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89-73 VESSEL CONSTRUCTION FOR NONSUBSIDIZED  
MERCHANT AND FISHING FLEETS

GOVERNMENT

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON  
MERCHANT MARINE AND FISHERIES  
OF THE  
COMMITTEE ON COMMERCE  
UNITED STATES SENATE  
EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

S. 1858

A BILL TO PROMOTE THE REPLACEMENT AND EXPANSION  
OF THE UNITED STATES NONSUBSIDIZED  
MERCHANT AND FISHING FLEETS

JUNE 24, 1965

Serial No. 89-73

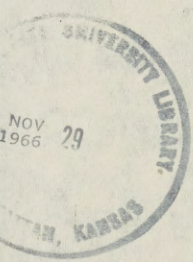
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# VESSEL CONSTRUCTION FOR NONSUBSIDIZED MERCHANT AND FISHING FLEETS

THURSDAY, JUNE 24, 1965

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

The subcommittee met at 11:05 a.m. in room 457, Old Senate Office Building, Hon. E. L. Bartlett presiding.

Senator BARTLETT. The committee will be in order.

Off the record.

(Discussion off the record.)

Senator BARTLETT. The purpose of the hearing this morning is to hear testimony on S. 1858, a bill to promote the replacement and expansion of the U.S. nonsubsidized merchant and fishing fleets.

This legislation was introduced in recognition of the decline of the U.S. position on the high seas. At times in U.S. history, our position on the high seas has been unchallenged, but that is not the case today. The situation today is in fact that it is we who have not accepted the challenge of the economic war being engaged on the high seas so effectively by the Russians and by our many other peaceful competitors. We are living primarily on what was a mighty fleet immediately after World War II. We have no program for the replacement of any segment of this fleet other than our liner vessels which involves about 300 vessels. In my opinion, this is obviously inadequate.

I hope that these hearings will develop facts upon which Congress can base an intelligent decision as to what road we should take to meet this challenge and regain our position as a leading commercial power on the high seas.

(The bill and agency reports follow:)

[S. 1858, 89th Cong., 1st sess.]

A BILL To promote the replacement and expansion of the United States nonsubsidized merchant and fishing fleets

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

SECTION 1. AUTHORITY TO NEGOTIATE CONTRACTS.—(a) For the purpose of promoting the construction or acquisition of new merchant vessels or the substantial reconstruction of existing merchant vessels and for other purposes authorized by this Act, the Secretary of Commerce may enter into contracts not to exceed twenty years with any person who is a citizen of the United States if the Secretary determines the person possesses the ability, experience, financial resources, and other qualifications necessary to enable him to conduct the proposed operations of the merchant vessels as to meet competitive conditions and promote United States domestic or foreign commerce.

(b) For the purpose of promoting the construction of new fishing vessels, the Secretary of the Interior may enter into contracts not to exceed twenty years with

any person who is a citizen of the United States if the Secretary determines the person possesses the ability, experience, financial resources, and other qualifications necessary to enable him to conduct the proposed operations of the fishing vessel to meet competitive conditions and promote the utilization of fishery resources.

SEC. 2. TERMS AND CONDITIONS OF CONTRACT.—The Secretary shall include in each contract a provision—

- (a) that any new vessel constructed under a contract will be built in a shipyard in the United States under a contract with a shipbuilder entered into after the effective date of this Act;
- (b) that any new vessel acquired under a contract will be one that was built in a shipyard in the United States for the United States Government under a contract with a shipbuilder entered into after the effective date of this Act;
- (c) that any vessel substantially reconstructed under a contract will be one that was built in a shipyard in the United States and will be substantially reconstructed in a shipyard in the United States under a contract with a shipbuilder entered into after the effective date of this Act;
- (d) that any vessel constructed, acquired, or substantially reconstructed under a contract will be of a type, size, and speed that the Secretary determines to be suitable for use on the high seas or Great Lakes;
- (e) that any vessel constructed, acquired or substantially reconstructed under a contract negotiated under section 1(a) will be of a type which the Secretary of the Navy certifies is suitable for economical and speedy conversion into a naval auxiliary or otherwise suitable for use by the United States in the event of war or national emergency;
- (f) for the creation and maintenance of a capital reserve fund;
- (g) for the approximate number and type of vessels which the contractor will construct, acquire, or substantially reconstruct subject to modifications and extensions upon a showing to the satisfaction of the Secretary of acceptable reasons for modifications or extensions;
- (h) for additional terms and conditions consistent with this Act, that the Secretary determines to be necessary to protect the interest of the United States;
- (i) for the early replacement of any war-built vessel used in the movement of cargo under section 901(b), Merchant Marine Act, 1936, as amended;
- (j) that each contractor agrees not to incur any purchase money indebtedness with respect to any vessel constructed, acquired, or substantially reconstructed under a contract without the prior consent of the Secretary;
- (k) that upon failure of the contractor to construct, acquire, or substantially reconstruct any vessel as provided in the contract as modified or extended, all deposits of the contractor will be withdrawn from the fund with the same tax consequences as result from withdrawals from the funds created by section 607, Merchant Marine Act, 1936, as amended, and no further deposits may be made by the contractor until a new contract is negotiated; and
- (l) that the contractor agrees that any vessel constructed or acquired under a contract will remain documented under the laws of the United States for twenty-five years from the date of its delivery by the shipbuilder and any vessel reconstructed under a contract will remain documented under the laws of the United States for the remainder of its economic life as determined by the Secretary.

SEC. 3. CREATION AND MAINTENANCE OF CAPITAL RESERVE FUND.—(a) Each contractor shall create and maintain for the duration of the contract, in depositories approved by the Secretary, a capital reserve fund under the joint control of the operator and the Secretary.

(b) Each contractor shall deposit in the capital reserve fund as is required to be deposited by subsidized operators under section 607, Merchant Marine Act, 1936, as amended, the proceeds of sales of vessels, the proceeds of insurance and indemnities, the depreciation charges, as earned, and the earnings made on deposits in the capital reserve fund, and shall annually deposit any percentage of differential payments received on the movement of cargo under section 901(b), Merchant Marine Act, 1936, as amended, that the Secretary determines is from profits and is necessary to fulfill the contractor's obligation under the contract.

(c) The contractor may deposit in the fund other earnings from his vessel operations.

SEC. 5. TAX DEFERMENT OF DEPOSITS IN THE FUND.—(a) Deposits of capital gains into the fund are taxed in the same manner as deposits of capital gains by subsidized operators under section 607, Merchant Marine Act, 1936, as amended.

(b) Deposits of earnings and differential payments into the fund are taxed in the same manner as deposits of earnings of subsidized operators under section 607, Merchant Marine Act, 1936, as amended.

SEC. 6. WITHDRAWALS FROM THE FUND.—Contractors may withdraw deposits from the fund with the same restriction and limitation, under the same conditions and with the same tax consequences as deposits may be withdrawn from the capital reserve fund by subsidized operators under section 607, Merchant Marine Act, 1936, as amended.

SEC. 7. INVESTMENT OF THE FUND.—Contractors may invest deposits in the fund under the conditions and with the same restriction as deposits of subsidized operators under section 607, Merchant Marine Act, 1936, as amended.

SEC. 8. DISCONTINUANCE OF DIFFERENTIAL PAYMENTS.—No operator of a nonsubsidized vessel may receive any differential payments for cargo moved by such vessel under section 901(b), Merchant Marine Act, 1936, as amended, unless the operator has concluded a contract with the Secretary under this Act before January 1, 1967.

SEC. 9. DEFINITIONS.—In this Act—

(a) "Contract" means a vessel construction, acquisition, or reconstruction contract authorized by this Act.

(b) "Differential payments" means the payments made by the United States Government to operators of United States-flag merchant vessels for the movement of cargo under section 901(b), Merchant Marine Act, 1936, as amended, at rates in excess of world market rates.

(c) "Documented" includes enrolled.

(d) "Earnings from the operation of vessels" includes hire from bareboat charters.

(e) "Earnings made on deposits" means earnings on funds deposited as well as earnings on accumulated earnings and gains made on sale of securities.

(f) "Fund" means the capital reserve fund authorized by this Act.

(g) "Nonsubsidized vessel" means any vessel not included in an operating differential subsidy contract under the Merchant Marine Act, 1936, as amended.

(h) "Person" includes corporation.

(i) "Reconstruction" means the substantial reconstruction and major modernization of a vessel if the Secretary determines that the objectives of this Act will be promoted by such reconstruction.

(j) "Secretary" means the Secretary of Commerce in reference to powers and duties relating to contracts for the construction, acquisition, or substantial reconstruction of merchant vessels and means the Secretary of the Interior in reference to powers and duties relating to contracts for the construction of fishing vessels.

(k) "Subsidized operators" means persons who have an operating differential subsidy contract under the Merchant Marine Act, 1936, as amended.

(l) "Vessel" includes non-self-propelled vessels, cargo containers, cargo vans, and other related equipment.

(m) "War-built vessel" means a vessel as defined in section 3, Merchant Ship Sales Act, 1946.

TREASURY DEPARTMENT,  
Washington, D.C., July 7, 1965.

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

DEAR MR. CHAIRMAN: This is in response to your request for the views of this Department on S. 1858 which is designed to extend the tax benefits accorded the capital reserve funds of operators receiving operating differential subsidies under section 607 of the Merchant Marine Act of 1936 to operators in the merchant and fishing fleets which do not receive operating differential subsidies.

Under the bill, in order to promote the construction and reconstruction of vessels, the Secretary of Commerce (as to the merchant fleet) and the Secretary of the Interior (as to the fishing fleet) are authorized to enter into contracts with United States citizens. Under these contracts vessels must be built or reconstructed in a U.S. shipyard, must meet certain standards, and the operators must agree that any vessel acquired or constructed under a contract will remain documented under the laws of the United States for 25 years, or, if reconstructed, for

the remainder of its economic life. The bill also provides that no operator of a nonsubsidized vessel may receive any differential payments for cargo moved by such vessel under section 901(b) of the Merchant Marine Act of 1936 (46 USCA section 1241 (b)) unless the operator has concluded a contract under this Act before January 1, 1967. These aspects of the bill are not of particular interest to the Treasury Department.

However, under S. 1858 the contracts are to provide for the creation and maintenance of a "capital reserve fund." Under the bill each operator shall deposit in the capital reserve fund as is required to be deposited by subsidized operators under section 607 of the Merchant Marine Act, the proceeds of sales of vessels, proceeds of insurance indemnities, depreciation charges, as earned, the earnings made on deposits in the fund, and shall annually deposit any percentage of differential payments received on a movement of cargo under section 901(b) of the Merchant Marine Act the Secretary determines is from profits and is necessary to fulfill the contractor's obligations under the contract. The operator may deposit in the fund other earnings from his vessel operations. The bill provides that the tax on deposits of capital gains and earnings and differential payments into the fund are deferred in the same manner as on deposits of capital gains and deposits of earnings of subsidized operators under section 607 of the Merchant Marine Act. Furthermore, the bill provides that withdrawals of deposits from the fund, and investment of the fund, shall be on the same conditions and with the same tax consequences, as apply to subsidized operators under section 607.

In effect, S. 1858 incorporates section 607 of the Merchant Marine Act by reference and intends that the special tax benefits provided under section 607 to operators receiving operating differential subsidies be extended to operators not receiving operating differential subsidies and to operators in the fishing fleet.

These tax provisions are the heart of the bill and are of great concern to the Treasury Department.

As you are no doubt aware, this Department on a number of occasions has expressed the opinion that the capital reserve fund mechanism provided under section 607 of the Merchant Marine Act of 1936 is inconsistent with a sound tax program. In fact, in the early 1950's when tax subsidies to the shipping industry were last scrutinized by the Treasury Department and the Department of Commerce, the Administration recommended that the tax benefits provided by the Merchant Marine Act be repealed and replaced by direct and open assistance.

The deferment of tax on gains and earnings deposited in a "capital reserve fund," as well as the earnings on the fund itself, amounts to a hidden form of subsidy which operates mainly to benefit those who least need government aid. The position of the Treasury Department has been that federal aid to the shipping industry should be in such form that it may be subject to annual review and examination by the Congress and cognizant public authorities and the costs measured against the achievements of the program. Tax benefits and privileges do not lend themselves to this type of analysis. This defect of tax subsidies is particularly significant in the case of industries like shipping where there are frequently several years of depression followed by several years of extreme prosperity. Tax benefits which may be thought to be appropriate during years of depression may prove to be grossly excessive in years of prosperity. In addition, special provisions for any industry or group of taxpayers make inroads upon the uniform application of the tax system, and tend to undermine the federal revenue system.

It is worthy of note that substantial tax benefits have been provided in the past 10 years under the general provisions of the Internal Revenue Code to the maritime industry. These benefits include accelerated depreciation, an investment credit, reduced income tax rates, and shortened depreciable lives of shipyard equipment and vessels. All these benefits have been provided to taxpayers generally so that the distorting and discriminating effects of providing special tax benefits to one industry group have not resulted, yet the shipping industry, including the nonsubsidized merchant and fishing fleets, has been greatly benefited by these changes.

The Treasury Department has been unable to obtain sufficient data to enable it to make a definite estimate of the revenue loss which S. 1858 would entail. Based on such information as we have been able to obtain, and the present level of prosperity in the industry, it is believed that the annual revenue loss from S. 1858 would not exceed \$20 to \$25 million. However, it should be recognized that a greatly increased demand for shipping as the result of a world crisis could increase the profits of the operators not receiving operating differential subsidies to several times present levels with a correspondingly large revenue loss.

In addition to these policy objections, the bill as presently drafted is seriously defective in a number of particulars. Should the Committee conclude to report this bill to the Senate the Treasury Department would appreciate an opportunity to detail these technical objections.

In summary, in view of our concerns with the tax policy aspects of present section 607 of the Merchant Marine Act, and the fact that there is no way to determine the extent of the possible future benefits to be provided by S. 1858, the Treasury Department is opposed to the extension of section 697 and the enactment of S. 1858.

The Bureau of the Budget has advised the Treasury Department that there is no objection from the standpoint of the Administration's program to the presentation of this report.

Sincerely yours,

STANLEY S. SURREY,  
*Assistant Secretary.*

COMPTROLLER GENERAL OF THE UNITED STATES,  
*Washington, D.C., June 14, 1965.*

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

DEAR MR. CHAIRMAN: This is in reply to your letter of May 11, 1965, requesting our comments on S. 1858, a bill to promote the replacement and expansion of the United States nonsubsidized merchant and fishing fleets.

We have no special information or knowledge as to the desirability of the proposed legislation, and since the purposes of the bill would appear to involve matters of policy for determination by the Congress, we make no recommendation with respect to its enactment. However, we offer the following comments for your consideration.

Subsection 3(b) of the bill requires certain deposits to be made by each contractor in a capital reserve fund, including an annual deposit of "any percentage of differential payments received \* \* \* that the Secretary determines is from profits and is necessary to fulfill the contractor's obligation under the contract." The meaning of the quoted language is not clear, nor does the bill describe the method or criteria to be used by the Secretary in establishing the percentage of differential payments to be deposited. We believe the Committee should clarify the intent of the proposed legislation in this respect during its deliberations on the bill.

Section 8 of the bill would limit differential payments to those operators which have concluded contracts with the Secretary of Commerce before January 1, 1967. This section would appear to effectively preclude future operators of merchant vessels going into business after such date from participating in the cargo-preference benefits of section 901(b) of the Merchant Marine Act, 1936, and could serve to discourage such operators from entering the unsubsidized trade under United States registry. If a different result is intended, the Committee may wish to modify the bill accordingly.

We note that the bill would not expressly grant either the Secretary of Commerce, the Secretary of the Interior, or the Comptroller General the right to examine pertinent records or documents of the contractor. We believe that access to such records will be necessary for adequate administration and audit of the program in determining compliance with reserve fund deposit requirements and other contractual obligations and in determining continued eligibility of contractors for tax deferral benefits and/or differential payments provided for in the proposed legislation. We therefore suggest that the draft bill be amended by including a new subsection under section 2 substantially as follows:

"(m) that the Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers, and records of the contractor that are pertinent to transactions relating to the contractor's performance under the provisions of this act or contracts entered into pursuant thereto, and the contractor shall keep such records as will facilitate an effective audit."

We note that the text of S. 1858 omits section 4 and moves from section 3 to section 5.

Sincerely yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

DEPARTMENT OF THE NAVY,  
OFFICE OF THE SECRETARY,  
Washington, D.C., November 2, 1965.

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

MY DEAR MR. CHAIRMAN: Your request for comment on S. 1858, a bill "To promote the replacement and expansion of the United States nonsubsidized merchant and fishing fleets," has been assigned to this Department by the Secretary of Defense for the preparation of a report thereon expressing the views of the Department of Defense.

This bill would authorize the Secretary of Commerce to enter into contracts with qualified persons for periods not to exceed 20 years in connection with new construction or substantial reconstruction of merchant vessels. It would also permit the Secretary of the Interior to enter into contracts with qualified persons for periods not to exceed 20 years in connection with the new construction of fishing vessels.

The contract thus entered into would include provisions, among others, that vessels will be built or substantially reconstructed in shipyards in the United States and will be of a type, size and speed suitable for use on the high seas or the Great Lakes. The bill also requires, in section 3(e): "that any vessel constructed, acquired, or substantially reconstructed under contract negotiated under section 1(a) will be of a type which the Secretary of the Navy certifies is suitable for economical and speedy conversion into naval auxiliary or otherwise suitable for use by the United States in the event of war or national emergency."

While this bill is of more than passing interest to the Department of the Navy, the Department of the Navy, on behalf of the Department of Defense, defers to those other offices with a primary concern, principally the Department of Commerce.

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

The Bureau of the Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report on S. 1858 for the consideration of the Committee.

For the Secretary of the Navy.

Sincerely yours,

M. K. DISNEY,  
Captain, U.S. Navy.

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U.S. DEPARTMENT OF JUSTICE,  
OFFICE OF THE DEPUTY ATTORNEY GENERAL,  
Washington, D.C., June 17, 1965.

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

DEAR SENATOR: This is in response to your request for the views of the Department of Justice on S. 1858, a bill "To promote the replacement and expansion of the United States nonsubsidized merchant and fishing fleets."

The bill has been examined, but since its subject matter does not directly affect the activities of the Department of Justice we would prefer not to offer any comment concerning it.

Sincerely,

RAMSEY CLARK,  
Deputy Attorney General.

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FEDERAL MARITIME COMMISSION,  
Washington, D.C., May 20, 1965.

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 May 11, 1965, for the views of the Federal Maritime Commission with respect to S. 1858, a bill to promote the replacement and expansion of the United States nonsubsidized merchant and fishing fleets, and S. 1940, a bill to amend the Act of July 8, 1940, relating to the transportation of the remains, families, and effects of Federal

employees dying abroad, so as to restore the benefits of such Act to employees dying in Alaska and Hawaii, and for other purposes.

Inasmuch as the bills do not affect the responsibilities or jurisdiction of the Commission, we express no views as to their 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,

JAMES V. DAY, *Vice Chairman.*

Senator BARTLETT. The first witness will be Mr. William F. Ragan and Malcolm McLean of Sea-Land.

**STATEMENT OF MALCOLM McLEAN, SEA-LAND SERVICE, INC.,  
ACCOMPANIED BY WILLIAM F. RAGAN, RAGAN & MASON,  
WASHINGTON, D.C.**

Senator BARTLETT. Gentlemen, glad to see you. Who wants to lead off?

Mr. RAGAN. Mr. McLean will.

Senator BARTLETT. Will you have a statement to follow?

Mr. RAGAN. No, sir.

Mr. McLEAN. Mr. Chairman, my name is Malcolm McLean. I am chairman of the board of Sea-Land Service, Inc., a steamship company operating in the domestic, coastwise, intercoastal, and trades with our noncontiguous States and territories.

I appear today in support of S. 1858.

By way of background, it should be noted that Sea-Land Service, Inc., presently operates 16 vessels, 15 of which are trailerships. We have in service for our vessels, in excess of 4,000 containers, which may be translated to a cargo capacity in excess of 100,000 tons. We presently work out of 23 terminals, ranging from New York to Florida, to Puerto Rico, the gulf coast, the west coast of the United States, and to the terminals at Seattle, Anchorage, and Kodiak. We presently serve approximately 20 ports, and in excess of 37,500 shippers.

In addition to the vessels which we now have in service, we expect to have, within the next 18 months, 11 additional vessels in operation, which will more than double our cargo capacity. Thus, we at Sea-Land feel when we speak in support of this legislation, we speak with some authority.

Mr. Chairman, I became associated with the shipping industry in 1955. Almost immediately after my affiliation with the industry, I began to hear cries that the domestic shipping industry was in dire straits. These cries were true then, and to some extent are true today, although the voice is perhaps more faint because since that date several companies have departed from the trade. I will not bore the committee with the statistics of what the domestic trade was, since these figures are already known to the committee. I will merely refer, as a matter of incorporation by reference, to the committee print of this subcommittee on August 29, 1960, dealing with the decline of the coastwise and intercoastal trade.

In that report it will show that in 1939, there were 143 privately owned dry cargo vessels in the domestic trade. Based upon Maritime Administration figures, as of March 31, 1965, today there are but 25 dry cargo vessels in this trade, of which 22 are common carriers. However, of this 22, 17 basically are industrial carriers and common carriers really in only one direction. In 1939, there were 235 pri-

vately owned vessels in the dry cargo coastwise segment; today there are 18, but only 4 of these are common carriers. I will also point out to you, although it is difficult for me to know precisely, that there have been at least 13 governmental studies, over the past 10 years, of what is wrong with the domestic shipping industry. These studies have resulted in not one single constructive suggestion. Legislation was introduced in the last session of Congress (S.1773 and S. 1774) which, unfortunately, apparently was too controversial for final activity. These bills would have helped. S. 1858 will help.

Mr. Chairman, I come here today, not asking for construction subsidy, not asking for any operating subsidy, but merely that this bill, which is already in law for one segment of our shipping industry, be enacted into law for the balance of the industry. This bill, from our viewpoint, will represent the greatest single achievement in promoting the domestic merchant marine since the passage of the Merchant Marine Act of 1936, which, of itself, has been of questionable assistance.

I will tell you, Mr. Chairman, and I do so with full knowledge that it is part of the record of this hearing, that if this bill is enacted, my company is prepared to enter into contracts with the Secretary of Commerce, obligating us to construct in excess of \$100 million worth of new vessels, in American shipyards, all of which will be privately financed: and, Mr. Chairman, when we commit to \$100 million worth of new vessels, keep in mind that this is, in fact, a commitment of at least \$200 million because of the complementary construction that will be necessary, such as containers, cargo vans, chassis, and other related physical equipment.

In appearing in support of this bill, we do not wish to leave the impression that this bill creates a panacea, but we do feel it is a great step forward. We do not feel that the domestic merchant marine is by any means beyond hope or is even a dying industry. We do not feel that the hope of this industry rests with subsidies. We do feel that where companies involved are willing to exercise initiative and imagination and are willing to seek new remedies for old ills, that the domestic merchant marine, a vital segment of our national transportation system, can be rehabilitated.

We do suggest, in connection with this bill, one amendment which would allow deposits from January 1 of the year the bill becomes law. We trust this bill will be enacted in 1965, and thus, deposits could be made of revenues earned commencing January 1, 1965. We suggest this only because it will get the program started 1 year sooner.

Therefore, we suggest that a new section be added to the bill, which would read:

SEC. 10. EFFECTIVE DATE.—For purposes of this legislation, deposits in the Capital Reserve Fund, may be made from revenue earned, from January 1 of the date of the year of enactment.

In closing, I wish to say I appreciate the opportunity of appearing before this subcommittee today, and I will be happy to answer any questions that you may have.

Senator BARTLETT. Thank you, Mr. McLean.

I will admit that you startled me when you tell the committee that if this piece of paper, S. 1858, is translated into law, that your company is prepared to build \$100 million worth of new vessels. That would be the largest single building order in quite some time, would it not?

Mr. McLEAN. As far as I know, it would, yes, sir. You know, there is nothing wrong with the domestic shipping industry that a little bit of help won't cure, technological energy, work, finance.

We are now opening terminals or building and constructing terminals which involve a lot of money just for the port facilities alone in Boston, Philadelphia, Baltimore, Charleston, Jacksonville, Mobile, New Orleans, Houston; three in Puerto Rico, San Juan, Ponce, and Mayaguez; Oakland, Long Beach, Kodiak, Alaska, and we believe in this industry.

We know that the commerce this year will move provided you put the system and economics in it to make it move and it takes money to do all of this. And when you are operating in industry that has a cloud over it insofar as the public financial community is concerned, there is no amount of selling that you can do that will remove that cloud and the only thing that you can cure it with is have some earnest money to put down on new buildings and the financial community will say, well if these folks are willing to put 30 percent down, they must believe in it, we will go the rest of the way.

Now this bill would provide us with no relief insofar as taxes are concerned over the long pull, it would only relieve us of having to pay taxes immediately, which tax money could be put into new construction and then deferred for maybe 5, 10, 15 years. I don't know how long it will be deferred, but no money can come out of this company and go into the pockets of the stockholders without the same amount of tax being paid, as is paid today.

So it is not a question of whether the Government is going to lose any income and it may lose some temporarily, but should the venture be successful, and it is successful, we are pretty proud of what we have done. We are successful to a degree, and we think maybe in terms of shipping we are successful to a pretty large degree. Nobody gets hurt.

If we build \$100 million worth of new construction of ships, the steel industry benefits, the shipyards benefit, labor benefits, the pipefitters benefit, it takes insurance to insure them, it takes a big manning scale to man them, it takes food to feed them, and by the time the ships get into operation the Government is getting as much money back through payroll deductions of withholding taxes, if nothing else, that would be offset by any tax deferment, and the way the industry is going unless something is done constructively to build it, the Government will never get any taxes out of what may be a real benefit so far as tax revenues are concerned to the Government.

Senator BARTLETT. You said this bill wouldn't be a panacea but would be helpful. Would it be helpful to you, Sea-Land Co. similarly situated in respects other than those relating to tax deferment?

Mr. McLEAN. It would be helpful for us in relation to building. If we build these new ships, they are going to be large, fast ships. They will be the lead ships for the development of other areas. It takes a lot of cargo to fill 30,000-, 35,000-ton, new cargo ships. It means that once you put that ship in the water, you will then feed that ship from all of the areas not now served by the domestic shipper.

Senator BARTLETT. Your ability to get that ship into construction and into operation is furthered, in your opinion by this bill?

Mr. McLEAN. Yes, sir.

Senator BARTLETT. On account of the tax provisions only or for other reasons too?

Mr. McLEAN. The tax provision is the key reason, because it takes money to build these ships. You can't finance them without it.

Senator BARTLETT. You mentioned 30,000 ton, what will that cost on today's market?

Mr. McLEAN. About \$25 million the way we build.

Senator BARTLETT. Does Sea-Land operate from the Atlantic to the Pacific coast and the other way around at this time?

Mr. McLEAN. We operate from all of the Atlantic coast to practically all of the Pacific coast, including as far north as Anchorage, Alaska.

Senator BARTLETT. That is direct service?

Mr. McLEAN. Direct service; yes, sir.

Senator BARTLETT. You said Sea-Land has 16 ships, 15 of them being trailer ships. What is the other one?

Mr. McLEAN. The other one is a converted ship that we converted to carry automobiles.

Senator BARTLETT. Likewise, you said that the 1936 act has been of questionable assistance to the domestic merchant marine. Has it been helpful to you as an operator of this one company, in any particular way?

Mr. McLEAN. Not that I know of, maybe the broad policy of the promotion of shipping has been indirectly or intangibly helpful, but insofar as any benefits from the Merchant Marine Act of 1936, other than the protection of the coastwise routes, I don't know of any.

Senator BARTLETT. You haven't had any dollar benefits, direct or indirect, so far as you are aware?

Mr. McLEAN. No, sir. But, Mr. Chairman, we are not looking for any dollar benefits as such directly. We would like this indirect postponement of dollars; we would like to put it into new building; we would be paying in 1965 and put it into new building in 1966. As far as subsidy, maybe we are crazy, I don't know, but we are not looking for that.

Senator BARTLETT. You are not asking for it at any rate?

Mr. McLEAN. We are not asking for it.

Senator BARTLETT. What other companies, if you happen to know, give coast to coast service?

Mr. McLEAN. Well, there are a couple of captive companies; for example, Calmar, which is a subsidiary of Bethlehem Steel. They provide a service from Baltimore to the west coast.

Senator BARTLETT. Common carrier service?

Mr. McLEAN. Little common carrier, but mostly what would be considered private carriers. They are owned by a steel company. They provide a good service.

Senator BARTLETT. What other company?

Mr. McLEAN. Weyerhaeuser Lumber Co., which provides a service bringing their lumber and plywood eastbound from the west coast, and they take some little bit of general cargo back.

Senator BARTLETT. Yours is the only company then carrying general cargo, regularly?

Mr. McLEAN. Regularly; yes, sir.

Senator BARTLETT. Mr. Foster?

Mr. FOSTER. Mr. McLean, what is your understanding of the tax effect of the bill? You mentioned that it is tax deferment, and as I understand, you believe that this is not tax forgiveness, but strictly tax

deferment for taxes that would have to be paid eventually, is that correct?

Mr. McLEAN. As I understand, it is pure tax deferment. You don't gain anything in dollars in the long run. If you are able to defer \$1 million of the taxes and put it into a new ship, the depreciation basis of the new ship would be reduced by the amount of the \$1 million which was tax deferred that went into the new ship.

Mr. FOSTER. And the Government might be expected to increase its tax revenue to the extent that the economy was stimulated by the investment created or encouraged by the deferment of the taxes?

Mr. McLEAN. Well, that is a chance, if the program is correct, and we know what we are doing, and the Government increases its income by the amount of the money that the new ships were built. If you are ever able to pay for the new ships, you have to make some money, so the Government would get the benefit of that. No money can come out of this program and go into the pocket of a stockholder without paying the normal tax.

Mr. FOSTER. This money that would be set aside would be set aside for vessel construction or the equipment associated with the vessel, that and that only?

Mr. McLEAN. That, plus the payment of bills for the new ships that you construct, chassis, and equipment.

Mr. FOSTER. I have no further questions.

Senator BARTLETT. Just one further one on this very point.

What segments of the American merchant marine now receive the benefits of the tax treatment that are contemplated in this bill?

Mr. McLEAN. The subsidized lines all receive it. There is an indirect reciprocation of this type of legislation. If you are in the oil business and you want to run a tanker offshore, of course, you can go to Panama and build the tanker and you are exempt from any taxes and exempted in the change of the law in 1962 provided the American company wanted to build what they call the flag of convenience ship and they exempted them from taxes.

Senator BARTLETT. Who exempted them?

Mr. McLEAN. The Internal Revenue Service.

Senator BARTLETT. The U.S. Government?

Mr. McLEAN. U.S. Government, yes.

Senator BARTLETT. Made that exemption?

Mr. McLEAN. Made that exemption.

Senator BARTLETT. What controls does the U.S. Government exercise over those ships?

Mr. McLEAN. Not any, other than their, I suppose, being in the hands of friendly countries. And they are supposed to be available at time of war, in time of emergency.

Senator BARTLETT. Then is it literally true or not, you say that the domestic segment of the industry is the only one without this tax advantage?

Mr. McLEAN. Yes, sir; that is correct.

Senator BARTLETT. Mr. Kenney?

Mr. KENNEY. With respect to the \$100 million worth of new vessels, which is certainly an impressive figure, over what period of time do you estimate this will take?

Mr. McLEAN. Our schedule calls for getting those vessels beginning in 1966, and completed at the end of 1967, 2 years. This is a mini-

mum. Actually, we had in our schedule, six schedules, \$150 million, if this bill passes we will go ahead with the six vessels.

Mr. KENNEY. How many do you except to buy if we don't pass the bill?

Mr. McLEAN. We can't go into this program at all for several years, if we don't. We are going to complete these conversions, we have 11 ships I spoke about earlier, but so far as new building, we don't see any way we can do it for several years without this bill.

Mr. KENNEY. Thank you, Mr. McLean.

Mr. McLEAN. Mr. Chairman, may I expound a little here about domestic shipping?

Senator BARTLETT. I wish you would.

Mr. McLEAN. I am 50 years old, 51 years old. I started in the business when I was 17 years old. And my competition at that time was the steamship industry. I started from the South to the Northeast. And there were steamship lines everywhere. There was the Georgia Line, there was the Merchant Marine Line, there was the Cloud Mallory Line, the Morgan Line, and all of the lines that ran up and down the east coast, and your competition against truck then, was the steamship line.

Now I remember that strongly, from the time I started the business, because when you start you always remember the things that hurt you the most. That is how I happened to get back into the industry because I knew if I could put the ship in the water and produce the cheapest method of transportation, I could revitalize an industry that died during the war, provided you put the right economic structure on it. And we have been successful in doing it.

Now, there is no reason that the industry can't expand and grow if they have a chance to build and apply the technological improvements that have been made available in the last few years.

Senator BARTLETT. What do your trucking friends think about all of this?

Mr. McLEAN. They quarrel about it, but we have a tremendous growing economy. One segment of the industry can't participate in all of the growth, if somebody else wants to do something about participating. There is room for everybody.

Senator BARTLETT. I think those are helpful words, those are the kind of words that anyone would like to hear, the old American spirit of competition.

Mr. McLEAN. We do business with the trucking companies, we do business with railroads, we do business with shippers, we create a lot of business that wouldn't even move were it not for the trailer and the cheap water transportation.

In our country, you wouldn't believe that there was 10 to 15 loads of goods moving from Anchorage over Kodiak per week. It wasn't there when we started running over there.

Senator BARTLETT. I would not have, I didn't know that.

Mr. McLEAN. You wouldn't believe that you could put a ship into Kodiak, a town of only 2,000 people, and start bringing frozen crab all the way to New York, that never moved before, and if it did move it moved in small quantity because it had to move by air.

These things provide a development of transportation, a development of commodities. I am using those two examples, they are small, insofar as the overall picture that we are talking about, but you

wouldn't believe that we were moving cargo today from the Dominican Republic, would you?

Senator BARTLETT. I should have doubted it.

Mr. McLEAN. Inner revolution there, we can't find the fellow who is shipping it, but we are moving it twice a week. [Laughter.]

We can't find the guy who is shipping it, but he is arranging to get it to the port.

Senator BARTLETT. You don't even know what side he is on?

Mr. McLEAN. All we know is the freight moves collect, we collect our money on the other end, and we don't have any problem in the Dominican Republic. We quit for a month, I don't know why we quit, we started back up in the middle of it. But the first vessel we sent back in there, which was 2 weeks ago, right in the middle of this revolution, it was filled to capacity.

Senator BARTLETT. Let's talk some more about these king crabs, that is always a good subject. [Laughter.]

Are you bringing out quite a little tonnage?

Mr. McLEAN. We are beginning to bring not only king crab out, we are getting the frozen halibut. I don't know what else they get there, but we are bringing in a lot of goods out of Kodiak.

Senator BARTLETT. Well, if the Japanese and Russians leave any in the sea, our fishermen will bring a lot more to Kodiak for you to transport.

Mr. McLEAN. But the economics of transportation in the general rule will make commerce move. We have an economical system to promote and it provides a way for a man to get to the market with the product he couldn't otherwise get there.

Senator BARTLETT. Thank you very much, Mr. McLean and Mr. Ragan.

Mr. RAGAN. Thank you very much, Senator and counsel.

Senator BARTLETT. Mr. Steinbrenner, please.

#### STATEMENT OF GEORGE M. STEINBRENNER III, PRESIDENT, THE KINSMAN MARINE TRANSIT CO., CLEVELAND, OHIO

Mr. STEINBRENNER. I am George M. Steinbrenner, and I am president of the Kinsman Marine Transit Co. of Cleveland, Ohio. Since my last appearance here in 1963, I have added in this order two more steamships—one more kid—and a Little League baseball team. Managing the latter has caused me about 50 percent more grief in the past 2 years than my Canadian and foreign competitors. Basically, however, little has changed since my visit in 1963—the Washington Senators are still bringing up the rear, and so is the U.S.-flag Great Lakes fleet. Therefore, I am happy to have been chosen by my industry to testify again today in favor of Senate bill S. 1858 and I thank you gentlemen for this opportunity.

Senator BARTLETT. May I interrupt you to say the committee also is glad you were chosen, because this promises to be a repetition of your testimony the last time, which was very good.

Mr. STEINBRENNER. Thank you.

As I stated in 1963—I am one of the few remaining Great Lakes independent steamship operators—we are likened to the great American buffalo, fighting to avoid complete extinction, and even the buffalos are gaining on us. However, I am not too easily discouraged.

You see, I was a football coach at Northwestern University where the team was so bad that the only way we could get to the Rose Bowl was to enter a float.

I shall not burden you gentlemen with a lengthy oratory full of facts and figures, which I am sure you have available to you. I would rather make my pitch from a strictly practical and human side. For an independent can't really afford the luxury of theoretical research in this business today.

As an independent, I know that the Great Lakes vessel industry needs many of the things set forth in S. 1858. The vessel owners need them, the thousands of seamen need them, the longshoremen and grain workers in Buffalo, Duluth, Chicago need them; the steelworkers in Pittsburgh, Cleveland, Chicago, and Buffalo need them; the auto-workers in Detroit need them; and millions of others who are affected by the prices of steel or the cost of bread. They need them, too.

Make no mistake about it, we on the lakes today are in a real battle. You can cover it up with flowery tribute and speeches of excellent relations. You can deny it. You can even walk away from it and say it doesn't exist. But it is still there.

Do you know how much American grain has moved from American ports on the Great Lakes in American ships up to June 1 of this year?—15,150,000 bushels. This sounds like a lot, doesn't it? Well, do you know how much American grain has moved from American ports on the Great Lakes in Canadian ships up to June 1 of this year?—31,462,000 bushels. Now tell me it doesn't exist. Do you have any idea how much American grain has moved from American ports on the Great Lakes in foreign ships up to June 1 of this year?—22,044,000 bushels.

As a matter of fact, just yesterday there were 16 ships loading grain in Duluth, Minn., from American elevators. Of these 16 ships, 15 were Canadian or foreign vessels, and the 1 American vessel happened to have been my steamer.

Now, do you have any idea how much Canadian grain moved from Canadian ports in Canadian vessels up to June 1 of this year—66,981,000 bushels—a nice, tidy little figure. Now, do you have any idea how much Canadian grain moved from Canadian ports in American vessels up to June 1 of this year—exactly zero bushels. Nothing, zip, naught, cipher—as Webster would say, “the point intermediate between positive and negative quantities.”

Now can anyone here convince me we aren't in this ball game right up to our elbows. We have got opposition that makes the Cleveland Browns defensive line look like four sopranos from the Vassar Glee Club.

Now, as to the exact provisions of this bill, which I feel are needed, let me first clearly state that I do not feel that the construction of a new vessel is anywhere in the picture for the Great Lakes independent operator. The cost is too high and the business available to us is too uncertain for the independent to justify the expenditure. Basically, the major portion of the iron ore movement on the lakes is closely controlled by companies who own their own fleets of ships. By this I do not mean to imply that many of these companies have not been helpful to the independent operator when it has been possible. I, personally, owe much of my existence today as a small independent to Jones & Laughlin Steel Corp., United States Steel Corp., and several others.

However, if it is the primary purpose of this bill to assist the small independent operator to survive and to continue to operate, then I say, forget the "new construction" portion of this bill as it relates to the Great Lakes for it cannot be a factor of any consequence to the small independent operator. In the end it can only be harmful to those of us who are fighting this battle from a survival basis rather than a cost basis.

The "reconstruction" portion of this bill then is the part which I feel is so badly needed by the American-flag operators on the lakes. This portion of the bill is a must if those few of us left are to survive. Such reconstruction as tank top and side tank replacement, reboiling and stoker installation, major hull and plate reconstruction, rebuilding of quarters and deck machinery, and installation of bow thrusters, these things all must be included under the reconstruction program. The certificate-of-necessity program as it existed on the lakes would provide an excellent guideline for qualification under this program. The reconstruction program can do the job for the little independent as well as the larger corporate fleets, without harm to either.

It is my contention that given a reasonable and practical reconstruction program through S. 1858, fairly administered to big and small alike, that the American lakes fleet can start back to its rightful position. I do not feel that we are seeking "something for nothing" as are so many others here in Washington from all over the world. All we are asking is a little old-fashioned, back home kind of consideration for American-flag vessels, with good old-fashioned American news serving American ports and American industries.

For if I can transport iron ore economically enough in my American-flag vessel, then an American seaman will deliver it to an American steelworker and that American steelworker will manufacture steel for an American autoworker, and that American autoworker will build cars to sell to an American consumer. I am a great battler for this kind of very uncomplicated philosophy. And I will be back in 2 more years, if you will have me, and I will still be battling and I will have in this order three more steamships, two more kids, and my own Little League stadium.

Thank you for this opportunity to speak before you again.

Senator BARTLETT. Congratulations, as always.

What kind of steamship did you add to your fleet?

Mr. STEINBRENNER. I bought two bulk carriers, what we call in the Great Lakes bulk carriers, not new vessels. I purchased them from United States Steel.

Senator BARTLETT. Oh, yes, two ships here.

What do you carry?

Mr. STEINBRENNER. Ore, grain, and coal.

Senator BARTLETT. What kind of a child did you have? You added one more child, you said.

Mr. STEINBRENNER. A girl named "Jennifer."

Senator BARTLETT. Why is it the Canadian ship hauls all this grain compared to such a small amount for the American ships?

Mr. STEINBRENNER. I would like to know why they are getting so much. I know one thing is that they have had a very active and forward-looking program for ship reconstruction, quick writeoff, which has enabled them to increase their fleet fantastically in the last 10 years, as compared with a very slow and unprofitable method in this

country. And they have built their fleet up. They have a lot of 730-foot vessels now, and crew wages are less, and they can transport this seaway grain far more economically than we can with the ships of our size.

Senator BARTLETT. They have more modern ships?

Mr. STEINBRENNER. They have many more modern ships than we do. I know Admiral Hirshfield plans to present some of those figures. They have built their fleet up where they want it now, and I am not so sure they want to see us get ours up there with them.

Senator BARTLETT. Living costs in Canada have been inflated as they have here and elsewhere. You say that the seamen's wages nevertheless are lower there?

Mr. STEINBRENNER. They always have been, and they still are.

Senator BARTLETT. Substantially?

Mr. STEINBRENNER. Substantially.

Senator BARTLETT. How do you account for that, or can't you?

Mr. STEINBRENNER. I cannot, sir. I don't know why. I will say this—and not in the way of criticism of our unions, because frankly, I think that they are as interested in seeing something done about new ship repair on the Great Lakes as they are burdening us with high labor costs.

I feel they have worked with us, they have worked with me on manning scales. I know I can speak on a personal basis. I can't explain why the reason is. I just feel that they have had a slower start in Canada on unions working for these conditions that is all—they are behind us about 10 years.

Senator BARTLETT. How new is your newest vessel?

Mr. STEINBRENNER. My newest vessel—I hesitate to call it a new vessel in front of these ocean gentlemen—but it was built in 1907.

Senator BARTLETT. What about your oldest?

Mr. STEINBRENNER. My oldest about 1904. Of course, we don't have the problem of depreciation of the men on ocean. We are fresh water, they are salt water. That makes a big difference in the hull. But all my boats move slow, and don't carry too much. That way we don't get in too much trouble.

Senator BARTLETT. How big is your biggest ship?

Mr. STEINBRENNER. The biggest is 580 feet, keel 601 feet overall, and carries 13,000 tons<sup>5</sup>

Senator BARTLETT. Mr. Foster?

Mr. FOSTER. I have a question, Mr. Chairman, yes, thank you.

On page 3 you said:

The certificate of necessity program as it existed on the lakes would provide an excellent guideline for qualification under this program.

Could you elaborate on that?

Mr. STEINBRENNER. During the period of national emergency on the Great Lakes, the operators were provided with an opportunity to apply for substantial reconstruction on their ships, and were given tax advantage in order to make sure that the Great Lakes fleet was as large as it had to be and could handle things in time of national emergency.

Now, basically, this would mean if I wanted to construct a new tank top among my vessels, I would expand maybe \$200,000; that is the bottom of the cargo hold. I would be given certain tax breaks and

writeoffs on this in order to allow me to do it. And there were certain things, items that were set up in the certificate of necessity program that was followed, that were allowed, that were allowed this tax advantage.

Mr. FOSTER. And your suggestion here is that we might consult what those items were that were called major reconstruction and use that as a guideline in working out the details of what is now in the definition section—

Mr. STEINBRENNER. For reconstruction.

Mr. FOSTER. For reconstruction "means the substantial reconstruction and major modernization of a vessel, if the Secretary determines that the objectives of the act will be promoted by such reconstruction."

Do you think that those words alone would permit what might be anticipated in the examples that you gave. For example, you mentioned as tank top and side tank replacement, reboiling, and stoker installations? How much did those items cost?

Mr. STEINBRENNER. To retank top and side tank, you can figure from \$200,000 to \$250,000. Reboiling would run in excess of \$250,000. Stoker installation, our ships could run anywhere from \$60,000 to \$100,000. A bow thruster could run anywhere from \$80,000 to \$120,000.

Senator BARTLETT. What is a "bow thruster"?

Mr. STEINBRENNER. A bow thruster is a mechanism used on the lake now to avoid the use of tugs. It is placed in the bow of the ship and it allows the captain to navigate a ship as though he were under tow without tugs.

Mr. KENNEY. Steering propeller.

Mr. STEINBRENNER. That is right, controlled from the bridge. I think it would have to be spelled out for the reconstruction portion of the bill, to help us—it has to be spelled out as to just what would come under this portion because there are many things which we have to do to our older ships, which might not put it in that big a figure, of over \$200,000, rather than set a cash expenditure.

You might get it done in the winter for more expense than he would in the summer, and so I think it is important that it spells out what categories would come under this reconstruction.

Mr. FOSTER. I think the way the bill now reads, in terms of substantial reconstruction and major modernization, you would probably find it difficult to get the Secretary to approve something like installation of bow thrusters, if that is going to cost \$60,000.

When you or someone in your position on the Great Lakes wants to undertake an improvement of the vessel of this type, do they usually do an item here and an item there, or do they have a program in which they are going to do three or four of these, or one or two of these to the vessel at the same time?

Mr. STEINBRENNER. I would say, in our present position, it is item here and an item there, because of the cost of the repair. And this is the thing that would concern me, whether some of these, in order to be of help to the independent, the small fellow, who are dropping like flies; for it to be of any help to us, we would have to get help on some of these items because these are the things that we would be wanting to do, or for it to be helpful.

The big ships construction won't be that helpful to the independent.

Mr. FOSTER. Thank you, Mr. Chairman.

Senator BARTLETT. Mr. Steinbrenner, the chairman notes that Senator Kennedy has entered the room, and I believe he desires to testify on the bill.

Senator KENNEDY. That is correct.

Senator BARTLETT. Senator Kennedy, meet Mr. Steinbrenner who has given a wonderful testimony.

We will call you back, Mr. Steinbrenner.

#### STATEMENT OF HON. EDWARD M. KENNEDY, SENATOR FROM THE COMMONWEALTH OF MASSACHUSETTS

Senator BARTLETT. We are very, very pleased to have you here Senator.

Senator KENNEDY. Thank you very much, Mr. Chairman. I am pleased to appear before this committee this morning and offer my support for S. 1858. I feel that the assistance provided by this legislation is fundamental to the rehabilitation and replacement of our bulk carrier fleet, our domestic water carriers, and our fishing fleets.

I come, as you know, Mr. Chairman, from a State with a great tradition in the building and sailing of ships. We have one of the best seaports in the country. We have some excellent shipyards. And there is developing in Massachusetts, and in New England a strong interest in both the export and the import trade and in domestic water carriage.

As part of its regional development effort, New England is seeking to modernize its great fishing fleet, to expand its port activity, and to improve its shipbuilding potential. We intend to move ahead with oceanography and ocean engineering programs. We know well that our economic growth must, in substantial part, depend upon the greater utilization of the sea, and modern American ships. This is why this legislation is of such real concern to Massachusetts, and to our six-State region.

Unfortunately, in this modern technological age of supersonic aircraft and space exploration, there is a growing tendency to give secondary attention to our merchant marine. This is dangerous. The countries of Northern Europe, Japan, and Russia are moving ahead with broad, long-range programs of ship construction and ocean technology. These countries are also carrying a large share of their tonnage in their own ships.

I am deeply disturbed to see the contrast presented by our U.S. situation. Last year American-flag ships carried only 5 percent of the bulk cargo moving to and from our country. We spent \$1 billion for transport services by foreign vessels. Seventy percent of our ships have been fully depreciated, most are over 20 years old. The total complement of our American merchant fleet has dwindled from 1,200 vessels in 1950, to 900. Since 1950, I am told, we have lost 40,000 seafaring jobs. In the meantime, many of our shipyards have been idle.

It does not make sense to me, Mr. Chairman, when we generate so much of the world's cargo—when we seek to be a leader in international trade—why our merchant marine, and particularly our bulk carrier fleet, should be allowed to go by the boards. Yet, unless we

take new and positive action to replace and rehabilitate our ships, this is bound to happen. S. 1858 is a good step in the direction of progress in building a vigorous merchant marine policy.

I cannot stress too strongly the importance of this legislation to our fishing fleets. Here again, our vessels average 30 years in age, and we are using our outdated methods of harvesting the sea. No one knows this better than the fishermen out of Boston, or Gloucester, or New Bedford, who day after day watch the fast, methodical operations of the Russians and the Japanese with their modern electronic equipment and giant harvesting and processing equipment. Our fishermen off New England have to compete with modern vessels and the latest technology from a dozen countries.

Last year, Congress helped the fishing industry greatly with the passage of the Fishing Vessel Subsidy Act. Certainly those that benefited from this legislation owe a great deal of indebtedness to the Senator from Alaska who provided such excellent leadership in that legislation.

Senator BARTLETT. Thank you very much.

Senator KENNEDY. Congress can again this year with the extension of the loan program. But more is needed to do the job well. S. 1858 will indeed be a necessary complement to the rehabilitation which is presently underway among our fishing fleets.

Another very important area assisted by this legislation concerns our domestic shipping. New methods of ship construction, cargo handling, storage, and ship propulsion give great promise to a rejuvenation of the coastal and intercoastal trade. This can be very helpful to our ports and to our shippers. For instance, I am informed that Sea-Land Services has plans for operating container ships out of Boston direct to Puerto Rico and Panama Canal to the west coast. They estimate an initial load of over 200 trailers a week out of Boston. Because of this new service, I understand that the port of Boston has a committed contract of \$1 $\frac{3}{4}$  million in new construction. Sea-Land has informed me that it has every intention of building up this domestic water carriage to the benefit of Boston and other ports along the east and west coasts. Sea-Land is not a subsidized carrier. It could benefit substantially from the program established under S. 1858.

I am well aware that our domestic carriers on the Great Lakes can benefit from this legislation. They have their problems with the heavy competition from Canada. But for the past 20 years, Canada has encouraged the modernization of its merchant fleet by permitting shipowners to write off their capital costs in 3 years. This country has given other tax advantages to stimulate new construction, and it has a major ship subsidy program.

Canada has profited greatly from its expanded merchant marine policy. Russia, Japan, the Scandinavian countries, the United Kingdom, others, have all seen the wisdom of keeping modern fleets in operation through major replacement and conversion programs. No less should be expected from the United States. I support this legislation before you today.

Senator BARTLETT. We are very grateful for your appearance here, Senator Kennedy, and for your testimony. And for the record, I want to say that your help has been instrumental in so many legislative acts concerning the merchant marine and the fishing industry. It certifies that which I was long since told by another, that there are

many similarities, identical interests affecting Massachusetts and Alaska.

You mentioned that 70 percent of our ships have been fully depreciated and most are over 20 years old. Mr. Steinbrenner, who preceded you, has a small independent fleet on the Great Lakes, and he just told us that his newest ship built in 1907. I have, of course, no questions, but again, I want to say that the contribution you have made to this record is most helpful.

Senator KENNEDY. I appreciate it, Mr. Chairman. As I say, those that harvest the sea, and work at the sea, owe a great deal of gratitude to you for your interest and your concern. The people of Massachusetts are very grateful for the great concern which you have demonstrated with your service here in the Congress for our merchant marine and fishermen. I appreciate the opportunity to be here at this committee in support of this legislation.

Senator BARTLETT. Thank you.

Mr. Steinbrenner, will you return, please?

I am not sure whether there were any more questions to be directed to you, but perhaps so.

Did you have any questions, Mr. Foster?

Mr. FOSTER. Maybe we could just complete with this then. It would be possible then for major reconstruction to be undertaken under the bill as it is, if the Secretary understood that the reconstruction you would undertake might involve one step at a time, and it might not all be completed at the same time in the yard.

One step might be taken one year, and the next the next year, and the next the next year, and there would be a major modernization, but the major modernization would not take place all at one time.

Mr. STEINBRENNER. Right.

Mr. FOSTER. I have no further questions.

Senator BARTLETT. You are a man of supreme confidence. You are going to be back here in 2 more years, going to have what, three more steamships, two more kids, and your own little league team.

Mr. STEINBRENNER. The way it is going.

Senator BARTLETT. We may call you back next year and see what is happening.

Mr. STEINBRENNER. I will be very happy to come.

Senator BARTLETT. When you get money now for these item-by-item reconstructions, what do you do, go to the bank for it?

Mr. STEINBRENNER. Up to this point, sir, I put off my seven ships, I put four of them in this year, for my 5-year inspections, with the U.S. Coast Guard into drydock and expended, for me, a considerable amount of money fixing them. I did not go—

Senator BARTLETT. What I did desire to know, if possible, is the general rate of interest that has to be paid for this type of money.

Mr. STEINBRENNER. On the Great Lakes, the best that probably an independent operator can hope to do is 5½ or 6 percent.

Senator BARTLETT. Pretty steep?

Mr. STEINBRENNER. Pretty steep.

Senator BARTLETT. Thank you very much.

Mr. STEINBRENNER. Thank you for the opportunity to testify.

Senator BARTLETT. Admiral Hirshfield, please. For the record, Admiral, you are accompanied, I note?

STATEMENT OF VICE ADM. JAMES A. HIRSHFIELD, PRESIDENT,  
LAKE CARRIERS' ASSOCIATION, CLEVELAND, OHIO; ACCOMPANIED BY MR. SCOTT ELDER, COUNSEL FOR THE ASSOCIATION

Admiral HIRSHFIELD. Yes, sir. I am accompanied by Mr. Scott Elder, who is counsel for our association.

Mr. Chairman, I have a prepared statement, and in the interest of saving time, I will propose to just thumb through it as you have heard us on this subject before, and although this is not the same hearing, we have submitted long and lengthy data on it.

Senator BARTLETT. The statement will be incorporated in the full text.

Admiral HIRSHFIELD. I would like to correct two typographical errors on the table on page 3. In the years 1940-44, where it shows the average, it should be 23.2 instead of 13.2, and on the next page, in the same year, it should be 22.3.

Senator BARTLETT. The corrections will be noted.

Admiral HIRSHFIELD. Mr. Chairman, the Great Lakes industry, we also have a table here showing the average. You have just heard Mr. Steinbrenner testify as to the age of his ships. The average of the fleet is over 48 years. There hasn't been any ships build since 1960. Canada, on the other hand, as Mr. Steinbrenner pointed out, has increased its fleet tremendously because of government aid.

Mr. Steinbrenner also pointed out the fact that very little cargo in the international trade is moving in American bottoms. The Canadian's tax liberalization has done a great deal. I might point out, also, that since 1949, they have built no fewer than 84 vessels of all types, and, of these, 21 are what we call maximum sizes. They will lift 25,000 tons, or more. We have six in our fleet.

We feel that one of the Treasury's objections in connection with S. 1773, which said they opposed it because of indiscriminate benefits, we can't quite understand how that would be when the Secretary of Commerce, or the Secretary of Interior, would have the control over the type of contract and who was entering into it.

We feel that this legislation is a must. Although we do not feel it is a panacea, or will solve all of our problems, we feel it is a definite step in the right direction. We feel, going into this matter, which Mr. Steinbrenner raised on the language, substantial reconstruction, we have been into that, and we would like to propose an amendment, which would read as follows—

Senator BARTLETT. On which page?

Admiral HIRSHFIELD. It appears on page 13 [reading]:

Reconstruction includes the reconstruction, reconditioning, or modernization of a vessel if the Secretary determines that the objectives of this act will be promoted by such reconstruction, reconditioning, or modernization.

Senator BARTLETT. That would take care, in your opinion, of the point raised by Mr. Steinbrenner?

Admiral HIRSHFIELD. This, in our opinion, would, Senator. Then, I have a corrected chart that I would like to submit in lieu of the one which follows. It is up to date.

Senator BARTLETT. Very well. Now, my recollection is that Mr. Steinbrenner said that the operators, situated as he is, would be

helped only through this reconstruction program. Are there other elements of the Great Lakes fleet that would be otherwise helped?

Admiral HIRSHFIELD. I certainly think so; yes, sir, Mr. Chairman. For instance, I can't speak for them. I was under the impression that the largest independent up there was interested, possibly, in a new ship.

Senator BARTLETT. It was understood that Mr. Steinbrenner was speaking only for his own situation, and those operators as small as he is.

Admiral HIRSHFIELD. I would think so; yes, sir. But I think it will help and, of course, as I have said before, the principal thing that worries us is the fact that we can't compete with the Canadians in this international trade, and we feel this is a step which I would hope would begin to get us back into that trade.

Senator BARTLETT. I will put to you, then, the same question that I did to Mr. Steinbrenner. Why can't we?

Admiral HIRSHFIELD. Well, Mr. Chairman, because of cheaper costs to the Canadians. They had a construction subsidy, as you know, up there, and they had this fast tax writeoff. Their construction costs, I am told, are about 75 percent of ours. Their crewing costs are about 60 percent. Those, with the added benefits from the favorable treatment of the Government, financially, have just made it impossible for our people to compete in this international trade.

Senator BARTLETT. Mr. Foster?

Mr. FOSTER. I would just like to ask one question about the amendment proposed. When Mr. Steinbrenner was testifying, he raised this problem as to what is meant by major reconstruction. I think there is a major problem here as to whether or not legislation should be directed toward a modernization of the fleet in terms of new construction, or directed toward the type of improvement of the fleet by encouraging reconstruction.

The problem that is raised, I think, could be met in part if it could be made clear that we are talking about a substantial improvement in the vessel that might not be accomplished at any one time, but might be accomplished if he was willing to contract for it over a period of several years.

But the setting aside of money in a fund of this type for modernization of the U.S. fleet to be used so someone could only put on a bow thruster, and that is all, might be something, again.

If some of these vessels are of the age indicated and need the conversion work that is suggested by that, it seems this could be handled, recognizing their problem, but accomplished over a period of several years.

Admiral HIRSHFIELD. It would seem to me that would be a good answer to the problem they have, Mr. Foster.

Mr. FOSTER. I have no further questions.

Senator BARTLETT. Thank you, Admiral, Mr. Elder.

(Prepared text and attachments follow.)

STATEMENT OF V. ADM. JAMES A. HIRSHFIELD, U.S. COAST GUARD (RETIRED),  
PRESIDENT, LAKE CARRIERS' ASSOCIATION

It is indeed a pleasure for me to appear before this Subcommittee in support of S. 1858. In essence, this legislation seeks to aid the non-subsidized segments of the hard-pressed American Merchant Marine by extending to them the privilege, now granted subsidized operators, or establishing construction reserve funds

through tax deferment on earnings. This privilege of the subsidized operator has been of immense benefit in replacing and upgrading the subsidized fleet. The result, in turn, has been clearly in the public interest because of the need for maintaining a merchant marine. To now extend the privilege to other segments of the American flag vessel industry, including that on the Great Lakes, will be even more in the public interest.

An association of vessel operators, whose members' vessels constitute almost 95% of the total American flag vessel tonnage on the Great Lakes, we have long advocated the need for legislative assistance in upgrading and modernizing the Great Lakes bulk cargo fleet. It may be recalled that in December 1963, I, and many others from the Great Lakes area, testified at length before this Subcommittee concerning the decline which has taken place in American flag Great Lakes shipping. It is not my purpose to reiterate all of that testimony here. It is sufficient to say only that conditions have not materially changed.

In the peak year of 1953, 403 bulk cargo ships were operating on the Great Lakes. Last year the fleet consisted of only 269 vessels. This year we are down to fewer than 260. Of these, most are of the 10,000 ton class and have an average age in excess of 43 years. By the end of this year at least 48% of the fleet will be 50 or more years old. In their day, these were fine ships and did their work well, but, by today's standards, they are relatively slow, inefficient and obsolete. The following tables show the age and composition of the American flag Great Lakes bulk cargo and self-unloader fleets:

*Combined U.S. Great Lakes fleet of bulk freight and self-unloading vessels as of yearend 1964*

| Year of construction | Number of vessels | Average age | Aggregate carrying capacity | Percent of total tonnage | Average carrying capacity per vessel | Number of replacement units <sup>1</sup> |
|----------------------|-------------------|-------------|-----------------------------|--------------------------|--------------------------------------|--|
| Prior to 1905        | 7                 | 63.0        | 50,200                      | 1.8                      | 7,171                                | 2.09                                     |
| 1905 to 1909         | 68                | 58.2        | 696,000                     | 24.1                     | 10,235                               | 29.00                                    |
| 1910 to 1914         | 26                | 53.9        | 293,200                     | 10.2                     | 11,277                               | 12.22                                    |
| 1915 to 1919         | 16                | 48.5        | 199,400                     | 6.9                      | 12,463                               | 8.31                                     |
| 1920 to 1924         | 18                | 42.6        | 225,700                     | 7.8                      | 12,539                               | 9.40                                     |
| 1925 to 1929         | 18                | 38.5        | 239,800                     | 8.3                      | 13,322                               | 9.99                                     |
| 1930 to 1934         | 2                 | 35.0        | 26,900                      | .9                       | 13,450                               | 1.12                                     |
| 1935 to 1939         | 4                 | 27.0        | 55,100                      | 1.9                      | 13,775                               | 2.30                                     |
| 1940 to 1944         | 21                | 23.2        | 336,700                     | 11.7                     | 16,033                               | 14.03                                    |
| 1945 to 1949         | 1                 | 16.0        | 20,800                      | .7                       | 20,800                               | .87                                      |
| 1950 to 1954         | 25                | 12.6        | 458,600                     | 15.9                     | 18,344                               | 19.11                                    |
| 1955 to 1959         | 6                 | 7.0         | 138,300                     | 4.8                      | 23,050                               | 5.76                                     |
| 1960 to 1964         | 6                 | 4.3         | 143,500                     | 5.0                      | 23,917                               | 5.98                                     |
| Total                | 218               |             | 2,884,200                   |                          |                                      |  |

<sup>1</sup> Replacement on basis of 80 percent maximum size ships (730 by 75 by 40 feet, 26,000 tons); 20 percent (620 by 60 by 35 feet) 16,000 or 24,000 per unit.

*U.S. Great Lakes bulk freight fleet (including crane ships), as of yearend 1964*

| Year of construction | Number of vessels | Average age | Aggregate carrying capacity | Percent of total tonnage | Average carrying capacity per vessel | Number of replacement vessels <sup>1</sup> |
|----------------------|-------------------|-------------|-----------------------------|--------------------------|--------------------------------------|--|
| Prior to 1905        | 4                 | 62.5        | 30,600                      | 1.3                      | 7,650                                | 1.27                                       |
| 1905 to 1909         | 53                | 58.2        | 563,500                     | 23.7                     | 10,632                               | 23.48                                      |
| 1910 to 1914         | 20                | 53.9        | 238,100                     | 10.0                     | 11,905                               | 9.92                                       |
| 1915 to 1919         | 12                | 48.4        | 157,900                     | 6.6                      | 13,158                               | 6.58                                       |
| 1920 to 1924         | 15                | 42.6        | 198,500                     | 8.4                      | 13,233                               | 8.27                                       |
| 1925 to 1929         | 11                | 38.6        | 157,600                     | 6.6                      | 14,327                               | 6.56                                       |
| 1930 to 1934         | 2                 | 35.0        | 26,900                      | 1.1                      | 13,450                               | 1.12                                       |
| 1935 to 1939         | 4                 | 27.0        | 55,100                      | 2.3                      | 13,775                               | 2.30                                       |
| 1940 to 1944         | 19                | 22.3        | 306,700                     | 12.9                     | 16,142                               | 12.78                                      |
| 1945 to 1949         | 1                 | 16.0        | 20,800                      | .9                       | 20,800                               | .87  |
| 1950 to 1954         | 20                | 12.9        | 381,000                     | 16.0                     | 19,050                               | 15.88                                      |
| 1955 to 1959         | 4                 | 6.5         | 98,500                      | 4.2                      | 24,625                               | 4.10                                       |
| 1960 to 1964         | 6                 | 4.3         | 143,500                     | 6.0                      | 23,917                               | 5.98                                       |
| Total                | 171               |             | 2,378,700                   |                          |                                      |  |

<sup>1</sup> Replacement on basis of 80 percent maximum size ships (730 by 75 by 40 feet, 26,000 tons); 20 percent (620 by 60 by 35 feet) 16,000 or 24,000 per unit.

*U.S. self-unloaders (including cement carriers) year of build or conversion to lake use*

| Year of construction | Number of vessels | Average age | Aggregate carrying capacity | Percent of total tonnage | Average carrying capacity per vessel | Number of replacement vessels <sup>1</sup> |
|----------------------|-------------------|-------------|-----------------------------|--------------------------|--------------------------------------|--|
| Prior to 1905.....   | 3                 | 63.7        | 19,600                      | 3.9                      | 6,553                                | 0.82                                       |
| 1905 to 1909.....    | 15                | 58.2        | 132,500                     | 26.2                     | 8,833                                | 5.52                                       |
| 1910 to 1914.....    | 6                 | 54.2        | 55,100                      | 10.9                     | 9,183                                | 2.30                                       |
| 1915 to 1919.....    | 4                 | 48.8        | 41,500                      | 8.2                      | 10,375                               | 1.73                                       |
| 1920 to 1924.....    | 3                 | 42.3        | 27,200                      | 5.4                      | 9,067                                | 1.13                                       |
| 1925 to 1929.....    | 7                 | 38.3        | 82,200                      | 16.3                     | 11,743                               | 3.43                                       |
| 1930 to 1934.....    |                   |             |                             |                          |                                      |  |
| 1935 to 1939.....    |                   |             |                             |                          |                                      |  |
| 1940 to 1944.....    | 2                 | 22.0        | 30,000                      | 5.9                      | 15,000                               | 1.25                                       |
| 1945 to 1949.....    |                   |             |                             |                          |                                      |  |
| 1950 to 1954.....    | 5                 | 11.4        | 77,600                      | 15.4                     | 15,520                               | 3.23                                       |
| 1955 to 1959.....    | 2                 | 8.0         | 39,800                      | 7.8                      | 19,900                               | 1.66                                       |
| 1960 to 1964.....    |                   |             |                             |                          |                                      |  |
| Total.....           | 47                |             | 505,500                     |                          |                                      |  |

<sup>1</sup> Replacement on basis of 80 percent maximum size ships (730 by 75 by 40 feet, 26,000 tons); 20 percent (620 by 60 by 35 feet), 16,000 or 24,000 per unit.

Assuming 50 years as the maximum economic operating life, our tabulations show the need for immediate construction of 52 large ships which would replace 117 existing vessels with an average age of 55.9 years.

There is an urgent need on the Great Lakes for these new ships. There is also an urgent need to reconstruct and modernize many existing ships. Unfortunately, in this day and age these things cannot be done by the vessel operator alone.

There is probably no industry in the country that has a larger proportion of its total capital tied up in fixed assets than the shipping industry. This makes vessel replacement an exceedingly important and difficult problem, particularly in view of modern day vessel construction costs. Canada, recognizing this, has, since 1949, encouraged the construction and conversion of vessels by permitting ship-owners to accelerate depreciation to the extent of writing off the capital cost of a new vessel, if they so elect, in three years. (Canadian Vessel Construction Assistance Act, R.S.C. 1952, c. 43, as amended, 1952-1953, c. 14 and 1957-1958, c. 12). The Canadian Vessel Construction Assistance Act also applies to conversions or major alterations, so that conversion costs, too, may be written off in as little as three years.

Another feature of Canadian law is that the proceeds of sale of a fully depreciated ship are not subject to recapture, that is, not subject to tax, if they are used to replace the vessel under conditions satisfactory to the Canadian Maritime Commission. This has led to a financing system in Canada called the "Angel Plan," based on a system of lease-option or hire-purchase agreements. Under the plan, the so-called angel will put up the money necessary to build a ship, which he will then depreciate in three years. The vessel, as soon as built, is chartered, bareboat, to an operator with the option to purchase the vessel at the end of a specific period. Since the charter is bareboat, the net result is that both the angel and the ship operator depreciate the same asset at the same time, with the operator being permitted to write off the ship at the rate of 15%. After the transaction has been fully completed, the angel can escape paying any tax on the fully depreciated vessel which he has sold either by investing the proceeds in another vessel or by disposing of the moneys to some other company or person which is planning to build a ship.

It is obvious that the Canadians have used to advantage a system of tax liberalization in order to stimulate and encourage new vessel construction. Beginning in 1962, however, they added, to tax liberalization, an outright construction subsidy of as much as 40%. It is understood that during the 1963 fiscal year alone the Canadian Maritime Commission approved 172 applications for subsidies, amounting to \$139,791,807 in construction costs, involving 117 different ship-owners and 47 shipyards. While much of the program was devoted to fishing vessels, a large proportion of the subsidy payments have gone into the construction of Great Lakes ships. (Seaports and the Transport World, April 1965, page 28.)

Since 1949, the Canadians have added to their Great Lakes fleet no fewer than 84 vessels of all types. Of these, 21 are 730' in length, having a beam of 75', a depth of 39' and a carrying capacity in excess of 25,000 tons. These are modern, efficient bulk cargo carriers and automated in accordance with the most modern day technology, resulting in considerable crew reduction. In all, the Canadians

since 1949, have expanded the carrying capacity of their Great Lakes fleet by better than 130%. Canada, however, is not alone in providing taxation incentives in aid of its merchant marine. It is understood that many other maritime nations extend tax benefits to their merchant fleets. We point this out merely to emphasize that legislation such as here contemplated for the non-subsidized U.S. merchant marine is not extreme or novel among the nations of the world. The benefits provided our merchant marine as a whole, fall far short of many other countries.

At the time this Subcommittee was considering S. 1773 in the last Congress, which provided, among other things, for the establishment of tax deferred construction reserve funds, the Department of the Treasury raised several objections to the legislation. Presumably those objections will be raised again if the Department of the Treasury has not already done so. Specifically, it was indicated in connection with S. 1773 that tax deferral is not a desirable means of providing assistance to the merchant marine because it conveys benefits indiscriminately. Clearly this is not the case with respect to S. 1858. The bill would not extend the privilege of establishing tax deferred reserve funds to any operator who does not first enter into an appropriate contract with the Secretary of Commerce, or with the Secretary of the Interior in the case of fishing vessels. We cannot visualize the Secretary entering into such contracts indiscriminately or not properly discharging his duty under the Act.

The Department of the Treasury also points to the 7% investment tax credit and the liberalization depreciation guide lines as being significant in reducing the foreign and domestic cost differential. This simply is not true, particularly in view of the type of legislation which has been enacted in Canada and the other maritime nations of the world. The fact remains that the tax deferral provided by S. 1858 is earnestly needed. The vessel industry on the Great Lakes believes that there is real merit and virtue in legislation such as that proposed by S. 1858, although we must hasten to emphasize that this legislation will not of itself solve the pressing replacement problem on the Great Lakes.

That problem arises not alone out of the age of the fleet or the inability of private operators to generate the necessary investment capital. In large measure it arises from the fact that the Great Lakes operator must utilize his vessel not only in domestic trade but should also be able to do so in the important and growing international trade in bulk commodities between the United States and Canada. As more and more commerce moves between the two countries, our own domestic suppliers are experiencing difficulties in competing for markets. We can't carry our own imports, and at the same time those imports are reducing domestic commerce that would be otherwise available to U.S. ships. Iron ore offers a graphic illustration. In 1958, 87.26% of the total Great Lakes iron ore movement was between United States ports and was carried exclusively in American flag vessels. Last year only 73% of the total Great Lakes iron ore movement was between United States ports.

Similar declines are evident in the coal and stone trades, and particularly in the grain trade, where last year our vessels transported only 13% of the total grain cargoes moved on the Great Lakes. In May of this year only 9.2% of grain cargoes moved in our ships.

As the international trade in bulk commodities increases, the American Great Lakes operator, faced with a modern and expanded Canadian fleet, is finding it more and more difficult to secure any of this trade. The problem is twofold. In the domestic trade he must replace many existing vessels and modernize others if he is to increase efficiency to meet the competitive needs of suppliers in these trades. In the international trade, he must compete with a modern, low-cost Canadian fleet, which has been stimulated by construction subsidies and rapid depreciation. The ingenuity and enterprise of the Great Lakes operator has and will carry him a long way in maintaining the fleet necessary to meet national needs, but some factors in foreign competition are not reachable through business ingenuity and enterprise. If there is to be an adequate, privately owned American flag fleet on the Great Lakes in the years to come, it is perfectly plain that more encouragement than now exists must be accorded by our laws. A way must be found which will provide the necessary vessels at a reasonable and competitive cost, a cost which will enable American flag operators to preserve the domestic trade of the lakes and capture their fair share of international trade between the United States and Canada. It is hoped that S. 1858 is such legislation, at least it is a step in the right direction.

Insofar as the Great Lakes are concerned, one of the most important features of S. 1858 is the provision that would permit the use of tax deferred reserve funds

for the reconstruction of existing vessels. Age and obsolescence is rapidly taking its toll on the Great Lakes. Many vessels are in need of reconstruction and reconditioning if they are to be preserved. In numerous instances, vessel operators are not now in a position to build new ships, and it will be necessary for them to reconstruct and recondition their existing fleets, if they are to be in a position to build new ships later on. For these reasons, we feel that the reconstruction features of the bill should be liberally construed and administered.

In 1952, Section 511 of the Merchant Marine Act, 1936, was amended to include reconstruction and reconditioning of existing vessels. At that time the Section was further amended to include, insofar as Great Lakes vessels are concerned, the "reconstruction, reconditioning or modernization of a vessel." The Report of the House Committee on Merchant Marine and Fisheries, which considered the 1952 Great Lakes amendment to Section 511, states in part:

"One of the most significant aspects of the amendments to section 511 is that which permits the modernization of vessels employed in service on the Great Lakes. In the case of shipping on the Great Lakes there are many vessels having sound hulls which have been operating in the fresh water of the Lakes for as much as 40 to 50 years. They have, however, become obsolete, or inefficient, or worn out in their machinery, quarters, and cargo-handling equipment. If this bill becomes law, these vessels may be modernized so that they will be able to provide up-to-date service in this vital segment of our merchant marine."

There should be harmony between Section 511 and the new law proposed by S. 1858. The term "reconstruction" should be interpreted to mean the same in both instances. It should be permissible to utilize funds set aside under authority of S. 1858 for any of the purposes now authorized under Section 511 of the Merchant Marine Act, 1936, as amended. Thus it is urged that the word "substantial" be stricken in line 5, page 1, line 25, page 2, lines 2, 6, 7, 10, 11, 20 and 21, page 3 and line 12, page 4, and that paragraph (i) of section 9 of the bill be amended to read as follows:

" 'Reconstruction' includes the reconstruction, reconditioning or modernization of a vessel if the Secretary determines that the objectives of this act will be promoted by such reconstruction, reconditioning or modernization."

The seriousness of the replacement problem on the Great Lakes is obvious. It is encouraging to see this Subcommittee endeavoring to evaluate the needs of Great Lakes operators and to develop a maritime policy which embraces those needs. We earnestly hope that the Congress will give early and favorable consideration to his legislation.

*Vessels removed from U.S. Great Lakes bulk freight fleet for nonnavigational use (including crane boats)*

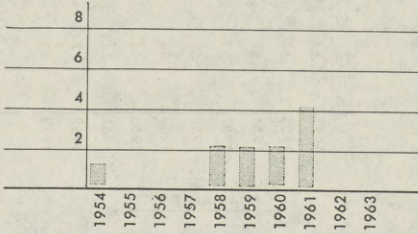
| Year        | Number of vessels | Carrying capacity | Equivalent units new vessels | Yearend total fleet capacity | Percent change, plus or minus | Tonnage not in commission | Percent reserve at yearend |
|-------------|-------------------|-------------------|------------------------------|------------------------------|-------------------------------|---------------------------|----------------------------|
| 1955-----   | 15                | 106,064           | 4.42                         | 2,879,950                    | -3.52                         | 60,767                    | 2.11                       |
| 1956-----   | 1                 | 6,300             | .26                          | 2,862,250                    | -.61                          | 30,626                    | 1.07                       |
| 1957-----   |                   |                   |                              | 2,807,052                    | -1.93                         | 0                         | 0                          |
| 1958-----   | 3                 | 21,500            | .90                          | 2,846,700                    | +1.41                         | 540,304                   | 18.98                      |
| 1959-----   | 9                 | 60,100            | 2.50                         | 3,026,450                    | +6.31                         | 40,252                    | 1.33                       |
| 1960-----   | 8                 | 60,300            | 2.51                         | 2,970,350                    | -1.85                         | 118,220                   | 3.98                       |
| 1961-----   | 30                | 225,410           | 9.39                         | 2,855,650                    | -3.86                         | 486,602                   | 17.04                      |
| 1962-----   | 5                 | 44,500            | 1.85                         | 2,752,900                    | -3.60                         | 537,641                   | 19.53                      |
| 1963-----   | 14                | 118,100           | 4.92                         | 2,606,300                    | -5.33                         | 456,624                   | 17.52                      |
| 1964-----   | 4                 | 39,500            | 1.65                         | 2,459,800                    | -5.62                         | 335,517                   | 13.64                      |
| 6-1965----- |                   |                   |                              |                              |                               |                           | 10.00                      |
| Total-----  | 89                | 681,774           |                              |                              |                               |                           |                            |

NOTE.—Net reduction, 1954-64—17.59 percent.

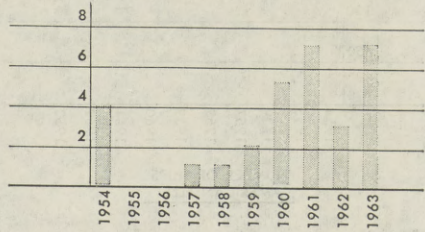
**GREAT LAKES ORE CARRYING SHIPS**

LAKE CARRIERS' ASSOCIATION

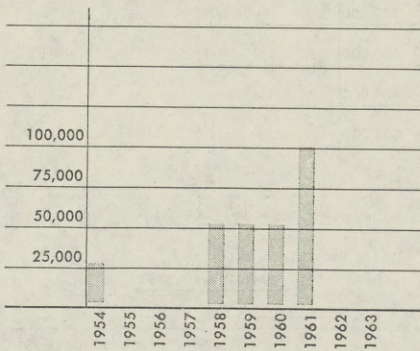
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IN 10-YEAR PERIOD



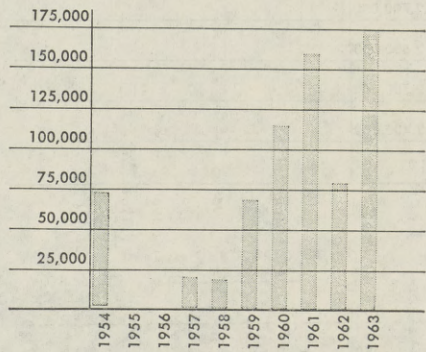
30 SHIPS ADDED TO FLEET  
IN 10-YEAR PERIOD



NUMBER OF SHIPS ADDED TO FLEET  
AMERICAN REGISTRY



NUMBER OF SHIPS ADDED TO FLEET  
CANADIAN REGISTRY

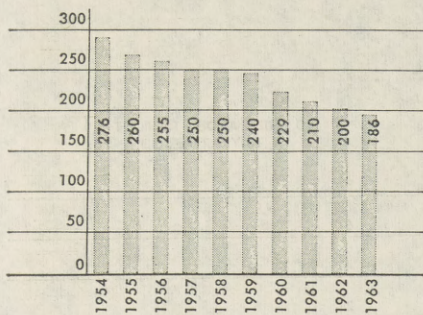


TRIP CAPACITY ADDED TO FLEET  
AMERICAN REGISTRY

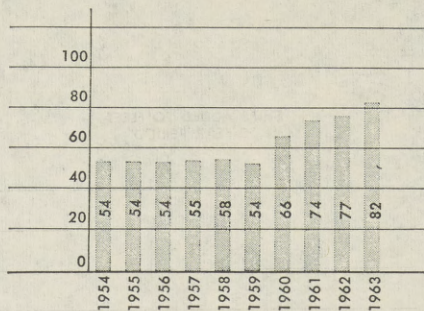
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CANADIAN REGISTRY

**GREAT LAKES ORE CARRYING SHIPS**

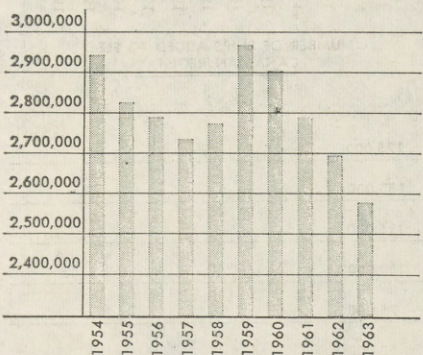
LAKE CARRIERS' ASSOCIATION



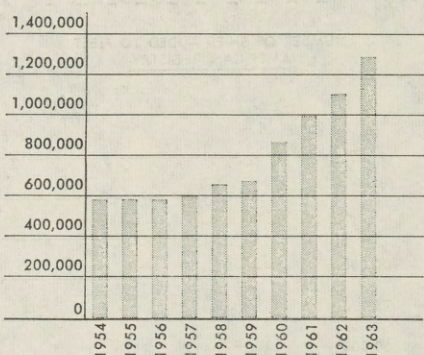
NUMBER OF SHIPS  
AMERICAN FLEET



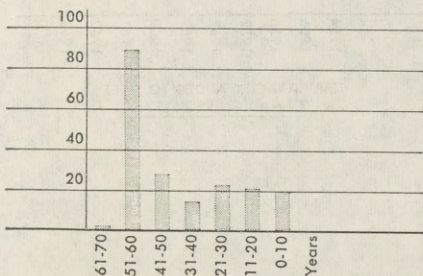
NUMBER OF SHIPS  
CANADIAN FLEET



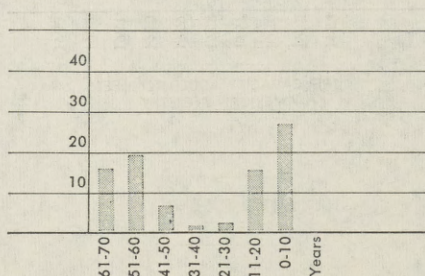
TRIP CAPACITY (Gross Tons)  
AMERICAN FLEET



TRIP CAPACITY (Gross Tons)  
CANADIAN FLEET



AGE OF SHIPS  
AMERICAN FLEET



AGE OF SHIPS  
CANADIAN FLEET

Senator BARTLETT. The next witness is Mr. Coles.

**STATEMENT OF MARVIN J. COLES, WASHINGTON, D.C.**

Mr. COLES. Mr. Chairman, for the record, may I say my name is Marvin Coles. I am an attorney and I represent a number of subsidized lines. I have a rather lengthy statement, which I ask to have published, with your permission, and then may I comment on it somewhat more briefly.

Senator BARTLETT. Permission granted.

Mr. COLES. May I say I speak here for the American-flag bulk carriers whom I represent. I have no argument with Mr. McLean and fully support his position, but I think we should point out that we, in the bulk cargo trades, have foreign competition, and while we fully support the purpose of this bill, and while we fully support the tax deferment which it would grant, and hope the bill would be enacted, we feel that the bill in its present form will not help the American-flag bulk fleet to be rebuilt.

May I point out that it must be rebuilt because we are now getting to the end of the useful life of most of these vessels.

If I may, I should like to comment briefly as to the background problems of the bulk fleet, then discuss why I do not believe this bill will solve the problems, and lastly, discuss what I think may be necessary in the way of amendment, if we can get a new bulk fleet built.

Senator BARTLETT. If you please.

Mr. COLES. I don't think it is necessary, Mr. Chairman, to discuss the needs of a bulk fleet. I think that is too well known to you. May I point out just that the most important cargoes we have in the export and import trade are coal to fuel the steel industry of our allies abroad, grain to feed our allies abroad, and on the import side, iron ore, petroleum, and bauxite to our own industries. We need the ships, both in peacetime and wartime, to carry these truly essential cargoes.

May I also point out that a bulk ship is a very different breed of cat than is a line ship. We have been using liner-type vessels in large measure in this country for bulk shipping and when I use the word "bulk" I include the word "tramp" shipping, as well as bulk shipping, because they have been the only vessels available to us. However, liner-type ships, with their fine lines, their multidecks, and their high speed, are not basically suitable for the bulk trades. We must have suitable ships. We must recognize, I think, that the ships are not ends in themselves, they are means of moving cargo, and if the cargo is bulky, we must have ships that are suitable to the movement of bulk.

Now, foreign nations have in the past dozen years built amazingly huge fleets of bulk carriers. These are specialized vessels. They are already building them up to 80,000-deadweight-ton capacity, and I daresay within the next 3 years, they will get above the 100,000-deadweight-ton capacity. We must also build highly specialized bulk ships of large size, which can compete with the world market with the foreign modern ships.

Now, you may ask why have the foreigners built these huge fleets and we have not? The answer is a very simple one. It is the answer of cost. Our construction costs and our operating costs are so much

higher than foreign costs, that we just cannot compete in the world market. We have had over the years cargo preference which has paid a substantial differential to the American bulk carrier. But we must recognize that we have had no assurance of continuity of that cargo preference program; we have had no assurances as to what the future volume of that program would be, and we have had very serious rate problems under the Maritime Administration scales.

So that up to now, we have had no background which would make investment in American-flag bulk carriers a sound investment. And it seems to me that the basic problem which must be solved by the Congress, because of this rate differential, is to get over this cost differential.

Now, I think that what we require is basically what is given to the liner trades. It has worked and has worked beautifully and has built a very fine fleet of American liners. I believe the same things are required for our bulk cargo ships; namely, construction-differential subsidies, operating-differential subsidy, and continuation of cargo preference although the differentials may be reduced. Under this bill, the basic provisions would provide for contract for new building and would require the deposit in a capital reserve fund to be set up under the contract of the "depreciation charges, as earned," and then I am quoting:

any percentage of differential payments received on the movement of cargo under section 901(b), Merchant Marine Act, 1936, as amended, that the Secretary determines is from profits and is necessary to fulfill the contractor's obligations under the contract.

Now, when put into this capital reserve fund for the rebuilding of ships, they will be given a tax deferment, not a tax deduction, not a tax exemption, but a tax deferment to the extent that the funds are invested in new vessels. And as Mr. McLean so well said, this is not a reduction in the total overall tax, but merely will permit owners to use at this time, moneys which would otherwise be paid in taxes, and to pay that tax at a later date. This is highly desirable and again I want to emphasize, Mr. Chairman, that we all support this bill as to its tax deferment features and also the purpose of the bill.

Now, as I stated at the beginning, however, it is not sufficient to cure the problems of the bulk fleet or to get new bulk ships developed, because it doesn't solve the cost differential problem which we, in the foreign trades, have of competing with foreign-flag vessels.

Now, we also do not solve it because it does not give us any assurance of perpetuation of cargo preference in a volume and at rates which would permit capital to flow into these bulk ships. There is, moreover, Mr. Chairman, what for our operators is a very practical dollars and cents problem.

Many, and I dare say most, of the unsubsidized ships in the bulk and tramp trades are mortgaged and under the mortgage indentures the cash flow coming from depreciation and the profits coming from earnings must go to pay the mortgage obligations. I might add, parenthetically, that the profits to the American bulk carrier is far less than the differential cost under 50-50 to the Government, for the large part of that differential cost goes to pay out our differential and is not profit.

Now we have another problem which is that under the maritime system of setting rates, which I will get to more fully in a moment,

we have no way of making up in good times under 50-50 the losses which the bulk carriers suffer in bad times, so you cannot get that continuity of profit which will justify capital investing in American-flag bulk ships.

Now, I would like to point out, also, that in addition to the general bulk carriers, the title XI ships, principally tankers, which are used in the grain trade in large measure, have mortgage obligations which require that their earnings be put into restricted funds to support the mortgage and the Government guarantee. We cannot, in other words, use the same dollars twice. We cannot, as this bill suggests, use money which we need for mortgage payments or for restrictive fund deposits to be deposited in a capital reserve fund as suggested by this act.

May I also point out that it is rather difficult to see that even if it were in some ways possible to do that, or in the case of the vessels whose mortgages may not exist or are small, how a Liberty ship could be thought able to earn sufficient moneys in the next several years even to make deposits sufficient for a downpayment on a new bulk carrier.

Having been critical of the bill, may I try and come out with some constructive suggestions. First, I think that the construction subsidy must be granted. Under title V of the act, the Maritime Administration has the power to grant construction subsidies. We have had an application pending for one client of ours for over 2 years. It was originally joyously received, it was processed, but it has been held up now pending further study. I regret to say that within the past several weeks, that owner, whose fleet is rapidly wearing out, and who has, to my knowledge at least, never operated anything but American-flag tonnage, has bought two substantially similar foreign-flag bulk carriers. He still wishes to participate in the construction program and subsidy program, but at least part of his capital has of necessity been diverted into foreign ships. I think that the greatest thing that this committee can do would be to urge action on construction subsidy being taken as soon as possible. I might add that without construction subsidies as a base, I do not see any possibility for a bulk ship program.

I think that if we could start with construction subsidy, any other assistance given to bulk operators should be available to those who have taken the basic risk under existing law to go ahead, and there are numerous applications on file to do precisely that. I think this is the very first step which must and should be taken.

Second, I think that we must have some assurance that the cargo preference law will continue, and that it will be enforced. I believe that the "at least 50 percent" clause should mean not at most 50 percent, as it is presently interpreted, but that efforts should be made to move ahead and get more cargo for American ships.

I also recommend that the method of computation of rate ceilings by the Maritime Administration be changed because I feel that these have been a deterrent to new building. As you know, the Maritime Administration sets a rate ceiling. We very rarely get to those rate ceilings. However, they are based on a reasonable profit to the owner on a particular voyage, but do not, as I previously mentioned, make allowance for his losses on other voyages. It would seem only equitable as well as necessary that the rates be computed on an annual or

biannual basis to allow a reasonable profit over a period of time, rather than come up and say, on a voyage-by-voyage basis we will give you a ceiling, but we will give you no floor and no recomensatory loss.

Second, only the Maritime Administration's rate ceilings provide a rate for a basic small ship. In many, if not most trades, they provide that the rate for a ship over 15,500 tons shall be 20 percent less, in other words, it is a ceiling minus 20 percent, becomes the ceiling for bigger ships. This discourages new building in the modern ships. The net result is that we don't get new ships built because we cannot profit. It would be my suggestion that this be changed so that the normal competition in the marketplace would work in the American market as well as in the foreign market.

One other item which I think should be mentioned. In going ahead with a program of this kind, I think we must recognize that people have put many millions of dollars in these title XI ships. Perhaps construction subsidy for them could be made retroactive. Perhaps operating subsidy could be given them for the future, but some allowance must be given under the cargo preference law to make certain that the new policies do not bankrupt these new and very modern ships.

Last, a third project of a program for bulk ships is operating differential subsidy. This does require new legislation, according to prior decisions of the Maritime Administration's counsel. And with your permission, I should like at a later date to suggest an amendment to title VI so as to include within the coverage of operating subsidy legislation, bulk and tramp vessels.

Senator BARTLETT. Surely.

Mr. COLES. As I said before, it has worked for the liners and I think it would work again.

Again I emphasize, however, Mr. Chairman, that we must have cargo preference, although the rate differentials will become less, as the new ships give a lower cost differential. A Liberty ship today, compared with modern foreign bulk carrier, has a large differential paid by the Government. A modern American ship, built with construction subsidy, will have a lower differential. With a construction subsidy and with an operating subsidy, the differential may be largely if not completely eliminated, but nevertheless we need cargo preference, because if not, we would receive nothing that the foreign owner does not already have.

For example, the foreign owner can build today at a cost equal to or less than an American owner could build even with construction subsidy. He can operate with a cost equal to or less than an American ship could operate even with operating subsidy. He has all of the tax advantages which this bill would give and more, because he basically pays no tax.

Last, he can obtain financing today from the shipyards and financing institutions which are equal to or better than that which he can get today under existing title XI legislation.

May I again state, Senator, that we fully support this bill. We hope that this bill will be enacted, but we suggest and request that it be amended so as to provide for the building of the bulk fleet.

(Complete text follows:)

## STATEMENT BY MARVIN J. COLES ON S. 1858

My name is Marvin J. Coles. I am a lawyer having offices at 1000 Connecticut Avenue, Washington, D.C.: a substantial part of my practice is representing operators of American-flag bulk ships and tankers. Included among our clients are two having applications pending for construction-differential subsidy for the building of new American bulk carriers. While I support the purpose of S. 1858 to promote the replacement and expansion of the United States nonsubsidized merchant fleet and to grant tax deferments to unsubsidized operators, I do not believe that the Bill as presently drafted would accomplish its basic objective. For that reason, I should first like to outline the needs and problems of the bulk fleet, then submit reasons why I believe the Bill in its present form cannot accomplish its objectives, and finally submit to the Committee a plan which I believe would promote the building of an adequate American-flag bulk fleet.

The need for an American bulk fleet is too well known for me to belabor the point other than to say that bulk cargoes constitute the major portion of our country's imports and exports. These include coal and grain as our major exports: these are the foods to feed our allied nations and the coking coals for their steel industry. Our largest imports are iron ore, petroleum, bauxite and other commodities essential both to our peacetime and wartime economy. While bulk cargoes can be carried on almost any type of ship, a bulk ship is a completely different breed of cat than a liner vessel. In the same way that coal or grain could be carried in a Woodward & Lothrop delivery van, and furniture could be carried in a coal truck, doing so is inefficient and uneconomic. To carry bulk cargoes in fine-lined, fast, multi-decked liner vessels is also inefficient and uneconomic: we cannot compete in the world bulk carrying trades with vessels of the liner type. Other nations have developed bulk carrying fleets constructed to facilitate loading, discharge, and carrying of bulk commodities efficiently and at economic rates. Our Merchant Marine requires such specialized bulk carriers: they are essential to our having a well balanced fleet necessary to serve our national needs. Ships are not ends in themselves, but merely a means of moving cargo. As the huge preponderance of our nation's cargoes are now cargoes in bulk, we must have specialized bulk carrying vessels.

While foreign nations have built great fleets of bulk carriers in recent years to meet the needs of world trade, there has been literally no construction of this type vessel in the United States: we are still relegated to using war-built vessels, many of the liner type, for our bulk shipping operations. The reason is an economic one. Foreign-flag owners have been able to build and operate ships at costs sufficiently low to make them attractive investments. In our country, construction and operating costs are so high comparatively that American-flag bulk ships can not be competitive in the world market. While the Cargo Preference Act differential benefits operators of American-flag bulk ships, there has been and is no assurance of its continuity or of the scope of these programs. These factors plus the Maritime Administration rate ceilings which make no allowance for loss voyages, and the Administration's rate system under which larger vessels receive rates 20 per cent less than those approved for smaller ships, have precluded investors from building this type of American tonnage.

To have an American-flag bulk fleet constructed in American shipyards, we must be able to show that these ships will be sound investments returning a reasonable profit. How can this be done under existing cost differentials as compared with foreign-flag bulk ship? First, there must be an extension of the parity system through construction subsidy to ensure that American ships can be built in this country at the same costs as similar vessels can be built abroad and with comparable credit terms. Second, there must be assurance of cargoes for American-flag bulk ships. Third, the operating cost differential of American vessels in excess of those of their foreign competitors must be met either by the payment of operating subsidy or by the continuation of a dual rate system for Cargo Preference cargoes providing rates for American ships reflecting their costs in excess of those of foreign-flag ships. While this program would seem to require the expenditure of additional government funds, I believe it would also result in government savings and revenue through the fact that the differential under 50-50 would be less than at present, the government would gain a bulk merchant fleet that would be modern and competitive, our bulk exports and imports could and would be carried on American ships with substantial help to our serious balance of payments position, and the tax revenues from the operation of these ships should be substantial.

The salient provisions of S. 1858 provide that the Secretary of Commerce may contract with qualified persons for the construction or reconstruction of American-

flag vessels (Section 1). The terms to be included in such contracts are set forth in Section 2 and include a provision for the creation and maintenance of a Capital Reserve Fund. Section 3 specifies what deposits shall be placed in the Capital Reserve Fund; among these are the "depreciation charges, as earned," and "any percentage of differential payments received on the movement of cargo under section 901(b), Merchant Marine Act, 1936, as amended, that the Secretary determines is from profits and is necessary to fulfill the contractor's obligations under contract." That section also permits the contractor to deposit other earnings from vessel operations. Somewhere we have lost section 4. Under section 5, deposits of capital gains, earnings and differential payments into the fund are taxed in the same manner as are deposits of subsidized operators under section 607. Withdrawals from the Fund are covered by section 6 and Investment of the Fund in section 7.

Under section 8, provision is made that no operator of a nonsubsidized vessel may receive any differential payments for cargo moved by his vessel pursuant to the Cargo Preference law unless the operator has concluded a contract with the Secretary under this Bill before January 1, 1967. The definitions of terms used in the Act are set forth in section 9.

The principal result of this legislation would be to grant a tax deferment to unsubsidized operators substantially similar to that given to subsidized shipowners under section 607. Certainly this is a most desirable purpose and I heartily endorse it. But I respectfully submit to the Committee that this is not sufficient to provide the building of the bulk fleet which I believe the Committee desires. For this legislation does not cure the basic cost disparity between American construction and operating costs as compared to foreign competitors. Moreover, this legislation does not provide any assurance that the Cargo Preference statute will continue to provide cargo volume over a period of time sufficient to permit the repayment of investments in the new ships. There is no assurance under this legislation that rate differentials paid on Cargo Preference will be sufficient to justify the large investments which the new bulk ships will require. In my own opinion it is not reasonably probable that sufficient funds will be available for payment into the Capital Reserve Funds established by this legislation, to permit the desired new building despite the proposed tax deferment.

Moreover, there are practical dollar and cents problems which I think preclude the proposed legislation from accomplishing its purpose. Many if not most of the unsubsidized vessels are heavily mortgaged. Under their mortgage requirements, they are required to pay a major percentage of their depreciation and profit to repay their obligations. One cannot use the same dollars for mortgage purposes as well as for Capital Reserve Fund deposits. While the major portion of the profits which many of the unsubsidized ships make comes from the differential payments under the Cargo Preference Act, the profits to the shipowner are much less than the differential payments. Most of the differential payment goes to make up their cost differentials. The differentials do not guarantee a profit. For the rates set by the Maritime Administration fix ceilings but make no allowance for floor rates and no provision is made in the maximum rate structure to recompense for losses in bad times when rates are substantially below such ceilings.

Under section 3(b) of the Bill, each contractor would be required to deposit in his Capital Reserve Fund the depreciation charges as earned and any percentage of the differential payments received under the Cargo Preference Act that the Secretary determines is from profit and necessary to fulfill the obligations under the contract. How can the monies required to be paid on the existing mortgages be deposited in a Construction Reserve Fund to build a new ship? How can deposits be made of earnings of new ships built under Title XI when the mortgage documents require that surplus earning be deposited in Restricted Funds to secure the mortgage and the government's guarantee? How can the Title XI owners be expected to make deposits when they are often unable to meet their existing mortgage commitments? How can the earnings on a Liberty ship, today having a value of say \$300,000, be expected in any reasonable period of time to be sufficient to make even the downpayment on new construction? As I know of no answers to these problems, I must conclude that the Bill in its present form cannot serve the intended purpose in the absence of amendment to solve the basic cost and earnings problems with which our bulk ships are faced.

Having been critical of the existing Bill, may I try to make some positive suggestions as to how American-flag bulk ships can be constructed. First and at the basis of any program, is granting construction-differential subsidy to build these vessels. Since the war, our bulk fleet has utilized ships sold by the government at prices much below American building costs. I do not know of any prognostication

that an American-flag bulk fleet could be built without construction-differential subsidy. Authority for the granting of such construction subsidy exists under Title V of the existing Act. Applications have been filed with the Maritime Administration in past years but, since 1946 at least, I know of no application for an unsubsidized bulk carrier which has been approved. At the present time there are applications for a substantial number of bulk vessels to be built with construction subsidy aid. One of these, by a client I represent, has been pending for over two years. The Maritime Administration has not taken any final action on these construction subsidy applications pending a study of the overall problems and has not asked for any appropriations. It seems to me that the most important starting point for this Committee would be to urge the Maritime Administration to process these present applications and to make a start on a bulk fleet program by granting construction subsidy as soon as possible. Those owners who are willing to risk their capital with the construction subsidy should be given the opportunity to proceed, with the right later to obtain operating subsidy or other assistance which may subsequently be made available to later applicants. If construction subsidy applications were approved today, it would still take several years before the new ships would be delivered because of the need to seek appropriations, go through the contracting procedure, and to allow for the building of the ships. Let a start be made now on construction subsidy, as I believe all will agree that this is a primary part of any bulk ship program.

Second, is that Cargo Preference laws be continued and their enforcement improved. It should be made clear that the "at least 50 per cent" means that efforts should be made to secure a larger volume of government financed cargoes for American ships. Also important, is that the system of rate ceilings which are imposed by the Maritime Administration be changed. Under existing procedure, the rates are set to allow a reasonable profit on particular voyages. Unfortunately, the rate ceilings make no allowances for the losses which owners incur during many other voyages when rates are such as to permit no profit and often result in substantial losses. May I suggest that the rate ceilings be modified so as to provide for an allowance for bad periods: this could be done by setting a reasonable return to the invested capital on an annual or bi-annual basis and not upon a single voyage basis.

At present, the Maritime Administration's rate ceilings specify a ceiling rate for smaller ships and then provide in many trades that ships in excess of 15,000 deadweight tons shall have a ceiling rate of 20 per cent below the smaller ship rate. This provision handicaps the efficient ships, for we must recognize that the larger the ship the lower cost per ton carried. Because of this 20 per cent rate differential, the incentive to build larger and more efficient ships is largely destroyed. May I suggest that elimination of the 20 per cent differential and returning to a single rate ceiling will permit normal competitive forces to work in the American as well as the world market and will grant and provide an incentive to build efficient vessels having a lower cost per ton carried and hence a lower differential cost to the government.

Considering Cargo Preference for the future, may I ask the Committee to give serious thought to the existing Title XI ships and to ensure that these vessels are not handicapped by new programs? Many of the tankers which have been built by private capital with government mortgage guarantees are engaged in the carriage of grain, which is the largest Cargo Preference cargo. These vessels are highly efficient grain carriers: grain flows in and out of tankers substantially in the same manner as does petroleum. Perhaps construction-differential subsidy could be given retroactively to these ships and perhaps operating-differential subsidy can be given to them for future operations. But in any event, continuation of Cargo Preference with rate differentials are essential if these ships are not to be bankrupted. It becomes important, I believe, that the Committee's program to aid the building of a new bulk fleet not injure those people who have previously invested their capital in American ships under the Title XI program.

The third prong of a program for development of an American-flag bulk fleet is the granting of operating-differential subsidy. There is a legal question of whether authority exists in existing law to permit the granting of operating subsidy to vessels which do not engage in the liner trades on essential routes. There have been prior rulings by Counsel to the Maritime Administration that it does not, so that I would assume new legislation is required. With the Committee's permission, I should like to submit a proposed amendment at a later date which would permit granting of operating differential subsidy to bulk carriers. The same reasons exist for granting operating subsidy to bulk carriers as to American liner vessels. The concept of placing American ships on a cost parity with foreign

vessels has proven eminently successful in the case of our liner fleet and should be adopted for our bulk fleet. The differential can be based on the weighted costs of major competing flags in the bulk trades compared to American-flag costs. Under an operating subsidy program, we can ensure continuity of the bulk vessel program for many years to come.

Before closing, may I reemphasize my belief that continuation of Cargo Preference is essential if we are to have an American-flag bulk fleet. Certainly the experience of our subsidized liner companies and their reliance upon Cargo Preference for a major portion of their carryings shows the importance of preference cargo even to subsidized vessels. While Cargo Preference must be continued, it is certainly foreseeable that the differentials will be substantially reduced as the cost discrepancies between American and foreign bulk ships are reduced by the programs suggested. Conceivably, with operating as well as construction-differential subsidy, these differentials can be eliminated or substantially minimized. But unless there is some cargo guaranteed for American-flag ships, there is little incentive to capital to invest in American-flag bulk ships as compared to similar investments in foreign-flag ships. We must recognize that capital flows where the greatest return with comparable safety can be found. Today foreign-flag operators can build their vessels at the same cost American owners would have if granted construction subsidy aid. Foreign-flag owners can operate their vessels at the same cost that American owners would have if operating subsidy were granted. The tax advantages to the foreign owner today are even more substantial than those which would be granted by the pending Bill. Financing arrangements available today to foreign owners are equal to or superior to those available to Americans under Title XI. Under these circumstances, the incentive to build under American flag can only be maximized by insuring that cargoes will be available to American-flag vessels. With such availability, the American owner can compete in the world market. Without it, he would be seriously handicapped even with all of the other advantages which have been suggested.

May I thank the Subcommittee for the attention which it is giving to this very pressing problem of our bulk fleet. May I also extend my thanks to the distinguished members of the Senate who are participating in this effort in their joint introduction of the pending Bill. As our warbuilt ships are rapidly becoming physically and economically obsolete, the solution of the problems of our bulk fleet must be resolved soon and we are grateful that this Committee has now undertaken this job.

Senator BARTLETT. If your suggestions were to be followed, Mr. Coles, wouldn't that be taking a pretty big bite, in addition to the very sizable one we are operating on now?

Mr. COLES. Do you mean by that a new legislative bite or money bite?

Senator BARTLETT. Legislative. By adding to this bill, in the form of necessary language, some of the suggestions you have incorporated. My point is this: If the Congress is to seek to do that which you recommend, I am wondering whether it wouldn't be advisable to do so by separate legislation.

Mr. COLES. That, of course, is a matter for your decision and discretion. I think the only legislative change required would be to amend title VI. I think the cargo preference matter could be handled by legislative direction. I think that the construction differential subsidy law already exists as, of course, does the cargo preference.

The only new legislation would be the operating subsidy provision.

Senator BARTLETT. Save and except cargo preference, what financial help, direct or indirect, do the bulk carriers now receive from the Federal Government?

Mr. COLES. As a practical matter, none. They have the right to construction subsidy under the law, but since 1946 there has not been, to my knowledge, any approval given to construction subsidy aid to bulk carriers, despite the numerous pending applications.

As far as title XI goes for bulk carriers, I do not know of any bulk carrier built with a title XI guarantee. So the answer is basically "none," except cargo preference. There, of course, are no tax benefits.

Senator BARTLETT. Cargo preference is from year to year?

Mr. COLES. No, the law, 901(b), is now permanent legislation. But we never know what the amount of the cargo preference will be, what, if any, restrictions will be put in the cargo preference laws. For example, in the last Congress, the requirement that the foreign-flag portion of the American rate be paid by the foreign governments, most important, we don't know what the rate structure will be, because we are competing, and it is only rarely that we get to the rate ceilings.

Senator BARTLETT. How has the American bulk carrier fleet, Mr. Coles, fared during the last 20 years, in respect to tonnage?

Mr. COLES. When you say the bulk carrier fleet, in terms of bulk carrier vessels, I want to divide it into two parts. We have two vessels built with construction subsidy in 1946, which are bulk carriers. There have been several T-2's which have been converted into bulk carriers, and then there is a second part of the fleet, which ranged from Liberties, Victories, C-2, C-3, and a few C-4's.

Now, those vessels in the latter category are basically, with the possible exception of the Liberty, liner vessels, which are used in bulk trades because there is nothing else to be used. The number has, perhaps, remained constant and conceivably has increased.

If you will take away the postwar tonnage, the quantity of the tonnage has not increased very much, and these vessels have become older and older without replacement. They are now all approaching 20 years' depreciation.

Senator BARTLETT. We have had no ships built specifically for this trade in recent times?

Mr. COLES. Not in 19 years.

Senator BARTLETT. Mr. Foster.

Mr. FOSTER. Mr. Coles, roughly how many vessels are we talking about in this trade?

Mr. COLES. Do you mean now?

Mr. FOSTER. Yes.

Mr. COLES. You can take those figures, and I can't give you an answer. I would say somewhere in the neighborhood of 100. However, many of those will be under time charter to liner companies from time to time.

Mr. FOSTER. Roughly how many?

Mr. COLES. I would say 100. But I would rather try and get that figure.

Mr. FOSTER. That can be obtained. I thought that was about correct. And at the present time, this fleet of 100 vessels is old with no present program by the Federal Government to encourage its modernization or reconstruction?

Mr. COLES. Precisely.

Mr. FOSTER. And as I understand your position basically, it is that you oppose the bill as presently drafted?

Mr. COLES. Not at all, Mr. Foster. I support the bill. I think the bill is a very definite step forward.

However, I bring to the committee's attention that while it is a step forward, it will not cure the basic ills of the bulk carriers. I fully agree with Mr. McLean that the bill should be enacted.

I suggest consideration be given by the committee to amend the bill so as to go somewhat further so as to provide for the rebuilding of a bulk fleet. I believe that is one of the basic intentions of this bill, and I say that in its present form it cannot do it.

Mr. FOSTER. In other words, your position is that the bill, of course, is aimed at improving the bulk fleet, but other fleets too?

Mr. COLES. Of course.

Mr. Foster. And it will be of substantial assistance perhaps to others, but in terms of the bulk fleet, it will be of some assistance, but in terms of solving all of your problems, it just won't do that?

Mr. COLES. I would go further. I would say it would be of great help for Mr. McLean and the domestic fleet. I think Mr. McLean has done a fantastic job as an entrepreneur here and I think he should be encouraged to continue as he has suggested, and I think this bill will help.

You may say it will help the bulk carrier. In a sense it will not hurt him and will give him some slight aid, but it will not accomplish for the bulk carrier what I think the bill intends. We are not being a "dog in the manger" and say we don't support the bill unless you include us. We just hope that the bill will be amended so as to give such aid as is necessary to build a bulk fleet, because we think a bulk fleet is necessary.

Mr. FOSTER. You mentioned several problems of the bulk fleet. One problem that you mentioned was that to date, the Maritime Administration has not approved any applications other than the two that they approved before 1946; they have not approved any applications for a construction subsidy for a modern bulk carrier.

This is true. Do you think that there is any possibility of modernizing the bulk carrier fleet, even if this legislation is passed, if the Maritime Administration isn't willing to approve applications that are justified, approve applications for construction subsidy for bulk carriers?

Mr. COLES. In my opinion, none whatsoever. I would like to go further and say that if they do approve applications for construction subsidy alone, I believe that there will be people who will go ahead and take their chances on what the future will bring. We have, for example to my knowledge, five applications to build just with construction differential subsidy alone. There is one other application to build with construction subsidy and operating subsidy. But I believe that just with construction subsidy, we would make a good start on replacement of the bulk fleet.

Mr. FOSTER. It might be that if other operators had the benefit provided for by this bill in terms of setting aside money, tax deferred for the purposes of building these vessels, and they had that and felt like the Maritime Administration would approve subsidy on the construction of these vessels, it might encourage others to also apply to modernize the fleet also?

Mr. COLES. I feel certain. We are assuming, of course, that cargo preference would be retained.

Mr. FOSTER. Let's discuss that then for a second. As you pointed out, cargo-preference legislation is no longer something that is tagged

onto an appropriation bill each year in hopes that it will get back on next year. It is a part of the U.S. law.

Most businessmen look at what the law is today. They do notice that from time to time, perhaps, bills are introduced or the Administration says that they are going to try to repeal it, but actually in terms of cargo preference itself, this has been going on for some time and I would hope is a part of our way of life.

Now, it is true that certain departments, the Department of Agriculture has, for example, budget problems from time to time, and would like to reduce their annual request from the Congress and attempts within that framework to come in with reduced requests that causes problems in terms of cargo preference from time to time, but I would think, wouldn't you, that the basic concept of cargo preference is something that is established and that we could rely upon for some time to come in the future?

Mr. COLES. I would certainly hope so. We must always recognize that possibly Public Law 480 will be reduced in volume. But that is a risk of the business which owners are willing to take.

Senator BARTLETT. If we can get fish added to it as the Congress dictated, and as the Bureau of the Budget refuses to do, we will increase these shipments under the law.

Mr. COLES. Not on bulk carriers, unless they swim over.

Senator BARTLETT. We will put them on bulk carriers as well.

Mr. COLES. I think that if cargo preference is adequately enforced, if the rate structure is changed so as to provide for an overall profit at a reasonable base, rather than a voyage-by-voyage profit, and if the 20-percent differential were eliminated, many owners would go along just with construction subsidy. The applications on file prove that.

Mr. FOSTER. We talked about cargo preference and that is expected to continue.

The other point in respect to this is Public Law 480, and in order to carry out the program that we have been accustomed you need two things: the cargo preference and then you need some cargo.

Mr. COLES. Precisely.

Mr. FOSTER. And that is Public Law 480 primarily. That, of course, is also law in the United States, but it is a law, by its own terms, which terminates every 2 years, 3 years, and it is a program.

However, in spite of that fact, that has had very strong Executive support. The President, of course, within the last several months, delivered his food-for-peace message which, in terms that would be difficult to exceed, praised the program and gave every indication that here again we have a program that we can count on as a part of our way of life, and if anything, the President indicated that this program has become increasingly important as an economic weapon that we will use in our national defense and to carry out foreign policy objectives.

I would believe that a businessman, looking at cargo preference at Public Law 480, would think that this is a total program that is quite likely to continue for some length of time in the future. Would you agree with that?

Mr. COLES. I would. I still raise the question of making sure that the program does what the law says it should do.

Mr. FOSTER. Then you raised several questions in terms of the administration of the program itself.

Mr. COLES. Yes, sir.

Mr. FOSTER. And there are many facets to that, and if the program isn't administered correctly, you can have a good law and still not accomplish what you would like to accomplish.

Mr. COLES. Right.

Mr. FOSTER. But at the present time, the bulk carriers do get cargo preference, and this can be anticipated for some length of time in the future, and they have Public Law 480. I think the figures are something like a differential of \$80 million a year that is being paid, not only to the bulk carriers, because the liner operators are also recipients of this type of benefit, and they carry it also.

But we do have that. And in addition to that, we have our construction subsidy, if that could ever be activated.

Mr. COLES. Correct. I would say this differential should be reduced by the amendment of last year. But more important, I believe that if we were able to build new ships with construction subsidy for the carriage of Public Law 480 cargos, we would be able to reduce that differential so that the savings there, over a period of perhaps 3 or 4 years at most, would more than pay for the construction differential cost.

Mr. FOSTER. How much do you think the Federal Government could save if we had a modern bulk fleet rather than the present bulk fleet carrying cargo preference cargo?

Mr. COLES. I couldn't answer that question. If you had only construction differential subsidy, I can give you a figure which we worked out on a 25,000 ton, assuming a construction subsidy of \$5 million, the saving in differential would repay the construction subsidy cost within 3 to 4 years as compared to an existing 10,000 ton ship.

Mr. FOSTER. But it is true that the rates on the movement of cargo preference cargo would be reduced if you had modern, efficient vessels that could compete more effectively and their cost would be less?

Mr. COLES. Yes, because (a) they could make a reasonable profit at lower rates, and (b) they would be able to engage in normal trading. A modern ship could bring back-haul cargo and make up part of its voyage ballast cost and things of that kind. We could compete with modern ships, where it is very difficult to do so with war-built small tonners.

Mr. FOSTER. Could you compete without an operating subsidy?

Mr. COLES. There are owners who are willing to bet their money in substantial amounts that you can. I think you can so long as you have construction subsidy and cargo preference.

Mr. FOSTER. Then if you would also add to that the benefits of this bill, it would just make it that much easier?

Mr. COLES. Yes, this bill would permit people to take moneys which would otherwise be paid in tax this year and next year, use those moneys to finance, as Mr. McLean pointed out, the purchase of new vessels, and then pay additional taxes on the earnings of the new vessels. Because under the deferment, the depreciation base of the new vessels would be reduced.

Mr. FOSTER. I wonder if you could discuss this vessel that you mentioned and about which you are familiar, that has an application before the Maritime Administration for a 25,000-ton vessel.

Was that roughly the proposal for new bulk carrier of 25,000 tons?

Mr. COLES. The application filed originally for building three 25,000-ton American-flag bulk carriers with construction differential

subsidy in April of 1963. That was processed for several months and I thought we were getting close to the contracting stage. But at that time it was further studied, the original application, and then as an overall solution for the bulk shipping problem of the American fleet.

We have had no action on that since that time, despite the fact that the owner has suggested certain amendments which could curtail or lessen the cost, and still get modern American-flag bulk tops.

Mr. FOSTER. How much was that vessel going to cost?

Mr. COLES. Talking from recollection, approximately \$9 million, or slightly thereunder.

Mr. FOSTER. Let's take the figure \$9 million, and if you had been successful or are successful in getting construction subsidy for that vessel, then that subsidy would likely be between 50 and 55 percent—or the Government's cost, roughly \$4.5 million—and the operator's cost \$4.5 million, if built here in the United States.

Now, is it possible for an operator to help raise his share of his \$4.5 million to get title XI insurance from the Maritime Administration?

Mr. COLES. There would have been no problem here in this applicant raising all of the necessary funds for his share of the new ship.

Mr. FOSTER. What share would he have to raise?

Mr. COLES. Assuming that you take a 50-percent rate and a \$9 million cost, you have a share of the owner of \$4.5 million. He would have to pay down to the yard 25 percent of that, or \$1,125,000. He would then have to have in working capital an amount equal to 1 year's principal, 1 percent interest, 1 year's mortgage insurance, and 1 year's marine insurance.

I would have to make a guess and say that would run close to another half million dollars, and you would have to accept that as a guess, because it is not accurate. So he would have an estimate of \$1,625,000 in each one of these ships.

Mr. FOSTER. And an operator today, where might he get that money?

Mr. COLES. From company funds and from the value of his existing fleet or for trade-in purposes, he could trade in old vessels as part of his downpayment to the Government.

Could I go back a moment? Senator Bartlett asked me if the tramp or bulk fleet had gotten any other aids, and I neglected to say, of course, that under the Ship Sales Act, we were treated like all other ship purchasers, and secondly, under the Exchange Act, some of the bulk owners have been able to trade in less efficient ships for more efficient ships.

Senator BARTLETT. That was understood.

Mr. COLES. But the money would come from trade-in of existing ships and general corporate funds.

Mr. FOSTER. And an operator in terms of his existing vessel might have a Liberty or Victory or a C-2?

Mr. COLES. Yes.

Mr. FOSTER. What roughly are their values in today's market?

Mr. COLES. If you will accept these as being my guesstimates, and assuming that the vessels are in good survey position, my guess would be today American Liberty would be somewhere in the neighborhood of a quarter of a million dollars to possibly a little more.

A Victory ship of the AP-2 class, which is the slow Victory, about \$425,000, and an AP-3, about \$500,000. A C-2, between \$450,000

and possibly a little more; a C-3, perhaps \$750,000; and a C-4, I cannot tell. These are guesses. I think they are reasonable, but I can't vouch for them.

Mr. FOSTER. So if the operator had one or two vessels, particularly if they were C-2's or C-3's, he would be in a position to make a substantial contribution to raising the capital that he would need to raise for the transaction?

Mr. COLES. Mr. Foster, if these make sense as investments, capital is not a great problem.

The basic problem is for capital to believe that investment will give an adequate return. There is no problem in raising the money, if the investment makes sense.

Mr. FOSTER. Well, part of the problem I guess is that it may make sense to the operator, but it might not to the bank, and what we would like to do is to have a program which encourages a good operator to have the funds and have the capital available, so he can engage in the venture, although a conservative bank which has other possibilities for the use of its funds might not share his enthusiasm.

So, an operator who would have a couple of vessels, if he would go to a bank and try to raise \$4.5 million, might be in trouble. But if he can go to a bank and say I will get title XI insurance, if he went to the bank and asked for \$4.5 million, and could say I have a couple of vessels I want to trade in, and particularly on top of that, I have some money that I have set aside tax free that I can put into this also, his position in terms of getting the capital so he can make the venture, I would think, would be somewhat improved.

Mr. COLES. I agree, and I agree with Mr. McLean, this bill that undertakes deferment would be very helpful.

Mr. FOSTER. Thank you, Mr. Chairman.

Senator BARTLETT. Thank you, Mr. Coles.

The next witness is Mr. E. M. Hood, president, Shipbuilders Council of America.

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

Mr. HOOD. Mr. Chairman, we still haven't heard about the fishery aspects of this bill.

Senator BARTLETT. No; but we are going to come to those aspects.

Mr. HOOD. Well, there is little that I can add to the previous testimony, other than to give some statistics and some comments on the fishery industry. So, with your permission, I will file the statement for the record.

Senator BARTLETT. Permission granted.

(Prepared text follows:)

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

We are here today to weigh the pros and cons of Senate Bill 1858 which would extend to the so-called nonsubsidized merchant shipping fleet and to the fishing fleet, a program offering tax incentives to encourage ship replacement. The Shipbuilders Council of America, composed of principal shipyards and allied suppliers in all sections of the country, endorses this measure. We believe passage of S. 1858 would be an important step toward rejuvenation of our merchant marine and toward redevelopment of our commercial fishing industry. We also believe that passage of S. 1858 would help in providing a measure of needed stability and workload for the U.S. private shipyard industry and its skilled workers.

The objective of this legislation is to encourage businessmen to replace old ships with new ships built in U.S. shipyards. This bill is sound. There is an obvious need for more ships, and the construction of these vessels in U.S. shipyards is in the public interest. However, the economic framework of the nonsubsidized shipping and fishing industries is lacking in incentives to accomplish replacement without new legislation, and the legislation incorporated in S. 1858 will truly provide a motivating influence.

A review first of the recent history of U.S. waterborne commerce and the role of our merchant marine in this trade, and secondly of some basic economic realities confirms that conclusion. A similar review of the fishing industry also demonstrates the value of the proposed legislation.

As this distinguished Committee has noted time and again, practically every segment of the U.S. merchant fleet has undergone numerical and qualitative decline during the past 15 years. The only significant effort to replace obsolete and inefficient tonnage with new ships surrounds the vessel replacement program for the subsidized lines. To date, a total of 124 general cargo ships and 4 passenger-cargo ships have been ordered, and all but 34 are now in service.

Additionally, there was a sizable tanker construction program between 1951 and 1960, with a total of 90 vessels being constructed during this period. However, by reason of the Colonial Pipe Line, which now links Gulf Coast refineries with eastern markets, it appears unlikely that more than one or two new tankers per year will be ordered in the foreseeable future, even though it can be shown that large, 60,000-deadweight ton automated tankers can successfully compete with the Colonial Pipe Line. Thus, the availability of a construction reserve fund, such as is proposed by S. 1858, might well make tanker construction sufficiently attractive to change this pessimistic forecast.

There are 255 privately-owned tankships now in active service. About 60 percent of these ships are 16 years of age or older. And, 190 are employed in the domestic trades, the biggest proportion (164 ships) of which are engaged in the coastwise oil movement.

There were 90 dry cargo ships totaling 1,066,000 deadweight tons actively engaged in the domestic trades on April 1 of this year. This figure compares with 149 vessels totaling 1,473,000 tons similarly employed in 1951—a 30 percent decline.

Of the present 90 ships, 18 are employed in the coastwise cargo movement, 23 in intercoastal service and the remaining 49 in the noncontiguous trades. Tonnage hauled in these trades fell from 23.5 million tons in 1954 to 17.6 million tons in 1963. The coastwise movement dropped from 13 million tons to 9.9 million tons in this 10-year period. The intercoastal movement decreased from 4.5 million tons to only 1.6 million tons during the same period. Noncontiguous movements showed little or no change.

All of the 90 vessels in our domestic oceangoing dry-cargo services, with the exception of only four specialized ships, are of World War II vintage. However, a number of the World War II vessels have been transformed into containerships in recent years. The construction reserve funds proposed in S. 1858 will no doubt be particularly welcomed by the ship owners engaged in these trades. Several have announced ambitious new construction plans, and this bill would materially assist them in bringing them to fruition.

The average age of the small, slow, uneconomic vessels in our Great Lakes fleet is 44 years old. These ships generally have a deadweight of less than 10,000 tons and a speed of only 11 knots. In contrast, some of the new bulk carriers built with construction subsidies by Canadian operators, are in excess of 20,000 deadweight tons and make 18 knots.

Our Lakes fleet presently consists of 278 ships aggregating 3.1 million deadweight tons. In 1954, the fleet numbered 383 ships totaling 3.7 million deadweight. Tonnages moved in American-flag, Great Lakes vessels dropped from 140.7 million tons in 1951 to 104.5 million tons in 1962. Here again, the establishment of construction reserve funds, as proposed in S-1858, would measurably improve the chances for these operators, particularly the independent, to undertake new construction.

Currently, we have only 61 bulk carriers in the U.S. oceangoing fleet, only half of which engage in foreign trade on a regular basis. More than 50 of these ships are in the 19 to 22 year age bracket. The majority are Liberty and T-2 tanker conversions. In 1939, the U.S. flag dry bulk fleet numbered 67 ships totaling 570,000 deadweight tons—the equivalent of 14 percent, on a tonnage basis of the world dry bulk fleet. The 60 ships in service today aggregate 1,125,000 deadweight tons—or only 4.4 percent of the world bulk fleet.

The shortcomings of our fleet are put in sharp focus when we consider that the U.S. import-export dry bulk movement which totaled 16 million tons in 1939 will exceed 150 million tons this year. Yet, it is predicted foreign-flag vessels will handle about 95 percent of this movement.

As has been confirmed by several authorities recently, there is a need for 150 ships of 25,000 deadweight tons or larger, and enactment of S. 1858 could be a helpful tool toward the correction of that deficiency.

In 1964, the U.S. tramp fleet was composed of 132 ships. The fleet with one exception consists of World War II construction—principally Liberty and Victory ships, T-2 tanker conversions and a sprinkling of C-type vessels traded in by the subsidized lines.

Virtually the only cargoes available to the tramp operator are those generated by the government-sponsored foreign aid programs. Though 90 percent of such cargoes are set aside for American flag carriage under the terms of the Cargo Preference Act, our tramp operators can rarely compete for commercial cargoes because of the far lower rates available from foreign-flag tramps. As a consequence, even with the government aid cargoes, U.S. flag tramp vessels carry less than 5 percent of the total irregular or tramp commerce generated by the United States.

Periodically, tramp rates skyrocket, such as occurred during the Suez Canal crisis and the Korean war. During such periods, the earnings of the tramp operators are more promising. The availability of construction reserve funds, as contemplated by S-1858, would materially assist these operators to accumulate capital for vessel replacement during these periods of high earnings.

With regard to the fishing fleet, the U.S. industry's catch in recent years has averaged slightly higher than 6 billion pounds. But, imports of foreign fishery products have increased year after year, and in 1963 accounted for 55.8 percent of our domestic consumption. We have been buying between \$475 million and \$500 million dollars worth of foreign fishery products, and this must surely be a matter of national concern in the context of our balance of payments problem.

It is all too apparent that the inroads of foreign fishing operators into the U.S. market stem from the deteriorated condition of our fleet. The U.S. fishing fleet comprises 16,020 vessels. About two-thirds of these were built prior to 1948. In terms of vessels, 5 net tons and over—which account for most of the domestic catch—we have fewer than 12,000.

In comparison with the other major fishing fleets—such as those deployed by Russia and Japan—we have serious quantitative and qualitative deficiencies. The vast majority of our boats are smaller and slower. Their cruising range is limited. They take longer to get to and return from the fishing grounds. Most lack the advanced fishing gear employed by the more modern vessels in the foreign fleets.

Our Government is spending ever-increasing sums on oceanographic research—and justifiably so, for this endeavor will pay great dividends in the years ahead. But, of all the riches to be extracted from the sea or its floor—minerals and precious metals, petroleum and so on—none will be as valuable as the food protein it will provide in the decades and centuries ahead for the world's expanding population. It is only prudent that the United States maintain and pass on to each successive generation the skills that are needed to share in the harvest of the sea. There also are compelling economic reasons for stimulating this important industry and assisting in the much needed upgrading of the fleet.

This brief review accentuates the plight of the United States merchant marine. The industry does not look back on a decade of growth, but of general decline, despite the dramatic advance of our foreign commerce and the expansion of our domestic economy. Nor does it find comfort from an examination of fleet modernity. The simple facts are that our merchant fleet has declined significantly in numbers of vessels, drastically in share of foreign commerce, and critically in average age. The fishing fleet has fared no better.

The Merchant Marine Act of 1936 sets forth as a fundamental policy that the United States merchant fleet be able to carry a substantial proportion of U.S. commerce. The forums of the Federal Government and the maritime industry alike ring with alarm at the woeful and ever-increasing breach between the fleet envisioned by our nation's maritime policy and our fleet as it actually exists. The traditional role of the merchant marine to buttress our sea power in time of national emergency demands a significant fleet of modern ships. Trade and commerce and national survival are inseparable, and a balanced fleet of modern, economic ships, under our own control, is a vital connecting link.

This purpose of keen national interest is not met with a qualitatively deficient fleet. With one ship in four of the world fleets employed carrying U.S. foreign

commerce, and only one in forty sailing under the U.S. flag, the question of whether we control our international commerce is open for debate. Ships of foreign nations harvest the sea along our shores capitalizing on these resources at our doorstep while our fishing fleet dwindles.

These events have occurred at a time when Russia has embarked upon one of the most expansive, aggressive shipbuilding programs the world has known. And, her growing fishing fleets span the world's oceans.

There can be little doubt that the ships of our merchant marine and fishing fleets are too few and too old. Simply stated, the deficiencies of our merchant marine and fishing fleets can be traced to an economic structure which does not offer sufficient incentives to attract risk capital. The opportunity for a reasonable return on investment, and a satisfactory long-term business outlook are essential to attract capital.

Cursory examination of those trade areas, where the alternative of sailing under a foreign flag exists, shows that the size of the U.S. flag fleet will be in direct proportion to the magnitude of the programs which provide cost parity with low cost foreign competition. Only in this manner has investment capital been attracted. The cargo preference program and the programs for subsidized liners determined the size of the U.S. flag fleet engaged in foreign commerce. There are virtually no U.S. flag ships in the foreign trades which do not owe their existence to one or both of these programs.

In those trades where construction subsidy is not available or has not been forthcoming, we have few new ships. The subsidized liner fleet, which receives such a subsidy, includes many new modern ships. The vessels employed in carrying cargo preference are not receiving this subsidy, and, as a consequence, this segment of our maritime capability consists almost exclusively of World War II freighters. But, cargo preference programs offer little evidence of security to the investor who must look twenty-five years ahead when making his decision to build a new ship.

Ships engaged in domestic trade face quite different circumstances with respect to a long-term business outlook. This trade includes coastwise, intercoastal and noncontiguous services on the oceans, as well as the Great Lakes routes. These fleets exist primarily because of laws which restrict such trade to U.S. flag vessels. Without cabotage laws, our domestic fleets would completely disappear. While these laws have enabled retention of these fleets, programs which include incentives to replace old ships have been lacking. The average age of the ships of these fleets clearly indicates that the economic structure, as now constituted, has not attracted investment capital.

The status of the merchant marine thus may be more easily examined from three separate, though interrelated, problems. First, we have too few ships. Secondly, the ships we do have are too old, with the exception of the subsidized fleet. And thirdly, the levels of ship replacement and construction have not enabled optimum shipyard operations.

The first problem, our own experiences tell us, must be resolved by establishing indemnification from low-cost foreign competition. This has been done by providing cost parity via operating and construction subsidies, through the cargo preference programs, and by our cabotage laws. The Merchant Marine Act of 1936, the Cargo Preference Act and the Jones Act of 1920 are predicated on these foundations.

The second problem of modernizing the existing fleets requires similar solutions. The entrepreneur examining the advisability of replacing an old ship quickly discovers several factors which give him pause. The new ship may cost fifty times the value of the ship to be replaced—a C-2 ship with a book value of about \$200,000 would likely be replaced with a vessel costing over \$10,000,000. The price he would pay for the new ship is approximately double the world market price. Where is he to sell the ship if demand for its services decreases? The new ships would have a useful life of twenty-five years. However, the business outlook over the next twenty-five years is uncertain and at best difficult to predict.

Who will say that subsidies and other forms of Government assistance—without which the U.S. flag merchant marine could not survive—will be available indefinitely? Who is to say whether or not cargo preference programs will continue? Oil pipelines continue to reduce the need for tankers in domestic service and the demand for U.S. flag tankers in foreign trade does not exist at this moment. The domestic oceanborne trade has a history of decline. Great Lakes commerce has been on the downgrade. And, the rewards of commercial fishing under present conditions have not been attractive.

An answer to the third problem rests of course on the solutions to the other two. As more ships are ordered, activity levels in the shipyards will improve. But,

the 25, 30 or 60 ships per year building program officially advanced in days past have never materialized. And, because of the absence of suitable ship replacement programs, our yards are today more than 50 percent idle.

Despite steadily increasing material and labor costs, our selling prices are still 15 percent below the 1957 level. Our shipyards are alert. They are among the best in the world. They are well-equipped and constantly improving. There has been a rising tide of innovation in our industry, and cost reductions have become a way of life. There has been an interesting venture in the direction of building and leasing of specialized vessels. But, even lower costs and an even more efficient industry would result from a larger and steadier volume of shipyard contracts.

In sum, the potential investor must make some difficult decisions. He must obtain millions of dollars to invest in ships, that cannot be sold in world markets without suffering a significant loss, to carry cargoes of uncertain future availability. But, the only formula which has been successful so far in encouraging ship replacement has been applicable to the subsidized fleet and includes four key elements:

(1) *Construction subsidy*.—This offers cost parity with foreign competition with respect to capital related costs.

(2) *Mortgage insurance*.—Obtaining a high proportion of the capital investment in a new ship via mortgage bonds at a reasonable interest rate is made possible through the Federal Government's merchant marine mortgage insurance program.

(3) *Tax exempt or tax deferred reserve funds*.—Exemption from or deferment of Federal income taxes on deposits in ship replacement reserve funds provides an important incentive for accumulating capital to replace old ships.

(4) *Stable business outlook*.—The contractual agreement between the Federal Government and subsidized ship operators offers the opportunity, although not the guarantee, for long-term business success.

Accordingly, we believe a comprehensive program to modernize the existing merchant marine and fishing fleets with ships built in U.S. shipyards should also include construction subsidies, tax deferred reserve funds, and some means of assuring either reasonable long-term business stability or a means of selling an excess vessel without incurring a sizable loss, in addition to the existing mortgage insurance program. Senate Bill 1858 would provide an element now missing. Passage of this bill is an important step toward regaining the kind of sea strength our nation must have to cope with national emergencies and to regain control over the transport of our commerce. We heartily endorse this bill as a beginning on the long road back to the kind of capability on the seas of which we can be proud.

Senator BARTLETT. And you have some comments you care to make now?

Mr. HOOD. The comments I referred to are in here, on the fishery industry. You might like to hear them.

Senator BARTLETT. Yes, indeed.

Mr. HOOD. On the bottom of page 5, with regard to the fishing fleet, the U.S. industry's catch in recent years has averaged slightly higher than 6 billion pounds. But, imports of foreign fishery products have increased year after year, and in 1963 accounted for 55.8 percent of our domestic consumption. We have been buying between \$475 and \$500 million worth of foreign fishery products, and this must surely be a matter of national concern in the context of our balance-of-payments problem.

It is all too apparent that the inroads of foreign fishing operators into the U.S. market stem from the deteriorated condition of our fleet. The U.S. fishing fleet comprises 16,020 vessels, according to the Bureau of Customs. About two-thirds of these were built prior to 1948. In terms of vessels, 5 net tons and over—which account for most of the domestic catch—we have fewer than 12,000.

In comparison with the other major fishing fleets—such as those deployed by Russia and Japan—we have serious quantitative and qualitative deficiencies. The vast majority of our boats are smaller and slower. Their cruising range is limited. They take longer to get

to and return from the fishing grounds. Most lack the advanced fishing gear employed by the more modern vessels in the foreign fleets.

Our Government is spending ever-increasing sums on oceanographic research—and justifiably so, for this endeavor will pay great dividends in the years ahead. But, of all the riches to be extracted from the sea or its floor—minerals and precious metals, petroleum and so on—none will be as valuable as the food protein it will provide in the decades and centuries ahead for the world's expanding population.

It is only prudent that the United States maintain and pass on to each successive generation the skills that are needed to share in the harvest of the sea. There also are compelling economic reasons for stimulating this important industry and assisting in the much-needed upgrading of the fleet.

Mr. Chairman, we support the pending bill. We believe that passage of S. 1858 would be an important step toward rejuvenation of our merchant marine and toward redevelopment of our commercial fishing industry.

Senator BARTLETT. We appreciate your appearance, Mr. Hood. The committee especially is grateful to you for calling attention, for the first time today, to the fishing fleet, which needs to be called attention to. Thank you very much.

Mr. Foster?

Mr. FOSTER. No questions.

Senator BARTLETT. Mr. Longeway, please.

**STATEMENT OF F. P. LONGEWAY, JR., EXECUTIVE DIRECTOR,  
NATIONAL FISHERIES INSTITUTE, INC., WASHINGTON, D.C.**

Mr. LONGEWAY. Mr. Chairman, I have a prepared statement. In the interest of time, if you would prefer, I will summarize it and add a few additional comments.

Senator BARTLETT. All right, very well.

Mr. LONGEWAY. I would first like to thank Mr. Hood for his excellent plea on the part of the fishing industry. He has made my appearance here somewhat redundant under the circumstances.

Senator BARTLETT. Not at all, because he appeared on two subjects, and I suspect you are appearing on one.

Mr. LONGEWAY. I am afraid so.

Senator BARTLETT. You shouldn't fear that.

Mr. LONGEWAY. I would just like to point out, Mr. Chairman, in the legislative hearings on May 7, 1963, the Senator from Alaska inserted in the record the results of a 1961 survey of the fishing fleet made by the Bureau of Commercial Fisheries which pointed out that half of the present fleet was built before the close of World War II and one vessel then in service was built in 1865.

Through the efforts of the Senator, fishing vessel legislation, construction legislation was passed aiding the industry substantially. However, the chairman realizes that the industry as such, is not a high-profit operation nor is it one which is accustomed to setting aside sums of money upon which they can retire early. Nonetheless, it appears to us that the combination of legislation such as contained in S. 1858, plus the fishing vessel construction legislation, and possibly the fishermen's loan fund, will all contribute to the revitalization of the American fishing fleet.

For your interest, Mr. Chairman, I brought with me, two copies of Fishing News, which is published in England. This one issue of May 28 contains an article on the Polish fishing fleet. It is almost fantastic, the size. One of the things I would like to read to you:

Because of the ever speedier exhaustion of near home fishing grounds, fishing is beginning to reach out as far as the remote teeming waters of north, central and even south Atlantic. Distances have increased from 700 up to 3,000 miles.

A further quote:

We—

And this refers to the authors whose statements reflect the operations in Poland—

are therefore planning the construction of self-sufficient mother ships which will carry on their decks up to 15 small fishing vessels. Such a system means that the expedition proceeds at an economically justified speed on its cruise to the fishing grounds, insures good living conditions for fishermen working in the trying climate and means that one gets high operational and economical indices, thanks to the low cost involved in using small fishing vessels and the high efficiency of production facilities on the mother ship. To this end, Poland is planning the construction of large mother ships with displacements of 40,000 tons and with speeds of 18 knots.

You may wish to look at some of the photographs.

Senator BARTLETT. Since you said you had two copies of this paper, I wonder if we can keep one for the file?

Mr. LONGEWAY. Let me give both of these to you. They are different weeks.

Senator BARTLETT. Fine, thank you.

Mr. LONGEWAY. The week of the 4th of June, Fishing News published in England states:

Two big Humber trawlers are heading for Dutch shipbraking yards. These two trawlers are of the 555 gross ton Crocier and the 536 gross ton Aston Villa. One was built in 1948, the other in 1946. Less than 20 years old, over 500 tons on their way to shipbraking yards.

It is an imposition upon your intelligence, Mr. Chairman, to point out the difference between those fishing vessels and the ones in existence in the United States.

Included in this paper are pictures of a new French trawler, and a new Portuguese trawler. You may have this for your records, also.

Senator BARTLETT. Thank you.

Mr. LONGEWAY. The National Fisheries Institute supports the legislation, S. 1858. We believe that it is a tool which the fishermen can use at their discretion.

One more, which will help to modernize the American fleet and bring it back to the position of prominence and eminence that it once enjoyed.

This tax incentive will be a great boost and encouragement to those who are interested in upgrading and modernizing the fleet.

One of the other reasons the institute favors the legislation is that it is not a handout nor is it a Treasury raid. The fishing industry has prided itself for many, many years on not running to the Treasury for moneys to keep operating. It is true, however, they do have to have some help in compensating for some of the differentials that are offered overseas to foreign nationals. I am convinced the incentive contained in S. 1858 will do much to stimulate the replacement and expansion of the American fishing fleet. We have but one question at this time, Mr. Chairman, and that refers to the legislation itself.

On page 3, line 19, which is section 2(g), it states, "for the approximate number and type of vessels which the contractor will construct, acquire, or substantially reconstruct," and so forth.

I refer back to line 5 on page 2, beginning of section 1(b), "For the purpose of promoting the construction of new fishing vessels."

We are wondering, Mr. Chairman, if we are inadvertently excluded from reconstruction? If it was an oversight, may I suggest that we also be allowed to do some reconstruction as it may be feasible.

Thank you, Mr. Chairman, for this opportunity to appear.

Senator BARTLETT. Mr. Foster wants to make a statement in this connection.

Mr. FOSTER. I think that is an excellent point. As far as I know, there is no authorization under the legislation drafted for the reconstruction of fishing vessels and if there is a need demonstrated in this area and the committee wishes to expand it to include that, it will take the change in the language.

Mr. LONGEWAY. Thank you.

There has been some discussion of the newer techniques of fishing and fish handling of possibly freezing at sea, which means that some of the existing trawlers which are not too old, might conceivably be converted to freezing.

Senator BARTLETT. Let me ask you something.

Mr. LONGEWAY. Yes, sir?

Senator BARTLETT. You alarm me by reading from that paper. If Poland builds one 40,000-ton factory ship, Poland may build another or more, and if Poland does this, there will be other nations that are going to do likewise. They may come out with 50,000 or 60,000 tonners in order to surpass Poland. Are there enough fish in the sea, in your judgment—you are an expert, although I suppose that no expert knows as much as he would like to about the total supply of fish—to withstand this degree of fishing?

Mr. LONGEWAY. Mr. Chairman, I wish to thank you for classifying me in the expert listing here. Far be it from me to attempt to wear that mantle. There have been much wiser men than I to maintain there are enough fish to last us indefinitely. Others have screamed the reverse. I should like to read you but one paragraph from the Journal of Commerce of Tuesday, the 22d of June, 1965, dateline, Tokyo.

The Japanese say, "sources also said that the supply of whales in the Antarctic Ocean as well as ocean-caught salmon and trout is gradually being depleted."

Mr. Chairman, this, I think, is as much of an answer as I can give you. I am sure the individual who said this is even more knowledgeable than I am.

Senator BARTLETT. With reference to whales, of course, the truth and the plain fact is, that the word "gradual" should have been eliminated in that sentence which you read. The supply of whales in the Antarctic has been almost eliminated, thanks partly to the refusal of Japan to abide by treaty obligations.

The supply of salmon in the North Pacific has been seriously reduced by certain events, which I won't detail here.

The fact is, that overfishing can deplete a fishery and this has been well established in many areas. For example here, not long ago, 2 or 3 years ago, provision was made for the Japanese to fish for halibut in the eastern Bering Sea. Before that time, they weren't permitted

to do so. Only the United States and Canada fished there, and then, on a rather modest scale. But when Japan came in, making three nations fishing there, and a quota was assigned, it was discovered that the three countries fishing at the same time, virtually wiped out that halibut resource. It can be done.

Mr. LONGEWAY. I think, Mr. Chairman, your statement just made means that I don't have to answer the question that you have asked me, because in essence, you have, sir.

Senator BARTLETT. Thank you for your appearance here.

Mr. LONGEWAY. Thank you.

(Complete text follows.)

STATEMENT OF F. P. LONGEWAY, JR., EXECUTIVE DIRECTOR OF THE NATIONAL FISHERIES INSTITUTE, INC.

Mr. Chairman, Members of the Committee, my name is F. P. Longeway, Jr. I am Executive Director of the National Fisheries Institute of Washington, D.C., a national trade association of 500 member firms engaged in the production, processing and distribution of fish and shellfish for human food and fish for poultry and animal feeding and other industrial purposes.

I am this morning testifying in favor of S. 1858, designed as an aid to the construction of new fishing vessels. The members of the National Fisheries Institute believe this legislation will be of assistance to the American fishing industry and to the American fishermen. They are grateful that an additional effort is being made to help modernize the United States fishing fleet.

A few words about the present conditions of the American fleet. During vessel construction legislation hearings (S. 1006) before this Committee on May 7, 1963, the Honorable E. L. Bartlett, Senator from Alaska, inserted in the record, Serial 17, page 4, the results of the 1961 survey of the Atlantic and Gulf fishing fleets as made by the Bureau of Commercial Fisheries. This survey indicated over half of the present fleet was built before the close of World War II, and there was in service at the time of the survey a fishing vessel constructed in 1865. I understand, Mr. Chairman, that a survey by the Bureau of Census has been completed, but the analytical work is not done. We can expect more up to date and detailed information on the American fishing fleet to be published by the Bureau in about six months. I believe this information will again indicate quite clearly that the United States is in dire need of modernization and reconstruction of its fishing fleet. I suggest why I think this legislation will be of assistance.

Under the Merchant Marine Act of 1936, a fishing vessel operator is permitted, under Section 511, to deposit certain receipts in a Construction Reserve Fund. This privilege has been available to fishermen for almost 30 years. To my knowledge, not one application has been filed pursuant to this authorization. The reason for this, Mr. Chairman, is not a failure on the part of the fishing industry or the American fisherman to recognize an opportunity, but because under the present law, no real tax advantage is given to any fisherman for the establishment of a Construction Reserve Fund. S. 1858 differs from the present law by providing the needed advantage. Thus, I believe the American fisherman will take this opportunity offered him. The legislation is a tool which he can use at his discretion.

The bill being considered by the Committee will permit a fishing vessel owner to deposit in the Capital Reserve Fund he creates not only certain required contributions such as annual depreciation charges as earned, and the proceeds of any sales of vessels, but will also permit the operator to deposit in the Fund tax-free earnings from his vessel operations. These tax-free deposits are held in the Fund jointly under the control of the Secretary of the Interior and the vessel owner for the sole purpose of constructing new, modern fishing vessels.

This tax incentive will, in my opinion, be a great boost and encouragement to those who are interested in upgrading and modernizing our present fishing fleet. I should add, however, that the fishing vessels constructed in part with funds from the Capital Reserve Fund will be reduced in value for future income tax purposes to the extent that Capital Reserve Funds were used for construction. This means that the tax benefit that is given the boat owner at the time operating revenues were placed, tax free, into the construction reserve fund will be eventually offset by an increase in taxes to be paid during the life of the vessel. The program is not a tax dodge. This is actually a tax-deferment program to encourage the construction of merchant and fishing vessels.

Mr. Chairman, one of the reasons that the Institute favors this legislation is that it is not a request for a handout or a subsidy, nor is it a Treasury raid. This is merely a tax-deferment until a future date.

Mr. Chairman, it is difficult to predict in detail what the reaction to an opportunity such as this might produce. We associated with, and those in the fishing industry do know that the present statutory provisions which require United States fishermen to build vessels in the United States have been a serious deterrent to the development of a competitive fishing industry. I am convinced an incentive such as the one provided in this legislation can do much toward stimulating the replacement and expansion of the American fishing fleet.

Thank you for the privilege of appearing before you in favor of this legislation.

Senator BARTLETT. Are there further witnesses?

(No reply.)

Senator BARTLETT. We have statements, which will be placed in the record by Senator Gaylord Nelson, of Wisconsin. He favors the bill. He is a cosponsor of the bill. The statement will be incorporated in the record.

Statements by Senator Brewster, of Maryland, a cosponsor, Hoyt Haddock, executive secretary of the AFL-CIO Maritime Committee, supporting S. 1858, and others follow.

(The complete statements follow:)

#### TESTIMONY OF SENATOR DANIEL B. BREWSTER

Mr. Chairman, I thank you for the opportunity to testify this morning on S. 1858, which I am cosponsoring with several other members of this committee. The great port of Baltimore, in my home state of Maryland, is the third largest cargo port in the nation. This bill would therefore have a very significant impact on the economy and employment of the city and of the entire area.

S. 1858, would, as you know, equalize the construction-assistance benefits which are currently made available to "liner" vessels under the Merchant Marine Act of 1936, by extending such assistance to "tramp" bulk carriers and fishing vessels.

At the beginning of this year, there were 135 such "tramp" carriers, only seven of them had been constructed since the Second World War. The rest either already are, or are fast becoming, outmoded. Because of the great expense involved in modernizing and replacing them, it is unlikely that any significant portion of this fleet will be modernized unless the government offers some financial assistance.

At the present time, only 9 per cent of the total ocean-borne foreign trade of the United States is carried in American bottoms. Only 5 per cent of the total dry bulk cargo is transported in United States vessels.

Moreover, the situation has been seriously deteriorating in recent years. For example, the number of American ocean-going cargo vessels calling at the port of Baltimore declined significantly from 1948 to 1964. During the same period, however, the number of such foreign vessels calling more than doubled.

The Maritime Administration has estimated that, if the present situation continues, the ships in the American tramp cargo fleet will almost disappear, leaving this country with an alarming capacity to carry only 1 per cent of its total bulk cargoes.

The consistent maritime policy of this nation during the past fifty years has been to encourage construction of ships in American shipyards, and the transport of cargo in American bottoms. If a large part of the cargo fleet is allowed to become outmoded and inefficient, and no government assistance is given, both of these objectives will be imperiled. It is to combat this problem that I have cosponsored S. 1858.

This bill, if enacted, would encourage American cargo carriers to modernize and replace their vessels. It would grant assistance *only* to those vessels built in the United States, certificated in this country, and owned by United States citizens.

This assistance would benefit the American shipbuilding industry. It would enable us to maintain that strong capacity for shipbuilding which is recognized as an essential part of our national security. It would give increased business to American drydocks, with advantages which would spread to related industries, such as steel and other component parts. It has been estimated that up to \$100 million worth of additional shipbuilding will be done in American yards if this bill is enacted.

It would also mean additional jobs for workers in the troubled shipbuilding industry. In my own state, one yard estimates that up to 1000 additional jobs might be expected from such an expansion, and another yard foresees as many as 1500 or more additional jobs. Similiar benefits might be anticipated for other localities in this important industry, which currently employs 100,000 Americans.

Effects on the cargo carriers themselves would also be significant. Many of their vessels are old and expensive to operate. Modernization and replacement of these vessels would enable them to become much more efficient, compete better with foreign carriers, and reduce their rates. I need hardly remind this subcommittee that keeping a large amount of shipping in American bottoms can be of great importance, in view of our balance of payments situation.

This bill also provides for assistance to construction of fishing vessels. Many of these are also obsolete. There is a growing problem posed by efficient foreign fishing vessels which are operating off the United States coastline, catching fish which might well be caught by our own fishermen. The assistance envisioned in this bill will be of great importance in insuring a strong American fishing fleet.

To achieve the objectives of United States maritime policy, therefore, it would seem to be essential to give construction assistance to bulk cargo carriers and fishing vessels. Such a program would enable this country to maintain merchant marine capacity adequate for our national security. It would help arrest the alarming decline in the amount of cargo carried in American bottoms. It would give new life to the shipbuilding industry, and create thousands of new jobs in Maryland and across the country. I would therefore strongly urge this subcommittee to consider the bill favorably.

STATEMENT PRESENTED BY HOYT S. HADDOCK ON BEHALF OF AFL-CIO  
MARITIME COMMITTEE ON S. 1858

I am Hoyt Haddock, Executive Secretary of the AFL-CIO Maritime Committee. We appear in support of S. 1858.

We have appeared many times before this and other Congressional Committees. Each time we have outlined the declining merchant marine, deep-sea and domestic. We will, therefore, not burden the record with a detailed outline of the declining fleet but only say that the situation gets worse with each passing day.

The problems of our merchant marine, domestic, Great Lakes and deep-sea, are basically the same—lack of cargo. There is no question as to the need for a U.S.-flag Merchant Marine. There is a question, however, as to how we go about getting this needed merchant marine.

The basic national needs of a merchant marine are outlined in the 1920, 1928 and 1936 Merchant Marine Acts. These acts also contain aids to a U.S.-flag Merchant Marine to assure that we have the merchant fleet that is so vitally needed. Unfortunately, these aids are only extended to a very small segment. The value of these aids to the segment that receives them is demonstrated by comparing their cargo carryings with the segments that do not receive this assistance. The subsidized liner companies carry approximately 25% of the commercial dry cargo liner imports and exports as compared to the 5% carried by the total U.S.-flag Merchant Marine.

We have much hope that the President's Maritime Advisory Committee will come up with recommendations for improving the cargo carryings on U.S.-flag ships. When and if this is done, we are hoping that the President will adopt the suggestions so that it will be possible to move forward in building an adequate U.S.-flag Merchant Marine.

In conjunction with these efforts we are encouraged by this Committee's positive actions in considering measures such as S. 1858. This legislation will give positive assistance not only to the merchant marine but also to our shipbuilding industry which is also in dire straits by providing funds for replacing old wornout ships.

We respectfully request that you act favorably on this legislation.

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STATEMENT BY SENATOR GAYLORD NELSON

Mr. Chairman, I appreciate the opportunity to submit testimony on S. 1858, a bill which I was pleased to join the Senator from Alaska, Mr. Bartlett, in co-sponsoring.

This bill would permit an operator of a merchant vessel in the unsubsidized foreign trade or in the domestic trade, including the Great Lakes, to defer pay-

ment of Federal income taxes on funds set aside for the specific purpose of constructing new vessels or reconstructing old ones. This bill also applies to fishing vessels.

An operator of a merchant or fishing vessel would be permitted to contract with the Secretary of Commerce or the Secretary of the Interior to establish individual vessel replacement funds.

Operators would agree to deposit into the funds proceeds from the sale of ships, insurance and indemnities, annual depreciation charges, and earnings on deposits. Taxes on these funds would be deferred as long as the funds were set aside for modernization or expansion of the fleets.

This program would extend to merchant vessel operators not now receiving an operating differential subsidy that same tax deferral for vessel construction given under present laws to subsidized operators in the foreign trade.

Present laws discriminate against our domestic fleet in two ways. First, merchant vessels not participating in Foreign trade are unable to get subsidies now available to fleets that do participate in foreign trade. Secondly, only subsidized vessels are eligible for tax deferrals for construction or remodeling of vessels. As a result, our domestic carriers are not eligible for deferrals because they are not subsidized.

The proposed legislation does not ask for subsidies for our domestic fleet. All it asks is that our domestic vessels be allowed to receive the same tax deferral assistance now granted to U.S. flag vessels that participate in foreign trade.

The need for this legislation becomes rather apparent when we compare the growth of our fleet in the Great Lakes area and that of Canada, its chief competitor.

Since 1960, our Great Lakes shipyards have produced no new American bulk freighters, but at the same time the Canadian fleet has increased by more than 20. To a large extent, the increase in the Canadian fleet is attributed to substantial direct subsidies and liberal depreciation schedules granted by the Canadian government.

For more than a century the American Great Lakes fleet was the principal carrier for the flow of strategic bulk materials such as ore, coal, and grain. There is no question that it performed a key service for the country during periods of national emergency. Today this fleet is deteriorating rapidly.

In the last ten years the number of vessels operated by the 24 member companies of the Lake Carriers Association—who transport 95 percent of the bulk traffic in the Great Lakes in U.S. vessels—has declined considerably. The carrying capacity of these companies has declined about 680,000 tons and the fleet has diminished by about 90 vessels.

At the same time Canada's fleet booms. Ten years ago the Canadian fleet hauling ore—the principal commodity shipped on the Great Lakes—was composed of 54 vessels with a capacity of 579,000 tons. The situation at the end of 1964 was this: the Canadian fleet had increased to 90 vessels and had a carrying capacity of 1,329,000 tons.

Simply stated, our domestic fleet on the Great Lakes has continued to decline both in number of ships and carrying capacity in the face of continued growth by our chief competitor.

The three shipyards in my state in Superior, Manitowoc, and Sturgeon Bay have a vital stake in this bill.

For the most part their livelihood depends upon the unsubsidized ore freighters that make up our Great Lakes domestic carrying fleet. Construction and maintenance of these vessels is the key to the economic success and stability of these shipyards as well as the many supporting industries and thousands of skilled men who are a part of the shipbuilding force.

America needs a modern and efficient Great Lakes fleet. We need one today to meet present conditions, and we will need one tomorrow. It is important for this country to have a strong independent fleet and to preserve the available shipbuilding talent that now exists in the Midwest.

S. 1858 would be an important step in rebuilding the Great Lakes fleet and other domestic carriers operated by U.S. companies. This bill will permit the modernization of our fleets.

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#### STATEMENT BY THE AMERICAN TUNABOAT ASSOCIATION

My name is August Felando, I am appearing before this Subcommittee on behalf of the American Tunaboat Association. I am the General Manager of

this non-profit cooperative association incorporated under the laws of California, with its principal office of business in San Diego, California.

The A.T.A. has been in existence for over 40 years. Its membership is comprised exclusively of tuna fishing vessel owners. The vessels I represent caught and unloaded over 60 percent of all the tropical tunas landed in the United States by vessels operating from the United States. Our members also unload catches of tuna in the Commonwealth of Puerto Rico. The frozen tuna carrying capacity of the American Tuna Fleet is about 39,000 tons, of this total, about 21,000 tons is represented by the vessels owned by members of the A.T.A.

We favor the passage of S. 1858.

*S. 1858 will assist U.S. citizens to develop a self-help program of constructing an efficient and competitive high seas fishing fleet on a long-term, progressive basis.*

There exists a need to develop a U.S. high seas fishing fleet. As Senator Bartlett revealed before the U.S. Senate on April 30, 1965:

"The present fishing fleet is composed of approximately 12,000 vessels. Ninety per cent of these are extremely small craft capable of fishing only inland and coastal waters . . . this summer over 1,500 large foreign vessels ranging in size from 1,000 tons to 15,000 tons will harvest our coastal fishery resources. The United States has only 200 vessels in its entire fleet that will match the smallest vessel in the foreign armada that will ring the U.S. coast. We must take action to place again an American-flag fishing fleet on the high seas."

The U.S. flag tuna fleet is considered by many persons involved with the U.S. fishing industry to be the country's most modern fishing fleet. The largest fishing vessels in the U.S. flag fishing fleet are tuna clippers. The following resume indicates that this fleet is not so large or so modern when compared with the fishing fleets of Russia, Japan, and other major fishing nations.

In 1964, there were reported about 520 U.S. flag fishing vessels of 100 gross tons or over. Presently, there are about 136 vessels fishing for tuna that are 100 gross tons or over. In fact, 104 of these tuna clippers are of 200 gross tons or over.

In detail, we find that there are 89 U.S. flag tuna clippers that are converted tuna seiners. This fleet has a gross tonnage of 32,491 tons, and an average hull age of 17 years. There are 8 U.S. flag tuna clippers which were converted from surplus military hulls. This fleet has a gross tonnage of 5,977 tons, and an average hull age of 21 years. Four tuna clippers are newly built tuna seiners. These new vessels have a total gross tonnage of 2876 tons, and average 2 years. The 16 U.S. flag tuna clippers that fish as baitboats have a gross tonnage of 3387 tons with an average hull age of 18 years. In analysis, we find that this tuna fleet is not as large or as modern as most persons believe. This fleet requires an immediate program of replacement and modernization. This same record can also be developed for other fishing fleets in the nation. It is strongly believed that there exists an urgent need to expand and develop a high seas U.S. flag fishing fleet.

Some of the reasons why S. 1858 will help satisfy this need are as follows:

1. *S. 1858 will induce fishing vessel reinvestment because it will soften the deterrent tax effects of Section 1245 of the Internal Revenue Code.*

Prior to the passage of the Revenue Act of 1962: In the case of the sale of a vessel, a vessel owner under Section 1231 of the Code could (1) deduct depreciation against ordinary income at full rates; (2) recapture all or a part of the depreciation deducted as a portion of the sales price, and (3) report the depreciation taken at a reduced tax rate, i.e., 25%.

But, since the passage of the Revenue Act of 1962: the vessel owner who sells his vessel during a taxable year after December 31, 1962, is faced with the fact that Section 1245 requires him to give ordinary income treatment as realized and recognized to the extent that depreciation was allowed on the vessel after December 31, 1961.

This analysis is based upon our understanding that vessels are considered Section 1245 property.

The tax consequences of Section 1245 of the IRC has caused a great deal of concern in the membership of the A.T.A. To a considerable degree, this concern has affected new investment activity in the tuna fleet. It is believed that the passage of S. 1858 will cause a change in investor outlook. A review of the Bill will reveal that there exists an opportunity for the vessel owner to use the Construction Reserve Fund for the purpose of extending the payment of taxes over the economic life of a new vessel rather than in making a lump sum payment on the gain resulting in a sale of an old vessel.

2. *Under S. 1858 it will be possible for the owner of a fishing vessel to establish a program for the replacement or reconstruction of an existing vessel.*

Such a program would enable him to make changes in gear or hull when economic conditions require. This is especially important in the fishing industry,

because production yields affect the rate of return on investment. In the tuna industry a variation in catch rate per day's absence of only one ton can determine whether the investment is profitable or not, subject, of course, to the price of fish. But, in the tuna industry, the conversion of most of the fleet from the baitboat technique to that of seining, increased the catch rate per day at a lower cost and enabled the fleet to avoid oblivion. In S. 1858 it would be possible for a vessel owner to plan for the contingency that his vessel would become competitively unfit if not physically worn out. Economically useless because of changes in market conditions or the condition of the fishery resource or in fishing techniques.

3. *S. 1858 should be amended to permit deposits for the reconstruction, reconditioning or modernization of a fishing vessel.*

It would appear that under the present language of S. 1858, Section 1 (b), that the proposed law only allows deposits for the purpose of promoting the construction of new fishing vessels. We believe that this limitation should be withdrawn and the subsection amended to read as follows:

"For the purpose of promoting the construction, reconstruction, reconditioning or acquisition of fishing vessels, and for other purposes authorized by this Act \* \* \*"

This amendment would then be in line with Section 1 (a). In addition, it would also provide for the contingency of converting an existing hull to meet changing competitive conditions as experienced by the tuna fleet.

4. *S. 1858 will induce fishing vessel investment on a continuing and progressive basis because of its tax incentives.*

Under Section 5, deposits of capital gains and earnings are taxed in the same manner as deposits of earnings and capital gains by subsidized operators under section 607, Merchant Marine Act, 1936, as amended.

This temporary exemption will be especially helpful in the fishing industry, where income fluctuates greatly. It will be possible for a vessel owner to establish a replacement program. Good and bad fishing years can be averaged out under a regular program.

There exists a program for the replacement of vessels operated in the foreign trade or domestic trade. No such trade-in program applies to vessels in the fisheries of the United States. Apparently, objection to such a program for fishing vessels is raised on the ground that such vessels would be of insufficient value for commercial or military operation to warrant its further preservation. And further, that such vessels had doubtful scrap value or of resale value either to citizens of the United States or to aliens. While this point is not of direct relevancy to S. 1858, I should like to direct the Subcommittee's attention to these facts: That in the fiscal year 1964, Japan exported 57 used fishing vessels, in FY 1963, 49 used and 7 new vessels were exported, FY 1962, Japan exported 69 used and 4 new vessels, and in 1961, there were 45 used and 10 new fishing vessels exported. The experience of Japan seems to prove that there does exist a used fishing vessel market once a country's government implements a policy to improve its fishing fleet. (See Market News Service, Fishery Products Report s. 128, Seattle, Washington, July 2, 1965.)

5. *Section 511, of the Merchant Marine Act of 1936, as amended, has failed to stimulate capital investment in fishing vessels on a long-term basis.*

Section 511, on its face, appears to cause difficulties in its application for fishing vessels. Section 511 provides in part that the term "vessel" means one that is not "less than 2,000 gross tons or of less speed than twelve knots, unless the Commission shall determine and certify in each case that a vessel of a specified lesser tonnage or speed is desirable for use by the United States in case of war or national emergency."

We have no knowledge of any U.S. flag fishing vessel of 2,000 gross tons. Nor do we have knowledge of any person utilizing Section 511 for the purpose of constructing and reconditioning fishing vessels.

It is our belief that the failure of Section 511 to provide tax incentives and in establishing administrative difficulties for fishing vessels probably explains its lack of use by fishing vessel operators.

The importance of tax incentives in making fishing vessel ownership a good investment cannot be overestimated. The best example of what tax incentives can do to stimulate investment in vessel construction and reconstruction is the development of the tuna fleet in Puerto Rico. Three of the four tuna seiners constructed since 1961 are operated by Puerto Rican corporations. Of the eight seiners converted from surplus military hulls since 1961, 5 of them are owned and operated from Puerto Rico. Significantly, all of these 9 vessels are of about 800 gross tons or over. In the converted seiner fleet, 9 vessels are owned and operated

