr. GULICK. They have, sir.

Senator BARTLETT. And yet this container program is relatively new in maritime service.

Mr. GULICK. Yes, sir.

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

Mr. Foster. Just one, if I may.

Does the Maritime Administration consider this program, Mr. Gulick, a subsidy program for the operators or a subsidy program for the shipyards?

Mr. GULICK. I think the answer to that is undisputed. The construction subsidy is a subsidy for the shipyards and not a subsidy for the operator. However, it makes available to the operator a ship which he could not otherwise acquire at U.S. costs.

Mr. FOSTER. He could build the ship abroad if he were not prohibited from doing so and from using it in the trade for the same amount of money. Is that correct?

Mr. GULICK. Yes, sir.

Mr. FOSTER. It might be helpful to include in the information on strikes, the strikes in the shipyard, which is probably more directly related here, if that could be made available.

Mr. GULICK. We will endeavor to do this, Mr. Foster.

Mr. FOSTER. How many ships would it require to be replaced annually, if we were maintaining the replacement program that was originally thought of when we started in 1957? How many ships each year would have to be replaced?

Mr. GULICK. Today, somewhere around 40 ships per year in order to catch up, if we are going to replace all of the ships in the fleet before they are considerably overage

Mr. FOSTER. So when we propose to replace 11 to 13, and we need to replace 40, we are acknowledging that we are just again getting behind in terms of the replacement program.

Mr. GULICK. I prefer to view this as a minimum contribution to the building program while we are reviewing the overall policy recommendations.

Mr. FOSTER. Has the administration made any study of the amount of money that the Government is losing by paying an operating subsidy to the older vessels while the study continues as to how many of the more modern vessels should be built?

Mr. GULICK. We have not focused on that in the sense that we have a table already prepared on this, but we do have some figures which indicate the costs of operating the oldest ships as opposed to some of the newer ships.

Mr. FOSTER. That is, you would think that the cost of continuing to pay an operating differential subsidy on some of the World War II built vessels, which we are now doing, might be a greater cost than what would be entailed if we would go ahead and replace those with more modern ships, using the money for the construction subsidy and taking the money out of the operating differential subsidy?

Mr. GULICK. I would say that we could save money by building the newer ships; yes, sir.

Mr. FOSTER. Thank you.

Senator BARTLETT. Off the record.

(Discussion off the record.)

Senator LAUSCHE. What are these particular type of passenger ships for which 60 percent of the cost is allowed?

Mr. GULICK. This is on a reconversion. It poses the same problem as the building of a home or an office building without air conditioning. It would be much cheaper to put this air conditioning into the building initially. When you have to tear out portions of the building and install something else, the cost for that job is considerably more. Therefore, there is a 5-percent increase in the differential.

Senator LAUSCHE. Was that 60 percent authority used at any time?

Mr. GULICK. It has been used in two cases. Two years ago, I believe, in the case of the APL ships, and also I believe in the case of the Moore-MacCormack Argentina and Brazil, on the upgrading of those ships.

Senator LAUSCHE. Has there been any movement afoot to procure for subsidy what are known as our domestic inland water carriers in the construction program?

Mr. GULICK. This is under study. There are problems in this area—

Senator LAUSCHE. By whom?

Mr. GULICK. This is under study by the Administration as a part of its merchant marine recommendations.

Senator LAUSCHE. And that is whether the water carriers on the lakes should be included as authorized beneficiaries?

Mr. GULICK. Yes sir; but mostly in the domestic side.

Senator BARTLETT. Thank you very much, Mr. Gulick.

Mr. GULICK. Thank you very much for the opportunity, Mr. Chairman.

Senator BARTLETT. The next witness is Peter N. Teige, chairman, of the Vessel Replacement Committee of the American Steamship Lines and vice president, American President Lines, Ltd.

Glad to have you here, Mr. Teige.

Mr. TEIGE. Thank you. I have with me today Mr. Gilbert Nuse of the naval architect firm of J. J. Henry Co., Inc.

Mr. Nuse has a statement dealing with the more technical aspects of the shipbuilding problem. I have a statement which I would like to read in the record, if I might do that, at this time.

Senator BARTLETT. You may, Mr. Teige.

STATEMENT OF PETER N. TEIGE, CHAIRMAN, VESSEL REPLACEMENT COMMITTEE, COMMITTEE OF AMERICAN STEAMSHIP LINES AND VICE PRESIDENT, AMERICAN PRESIDENT LINES, LTD., ACCOMPANIED BY GILBERT F. NUSE OF THE J. J. HENRY CO., INC.

Mr. TEIGE. My name is Peter N. Teige. I appear here today as chairman of the Vessel Replacement Committee of the Committee of American Steamship Lines and as vice president of American President Lines, Ltd., headquartered in San Francisco, Calif. The Committee of American Steamship Lines, or CASL, as it is commonly called, is an industry association composed of 13 U.S.-flag steamship companies operating cargo liner and passenger services on essential U.S. trade routes under operating-differential subsidy contracts with the U.S. Government.

I am here today to express the support of the members of CASL for S. 2858. I am also authorized to state that the American Merchant Marine Institute and the Pacific American Steamship Association both support the passage of this bill.

The Merchant Marine Act of 1936 had two primary goals. By providing payments that make up the operating cost differentials between vessels manned with U.S. citizens and repaired in U.S. yards with those manned and repaired in low-cost foreign countries, it enabled us to have our own national maritime operations. Its other purpose was, by paying the difference between building vessels in U.S. shipyards and building them in low-cost foreign yards, to enable U.S. ship operators to build their vessels in this country, thereby preserving commercial shipbuilding capabilities in the United States.

Though the construction-differential subsidy is, under the form the act has taken, paid to the shipowner and then passed on to the shipyard, it is, in fact a shipyard subsidy. It is an element of this construction subsidy system of the 1936 act that is the subject of the legislation which your committee is considering today.

The permanent language of section 602 of the act provides that construction-differential payments cannot exceed 50 percent of the total cost of construction. In 1959 this ceiling was increased to 55 percent for new construction and 60 percent for reconstruction of passenger vessels. This increased ceiling has been in effect since that time by a series of extensions. The current extension expires on June 30 of this year. S. 2858 would extend the 55-60 percent ceiling for another 2 years. If this is not done, the ceiling would revert to the 50 percent level in the basic legislation. It is my purpose today to explain the necessity for extension of the current ceiling. While my statement would suggest, in fact, that there should in fairness and logic be no ceiling at all, we do not urge that position on the committee today.

First, as background it should be kept in mind that the true construction-differential percentage isn't created or established by any single person or organization but results from the interplay of international economic forces. It is the result of comparing the actual current level of ship prices in a low-cost foreign shipbuilding center on the one hand (presently the Maritime Administration is using Japan for new construction) with the successful bid of a U.S. yard, since they are bidding competitively with each other, bid what they

think will get the job. They have no idea at time except in the most general sense whether their bid will increase or lower the differential since they would not know the foreign cost of the vessel.

To put it another way, the differential is affected as much by the upward or downward trend of ship prices abroad as by ship prices here.

Another point. A high differential on one group of ships doesn't necessarily mean that those ships will cost the Government more in subsidy than a lower differential on another group of ships. Thus, a ship contracted for in 1957 during the Suez crisis, when shipyards throughout the world were very full and ship prices were high both here and abroad, might have had a construction subsidy differential of only 48 percent. Yet the same vessel could, if built in 1964 when ship prices were lower, have had a differential rate of 55 percent and yet have cost far fewer subsidy dollars than the 1957 vessel. In short, the differential rate measures the degree of difference between U.S. and foreign prices for a particular vessel at a given time. A higher rate does not necessarily mean there will be a higher cost to the United States than arises from a lower differential rate at a different point of time.

I would like next to discuss what has been happening to the differential rate in recent years. Mr. Gilbert Nuse, whom I have just introduced to you, will discuss in more detail foreign and U.S. shipbuilding costs and prices upon the completion of my statement.

In brief, this has been the situation. Prior to 1959, the differential rate had never, at least as computed by the Maritime Administration, reached above 50 percent. Starting in that year, however, rates in excess of 50 percent began to occur with some frequency. Thus, in that year 8 of the 15 vessels built exceeded the 50-percent differential level. By 1963, 14 of the 18 vessels built were above that level. And, in 1964 and 1965 all 24 of the vessels contracted for exceeded the 50-percent level. In 1965, the average differential reached 53.75 percent, an all-time high. I believe there is every reason to expect that in the coming fiscal year these differentials will not come down and, in fact, may increase.

It is obvious, then, that the 50-percent ceiling will not cover the present shipbuilding situation. Who is it that suffers if a differential ceiling is imposed that is below the actual differential level? It is the shipowner who is required by law to build vessels in the United States.

The construction subsidy program has as its purpose the support of U.S. shipyards. The legislative history of the act makes it clear that this was to be accomplished by enabling U.S. shipowners to acquire vessels in the United States at the same cost they could have acquired them for in low-cost foreign shipyards. Only by doing this could the U.S. shipowner be put on a parity with his foreign competitors as far as capital costs were concerned.

Thus, the witness of the U.S. Shipping Board Bureau, the then predecessor of the Maritime Administration, testifying on the operating and construction subsidy provisions of the bills that led to the 1936 act, said:

In other words, what the subsidy should aim to do is to match the conditions that would exist if the American shipowner went abroad, contracted for his ship there and then placed his ship under a foreign flag. We say, "We are willing to give you the identical ship, built in an American yard at the foreign cost, and compensate you for the greater cost of operation under the American flag, com-

pared with the cost of operating under the foreign flag. So that when you have that ship at the foreign cost and have been compensated for the differential in the cost of operations, you are virtually on a parity with the foreigner, insofar as the ship and the operations are concerned."

It would be highly inequitable and would jeopardize the already precarious competitive position of the U.S. ship operators if they were now to be forced, by virtue of an illogical and arbitrary ceiling placed on the subsidies to U.S. shipyards, to incur capital costs for their new vessels considerably in excess of their foreign competition.

More significantly, however, to deprive the shipowners now of parity in capital costs would be a breach of faith.

As indicated, the shipowners participating in the 1936 act program were led to believe they would be put in the same position as to capital costs as if they were free to build abroad. These owners are now enmeshed in U.S.-flag operations with heavy government contractual and union obligations. It would be most unfair now suddenly to change the rules of the game, a game from which it would be exceedingly difficult for these operators to extricate themselves.

CASL fully supports as a sound national objective the maintenance U.S. commercial shipbuilding through the construction subsidy program embodied in the 1936 act. We want to build our vessels in U.S. yards and we believe that our national security requires the maintenance of our commercial shipbuilding capabilities. It would be irrational, however, to have this worthwhile program carried out in such a way as to require the shipowners to carry a significant part of the financial burden of this national program. They already shoulder enough cost disadvantages vis-a-vis their foreign competitors, despite operating differential subsidies, without adding yet another burden.

We have, over the past now nearly 2 years, seen a reevaluation of our Government maritime support policies. One of the most controversial subjects considered has been ship construction and the construction subsidy program. As we are all aware, however, no firm policy changes have been recommended by the administration as the result of these studies and it is not clear when such proposals are likely to be made or what they will be. In the meantime, however, our ship replacement program moves ahead, though, unfortunately, not in the volume or at the pace the industry would like to see. Contracts for new ships continue to be entered into and the practical realities of the differential problem must be met until some better policy or program is proposed and agreed upon. S. 2858 will accomplish this purpose by maintaining the status quo until any new policy program is proposed and put into effect.

Before concluding my statement I would like to raise with the committee for its careful consideration two serious problems that are closely related to the differential issue which I have been discussing.

The first of these problems arises from the fact that there is every reason to fear that the differential rate may during the next 2 years exceed even the 55-percent ceiling for new freighter construction. This should be of concern to everyone interested in the health and stability of the maritime industry. It surely is no answer to this problem to require the shipowners to bear the financial burden of this problem when they have neither caused the situation and are not in a position to correct it. Nor would it be in the national interest to suspend ship construction because of it.

It must be remembered that putting pressure, through subsidy disallowance, on the shipowner, won't change the differential at all. This will only happen if foreign ship prices go up or U.S. ship prices go down, or both. Obviously, the shipowner has no control over either of these factors.

We do not propose at this time that the 55-percent ceiling be raised. If there should be a substantial breach of the ceiling during the period of its extension, however, we would ask that this committee reopen this subject and provide relief for the shipowner involved.

The other problem we wish to call to the committee's attention has to do with the procedures followed by the Maritime Administration in determining construction differential rates. If there are any committees of the Congress which should play a watchdog role over the administration of the 1936 act, they are this committee and its counterpart in the House. There is a need now for such attention in the administration of the construction differential subsidy provisions of the act. Both the Maritime Administration staff and the shipowners separately conduct detailed studies of foreign shipbuilding costs and prices to determine the CDS rate applicable to a given group of ships being constructed.

It is perfectly understandable that the shipowners and their foreign cost experts will at times develop data on foreign ship prices that are lower than those developed by the Maritime Administration staff. We are not complaining about these understandable disagreements. What is not so comprehensible, however, is the procedure that is followed by the Maritime Subsidy Board and its staff in making its construction subsidy rate determinations.

Though hundreds of thousands, and in some instances, millions of dollars of the shipowners' money are at stake in these disagreements about CDS rates, the whole procedure is conducted in a most high-handed and secretive fashion. The Board and its staff have consistently refused to disclose any of the essential facts and figures on which they base their decisions. The shipowners are not clear whether a procedure providing for full disclosure and the other attributes of a fair hearing will increase or decrease CDS rates. All they want is the assurance that those rates are proper and fair.

In a recent case, nothing in writing was shown or given the shipowners except the total foreign price as computed by the Maritime Administration staff. In all other cases, only a smattering of general information is given and this only in oral form. The shipowners, on the other hand, make full disclosure of all of their data to the Maritime Administration staff.

I know of no other administrative decisionmaking in the Government involving substantial pecuniary interests of citizens which is so completely lacking in procedural fairness. It is not sound government to make determinations involving large sums of money behind closed doors and without explanation of the decisions. Furthermore, it is clearly inconsistent with the spirit and intent of the 1936 act.

The lines have exhausted their administrative efforts to obtain relief from this intolerable situation. It would appear that the time has now come for the cognizant congressional committees to look into this matter and to seek its correction. We solicit your assistance on this problem.

Let me conclude by again urging your adoption of S. 2858 and your consideration of the other construction subsidy problems that I have discussed.

Senator BARTLETT. Thank you, Mr. Teige.

On page 3 you brought out what I believe to be a very important point when you said the Government might be paying less if the differential were high than it would be if the differential were low. You said this could happen. Are you in a position to furnish the committee with any examples of this?

Mr. TEIGE. Yes, sir; we could do that.

Senator BARTLETT. Will you please supply them for the record.

Mr. TEIGE. We will be happy to do that.

(The information requested above follows:)

SUPPLEMENT TO STATEMENT PRESENTED BY PETER N. TEIGE MARCH 31, 1966

The following examples illustrate Mr. Peter Teige's statement that "A high differential on one group of ships does not necessary mean that those ships will cost the Government more in subsidy than a lower differential on another group of ships."

A. Lykes C-3 design

	Bid opening date		
	Oct. 23, 1957	Nov. 4, 1960	Aug. 24, 1961
Low bid, without NDF.....	¹ \$9,599,050	\$8,485,000	\$8,018,000
Escalation.....	\$383,289		
Total price per ship.....	\$9,982,339	\$8,485,000	\$8,018,000
CDS rate..... percent..	44.5	50.8	49.5
Construction differential.....	\$4,442,140	\$4,315,000	\$3,969,000

B. States C-4 design

	Bid opening date	
	Nov. 30, 1959	Nov. 30, 1960
Low bid, without NDF.....	¹ \$10,990,000	\$11,039,137
Escalation.....	\$346,414	
Total price per ship.....	\$11,336,414	\$11,039,137
CDS rate..... percent..	² 46.8	47.7
Construction differential.....	\$5,306,414	\$5,269,137

C. American Export C-3 design

	Bid opening date	
	Dec. 18, 1958	Nov. 1, 1960
Low bid without NDF.....	\$10,758,271	\$8,713,000 ¹
CDS rate..... percent..	48.3	48.0
Construction differential.....	\$5,203,271	\$4,188,000

¹ Adjusted price bids subject to escalation.

² This is the calculated CDS rate based on the total price per ship. The original CDS rate granted by the Board was a tentative value based on U.S. adjusted price bid and foreign fixed price estimate.

It will be noted from example A that in spite of a substantial increase in CDS rate for the 1960 and 1961 contract awards, the construction differential cost to be paid by the Government was less than in 1957 when the CDS rate was lower. The same situation is revealed by example B.

Example C illustrates the extent to which the differential cost to the Government may be expected to vary due to a change in the U.S. price level. Although the CDS rates are practically identical, the differential cost to the Government was about \$1 million less per ship in 1960 than it had been in 1958.

Senator LAUSCHE. Would you illustrate this proposition which you have set forth on page 3?

Mr. TEIGE. Yes. For example, I have illustrated it in a very general way on page 3, and I can be somewhat more specific, though the facts I give will have to be hypothetical.

In 1957, as I indicated in my statement, the shipyards in this country and abroad were very active because of a tremendous wave of building that arose when there was such a shortage of ships due to the Suez Canal closure. This, in the normal supply and demand system, drove up ship prices all through the world. It did not affect materially the differential, however.

In other words, these prices went substantially up together, both here and abroad, so that the then differences in costs stayed about the same. As I recall, it was running below 50 percent in the main. But the cost of these ships was substantially greater and as a result, that ship cost the Government a substantial amount of money even though the rate of differential was, as compared with today's differential, somewhat lower.

Now, if that same identical ship had been built in, let's say, 1964, by which time prices had substantially or considerably reduced both here and abroad, but when the difference in prices had somewhat increased, the differential rate would have been higher because of the difference in costs, but the cost itself, both to the Government and to the shipowner, would have been lower.

So I have given that example because I think sometimes we tend to think that inevitably, a higher differential means a higher cost, and, of course, there are many other factors that affect the actual cost. The complexity of the ship, the level of costs here and abroad which might not affect differentials, but I know play a part.

Senator BARTLETT. You are telling us, that is to say, that we must look at factors other than the differential?

Mr. TEIGE. Yes.

Senator BARTLETT. Now, I was alarmed when you told the committee, and I am now quoting you, "There is every reason to expect that in the coming fiscal year these differentials will not come down and in fact may increase." Will you state your reasons for so believing?

Mr. TEIGE. Senator, you may be asking the wrong man. Mr. Nuse is a specialist in this field, but I will make a brief statement and then he can elucidate further.

It is a confusing subject because, as Senator Lausche indicated, it has to do, among other things, with the comparison of wage costs here and abroad, of steel costs, of component costs such as turbines and boilers, and so forth, but it also has to do with prices, not costs.

In other words, the supply and demand effects on the pricing of these products where shipyard owners determine how much profit they feel they can get from a particular job and obviously, if yards are full and competition is not very keen, prices go up. And that can happen to a greater extent here than abroad, or abroad than here.

All of these will affect this differential.

My own view is, that at least for the short range, there may be some moderate increase in the differential. I attribute that to what I would think is a short-term increase in activity in our shipyards which somewhat strengthens their pricing position.

Senator BARTLETT. But the Japanese yards, for example, are very, very busy, are they not?

Mr. TEIGE. Yes, they are.

Senator BARTLETT. Let's take Mr. Nuse out of order and ask him to elaborate upon this a bit.

Mr. NUSE. Well, Senator, it is a very difficult thing to outguess bid prices before the bids are opened. Upon an assessment of bids, it is often found that the low shipyard may be as much as \$2 million lower per vessel than the second low bidder. On other occasions, the low bid will be very, very close to the second and possibly a third bid.

Under these circumstances, it is obvious that one yard may have wanted a job very badly and bid very, very low in order to assure winning a contract in order to build his backlog of orders to keep the work force at constant level in the shipyard.

On the other hand, if yards are fairly well provided with work, it is obvious that they will not have the competitive pressure upon them to depress prices as low as possible. This happens in the United States. It happens abroad as well.

Since the differential is a matter of relationship between U.S. prices and foreign prices, there is possibly a fairly wide spread that differential can take, even in a relatively short period of time, depending upon, among other things, the level of the U.S. bid price.

Senator BARTLETT. Are these forces going to be more urgently at play in the U.S. yards than those abroad?

Mr. NUSE. This a difficult thing to predict. I do feel, Senator, that the conflict in Vietnam has placed an added burden on the shipyards and that there is an urgent workload there that must be thought of in the future. What the effect on the commercial program bidding will be, I could not predict.

Senator BARTLETT. This is in respect to refitting the ships brought out of the reserve fleet?

Mr. NUSE. Yes, sir.

Senator BARTLETT. The discovery was made that we do need a merchant marine after all?

Mr. NUSE. Yes, sir.

Senator BARTLETT. I am bothered somewhat, Mr. Nuse, by what you said when you stated the bid prices may vary by as much as \$2 million. Does that mean that the successful bidder is making a profit when he bids \$2 million less than the next in line?

Mr. NUSE. I, of course, have no way of knowing what margins may be included in low bid prices. I would guess, myself, that there was some urgent need for a commercial program in a particular yard to fill out their workload and that a very low bid accordingly was put in in order to obtain that contract.

Senator BARTLETT. Now, Mr. Teige, I would like to address you in your capacity as vice president of the American President Lines. How many ships, approximately, have you built—has APL built under the subsidy program in, say, the last 5 years?

Mr. TEIGE. We have, since the end of World War II, built five vessels, and we have five vessels now building in the Engle shipyard in Pascagoula, Miss., and in addition to that, have purchased from the Maritime Administration eight Mariner-type vessels that were built by the United States since World War II.

Senator BARTLETT. Of the five built for you since World War II, how old are the newest?

Mr. TEIGE. I cheated a little bit. One of them is just about to be delivered to us, the last of a fleet being built in the National Steamship Yard in San Diego, so the newest of those five that have been built is so new we haven't quite got our hands on it.

Senator BARTLETT. And the one before that?

Mr. TEIGE. The one before that was delivered, as I recall it, in February.

Senator BARTLETT. How many of those ships would and could APL have built without the subsidy program?

Mr. TEIGE. We couldn't have built any of them in this country without the subsidy program. The differentials on these ships were, as I recall, 54 percent, something in that range. And obviously that would not be an economically feasible operation for any shipowner to have capital equipment that was intended to compete with foreign vessels that cost twice as much as its competition.

Senator BARTLETT. I have learned one thing definitely: When I refer to groups of ships, I shouldn't say flocks, I should say fleets.

Mr. TEIGE. "Fleets" seems to be the word. "Flocks" might be more appropriate.

Senator BARTLETT. When you recorded the testimony given by a witness for the U.S. Shipping Board long ago, how did the American merchant marine make out, how did it remain competitive? How did it stay in business before 1936 when there was no subsidy program?

Mr. TEIGE. You are asking about a time before my experience in the industry, so I would be simply repeating stories I have heard, but my understanding is that the industry was weak and chaotic and that in the liner segment, that we have been working on under the 1936 act, we have made very substantial correction and improvement of the problem, not in the other segments, but in the segment to which the act has addressed itself.

Senator BARTLETT. Do you say, Mr. Teige, that the liner fleet of the United States is competitive in world trade?

Mr. TEIGE. Yes, I say it in a number of respects. I would say as to the individual companies, they are highly effective in their competition to get cargoes in the particular trades they are operating in. They do a good job. They are aggressive, have sales organizations that get the cargo. I say that their ships are as good or better, in most instances, than their competition, at least those that they have been able to replace. And I would also say that the entire subsidized liner cargo fleet has done a creditable job in capturing a substantial percentage of our U.S. commercial liner cargo.

If you look at it in terms of revenue, which I think is the best way to look at it instead of the weight tons, we have been in the middle thirties, and in some instances approaching the high thirties in percentage in recent years, which I think is a good job for a fleet that has some inherent difficulties.

Senator BARTLETT. I think it is important to emphasize here—I know I was struck by it—the statement earlier made that even when we were in the midst of a great depression, the greatest depression that has ever affected this country, back in 1936 it was said that shipbuilding costs in the United States were 33 percent above those abroad, which means that even then the level of wages, the level of costs generally here was much higher than in foreign yards. And I think we must take that into consideration when we deal with present-day realities.

Mr. TEIGE. Yes. I look at the differential that has expanded in the years since the passage of the 1936 act as a reflection of our standard of living in this country compared to other countries, and while it might be discouraging to us when we look at the growth of the differential rate, as a country, we should take some satisfaction, it seems to me, in the fact that our standard of living has been improving so markedly through the years.

Now, we don't like to see other countries falling behind. I wouldn't suggest that. But these same costs and differences in costs are occurring in everything that we do. This building, our space program, every national program has had to pay the cost of the increasing standard of living in this country. We are able to do it and we are willing to do it.

Senator BARTLETT. For example, I am confident that it has cost enough to replace the wheels of the new subway cars between the Senate Office Building and the Capitol to build a liner or two.

Now, on page 6, Mr. Teige, you told the committee that you didn't want to indulge or have an indulgence in irrationality. This is on the bottom of the page, by requiring the shipowners to pay more than they ought to in respect to this national program.

Then you said "They already shoulder enough cost disadvantages vis-a-vis their foreign competitors without adding to those cost disadvantages." What are they?

Mr. TEIGE. Well, there are a number of them. One is that we are based in this country and as a result we have our full overhead, administrative organizations in the main, in this country and this is, of course, a wholly unsubsidized activity. It obviously costs me more to hire a secretary in San Francisco than my counterpart in Tokyo, to have similar office assistants.

Senator BARTLETT. He has a bigger entertainment fund than you do.

Mr. TEIGE. That can be. I hope he has.

Then there are a considerable number of hidden disadvantages in our opinion in U.S.-flag operations. We sometimes think that these differentials have not been fairly computed, that obviously is an arguable point, and we have our arguments with the Maritime Administration on that question, and then we have, again, a higher standard of living among our seamen than foreign seamen. They expect better living conditions. They expect more commodious quarters. They expect to work more nearly in a manner consistent with the average American workers.

I personally can't quarrel with that except when it is carried to excess. There have been some instances of that. But I think if we all consider the fact that these are American workers coming now

from, many of them from suburban homes, they have wives and children and have standards that are quite different than the seamen of 50 years ago. It isn't surprising that the ships which are to a considerable extent their homes are placed where they want comfort and convenience, and where they don't expect to work like seamen on some of the countries where living standards and attitudes about status of a worker are quite different than those in our country.

So, all of these things are not fully compensated by the operating differential subsidy program and so we do have those disadvantages. There may be others, but I give you some examples.

Senator BARTLETT. Now I have no further questions to put to you, Mr. Teige. But I do want to make comment regarding that which you nominated as your second problem, the failure, as you said, of the Maritime Subsidy Board to make disclosures. And in all seriousness, I want to ask the Senator from Ohio if he will not agree with me that this would be a proper function of this subcommittee, to make inquiry into this matter.

Senator LAUSCHE. We ought to hear from the Maritime Board on the subject. I concur with that.

Senator BARTLETT. And since we have concurrence, it would be my recommendation to Chairman Magnuson that at a fairly early date we get the Maritime Subsidy people up here and explore this as thoroughly as it should be explored.

Mr. TEIGE. We think that would be constructive. There are always two sides to every question. And you certainly should hear the other side.

We do, as I have indicated, think of this as a problem that we have tried to work out as we think it should be, through discussions and administrative efforts with the Maritime Administration itself.

This has gone on for a number of years and we have failed in those efforts, and we think the time now has come for us to have the matter examined by the Congress.

Senator BARTLETT. Yes, I agree, Mr. Teige, and it shall be.

Senator Lausche?

Senator LAUSCHE. In the 1936 act, there was written that in no event shall the construction subsidy exceed 50 percent. You take the position today that at that time, and since, there should be no deduction, that it was intended that there shall be a limitation of how far the taxpayers must subsidize the construction, is that correct?

Mr. TEIGE. It is my understanding that that limit was set at a time when it was comfortably above the actual differentials and that it was intended as a warning point, that if it got to that point, that the matter ought to be examined again.

Senator LAUSCHE. You do not at all consider that those who voted for this measure said "Yes, we will go along in the development of the merchant marine of the United States, but we expect that the taxpayers shall not carry the entire burden and therefore we will not subsidize beyond 50 percent." You don't think there was any such thought in mind?

Mr. TEIGE. I don't know what thought was in mind, but I suppose there were a variety of thoughts in mind. That might have been one of them. I would have thought others might have given the fact that the differentials were substantially lower than that. They never have really come to grips with the question.

Senator LAUSCHE. You take the position today that the subsidy must be provided by the taxpayers, even though it goes to 90 percent.

Mr. TEIGE. I don't take that position today; no, sir.

Senator LAUSCHE. If you don't may I ask you why do you make these statements:

I believe there is every reason to expect that in the coming fiscal year these differentials will not come down and, in fact, may increase.

It is obvious, then, that the 50-percent ceiling will not cover the present ship-building situation. Who is it that suffers if a differential ceiling is imposed that is below the actual differential level? It is the shipowner * * *.

Then you go to page 7 and you say:

The first of these problems arises from the fact that there is every reason to fear that the differential rate may during the next 2 years exceed even the 55 percent * * *.

And on page 8, you say:

We do not propose at this time that the 55-percent ceiling be raised. If there should be a substantial breach of the ceiling during the period of its extension, however, we would ask that this committee reopen this subject and provide relief for the shipowner involved.

Now, my question is, How far would you expect the taxpayers to go to provide whatever the difference is in the cost of building in the United States and building in foreign yards?

Mr. TEIGE. Senator, I would expect them to go as far as they have gone, and further. I would not be prepared to say that they should go to 90 percent, which was the example you gave. Obviously, at some point, this differential problem could become so critical, so substantial, that the whole subject would have to bear examination. Some people think it has come to that stage now. I gather that you do.

Senator LAUSCHE. That is why the study is being made, isn't it, because of the fear that there will be no end to the increase in the amounts asked?

Mr. TEIGE. I assume that is the basis on which some of the participants view it. I would think it best to deal with this as it happens rather than to disapprove the proposal now being made on the fear that in the future, there may be very substantial differentials that have not yet occurred.

Senator LAUSCHE. You are not prepared to make a statement what the limit should be, of the amount that we should ask the taxpayers to subsidize, whether it should be 55, 65, 75, or 85?

Mr. TEIGE. In my statement today, I have, on behalf of the industry, supported a limit of 55 percent as contained in the bill before the committee. I am not prepared to say that we would oppose, in fact I would indicate to you that we would support the increasing of that ceiling if it goes above that amount. How far, we would go in that regard, I am not clear.

Senator LAUSCHE. You have asked that we keep ourselves prepared to reopen the matter the moment the 55-percent ceiling is breached.

Mr. TEIGE. That is correct.

Senator LAUSCHE. Isn't it fair to infer that you intend that to the extent that it is breached, the committee should recommend that the taxpayers subsidize?

Mr. TEIGE. Yes, we would take that position, and I have indicated that the reason we would, is that we are, under the present system, obligated to build our ships in U.S. yards. We have indicated we

want to do that, that we think it is important to support these yards and keep them functioning, and on the other hand, we can see no reason given that program, which we are participating in, for us to have to bear the burden should the ceiling be exceeded.

Senator LAUSCHE. Now, I think there is merit to your position when you say in your statement "It is the shipowner who is required by law to build vessels in the United States."

Is that the situation that under the law, you have to build vessels in the United States?

Mr. TEIGE. I should explain that we have to build them in the United States if we are a participant in the 1936 act program for subsidization of operating differential costs.

Senator LAUSCHE. And therefore you argue that if you have to build them in the United States, you ought to bear the excess costs over what you would have to pay if you built in a foreign country?

Mr. TEIGE. That is correct. I don't mean, however, when I say that, to suggest that we are restless under that burden as long as we are protected. It is our policy that we think this program, this construction subsidy program, is worth it to the country in the support of that shipbuilding capability.

Senator LAUSCHE. So you are not restless and you are willing to go along with the program providing it costs you nothing because you believe it develops our merchant marine?

Mr. TEIGE. That is correct.

Senator LAUSCHE. You have answered the question.

Now may I read to you what Nicholas Johnson, Maritime Administrator of the U.S. Department of Commerce, said on this subject: "It is a fact that there are about 100,000 shipyard workers in the United States."

Are you able to confirm that statement? Is that correct?

Mr. NUSE. Plus.

Senator LAUSCHE. "It is a fact, however, that all of the subsidized merchant shipbuilding put together creates no more than 7,600 jobs." Is that correct?

Mr. TEIGE. I could not confirm that and —

Senator LAUSCHE. How many shipbuilding yards are there in the country?

Mr. TEIGE. We have Mr. Hood of the Shipbuilders Council here today. I can't answer these.

Senator LAUSCHE. It has been said to me there are about 20. Is that correct?

Mr. HOOD. Senator, 20 that have the capacity to participate in this type of a program; yes, sir.

Senator LAUSCHE. Now then I will repeat what I said: "It is a fact also however that all of the subsidized merchant shipbuilding put together creates no more than 7,600 jobs." That means that 92,400 workers are in the merchant marine construction and not connected with this subsidization. So, Mr. Johnson goes on and says: "So that the dimensions of this particular problem relate to 7,600 jobs to which serious consideration must be given. Finally preservation of these jobs may result in the loss of an even greater number of shipyard jobs if present policies continue."

May I have your comment on that statement?

Mr. TEIGE. I could not verify the accuracy of those figures. I do understand that our shipyards are engaged in substantial Navy work. And we are, of course, here in talking about this particular construction differential subsidy program, talking about commercial work. There is a difference in the two types of activity in shipyards. There are knowledges and skills involved in cargo ship construction that are different than Navy ship, fighting ship construction.

And it is certainly our position that both of these skills, both of these capabilities should be continued.

Senator LAUSCHE. Do you challenge the statement that there are 100,000 shipyard workers and that only 7,600 of them are engaged in this subsidized shipbuilding program?

Mr. TEIGE. I can neither accept it nor challenge it. I just don't know.

Senator LAUSCHE. Now then, I can see that if you, as the operator of a ship, are obliged to have it constructed in the U.S. shipyard, and pay a higher cost for it, that you ought not to bear the cost. Now I put this question to you: Is this a burden solely of the taxpayer or should there be cooperation of the union leaders, the operators of the ships, and all other segments so as to being about a stronger position of our country without solely relying upon subsidy?

Mr. TEIGE. Senator, I would agree with you wholeheartedly that the problems of the merchant marine are not just the problem of the taxpayer or of the taxpayers' representatives in the Congress, but are a problem for all elements of the maritime industry. I like to think that we have made progress with those problems. I don't mean we have cured them, but I would point out to you that our ships are more and more productive and there has been a technological revolution, really, in our business in the last 5 years.

We recently in our own company, examined some figures with respect to the productivity of some ships that we are planning and have found that per ton of cargo carried, they would be over 70 percent more productive per man-year, in other words, that the seaman on that ship would be able to have attributed to them 70 percent more cargo carriage, per man, than in our older, more conventional ship.

This comes about from a number of sources: One is the reduction of the crew. Another is the larger size and speed of the vessel, and another is the faster turn around of the vessel because of its rapid cargo handling capabilities.

This is going on. It is not a dramatic story because it doesn't happen all at once, but it is happening. It is not happening as quickly in some areas as we would like, but I think that we have much more shipping capabilities in the liner fleet today per subsidy dollar and per seaman than we had 5 years ago and I would say in another 5 years, the difference will be dramatic.

Senator LAUSCHE. Are you of the opinion that we are making progress in the solution of the problem?

Mr. TEIGE. Yes.

Senator LAUSCHE. Or do you join with those who say that our strength in the merchant marine is now worse than it was 25 years ago?

Mr. TEIGE. I would say that in the cargo liner area, which is the area in which the 1936 act operates, we are making substantial progress. I would say that progress is being made in the noncontiguous

domestic trades that are protected from foreign competition, such as Alaska, Hawaii, and Puerto Rico.

There are advance transportation systems developed or developing in those trades. We are not making that progress, in fact, we are in my opinion, deteriorating in the other elements of our merchant marine; namely, the dry bulk cargo, and liquid cargo elements, the tankers, the bulk carriers, the tramps, and the reason is, we have no viable program for the development of those elements.

Senator LAUSCHE. I have now a paper before me showing that up until 1964, the taxpayers of the United States have provided a ship-building subsidy of \$739 million, and an operating subsidy of \$2,197 million. That means a total of about \$3 billion. And as far as I am concerned, I want to see cooperation of the ship operator, the union leaders, so as to indicate that the taxpayers money is being used constructively.

Now with that statement, I have been reading about rules where each hatch has a separate crew in the loading of cargoes and that the crew assigned to hatch A, could not be called upon to work on hatch B; is that a fact or not, in some places?

Mr. TEIGE. I think, Senator, what you are referring to are certain work rules among longshoremen, not seamen. These are shore-based laborer or nonsubsidized laborers that are engaged for the loading and discharging of all ships, foreign and U.S. flag. Some of these unions have been extremely militant. They have had work rules having to do with the division of labor and whether men can be moved one place or another, or put into different jobs during the day that the operators, the stevedores, their employers, and also the shipowners, who use these services, have thought were overly restrictive.

Again, I would point out, though, that progress is being made in these areas. Not as rapidly as everybody would like, but progress has been made to the Pacific west coast. Five years ago an agreement was entered into that considerably relaxed these rules, and that was with the International Longshoremen & Warehousemen's Union. And on the east coast, last year, some progress was made. I think that the difficulty is that progress is slow.

Senator LAUSCHE. Slow. And the fact is, without your trying to put sugar upon it, it is one of the acute problems.

Mr. TEIGE. I would agree with that.

Senator LAUSCHE. That is all I have.

Senator BARTLETT. Thank you.

Mr. NUSE, do you have a statement?

Mr. NUSE. Yes, sir. Senator, I have a prepared statement. I believe copies have been distributed to the committee.

Senator BARTLETT. Would you care to summarize it? We will be very pressed for time here shortly.

Mr. NUSE. I will do my best.

Senator BARTLETT. We simply aren't going to have time to hear the two remaining statements in full text. They will be incorporated in the record and I would respectfully suggest the witnesses summarize the salient points.

Mr. NUSE. Yes, sir.

Senator, at the end of my testimony, there are some folding sheets which include charts. I am the guilty party which was responsible for these charts in the testimony last year that Senator Lausche has referred to.

Now, looking at figure 1, if you will, I have plotted there the construction differential rates which were calculated by the Maritime Administration. These are not identical with the tabulation shown in the testimony previously submitted this morning for one basic reason.

Back in 1958 and 1959, there were some determinations which were tentative in value. They were based upon fixed price foreign quotations for shipbuilding prices versus escalated types of contracts in the United States. At the time of the original determination, the board could do no more than to estimate the cost of escalation in the United States and arrive at a tentative rate. These are the rates that I have shown on this chart.

When the shipbuilding was completed for that particular contract, and all escalation costs were known, adjusted figures for CDS rates then became available and presumably these are the values given in the other testimony.

Furthermore, you will note that in 1963, and in a few other places on the chart, I have indicated values that exceed the statutory limit. These, of course, were not the CDS rates that were actually paid. But they were the rates that were calculated as a result of the relationship between the U.S. and the foreign shipbuilding prices.

Senator BARTLETT. These are your estimates?

Mr. NUSE. No; these are the Maritime Administration calculated values.

Senator BARTLETT. Which at one point showed about 55 percent?

Mr. NUSE. Yes, sir; and prior to the statutory limit being raised to 55 percent, penetrated to the 50 percent ceiling then existing during 1959.

Senator LAUSCHE. That is the differential was more than 50 percent in 1959, but wasn't paid. Is that correct?

Mr. NUSE. That is correct.

Now, during recent years, this differential has grown slightly, rather slightly I would say, but still there is a small increase in 1965 or was a small increase in 1965 compared with 1964 and likewise, in 1964 compared with 1963. That is, averaging the CDS values that were granted during those years.

I have indicated in my statement that the U.S. shipbuilding prices appear now to be somewhat higher than they were a year or two ago, that I expect the upward trend of U.S. shipbuilding prices to continue. As far as foreign prices are concerned, I have indicated that there has been a noticeable increase in Japanese prices in recent months, a rather sharp increase, and that this has been brought about because of a vast backlog of orders that the Japanese have been successful in winning during the past year.

However, this vast backlog must be viewed in relation to the shipbuilding capacity of that country, which has also grown with leaps and strides. Their backlog of 9 million tons is offset by a shipbuilding capacity which last year was over 5 million tons, will probably be greater during 1966, because of the fact that there have been additional large new shipyards built, which will add to capacity.

So that obviously, this recordbreaking commercial shipbuilding backlog of orders in Japan represents less than 2 years of work for the shipyards in Japan.

Senator BARTLETT. They are the largest shipbuilding industry in the world now?

Mr. NUSE. Large in respect to tonnage, yes; dollar value I think we would have to look at in a different light. But as far as tonnage is concerned, this is true.

Senator BARTLETT. Capacity for turning out ships?

Mr. NUSE. Yes.

If the further flow of orders to Japan fails to materialize at the same rate that it has experienced recently, it is quite likely that the Japanese prices will fall again after the rather sharp increase that they took recently.

Furthermore, Germany, in my judgment, is now more competitive than they have been in recent years, with the Japanese shipyards, and this also, in my judgment, represents a stabilizing effect on the trend of foreign shipbuilding prices. Because the Japanese couldn't raise their prices so high that they exceed the prices that the Germans are willing to compete at.

So as far as foreign prices are concerned, I suspect that they will undoubtedly be stabilized close to the present level in the immediate future, and in the long run, if the flow of orders fails to materialize, there may be some reduction in the foreign shipbuilding price level.

I have also given briefly in the report an indication of what is happening to shipbuilding costs, both as far as labor and material costs are concerned.

We must distinguish here, of course, between shipbuilding prices, which are influenced largely by market conditions and the actual elements of shipbuilding costs, which at times, may bear no direct relationship to the selling prices at which ships are contracted.

However, in a general way, it does indicate that both in the United States and abroad, wage rates, of course, are rising.

Senator BARTLETT. What did the Japanese worker get per hour in 1965?

Mr. NUSE. I have a plot on figure 2 at the rear.

Senator BARTLETT. I just wanted to get it in the record.

Mr. NUSE. In 1965, the basic wage rate was about 59 cents per hour.

Senator BARTLETT. And in Germany?

Mr. NUSE. About \$1.14.

Senator BARTLETT. And in the United States?

Mr. NUSE. In the United States, \$3.17.

Senator BARTLETT. And is there any increase or decrease in this differential among the three countries?

Mr. NUSE. As far as the differential is concerned, there is a reduction, a gradual reduction in the differential applying to wage rates. The spread in wages, by differential, I mean the difference between the U.S. and foreign wage, divided by the U.S. wage. Now, the spread between the foreign wage and the U.S. wage has grown somewhat from 1957 until 1963, and appears to have steadied since then. But when you consider the differential rate, it has actually been reduced slightly.

Senator BARTLETT. Now going, Mr. Nuse, to steel prices, Japan in 1957, according to your chart No. 3, was absolutely competitive. Steel costs were more than \$275 a ton and now it is down to just about \$100 a ton?

Mr. NUSE. Yes, sir.

Senator BARTLETT. Less than the price either in Germany or the United States?

Mr. NUSE. Yes, sir.

Senator BARTLETT. Considering the fact that they have no iron, considering the fact that the raw materials, save with the exception of coal, I guess, must be imported, is this situation created by the lower labor costs in Japan almost exclusively?

Mr. NUSE. I think that probably the lower labor costs in Japan has a relatively small influence on the actual production costs of steel in Japan. Like many of the other nations, steel-producing nations, including the United States, a great quantity of ore and other raw materials are imported to the steelmaking centers. So that the transportation costs bear largely in the selling price of steel.

There is relatively little labor involved per ton, so that labor, I would suspect, had a relatively small influence on the price of steel.

Senator BARTLETT. How did Japan get its price way down, if you know?

Mr. NUSE. Senator, many commodity prices in Japan following the war and since their economic development continued had been very highly speculative in value; that is, in pricing. I think it is a credit to these people that they have managed to stabilize prices and avoid some of the wild fluctuations that had been noted in the past.

One of the things, of course, that has contributed greatly to this in the steel industry is the fact that they have very vastly expanded their steelmaking capacity, so that the capacity now exceeds the demand for steel and this, of course, has a stabilizing influence on price.

Senator BARTLETT. It is certainly amazing to note from your chart, in the space of a single year, they have brought the price of steel down from a bit over \$275 a ton to less than \$100 a ton.

Mr. NUSE. Selling price; yes.

Senator BARTLETT. Do you have anything further?

Mr. NUSE. I think not, other, Senator, than to add my support to the legislation being considered this morning.

Senator BARTLETT. You appear as a witness for the bill?

Mr. NUSE. Yes; for the bill, on behalf of the Committee of American Steamship Lines.

Senator BARTLETT. And as I said, your statement will be placed in the record.

Thank you gentlemen very much.

Mr. TEIGE. Mr. Chairman, thank you for your attention.

(The statement referred to follows:)

STATEMENT OF G. F. NUSE IN SUPPORT OF S. 2858

My name is Gilbert F. Nuse. I am employed by the J. J. Henry Co., Inc., a firm of naval architects and marine engineers, with main offices in New York City.

The J. J. Henry Co., Inc., employs approximately 475 persons engaged in design, construction, and conversion projects on all types of seagoing vessels, both here and abroad. The company has extensive experience in projects involving construction of approximately 50 vessels in foreign shipbuilding countries including Japan, West Germany, Holland, Sweden, England, Scotland, Northern Ireland, Italy, Spain, and Taiwan. The company employs several technical shipbuilding specialists who are foreign nationals and are permanently assigned as key personnel on the staffs which handle various shipbuilding projects abroad.

Since 1955, the company has been consultant to the Committee of American Steamship Lines on foreign shipbuilding construction costs. I have been coordinator of the CASL program which involved extensive shipbuilding cost investigations carried out by consultants in foreign countries who are retained by CASL to cover the major shipbuilding centers in Japan, Western Europe, the Scandinavian countries, and the United Kingdom.

I presented a statement to this committee in May 1965, in connection with legislation involving the construction-differential subsidy limitation.

I would like at this time to review the CDS situation as it has unfolded during the past year and to show what may reasonably be expected in the near future.

INTRODUCTION

My statement today summarizes a study of world shipbuilding conditions during the past year, forecasts a continuation of shipbuilding differential values in the vicinity of 55 percent, and urges enactment of the subject bill if reasonable parity of ship prices is to be maintained.

I. Construction-differential subsidy values in recent years

The CDS rates actually determined by the Federal Maritime Board/Maritime Subsidy Board in recent years are given in table 1.¹ It may be observed that CDS rates actually granted have a consistent upward trend since 1957.

The CDS rates as calculated by the Maritime Administration (without regard for statutory limitations) are plotted on figure 1. Since 1957, there has been a general trend toward a wider spread between U.S. and foreign shipbuilding prices.

As indicated on figure 1, there were several penetrations of the statutory ceiling during 1959, prior to the enactment of legislation which raised the limit to 55 percent. Almost two-thirds of the differentials calculated during the past 7 years, 1959 to 1965, inclusive, exceeded the previous 50-percent statutory limit. All of the differentials determined during the past 2 years have exceeded the 50-percent level. The average differential rate continued to increase during 1965.

The CDS rates determined by the Maritime Administration have continued to be lower than those shown by the foreign cost estimates prepared for the owners. Items in disagreement are usually resolved in favor of higher foreign prices by the Maritime Administration. This serves to depress the CDS rate.

I believe that the owners' estimated foreign prices would be proven to be realistic and higher CDS rates would be confirmed if worldwide bids could be obtained and serious foreign shipbuilding contract negotiations could be pursued, so as to duplicate the process employed by the astute foreign shipowner. This would assure a true measure of parity since the lowest price in the lowest cost center could be obtained in this manner. This is not practical with a policy, endorsed by CASL, of building exclusively in U.S. yards. However, a major step toward more accurate CDS rates could be made by full disclosure of cost data and of necessary evidentiary hearings as proposed by Mr. Geige.

TABLE 1.—Construction differential values for cargo liner vessels

Bid opening date	Owner	CDS rate granted	Bid opening date	Owner	CDS rate granted
Oct. 8, 1957	Moore McCormack	45.2	Aug. 24, 1961	Lykes	49.5
Oct. 23, 1957	Lykes	44.5	Aug. 24, 1961	Gulf & South American	48.4
Oct. 30, 1957	American Export	45.3	Apr. 3, 1962	Moore McCormack	49.1
Dec. 2, 1957	American President	49.5	July 16, 1962	U.S. Lines	48.6
July 2, 1958	Lykes	48.4	Sept. 17, 1962	American Mail	52.6
Oct. 27, 1958	Moore McCormack	49.2	Jan. 10, 1963	Lykes	49.8
Dec. 18, 1958	American Export	48.3	Mar. 21, 1963	Grace	54.0
Mar. 17, 1959	Delta	50.0	Mar. 21, 1963	do	152.5
Apr. 15, 1959	American Mail	50.0	Apr. 16, 1963	Gulf & South American	53.9
June 25, 1959	Pacific Far East	50.0	Apr. 25, 1963	American President	54.5
Nov. 30, 1959	States	48.0	Aug. 15, 1963	Lykes	55.0
May 2, 1960	Moore McCormack	53.0	Jan. 31, 1964	Prudential	53.4
June 16, 1960	Lykes	52.9	Apr. 3, 1964	Lykes	53.9
June 29, 1960	Farrell	48.4	Aug. 11, 1964	U.S. Lines	52.8
July 13, 1960	U.S. Lines	50.2	Sept. 11, 1964	American President	54.0
Oct. 18, 1960	do	46.9	Sept. 11, 1964	do	252.6
Nov. 1, 1960	American Export	48.0	May 19, 1965	Delta	53.3
Nov. 4, 1960	Lykes	50.8	Aug. 19, 1965	American Export-Isbrandtsen	54.2
Nov. 30, 1960	States	47.7			

¹ 5th and 6th vessels contracted for separately under option provision at a later date.

² 5th vessel contracted for separately under option provision at a later date.

¹ Definitions:

Construction-differential subsidy = U.S. construction cost minus estimated foreign construction cost, and

CDS rate = construction-differential subsidy divided by U.S. construction cost.

II. World shipbuilding prices, 1964-65

U.S. prices.—The shipbuilding price level in the United States is now significantly higher than it was a year or two ago. The rising trend of prices has been clearly demonstrated by the bids for cargo liner vessels made during the past several years. I believe that the upward trend will continue.

This conclusion is reached in part from price tendencies revealed by recent bids and in part due to the following considerations:

1. Due to competitive pressures, together with the limited volume of commercial work, many of the vessel replacement contracts in the past were signed at prices which are reported to have been below cost or which included little if any margin for profit. It is illogical to expect such a condition to continue indefinitely.

2. Shipyards in several areas are experiencing considerable difficulty in maintaining the labor force needed to meet current commitments and growing defense needs resulting from the Vietnam conflict.

3. It is likely that shipbuilding labor will secure additional wage and fringe increases.

4. Increasing wage rates in other sectors of U.S. industry will exert strong pressure toward higher prices for steel and other basic commodities and components.

5. There is little evidence today that component suppliers are willing to sell at sacrificial price levels. This practice was fairly common a few years ago.

Foreign prices.—Shipbuilding prices on the world market have also increased during the past year. This has been particularly noticeable in Japan. By the end of December 1965, the backlog of shipbuilding orders in Japan totaled almost 9 million gross tons—the greatest backlog in the history of shipbuilding. It is not surprising under these circumstances that Japanese prices have experienced a rather sharp increase, which basically reflects the market condition rather than a price adjustment due to increased costs.

For proper perspective, however, it is necessary to view this vast accumulation of shipbuilding orders in relation to productive capacity. Japanese output for 1965 reached a new high of almost 5.4 million gross tons. This represented an increase of more than 30 percent over 1964. Since several of the huge new Japanese shipbuilding plants have only recently started production, it is quite possible that a further increase in output will occur during 1966. In any event, this backlog of 9 million tons offers only temporary comfort to the Japanese shipbuilding industry, with no opportunity to relax, since it represents less than 2 years of work at current output level.

The continuation of Japanese shipbuilding activities at a high level of productivity, with correspondingly low costs, would appear to require a vast and relatively uniform flow of new building orders. If a large flow of new orders fails to develop, it is likely that Japanese shipbuilders could adjust to a reduced program since many of the recent contracts were placed at prices which appear to include generous profit margins. If new building contracts, matching the record-breaking levels recently experienced, fail to materialize in the future, Japanese shipbuilding prices will undoubtedly decline.

The recent market price adjustment in Japanese shipbuilding prices brought about by the large backlog of orders has served to narrow the margin between Japanese and European prices. European costs have continued to rise and European shipbuilders, in general, have a greater backlog of orders than they did a few years ago. However, they have not enjoyed the success which the Japanese have attained. Several prominent firms have failed, but many have weathered the storm. Furthermore, there are examples of renewed vigor in the European shipbuilding industry through consolidation and mergers, as evidenced by the recent Blohm & Voss acquisition of the Stuelcken shipyard and Ottensener Eisenwerk, which makes Blohm & Voss the second largest shipyard in Germany and among the biggest in Europe, and advances the concept of merger into units capable of meeting tough foreign competition. Blohm & Voss is owned 50 percent by the Phoenix-Rheinrohr steel concern, which is in a position to offer vital support to the shipbuilding operations.

The economy of the European shipbuilding industry has been severely strained in recent years due to the extent to which Japan has dominated the market. However, it has survived and now has a better backlog of orders than in recent years. Basically, the European shipbuilding industry is still hungry for contracts. It retains the vitality exhibited at the time it demonstrated to the Japanese the path which they have followed and improved so successfully. Furthermore, it shows evidence of renewed strength through mergers and other rationalization measures, which have been undertaken in order to reduce shipbuilding costs.

I believe that European shipyards are now capable of competing more effectively with the Japanese than they have in the recent past, and that this, together with the prospect of some reduction in the flow of new orders, will serve to depress foreign shipbuilding prices in the foreseeable future.

This conclusion is reinforced by an assessment of shipbuilding cost factors which follow.

III. Shipbuilding labor costs

Average hourly earnings for shipyard workers in the United States, Germany, and Japan are shown in figure 2. Values for 1965 are tentative since the official yearly average figures are not yet available. However, the official values are expected to show that the relationships of recent years have not been significantly altered. The average hourly earnings of \$3.17 in the United States for 1965 are almost three times greater than for Germany and more than five times greater than for Japan.

The percentage values for the increase in hourly earnings in Japan and Germany have greatly exceeded those in the United States for the period covered by figure 2. The spread between U.S. wages and those in the low-cost foreign shipbuilding center, based on the statistical data used for figure 2, was observed to be increasing until a short time ago. At the time of the last hearing before this committee, tentative values for earnings in 1964 indicated that there would be a slight widening of the gap for that year. Final figures now plotted on figure 2 reveal that there was no change in the wage gap during that year. The tentative values shown for 1965 also show no change in the wage gap. It is likely that the final values of Japanese earnings for 1965 when compared with the U.S. statistical data plotted on figure 2, will produce a slight reduction in the spread between U.S. and foreign earnings.

If correct, this is an encouraging development and if continued over the long term would tend to reduce the CDS differential. However, it is not sufficient at present or in the short term to offset other factors that will maintain or even increase, the CDS rate at about the 55-percent level. It should be noted that the Bureau of Labor Statistics values of U.S. shipyard hourly earnings used on figure 2, for 1963, 1964, and 1965 are \$3.11, \$3.15, and \$3.17, respectively. These figures indicate annual increases of only 1.3 and 0.6 percent. Unfortunately, this does not reflect the actual experience of those shipyards which compete for cargo liner contracts, where the average annual increase in hourly earnings is in the vicinity of 3 percent. It is probable that a constantly widening spread would be observed if statistical data could be selected which truly reflects the situation existing in the sector of the U.S. shipbuilding industry which is concerned with cargo liner construction.

However, whether the gap between U.S. and foreign wages is closing or widening, the change should be very gradual in nature, with little significance from year to year. The long-term trend toward maintenance of a substantial spread in wages, illustrated by figure 2, is of far greater significance. The wide spread in domestic versus foreign labor costs is expected to continue.

IV. Shipbuilding material costs

A ship represents an extremely complex assembly of differing materials—but steel and products thereof represent by far the largest proportion of the total weight of a ship.²

Comparative steel prices for the United States, Germany, and Japan are shown in figure 3. This shows that steel is cheaper abroad than in the United States. These prices are developed from published "base" prices or "list" prices for common structural steel. Shipbuilding steel is somewhat more expensive. The "list" prices do not, however, adequately reflect the real situation since it actually foreign shipyards can and do purchase steel at prices substantially lower than the published "list" prices.

The world's steelmaking capacity has grown rapidly in recent years, particularly in foreign countries, and now exceeds demand by a very substantial margin. Steelmaking productivity has improved abroad as technology improved and as the capacity grew. Competition for steel sales on the world market is therefore very keen.

² Metals are the major constituents but other solids including glass, plastics, paints, fibers, and fabrics are present in great abundance. Because of price variations in purchased components and other factors, it is difficult to maintain a proportioned mixture of materials representative of the average composition of seagoing vessels to use as the basis for a realistic material price index.

The efforts of the major steel producing countries to capture large export markets have led to drastic price cutting in export markets while prices in national markets are quoted at "pegged" or "list" prices.

Within the European coal and steel community, where competition is supposedly regulated, secret rebates are given. Outside competition is in part responsible for this situation. German shipyards at times have been able to import steel from the United Kingdom at prices almost 15 percent lower than German prices.

In Japan, for some years, pressure was exerted by Government and by the shipbuilders on the steel industry to sell shipbuilding steel for export vessels at lower prices than it did for domestic ships. The differential amounted to about 5 percent on the average published price per ton. The differential was dropped 2 years ago, and since then steel sales have been on a bargaining basis. Price reductions are understood to be essentially the same as those previously attained.

Many foreign shipyards are subsidiaries of, or associated with, steelmaking companies. Obviously, the steel prices paid by such shipyards may be arbitrarily adjusted to suit the competitive circumstances.

These circumstances do not exist in similar degree in the United States and foreign yards appear to have a real and increasing advantage over domestic yards in respect to prices paid for steel.

While products manufactured from steel, such as hatch covers, undoubtedly are influenced by the basic steel price situation, the total price will also be affected by wage rates. As a general rule, in custom work of the type found in shipbuilding, the greater the proportion of labor required in the manufacturing process, the greater the price disadvantage which the U.S. manufacturer will suffer in comparison with his counterpart abroad.

Due to higher steelmaking wages in the United States and improved steelmaking productivity abroad, it has become increasingly difficult for the U.S. steel industry to maintain its competitive position in the world market. In recent years, our steel exports have dwindled while imports have grown. With continuous pressure of wage increases, U.S. steelmaking costs can be expected to grow more rapidly than those abroad and the gap between foreign and domestic steel prices should widen, thereby increasing shipbuilding price differentials.

V. Summary and conclusions

All of the CDS rates determined during 1965 have exceeded 50 percent and have been closer to 55 than to 50 percent.

The average CDS rate determined during 1965 was higher than for 1964.

The U.S. shipbuilding price level for cargo liner vessels is now higher than it was a few years ago and it is likely that the upward trend will continue.

Foreign shipbuilding prices showed some upward adjustment during 1965. Japanese prices, in particular, have risen rather sharply in the past several months following a vast flow of shipbuilding orders to Japan, which has created the largest backlog of orders ever recorded in the shipbuilding industry. Japanese prices can be expected to decline if the flow of new orders slackens—which is likely.

European shipyards are now capable of competing more effectively with the Japanese than they have in the recent past. This should serve to check any further increase in price levels.

The spread in average hourly earnings in shipbuilding between the United States and Japan was essentially maintained during 1965. The substantial gap in labor costs is expected to continue.

U.S. steel prices are higher than those of the major foreign producers and this is generally true of other materials as well. It is probable that the gap between foreign and domestic steel prices will widen in the future.

From consideration of factors which influence the shipbuilding market price situation here and abroad and from analyses of the trends of the major elements of shipbuilding costs, I believe that the price differential pattern of the past 2 years will continue into the future and that the differentials will increase.

Further penetrations of the 55-percent construction subsidy limitation can be expected to occur and further legislative relief may be necessary if parity is to be attained.

For these reasons, I fully support and urge favorable action on S. 2858.

FIGURE 1

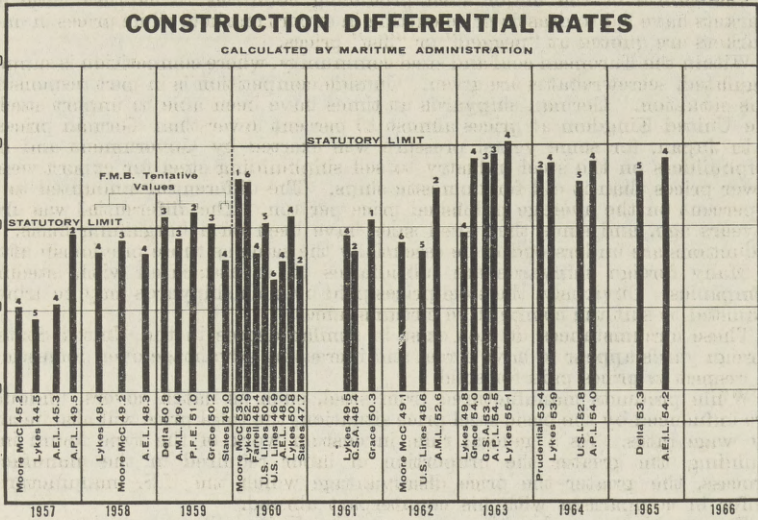
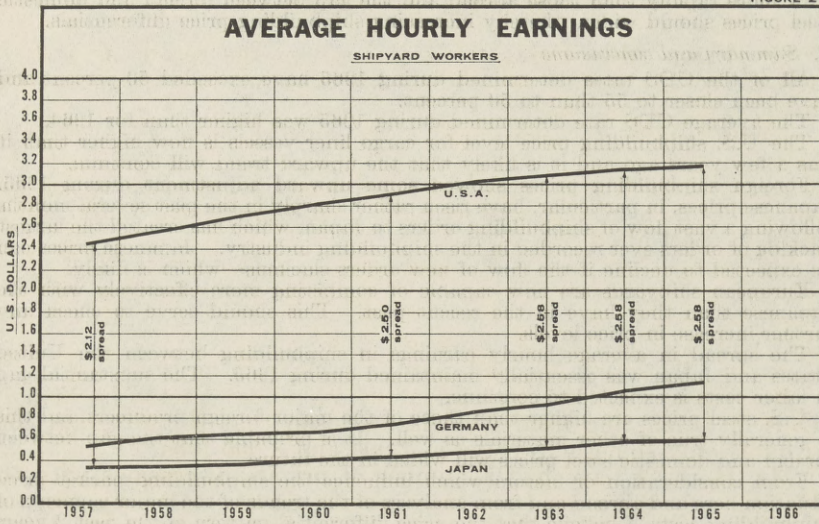
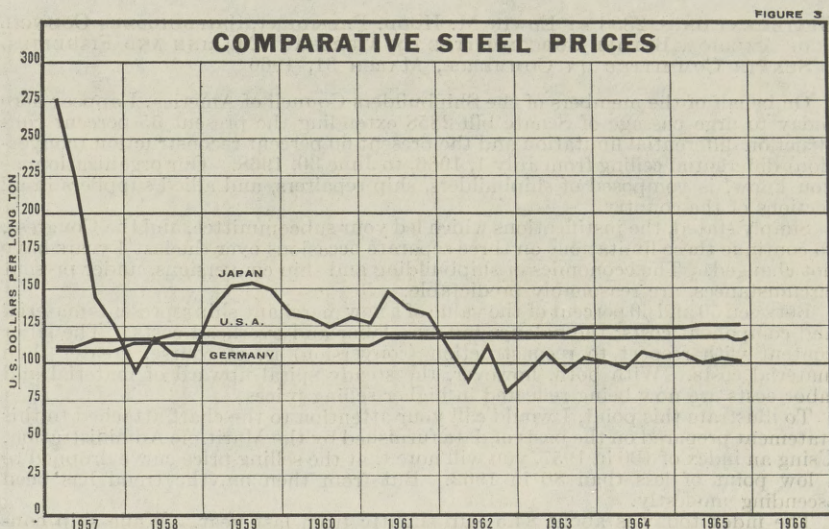


FIGURE 2





Senator BARTLETT. Mr. Hood, please.

STATEMENT OF EDWIN M. HOOD, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. HOOD. May I put my statement in the record as I don't believe there is much I can add to this morning's record unless there are some specific questions.

Senator BARTLETT. Two. This first one is in behalf of Senator Lausche.

Mr. FOSTER. The Senator had to leave and he asked me to ask you whether American shipyards were required to buy their capital equipment in the United States?

Mr. HOOD. No; there is no requirement. As a matter of fact, there was a recent incident in which a U.S. shipyard purchased a very old drydock from Great Britain. It will be towed over in May. And they will pay the duty of 19 percent on it.

Senator BARTLETT. Second question, this from me.

Do you care to comment upon the statement quoted by Senator Lausche emanating from Nicholas Johnson that this program contributes only something between 7,000 and 8,000 jobs?

Mr. HOOD. I have had a number of private discussions with the Maritime Administrator on that specific figure. Actually our statistics place it a little closer to 10,000, though if the trends in the direction of automation continue, I suppose the figure may go even lower than that.

Senator BARTLETT. You have been an excellent witness, Mr. Hood, and we thank you.

Mr. HOOD. Thank you, Senator.

I support the bill, needless to say.

Senator BARTLETT. You are in favor of it, too?

Mr. HOOD. Yes, sir.

(The statement referred to follows:)

STATEMENT ON S. 2858 BY EDWIN M. HOOD, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA, BEFORE SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES, SENATE COMMITTEE ON COMMERCE, MARCH 31, 1966

On behalf of the members of the Shipbuilders Council of America, I appear here today to urge passage of Senate bill 2858 extending the present 55 percent construction differential limitation and the present 60 percent reconstruction (conversion) differential ceiling from July 1, 1966, to June 30, 1968. Our organization, as you know, is composed of shipbuilders, ship repairers, and allied suppliers in all sections of the country.

Simply stated, the justifications which led your subcommittee, and the Congress, to continue these limitations on three separate occasions over the last 4 years have not changed. The economics of shipbuilding and ship conversions, under present circumstances, are reasonably predictable.

Between 50 and 60 percent of the value of a new merchant ship represents material and component costs; the balance involves labor and overhead costs. The labor content with respect to reconstruction (conversion) is, of course, greater than material costs. With both, however, the steady spiral upward of material and labor costs are now being reflected in higher selling prices.

To illustrate this point, I would call your attention to the chart attached to this statement prepared on the basis of data furnished by the Maritime Administration. Using an index of 100 in 1957, you will note that the selling price curve dropped to a low point of less than 80 in 1962. But from then on, the trend has been ascending modestly.

The index today is about 84.5—up slightly from last year. While ship construction selling prices are presently about 15.5 percent below the 1957 level, it can be logically forecast that labor and material costs will continue to rise and that under prevailing conditions the curve will continue upward—gradually but not sharply—during the next 2 years.

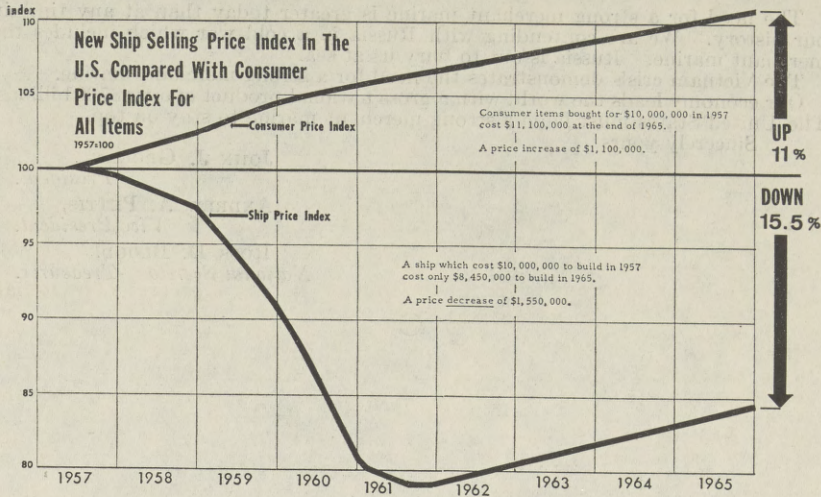
The immediate purpose of S. 2858 should not, in our judgment, be permitted to become embroiled in the turbulent controversy which now surrounds proposed solutions to the Nation's maritime ills. Even if a new policy were to be adopted in the next 6 to 12 months, an unlikely prospect judging from present signs—even if the need for a shipbuilding program of larger proportion were to be recognized at long last—the results would not be appreciable for another 18 to 24 months.

Passage of S. 2858 is, therefore, a plausible step in pursuing the contractual vessel replacement schedule of that segment of the American merchant marine—the liner services—in which the Government already has a fiduciary commitment as well as a sizable investment. Passage of S. 2858 would also supply a framework for transition from “where we are to where we should be” with respect to maritime endeavors.

“Where we are today” provides no basis for great rejoicing. The objectives of the Merchant Marine Act of 1936, repeatedly affirmed by the Congress, are not being fulfilled. The replacement schedule for the subsidized shipping lines is lagging by some 90 vessels. The proposed budget for fiscal 1967 contemplates a reduction of more than \$40 million in funds for merchant ship construction purposes. The reliability of the reserve fleet in the opinion of many industry experts is marginal at best and diminishing at an accelerated rate with each passing year. There appears to be no disposition on the part of the stewards of our maritime establishment to recognize, let alone offset, the vast shipbuilding programs of the Soviet Union which are pointed toward control of critical trade routes in a few short years.

The Russians are building 10 times as many merchant vessels as we are with a lifting capacity 8 times greater. Last year, more than 100 new ships were delivered to the Russian merchant marine; 16 were delivered to the U.S. fleet. As of March 1 our shipyards had on order or under construction 44 merchant vessels totaling 563,117 deadweight tons. Thirty-seven of these are being built by reason of the system which the pending bill seeks to continue. The low number of ships is not the fault of the system, but the fault of an inadequate level of appropriations to support it.

Passage of S. 2858 would again reaffirm the faith of the Congress in the maritime “law of the land” and demonstrate that the Congress does not intend to abrogate its prerogatives in the formulation and extension of national maritime policy.



Senator BARTLETT. Thank you.

The committee will be in recess.

(Whereupon, at 12:20 p.m., the subcommittee was recessed.)

(The following correspondence was received in support of S. 2858:)

INDUSTRIAL UNION OF MARINE &
SHIPBUILDING WORKERS OF AMERICA,
Washington, D.C., April 7, 1966.

Senator E. L. BARTLETT,
Old Senate Office Building,
Washington, D.C.

DEAR SENATOR BARTLETT: The Industrial Union of Marine & Shipbuilding Workers of America, AFL-CIO wishes to go on record in support of your bill, S. 2858, to amend section 502 of the Merchant Marine Act, 1936 relating to construction differential subsidies.

S. 2858 would extend for 2 additional years to June 30, 1968, the authority of the Secretary of Commerce to pay up to 55 percent differential in the construction of merchant vessels and 60 percent on reconstruction or reconditioning of certain passenger vessels.

In the past, when this bill was up for consideration before the Merchant Marine and Fisheries Committees, we took a strong position that the extension should be for a longer period than 1 year. We are glad to note that your bill is for 2 years. It makes sense to extend the provisions of the bill longer than 1 year as no great changes are likely to occur in such a short time.

It is imperative, in these stormy times, for the Congress to pass this amendment to the 1936 act. Today, we need a strong merchant marine. Events are proving out the contention of the supporters of a strong merchant marine that we cannot rely on foreign nations to carry our exports and imports whether they are of a commercial or a military nature.

The 55 percent and the 60 percent differentials are limits or ceilings. The cost of shipbuilding in American yards has increased just the same as all costs of production and manufactory has increased in the United States. With a prosperous and flourishing economy, the most prosperous in the world, the cost of living and living standards are bound to increase faster than the rest of the world. Such increased costs increases the parity differentials but this does not take place in the short space of 1 year or even 2 years. The original amendment to increase the differential percentage from 50 percent (1936 act) to 55 percent-60 percent was passed by the 86th Congress in 1960.

The need for a strong merchant marine is greater today than at any time in our history. We are contending with Russia in a cold war which includes the merchant marine. Russia is out to bury us at sea.

The Vietnam crisis demonstrates the need for a strong merchant marine.

Our economy leads the world with a gross national product of over \$700 billions. The United States must have a strong merchant marine to stay on top.

Sincerely yours,

JOHN J. GROGAN,
President.

ANDREW A. PETTIS,
Vice President.

ROSS D. BLOOD,
National Secretary-Treasurer.

Handwritten scribble or mark at the top of the page.

