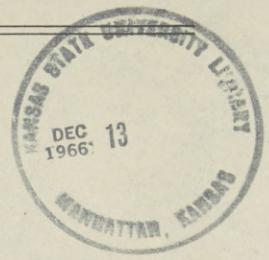


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MERCHANT MARINE FLEET REPLACEMENT PROBLEMS



HEARINGS BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES OF THE COMMITTEE ON COMMERCE UNITED STATES SENATE EIGHTY-NINTH CONGRESS SECOND SESSION ON MERCHANT MARINE FLEET REPLACEMENT PROBLEMS

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MERCHANT MARINE FLEET REPLACEMENT PROBLEMS

MONDAY, JUNE 6, 1966

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

The committee met at 2:55 p.m., in room 5110, New Senate Office Building, Hon. Daniel B. Brewster presiding.

Senator BREWSTER. This hearing will come to order.

We are a little bit late. The Senate is in session. If we have inconvenienced anybody, I, as acting chairman, am sorry.

Two weeks ago we celebrated World Trade Week. We do so at a time when the United States is carrying only 8 percent of its foreign commerce in American ships, at a time when the United States has sunk to 14th or 15th place in commercial ship construction.

These weaknesses in our current maritime posture have not developed suddenly, but they have suddenly taken on an urgency which requires, I believe, our immediate attention.

I believe that runaway inflation, slashed budgets, idle shipyards, and decreasing numbers of skilled operators and laborers threaten our national security and our basic economy.

It would simply be impossible for the United States to meet the contingency of a second conflict anywhere in the world such as Vietnam, with our present merchant marine, or our reserve fleet which in a sense is almost just a paper fleet.

I understand from this evening's news that one of our World War II Victories is floating around the Pacific with men from Vietnam on it, absolutely without any power on it at all, waiting for somebody to send a tug out to catch it. The glaring danger to our security inherent in this situation seems to me to be very clear. What is less obvious is the impact of this situation on our commercial trade.

Our present lack of a sound shipbuilding program and the current diversion of commercial vessels to the handling of military cargo could well spell the end of American shipping in free world trade.

Last week I was shocked to learn that the Government intended to compound the situation by permitting the charter of foreign-flag vessels for carrying American cargoes. This morning I was notified by the president of the National Maritimer Union, the International Longshoremen's Association, the Seafarers' International Union, and the Brotherhood of Boilermakers that they would use all legal means to prevent this. I certainly wish them all possible success.

Some say it takes 7 years to build a ship. The decisions we make today, this week, or this year will determine whether or not we have a U.S. merchant marine 7 years from now.

I firmly believe that we must develop a plan for a modern maritime fleet and we must do so very quickly. I am hopeful that the testimony that we develop here can lead to the formulation of a series of interrelated policies and objectives aimed at a stronger American merchant marine built in U.S. shipyards, manned by U.S. seamen, carrying the bulk of U.S. trade, and always ready to meet the demands of the Department of Defense.

With that brief opening statement, we will start these hearings. This afternoon we will have two witnesses. We will continue tomorrow morning at 10 a.m.

The first witness will be Capt. John W. Clark, president, Delta Steamship Lines, Inc., of New Orleans. Captain Clark, we welcome you here and thank you very much for coming.

STATEMENT OF CAPT. JOHN W. CLARK, PRESIDENT, DELTA STEAMSHIP LINES, INC.; ACCOMPANIED BY LEO C. ROSS, PRESIDENT, PACIFIC FAR EAST LINE, INC., SAN FRANCISCO, CALIF.

Captain CLARK. If it pleases the committee, I would like to be accompanied by my colleague, Mr. Leo Ross, the president of the Pacific Far East Line.

Senator BREWSTER. Captain Clark is also chairman of the Committee of American Steamship Lines, as I believe all of you know.

Captain CLARK?

Captain CLARK. Mr. Chairman, I have a prepared statement. I will attempt to present a comprehensive statement concerning the condition of the American merchant marine today. My statement is backed up by exhibits. It is not my intention to leave the exhibits, but to leave them at the pleasure of the committee for the record to back up the prepared statement.

I would like to read my statement if it meets with your pleasure.

Senator BREWSTER. Please proceed.

Captain CLARK. My name is John W. Clark. I am president of Delta Steamship Lines, Inc., and chairman of the Committee of American Steamship Lines. I appear before this committee in the latter capacity. Appearing with me as supporting witnesses for Committee of American Steamship Lines are Mr. William T. Moore, president of Moore-McCormack Lines—Mr. Moore will be with us tomorrow morning and will join in, if the Chair permits—and Mr. Leo C. Ross, president of Pacific Far East Lines.

Together we hope to present to this distinguished committee a current report on the condition of the American merchant marine, both from the commercial and national defense aspects.

CASL, as our committee is generally known, is comprised of the presidents of 13 steamship lines operating under operating-differential subsidy contracts with the U.S. Government. These companies are—

American Mail Line, Ltd.
 American President Lines, Ltd.
 Delta Steamship Lines, Inc.
 Farrell Lines, Inc.
 Grace Lines, Inc.
 Gulf & South American Steamship Co.

- Lykes Bros. Steamship Co., Inc.
- Moore-McCormack Lines, Inc.
- Oceanic Steamship Co.
- Pacific Far East Line, Inc.
- Prudential Lines, Inc.
- States Steamship Co.
- United States Lines Co.

CASL companies own and operate a total of 262 liner vessels which serve the major world ports, maintaining regular and frequent American-flag services thus assuring American importers and exporters ready access to world markets.

According to the Maritime Administration the present composition of the privately owned U.S. merchant marine fleet as of March 1, 1966, was as follows:

	<i>Number of vessels</i>
U.S.-subsidized liner vessels (including 46 ships owned and operated by American Export-Isbrandtsen Lines; not a member of CASL)-----	308
Non-subsidized liner segment (58 foreign service; 25 foreign domestic service; 65 domestic service)-----	148
Industrial segment (48 liner-industrial; 16 industrial)-----	64
Dry cargo tramps-----	132
Tankers-----	257
U.S. private fleet—Total-----	<u>909</u>
National defense reserve fleet as of June 1, 1966:	
Active:	
Reactivated for operation under GAA-----	94
Reactivated, special service—missile ships, et cetera-----	22
Inactive (mostly liberty vessels)-----	1,365
National defense reserve fleet—Total-----	1,481

Today the vast majority of U.S.-flag vessels are more than 20 years old, constructed during World War II. Only the essential trade route operators, under subsidy contracts with the Government, are committed to a long-range vessel replacement program.

Today we have 103 new, fast replacement cargoliners in operation. Thirty-nine more are now under construction in American shipyards. Our total replacement commitment is for about 300 new vessels.

Unfortunately, other segments of the merchant marine, such as the American-flag tramps and non-subsidized liners, are today in danger of elimination as there is no scheduled program for the replacement of this overage tonnage.

Our reserve fleet, which formerly was considered a source of strength in time of emergency, is mainly composed of obsolete World War II tonnage, and the experience of operating these vessels in the current Vietnam conflict indicates that we cannot long depend upon these vessels for logistical support in time of emergency.

It is important to clarify the difference between liner and tramp operations. In recent years the foreign trade of the United States has been composed by value of approximately 80-percent liner trade and 20-percent tramp trade.

The liner trade primarily involves manufactured goods and semi-processed products. The tramp trade concentrates on the bulk movement of large tonnages of grains and mineral ores.

If I may interrupt my prepared testimony for a second to put this in proper perspective. By deadweight tonnage the figures are almost

the reverse, if you reckon it on the basis of deadweight. The liner trades go down to about 15 to 20 percent of our total foreign trade, and the bulk trades, tramp trades, are 80 to 85 percent of the total trade. This is where we get the conflict often, and the figures such as the chairman quoted about 8 percent. There is a very definite distinction in this. I think it is pertinent to the hearings in progress that everyone understands exactly what that difference is, sir.

In the liner trades, which are served by the fleets of CASL, American-flag vessels have performed quite well in competitive international trade, with U.S. participation averaging 37 percent of the revenue and 32 percent of the cargo deadweight tonnage.

These percentages have been temporarily reduced as many of our fastest and most efficient liner vessels have been diverted from their regular commercial routes to serve the military effort in southeast Asia.

During national emergencies, our ships have been available to provide logistical support for our military forces. In fact, few major military emergencies confronting this Nation have been successfully concluded without the support of a privately owned American-flag merchant fleet to transport men, equipment, and supplies to the action areas.

At the present moment we are heavily involved in the Vietnam conflict. In effect, the American merchant marine has gone to war. Not too much publicity and credit is given to this effort, but private U.S. shipping companies are affording full cooperation to our military people in the Vietnam conflict.

In addition to providing substantial numbers of our liner vessels under charter to the Military Sea Transportation Service, American-flag lines are today operating a total of 94 vessels from the reserve fleet for account of the MSTS under general agency agreements with the Maritime Administration.

The Department of Defense and the Department of Commerce recently called upon us to furnish 23 additional privately owned ships for charter to the Military Sea Transportation Service.

We are willing to commit our ships to Vietnam; but how far can American shipping capacity be stretched even if our commercial routes are abandoned? We must provide the ships; at the same time we are extremely preoccupied with the need to service our commercial trade routes.

A very effective solicitation device of some fair weather foreign-flag competitors is, "American-flag ships will go to war and you had better give your cargoes to us while we still have some space."

Our own commercial sealift capacity is being restricted and once we lose our commercial customers to foreign-flag competitors, it is a very difficult process to regain their patronage.

We are today endeavoring to work out an arrangement with the Government whereby we can provide some means for continuing our commercial operations to assure our customers—our importers, our exporters—that we will be able to offer adequate commercial services at the same time we are participating in the Vietnam sealift.

It is obvious that we simply do not now have enough shipping to adequately service our essential trade routes and at the same time supply the sealift for one national emergency such as the current Vietnam situation. If we were to be faced with another such conflict,

or even an expansion of the Vietnam emergency, we would not have the shipping to handle our requirements.

In the case of a full-scale war, we would be at the mercy of foreign-flag shipping, and, according to our own military leaders, experience has proven that we cannot depend upon foreign-flag shipping.

During recent discussions with the Department of Defense officials, we asked them about the possibility of utilizing some of the ships of our NATO allies in the Vietnam conflict, and we were promptly answered by one of the gentlemen to the effect that they simply could not rely upon foreign-flag ships and therefore they had to call upon American-flag ships.

Mr. Chairman, I would like to clarify that I do not believe that I am disclosing anything of a classified nature. Our discussions with officials of the Department of Defense, Department of Commerce, have subsequently been made public. I think I am speaking and relating this information to this committee in a manner and under a procedure which I do not believe is detrimental to the interests of the United States.

Compounding the problem of a lack of sufficient U.S.-flag shipping to meet all of the commercial and military demands on the merchant marine is the serious shortage of seagoing personnel that exists today. This situation can be expected to become even more critical in the future, especially in the area of officers and skilled unlicensed personnel.

This situation has been anticipated for some time and CASL has for several months urged the U.S. Maritime Administration to consider accelerated training programs.

We believe that the reduction in available seagoing manpower, and projected attrition, have resulted primarily from a lack of job security which in turn results from the lack of a progressive well-defined maritime policy as to the future of our merchant marine.

Only too often in the past have there been hasty buildups followed by drastic cutbacks in the U.S.-flag operations with consequent loss of job opportunity.

The attractions of shore-based employment have taken away many of our finest young men who have experienced frustration in obtaining permanent employment at sea.

Today we are in a vacuum as to the implementation of our national maritime policy, which the Congress clearly defined in the 1936 act. Worse yet, the vague and tentative proposals of the current Maritime Administration would limit and even reduce both manpower and ship availability. This also affects the "automation" issue.

We cannot "mothball" manpower as we have "mothballed" reserve fleet ships. The average age of our licensed officers is today about 47 years, and the average age of all unlicensed personnel is about 44 years. In effect, our merchant marine is today largely operating with both men and ships of World War II vintage.

It is worthy of mention that while the Department of Defense has placed great emphasis on the expected potential of air transport in the field of military logistics, in the Vietnam conflict 98 percent of all the war material has been transported by sea. This is only an increase for air transportation of 1 percent since Korea, and that conflict took place 15 years ago. This has prompted the Secretary of Defense to praise the activities of the American merchant marine in the Far Eastern theater.

The Department of Defense has invited bids for approximately 18 new-type vessels to be known as FDLS, fast development logistic ships. It is the suggestion of the Department of Defense planners that these vessels would be loaded with all types of war material in readiness for any emergency and stationed in strategic areas around the world.

This does not seem like a very economical type of operation. I recently had an opportunity to confer with the former Chief of Naval Operations, the popular and well-known Adm. Arleigh Burke, regarding this proposed operation. Admiral Burke authorized me to quote him to the effect that he did not consider this to be a practical operation and that he had previously recommended against the proposal when he was Chief of Naval Operations.

His conclusion was that the plan seemed about as practical as would be a proposal to have loaded freight trains sitting on sidings against the possibility of their eventual need within the continental United States.

Our Committee of American Steamship Lines has proposed that we construct and operate under long-term time charters with the Navy Department, additional vessels similar to the FDLS type, but with commercial characteristics, to supplement the Navy sealift requirements.

We feel that our professional experience will be of benefit in providing the logistical support that the Navy requires, and that we can also provide vessels which will have commercial utility and can be profitably operated in time of peace, performing an effective job in serving the foreign commerce to this great Nation.

This we believe can be accomplished at much less cost to the U.S. Government and to American taxpayers than the \$40 million currently estimated for each of the FDLS-type vessels.

We publicly announced this plan last month, and we expect to submit our proposal to the Department of Defense in the near future. Our proposal, if accepted, certainly would mean a great boost to the development of American-flag shipping, additional foreign trade service, and, of course, increased job opportunities for American seamen and shipyard labor. It could also save American taxpayers millions of dollars.

By contrast with the apathy surrounding our American merchant marine in this country, we should take due note of the fact that in Great Britain the current seamen's strike is receiving the full attention of the British public and the Prime Minister of Great Britain. The British are well aware of the importance of their merchant shipping and its effect on their balance of payments and their national economy.

A week ago, the Greeks announced a \$600 million program to renovate the Greek merchant fleet. The plan is to scrap about 400 old vessels and put in a massive order for 200 to 240 "handy-sized" freighters, with Government financial backing.

The trading nations of the world, large and small, are proceeding with plans to develop and modernize their merchant fleets. Of particular concern to us today are the shipbuilding and trade expansion programs of the Communist nations.

The growing Russian merchant fleet can be considered one of the most serious threats to our national economy and to our national security. In 1955, the Russians announced a dramatic expansion of

their merchant marine. They projected a 15-year program to accomplish this and proclaimed their plans to the world, but few took them seriously at the time. Today they are ahead of schedule, by their own admission. Their merchant marine is already larger than the active American fleet and it is being expanded by 1 million tons a year. Within the next decade, their fleet should be almost double the size of our own at the present rate of their gain and our decline.

By 1970, the Soviets will have 350 tankers and 1,335 dry-cargo ships. By 1975, their fleet will include 428 tankers and 1,595 dry-cargo ships. The anticipated 1980 tonnage is between 20 and 25 million tons.

While American ship operating and shipbuilding skills are considered among the most advanced in the world today, the Russians are fast narrowing the technology gap and, in some areas, they appear to have outdistanced us. Just this month, the Soviet Union announced that it is introducing "computerized" navigation at sea to shorten voyages and reduce risks. The system's computer carries complete weather information. Taking into consideration the position and destination of the ship and matching this with weather information, the computer then determines the fastest and safest route. The system is said to have been used successfully on an experimental basis for 1 year. Another computer system, according to the Russian publication *Izvestiya*, directs the freight flow and the selection of ships for scheduled voyages acting as an automatic dispatcher.

To man this great fleet the Communists are engaging in a tremendous education program. Reports indicate that they are training over 200,000 officers and men at the Leningrad Institute of Transportation, the Odessa Maritime Academy, and in many other maritime schools within Russia, all, of course, operated by the Russian Government. These training courses go even beyond the degree stage and provision is made for graduates to continue studies and receive doctorates in maritime transportation. Their program is definitely long range and is concentrating to a great extent in educating officers and men aboard ships in ship management and transportation economics. The Russians are now actively participating in international trade organizations and recently pledged that they will take an active part in the work of the Committee on Shipping of the United Nations Council on Trade and Development (UNCTAD). The Soviet Union has joined the Baltic Exchange (London) as a full member, and has become such a power in the exchange that, when Soviet Minister of the Merchant Marine, Viktor Bakayev, temporarily withdrew his country's membership in protest against an alleged affront, the Baltic Exchange directors invited Russian reconsideration. They did—on their terms.

Our so-called NATO allies are chartering their vessels to the Russians through the Baltic Exchange. This means that the Communists can free their own shipping to engage in direct traffic with Cuba and North Vietnam while chartered NATO ally ships can be used in other Communist traffic and not be subjected to U.S. blacklists. It is a sad fact that not only are our allies not assisting us to any extent in the Vietnam conflict, but in many instances their ships are serving adjacent mainland ports of China and trans-shipping their cargoes to small coastal vessels for delivery to the Communists in North Vietnam. The chartering and trans-shipment practices of our allies produce

the same results as would occur were their ships going directly into Haiphong.

The Communists have reached agreement with our European friends in international organizations to combat discriminations against world shipping. Public announcements in the British press indicate that the effect will be to direct an attack against Western Hemisphere shipping, not only the United States, but the developing fleets of Latin American nations. In this they are apparently allied with a European shipping group known as COLOSA. It is interesting to note that the vice chairman of this group—one is a Norwegian and the other is a German. Once the Russian merchant marine reaches the proportions that it can provide services on all of the world's trade routes—and its ships are already serving most world ports today—it will be able to exert great influence on the fleets of our NATO allies.

We have just prepared a listing of Communist shipping services taken from Lloyd's Shipping Index for the week of April 15 to April 22, which I attach as an exhibit.

Mr. Chairman, in addition to this we have prepared another exhibit which shows the satellite ships, Poland, Bulgaria, Yugoslavia, East Germany, Red China, and Rumania, totaling 468 ships. Space did not permit us to put the markers on this chart. So we attach this as a separate exhibit, and with the permission of the Chair I would like to have it included as an additional exhibit.

Senator BREWSTER. Without objection, it is so ordered.

(The document referred to follows:)

U.S.S.R. satellite ships in foreign trade as reported by Lloyd's of London, Apr. 15, 1966

Poland.....	146
Bulgaria.....	38
Yugoslavia.....	128
East Germany.....	114
Red China.....	13
Rumania.....	29
Total.....	468

U.S.S.R. satellite ships in foreign trade as reported by Lloyd's of London, Apr. 15, 1966

	Poland	Bulgaria	Yugo- slavia	East Ger- many	Red China	Ruma- nia
Africa, East.....	3			2		
Africa, West.....	10		4	8		
Africa, North.....			3			
Arabia.....	13	1	9	2	5	
Argentina.....	2		1			
Australia.....	1					
Belgium.....	4		1	14	2	
Boston.....			1	1		
Brazil.....	1		5			
Canada.....	1					
Canary Islands.....	5					
Ceylon.....	2		1	2		
Charleston.....						
Cuba.....	1	1	1	2		
Denmark.....	3	1		6		
Egypt.....	4	3	7	3	1	1
England.....	21		4	23	2	3
Finland.....	1			1		
France.....				5		
Germany, East.....	16					
Germany, West.....	4	2		8	1	1
Greece.....	2	5	4	7		2
Hampton Roads.....			1			
Holland.....	3	1	3	7	2	3
Hong Kong.....	1				1	
Houston.....			8			
India.....	4		5	6		
Indonesia.....				1		
Ireland.....	2					2
Israel.....	2	1				1
Italy.....	5	5	25	1	1	
Japan.....	2		5	1		
Lebanon.....	1	1	2	4		3
Mexico.....				3		
Miami.....			1			
Mobile.....			1			
New Orleans.....	1		3			
New York.....	3		1			
Norway.....	2					
Pakistan.....			1	1		
Panama Canal.....			1			
Portugal.....	1		2			
San Francisco.....						1
Seattle.....			1			
Singapore.....	5	1	3			
Spain.....			2			
Suez.....	4		10	6		4
Sweden.....	2	1		5		
Syria.....	1		4			1
Turkey.....	5	14	11	3	1	5
Yugoslavia.....	1	1				

Captain CLARK. We have also prepared a chart showing the position of Russian satellite shipping for this same period, and I just mentioned why we couldn't put the satellite on the board, which chart I now display to emphasize the worldwide Communist shipping services.

May I point these out?

Senator BREWSTER. Please proceed.

Captain CLARK. The Soviet fleet operations today are concentrated in the European trade, in the North African area, Mediterranean, Italy, Middle East, Turkey, Suez, down through the Red Sea, and in the Indian area. They are trading on the West African Coast. Incidentally, each of these red marks indicates five ships. Had we included all of the satellite countries, and done it on a ship-for-ship basis, this chart would have been covered. We wouldn't have been able to make a representative projection.

On the East African side, and the island is covered with red dots, indicating Russian activity, and on the east coast of South America they have a Polish ocean line and the Russians themselves have just initiated a Russian service.

In the Pacific there is an intense trade with the island of Japan and in the Indonesia-Burma area. As they are expanding their services they will take over more and more of the world's trade routes. I have an additional exhibit which indicates the trade routes in concise form which shows where they are actually trading. I would like to mention that this does not include the chartered ships of the free world which are under the absolute control of the Russians and the satellite countries, and which in turn are trading to similar areas under the flags of their respective countries.

Incidentally, on the Baltic Exchange today there is a practice to disguise the movement of free Western maritime fleets, the transactions involving the charters of these vessels to the Soviet satellites, and Red Chinese are regarded as secret. We are attempting to avoid them. We have reason to believe they are not listed in Lloyd's Index. This obviously is to avoid the blacklist.

It should be understood that even this presentation does not include all Communist shipping or the Communist-controlled NATO ally ships.

By sheer weight of economics, the Communists, through the powerful Soviet Ministry of Shipping, can drive home a hard trade bargain with any of our Western European allies and even Japan. The Russians are currently supporting shipyards in Italy, England, Sweden, Spain, Finland, and although Austria does not have shipyards they build machinery, motors and auxiliary equipment, West Germany, Japan, Denmark, and all the satellite countries with Russian ship and motor equipment orders to the extent of over \$1 billion. By reason of the fact that they are the biggest single customer of international shipowners, shipbuilders, and brokers, the Russians can exert a tremendous influence.

The Russians could exert influence over allied shipping which would have a tremendous effect on our own world trade position, affecting not only the maritime industry of this country but also the ability of our manufacturers to export. The Russian merchant marine as an instrument of Communist policy can alternately be used as an economic, political, or military weapon—and they will use it. They have said they will bury us through trade and they intend to use the Russian merchant marine to accomplish this goal. They can provide and have provided services and goods at a loss if it serves their political purposes, a tactic which could place the United States in a very difficult position. The only answer to this is to have an effective American merchant marine. People don't like to react but what are you going to do when you have an enemy who is obviously determined to defeat us in any way they can in a cold war; especially through economic penetration utilizing such a tremendous weapon as their merchant shipping. It seems almost incomprehensible to me that this proud Nation of ours would permit our shipbuilding program to be so vastly reduced at a time when the Russians, who are very practical people, are building up their shipping.

At the same time, Communist satellite nations such as Poland, Rumania, Cuba, and Hungary and Bulgaria are building ships at a

similar dramatic pace. Cuba, so close to our own gulf coast, has announced that she will have one of the foremost merchant fleets in Latin America by the end of the next year. A "sugar-for-ships" exchange between Spain and Communist Cuba has become a thriving business. Spanish-Cuban trade increased from a volume of \$10 million in 1962 to more than \$65 million in 1965, much of it in the form of Cuban sugar for Spanish-built ships. It has been estimated that 40 or more ships of all kinds are now under construction in Spain for Cuba. The maritime program of little Cuba is almost equal to our obviously inadequate building program.

I say almost equal, Mr. Chairman. Perhaps I should qualify that many of these are small ships. But they are building large ships along with them.

We must be on constant guard against the serious threat to our coastline posed by the world's largest fishing fleet. Russian trawlers have extended their operations to the U.S. gulf coast and the Caribbean. Soviet trawlers have been spotted from time to time off Louisiana, off Texas, and the Yucatan Peninsula.

Rear Adm. James D. Craik, commander of the 8th Coast Guard District, advises that while Russian trawlers have not plagued the gulf coast to the extent that they are infesting the waters off our east and Pacific coasts, it is possible that they will expand their operations in the gulf in the future. Admiral Craik reminds us that these vessels are usually equipped with highly sensitive electronic equipment. He confirms that there is a possibility of these vessels conducting electronic surveillance of our military defenses and exploring ways of interfering with or controlling the guidance and abortive systems of our missiles and rockets. If routine radio communications in taxis can interfere with launching operations, what could Soviet trawlers with their highly developed electronic gear do?

In the event that the committee does not understand my reference to these taxis, there was a protest regarding the use of radio-controlled taxi operations in the Cape Canaveral area which was interfering with rocket launches.

One of the practical objectives of the eastern bloc is to participate in Western trade in order to earn foreign exchange. To break into established markets with their shipping, the Communists have taken to rate cutting, a practice which could ultimately bankrupt the privately owned maritime fleets of the world. A Soviet-controlled shipping company recently quoted on a shipment of steel pipe to the Near East at 42 percent below the going rate. A Yugoslav shipping company took a variety of goods from Portugal to Hamburg at rates from 35 to 55 percent below established rates. And, on a bid for a cotton shipment from the Near East, Soviet ships quoted 40 percent lower than the West. The new Soviet passenger liner, *Alexander Pushkin*, which recently initiated the first Russian passenger service to North America since World War I, is reportedly booking passengers at rates substantially lower than those quoted by the traditional passenger lines serving the North Atlantic trade. These practices are not based on business economics, but on other considerations.

A conference of German shipowners in Hamburg made the following comment with reference to Communist shipping policies:

It is merely an expression in the area of shipping, of the already joined fight between the free and the state run economies. The free market of the west makes

it impossible for the western companies to bid on eastern shipments. In the eastern bloc a central loading office (now computerized) sees to it most all export liner cargo with very few exceptions is carried by eastern bloc ships.

Soviet ships made more voyages to the developing countries last year than American ships. Soviet Maritime Minister Bakayev calls them friendship voyages and intends to increase them.

The captains of our ships report sighting Communist vessels on our trade routes to West Africa and South America with increasing frequency.

These are the captains of delta lines referring to, in our trade routes to West Africa and South America. They note particularly the heavy concentration of Communist vessels in the Florida Straits, a constant reminder that Cuba is not a friendly tropical island.

When Minister Viktor Bakayev sends his cargo ships, tankers, and passenger vessels out into the world to earn foreign exchange, he is getting the free world to pay for the Russian Navy. And here I think it opportune to quote directly from the internationally recognized authority on world seapower, "Jane's Fighting Ships," 1965-66 edition:

U.S.S.R.

A country's Naval might is expressed not only in terms of her fighting ships, not only in terms of support ships, and auxiliaries, not only in terms of the maritime application of the military arts derived from the march of science and technological progress, but in terms of her mercantile marine which offers such a vast potential for the rapid expansion of her martial navy in emergency or wartime.

An indication of Soviet aspirations towards global maritime control, and expanding interest in the wider aspects of the sea affair in general, is given by the rapidly increasing Soviet mercantile marine which has grown from 1,000 ships aggregating 2,300,000 tons ten years ago to 1,700 ships aggregating 7,000,000 tons gross today. There is no doubt that the USSR regards her merchant shipping fleet not only as an essential element of the national economy at all times but as a vital fourth arm of defense in emergencies. Moreover, the Soviet Navy draws freely from the mercantile pool whenever it is in the interests of the fighting services, either absorbing merchant ships as naval auxiliaries or building naval vessels on mercantile lines.

It is not only the growth of Soviet merchant shipping which is of some concern to the principal maritime powers. The chiefs of the NATO, SEATO and CENTO organizations are tending to think not specifically about the Soviet naval forces proper but broadly about all the USSR's sea vehicles; the surface combatant ships, the submarine fleet, the merchant fleet, the surveying fleet, the fishing fleet, the research ships, and those very numerous ubiquitous trawlers which seem to appear on every trade route and on every scene of naval activity. So much so that "Soviet Navy" is becoming a term applied to the Soviet's world wide distribution of ships of all kinds. This distribution is undoubtedly a challenge for naval and mercantile supremacy at sea.

The Soviet navy evidently has generous funds at its disposal, for new warships are not confined to orthodox or elementary types nor are they apparently limited in numbers. Soviet naval architects have recently produced some quite remarkable and exciting designs, and experimentation is obviously to the fore, showing that treasury support is not lacking.

It is important for you to know that Mr. Viktor Bakayev is the head of the Ministry of the Soviet Merchant Marine, which is comparable to a Cabinet-level department in this country, and he is backed up by an unlimited budget and a resolute national shipping policy.

Mr. Chairman, we prepared an exhibit which shows the ranking of the Minister of the Merchant Marine in Soviet Russia. He ranks 19th out of a total of 60-odd ministers. It is particularly interesting to note on the list, as we have it here prepared, that he ranks before the Minister of Defense Supplies.

This dramatically emphasizes the importance that the Soviets attach to their merchant marine in their overall program.

Compare the aggressive maritime program of the Russians with our own national maritime program—we appear 10th rate by comparison.

Here, Mr. Chairman, I would like to refer to numerous articles from Russian sources which I have included as part of my testimony in the form of exhibits to substantiate my previous remarks concerning Communist sealift. I am certain members of this committee will find these articles of great interest and pertinent to your study of the current critical situation affecting our national maritime situation.

Mr. Chairman, these are attached as referenced and are intended to back up the testimony that I have given. We think our presentation is factual.

In 1959, 7 years ago, the National Academy of Sciences—National Research Council, published a report on “The Role of the U.S. Merchant Marine in National Security,” more commonly known as Project Walrus. The authors stated that a continuation of the trend of the U.S. decrease in carriage of its own maritime trade is completely unacceptable to the needs of national security. They recommended a buildup of the merchant marine fleet to the point that it would satisfy almost all foreseeable military requirements except for special military vessels designed for “no port” operations.

The primary conclusion of the Walrus report was that American-flag operation of merchant shipping is essential to strengthen the economy of the free world and to meet minimum needs during a political-economic conflict—as a military resource if armed conflicts break out—as a means of exerting positive economic pressures against the Sino-Soviet bloc—as insurance against loss of shipping through realignment of allied or neutral nations—as a means of maintaining access to essential raw materials—and as a means of protection against exorbitant shipping rates.

Today the uncertainties and confusion concerning the lack of implementation or even recognition of our maritime policies by the current Maritime Administration has led to labor unrest and a stalemate of cooperative and progressive planning on the part of management and government. It is paradoxical that while there is projected a substantial increase in the trade of this great Nation within the next two decades, the current Maritime Administration would apparently have us serve our future foreign trade with a lesser number of ships. We believe that our basic maritime policies are good, but they have generally failed to achieve desired results because of lack of effective implementation. The 1936 Merchant Marine Act is now just about 30 years old. It is basically a good act. We, for our part, have offered suggestions intended to strengthen all segments of the American merchant marine. Our unsubsidized liner, tramp, tanker, and coastwise fleets are in serious trouble and we sincerely believe that the American merchant marine must have an expanding modern, well-balanced fleet.

If we heed public pronouncements of the President of the United States, the Vice President of the United States, the statements of Secretary of Commerce Connor, the statements of industry leaders, and the statements of labor leaders, the present situation calls for an early and effective implementation of our national maritime policies and a forward-looking program for the American merchant marine.

At a time when we obviously need more ships, the construction of new vessels has been reduced to a program of only 11 ships during the current fiscal year. We need a shipbuilding program of at least 25 ships a year. The Maritime Administration has admitted publicly that we are already 90 ships behind in our planned ship-construction program.

It appears that the Maritime Administrator's main objective today is to promote a program which is of his own making and, design and which has little, if any, support within the maritime industry, among labor groups, in the administration or the Congress. What has been accomplished has been accomplished by the industry itself and with little assistance from the Maritime Administrator. We are all in favor of technological and progressive development of ship design, cargo handling, ship propulsion, and the industry itself is expending large sums in this direction. It should be understood by all that the operating-differential subsidy, which is paid to American contract steamship lines operating on essential trade routes, is only paid to equalize the cost between operating American-flag ships and what we would pay in the way of operating a foreign-flag ship. The ship-owner does not receive one penny of subsidy. It is just like having skilled labor ashore competing with skilled labor abroad. It is simply a question of the American standard of living. There is nothing wrong with this. We are proud of the fact that we have a high standard of living in this country. It is inconsistent for the Maritime Administrator to say that American seamen's wages are excessive. You could say the same thing about plumbers, carpenters, professional men, or virtually any salaried man in comparison with foreign wages. We receive absolutely no subsidy for any shoreside expenses, including my own salary. As far as the shipbuilding subsidy is concerned, this is paid directly to the shipyards to make American shipyards competitive with foreign-flag shipyards.

In theory, we are supposed to purchase ships for the actual cost that we would pay if we built the ships in a foreign yard. Now the reason for this is that there must be a nucleus of U.S. shipbuilding skills maintained in time of national emergency. At the present time consideration is being given to creating additional shipbuilding facilities for the FDLS program.

Well, it is one thing to have the yards. It is another thing to retain the shipbuilding skills. It is the same old story again, you cannot mothball skilled labor whether they are people who go the sea or whether they stay ashore for shipbuilding work. Whether he wittingly or unwittingly is doing so, Mr. Nicholas Johnson's public statements tend to discredit the American merchant marine—management, labor, and the shipbuilders. This is a very difficult situation for those of us who should look to leadership from the Maritime Administrator.

The role of the U.S. merchant marine in national security (better known as Project Walrus), published in 1959, was sponsored by the Maritime Research Advisory Committee, National Research Council, National Academy of Sciences, and carried out as part of contract MA-1767, with the U.S. Maritime Administration. This was a non-partisan project; the list of participants included distinguished representatives from the Department of Defense, Bureau of the Budget, the Maritime Administration, academic leaders, and business

consultants. The report was submitted 7 years ago, but much of it is still current. Even then it was apparent that the threat of Communist intentions to utilize their shipping as a weapon in the political-economic cold war was well understood. Allen Dulles, the Director of the CIA, summed up the threat in these words:

... they (the Soviets) will buy anything, trade anything, and dump anything if it advances Communism and helps destroy the influences of the west.

The project points out that the Soviet-controlled merchant fleet was intended to be the instrument of their sinister plans, and anticipated the use of free world maritime fleets against the United States by the Soviets.

I respectfully suggest a review of this report by congressional and administrative leaders. This report on the role of the U.S. merchant marine in national security was intended to guide the planning of the Maritime Administration. Unfortunately, if it has received consideration, its findings and recommendations have been largely ignored and misunderstood.

We of CASL have prepared in great detail and in booklet form our findings and recommendations, and copies have been widely distributed. The President's Maritime Advisory Committee report has been endorsed by CASL. These reports supplement previous studies, and recommend the implementation of our national maritime policies and a forward program for a well-balanced, modern, productive, and expanding American merchant marine.

Mr. Chairman, this concludes my prepared testimony, I will be pleased to attempt to answer any questions that the committee might have.

Senator BREWSTER. Captain, first of all let me thank you for an excellent statement, very forceful, very well presented.

I have a few questions.

Would you fire Nick Johnson?

Captain CLARK. I find that a very difficult question to answer. However, I think that the interests of the United States are such that the Maritime Administrator must implement the responsibilities of his office. By status I consider that he has a mission. And I do not believe he is fulfilling that mission today.

I think if Mr. Johnson were an employee of my company, and he was not fulfilling his obligations, that I would replace him.

Senator BREWSTER. Has the Merchant Marine Act of 1936 been fully implemented in your opinion?

Captain CLARK. No, sir; I do not believe it has.

Senator BREWSTER. It is my understanding that we now have only 11 ships under construction, and we are 90 ships short, is that correct?

Captain CLARK. We are 90 ships behind schedule in the planned ship-replacement program, which began in the late fifty's. The appropriations for the fiscal year 1967 provide for only \$85 million of construction-differential funds, which are calculated to provide no more than 11 vessels. There is a carryover of funds from the previous fiscal year, and there has been some suggestion that possibly 13 could be built, with the moneys which would be carried over. However, the cost of ships today has increased and it is a debatable question whether this could be accomplished.

Senator BREWSTER. We now have the policy, as you recounted in your statement, of blacklisting ships that call on certain ports. Would

you recommend that we blacklist countries, rather than just particular ships, to get a little tougher?

Captain CLARK. Mr. Chairman, this would certainly bring the question to a head. However, I believe that I must acknowledge the fact that to do this would be a very drastic step and I don't think it would be a practicable solution. I think that there are other solutions. I think that forceful action by this Government could achieve the purpose of deterring our Western allies from chartering their vessels to the Communists, to interfering with our own military operations, of supplying our enemies.

I think that the statements of our foreign allies that they cannot control their chartering activities is so much poppycock.

I think that we have one of the greatest weapons ever developed and at our disposal today to accomplish this—the foreign trade of the United States. We are the world's greatest trading nation. And we are very generous in permitting free Western nations to participate in this trade. I think that even the suggestion of restrictions of their trading between this country and third countries, countries not their own, would certainly develop, in very short order, a dramatic change in the shipping policies of these reluctant nations.

Senator BREWSTER. Then, Captain, you would say through the very force and weight of our international economic power, we could not keep them in line if we so chose.

Captain CLARK. I think we have the economic power. I think we have the means to control our own destiny, our foreign commerce. We are very heavily involved in treaty obligations. An expression of the Congress, an act of the executive department, or even the suggestion of such a change in our policies would go a long way to achieving the desired results.

Senator BREWSTER. Is it possible for us to operate a completely unsubsidized, both as to construction and operation, U.S. merchant marine?

Captain CLARK. Mr. Chairman, I believe that if we retain the favorable trade route concept and provide the regular, frequent services required, without any guarantee of profit, that we must have some means of operating on a parity basis with our foreign-flag competitors.

There are many trading areas of the world on different essential trade routes that in return for these services the peaks and valleys of cargo availability are such that they become marginal. I think that our profit of the different lines average somewhere around 5 percent return. This is after subsidy considerations. Very few of us are in a recapture position.

The possibility of operating American-flag vessels without subsidy is largely geared from terminal-to-terminal, one-port to one-port operation, quick turn around, and generally involves rather than limited ranges. I think most of the economic projections that we have projected indicates that in this case.

The only other way that vessels can be operated without subsidy, as in the case of our tramp vessels is where they have the so-called rate differentials on bulk cargos which is primarily an operation of loading grains in U.S. ports to a foreign destination and usually a return in ballast.

Senator BREWSTER. Is it not true, as I believe you pointed out in your statement, that the Communist bloc uses their merchant marine

as an arm of their foreign policy and in fact subsidizes it and operates it under cost when it is necessary to carry out a particular policy that they may have?

Captain CLARK. Mr. Chairman, the Soviets have been quite outspoken in the expansion of their merchant marine. They have been quite proud of it. It is very expansive. As a matter of fact many of the documents that we have submitted to the committee as exhibits originate with the Russian embassy, and from Russian periodicals.

In these statements they frequently refer to the profitability of their merchant ships. But on investigation we have found that the cost of their vessels, the cost of their training programs, is largely considered as part of their defense effort. And it is obvious that if you don't consider depreciation as initial capital cost, you can do many things and make a profit.

There is no question about it, they will use their merchant marine as instruments of national policy, for both political and economic purposes. That has been demonstrated on several occasions. I make reference to it in my testimony and also in the exhibits which we have submitted.

Senator BREWSTER. The American public seems to be unhappy with the situation that arises when you have a ship like the *Shenandoah* tied up for a long, long period of time because of a strike, when the taxpayers have paid for a very substantial portion of its construction. What recommendation would you make, if any, to prevent strikes in subsidized ships?

Captain CLARK. Mr. Chairman, this aspect was touched upon even by the Walter study of 1959, recognizing the fact that the development of a modern and productive American merchant marine, the introduction of mechanization and automation would be largely contingent upon good labor-management relations.

It also indicated that there must be a forward program. Our problem basically today, I believe, is due to the fact that we have today no implementation of our national maritime policies. In fact there is a great uncertainty and confusion surrounding our maritime policies, the future job opportunities, and for this very reason this is prompting labor unrest. This is why the labor unions, I believe, have insisted upon additional men for the automated and mechanized new cargo liners. This is, I presume, only natural, that the men want to protect their jobs. If they don't see any expanding job opportunity through additional ships, certainly they will try to hold on to the jobs that they have, with a prospect for a lesser number of ships. The labor leaders through their leaders indicated some years ago they would accept automation and mechanization on the basis of greater job opportunities. In other words, additional ships to take place of the men who are unemployed because of automated or mechanized vessels.

However, until today, at least, there is no progressive plan on the horizon to provide these additional ships. To the contrary, every indication is that there will be less job opportunity. This, I believe, has been the basic cause of the labor unrest that we have experienced.

Senator BREWSTER. Would it be fair for the Congress to require some type of "no strike" agreement before we would subsidize ship construction or ship operation?

Captain CLARK. In the President's maritime advisory report there is a provision—I don't remember the exact details—in which if the full program is to be implemented, that labor would voluntarily agree to a "no strike" provision; provided, of course, that the job opportunity remained, that there would be voluntary arbitration.

I don't think it is a practical proposal today to consider compulsory arbitration. We tried that once before. We didn't get anywhere.

Senator BREWSTER. Let me change the subject now. What relationship do you see between the Walrus and the Maritime Advisory Committee reports?

Captain CLARK. I think the Maritime Advisory Committee report can be considered as a supplement to the Walrus report and bring it up to date. I think that the Maritime Advisory Committee report is intended to offer a forward program which will in effect provide for the replacement of the very fleets which today have little hope for the future. These are the tramps, the tankers, the coastwise ships, what are referred to often as nonsubsidized groups.

The only group, the only segment of the American merchant marine which has a future today—and this is subject to question under the recent proposals of the Maritime Administration—is the so-called subsidized group which I am today largely representing. We do have a commitment for the replacement of our ships and we are practically the only segment replacing our ships.

Senator BREWSTER. This morning's New York Times has an article with reference to labor's objection to the institution of foreign-flag vessels, chartered, to replace the American-flag ships in service with military cargo moving to Vietnam. Would you comment on that?

Captain CLARK. The Department of Defense has requested that we furnish 23 additional ships for the military effort in Vietnam. I touched on this in my prepared testimony. If we take these ships—and mind you we have already given 27, and this would make a total of 50 ships—if we give the military the additional 23 ships, our already restricted commercial freight routes will be stripped to the extent that our foreign-flag exporters will move in and take our customers.

The Department of Commerce, through Mr. Alan Boyd, has suggested several alternatives for the consideration of the industry, among which was the fact that our contracts could be amended, if (unintelligible) could be given to the lines to operate on the foreign trade routes, foreign-flag ships as substitutes for the vessels that would be chartered to the military for the Vietnam sealift.

We as steamship line operators do not like the idea of operating foreign-flag ships. We would much rather keep our own ships, but we recognize at the same time that if we abandon our commercial trade routes to foreign-flag shipping, that when the emergency is over and we return, that we will have a very difficult time to regain the degree of operating return that we had before.

We will have to come back and, of course, the people who have been depending upon the American merchant marine to carry their goods in the meantime will have been favoring the foreign-flag ships.

It is a difficult thing to regain business once you have lost it. We have discussed with the Maritime Administration and the Department of Defense a good many alternatives. We suggested that perhaps NATO ally ships might be used in the Vietnam sealift. They

answered us very quickly that they could not depend upon foreign-flag ships, but that perhaps they could be used in the commercial sealift to take the place of the vessels that we were giving.

We asked them about why not use the flags of necessity, or flags of convenience shipping, over which the United States has previously stated that they have effective control. The answer to that was that these are largely not serviceable ships for the Vietnam area. That they are bulk ships and could not be used effectively in the Vietnam sealift.

Mr. Chairman, we are today in the very difficult position of having an obligation to supply, to supplement, the sealift at a time of acknowledged national emergency, and we must also face the prospect of leaving our commercial routes to our foreign-flag exporters. We don't like the idea of chartering foreign-flag ships. We are exploring it as the Department of Commerce and the Department of Defense have asked us to, and we are discussing it with labor.

But obviously, Mr. Chairman, if labor takes a position in opposition, and the courts have upheld their right for information (unintelligible), then it will be impossible for us to charter foreign-flag ships; and that will be the end of that arrangement right quick.

This will, of course, put us in the very difficult position of going back to the Department of Defense and stating: "Look, what are we going to do? Are we going to abandon our commercial trade routes completely? Are we going to dissipate our services? Are we to give up the trade routes which the United States has built up with great effort to the foreigners, opportunists in many cases, who are coming in on our regulatory routes, or will you simply requisition the vessels?"

This is a question we are going to have to face very soon. The Department of Defense is pressing us for an answer, and we are in active negotiations with them.

Senator BREWSTER. It occurs to the acting chairman of this committee that we are in a very desperate position.

Captain CLARK. I agree.

Senator BREWSTER. If we strip our U.S. liners of all their commercial business, they will be in an impossible position after this international situation passes, as it will pass.

Now let me direct your attention to the logistics. It is estimated that each one of these will cost \$40 million.

Captain CLARK. This is the estimate of the naval officials.

Senator BREWSTER. Can private industry build these cheaper and run them cheaper?

Captain CLARK. We think so.

Senator BREWSTER. How?

Captain CLARK. In the first place we are proposing, and I must say, Mr. Chairman, that our committee has various aspects of this program, this proposal, under consideration at the present time. Our studies are not completed.

I, as chairman of CASL, have appointed a technical committee, I appointed a finance committee, and I have appointed the chairman of our FDLS sealift committee to work with us—and they are meeting now, this week. They met last week. We are working as quickly as we can.

In effect we intend to, insofar as practicable, adapt our concern designs, which involve commercial equipment, machinery, to satisfy

the Navy's basic and minimum requirements. Of course, this will have to satisfy the Navy or we won't get off the ground. But we think utilizing our professional know-how and restricting the construction of these vessels to what might be considered as basic commercial-type vessels, insofar as the Navy will permit us to do so, and maintaining commercial utility actively required by the Navy, on the basis of preliminary estimates we anticipate that we should be able to construct these vessels in the U.S. shipyards for approximately \$20 million apiece. This is preliminary, Mr. Chairman, and it is our intention to present a comprehensive preliminary design study to the Secretary of Defense within the next few weeks, along with our financial projections.

Senator BREWSTER. Is it your opinion that these can be constructed in existing shipyards?

Captain CLARK. Yes, sir; we think so.

Senator BREWSTER. And that it is unnecessary to set up an entirely new production ship construction, such as has been suggested by the Secretary of Defense?

Captain CLARK. We anticipate no need at all for new facilities: the present shipyards are quite able to build our replacement ships. These would be merely a replacement of the ships we are building now, fast and modern.

The typical type ships to satisfy the Navy requirement would have to be larger, broader beam, faster, with certain defense features in them. There should be no need whatsoever for shipyards other than the present shipyards to be reconstructed simply for that reason.

Senator BREWSTER. And would it be correct to say that these ships could be used in international commerce when they weren't needed by the Department of Defense?

Captain CLARK. Mr. Chairman, this is one of the primary considerations that we are advancing. We think so. The evolution of containerized and unitized cargo services are quite similar to many of the requirements of the military. We think that we could come forward with designs which are compatible with both commercial as well as military utility.

Senator BREWSTER. Captain Clark, I have asked you a lot of questions. Thank you very much, sir.

Captain CLARK. Thank you, sir.

Senator BREWSTER. We have one more witness this afternoon, Mr. Leo C. Ross, president of Pacific Far East Line, Inc., California. Mr. Ross do you have a prepared statement also?

STATEMENT OF LEO C. ROSS, PRESIDENT, PACIFIC FAR EAST LINE, INC., SAN FRANCISCO, CALIF.

Mr. Ross. Yes, and with your permission I will read from the text.

Senator BREWSTER. Please go ahead.

Mr. Ross. My name is Leo C. Ross and I am president of Pacific Far East Line, Inc., with headquarters in San Francisco; and our firm is a member of the Committee of American Steamship Lines. My appearance before you today is in the capacity of a member of that committee and in support of other committee witnesses.

CASL, as our committee is generally known, is an association of 13 U.S.-flag steamship lines operating cargo and passenger vessels in

the foreign commerce of the United States on essential international trade routes as determined and defined by the U.S. Government. These shipping lines conduct their operations in full compliance with the terms and conditions provided for under operating differential subsidy contracts entered into with the United States. One contractual requirement provided for in these agreements is for the periodic replacement of older tonnage with new and modern ships. The contracts also require that such ships be built in U.S. shipyards. It is to this particular point I wish to confine my remarks today.

Under the terms of our operating differential subsidy contracts, the orderly replacement of our existing ships is in accordance with a schedule prepared and approved by the Maritime Administration. These schedules vary from company to company but in general provide for vessel replacement contracts to be entered into as ships attain the age of 17 years. All ships delivered prior to December 1, 1946, have a statutory life of 20 years. Ships delivered since that date have a statutory life of 25 years.

Recognizing the substantial differential in price between building a ship in the United States as opposed to the cost of such construction in a foreign yard, provision is made for the U.S. Government to pay directly to the low-bid U.S. shipyard this cost differential.

The construction differential subsidy is presently limited by statute to 55 percent of the U.S. shipyard cost. This leaves a minimum of 45 percent of the domestic cost to be borne by the steamship companies. Most recent comparisons of current U.S. shipyard costs with foreign costs clearly indicate that the differential today is in excess of 55 percent. However, due to the statutory limitation, the steamship companies are in fact themselves subsidizing U.S. shipyards to the extent the cost differential does exceed this 55-percent ceiling.

The appropriation of funds to cover construction differential subsidy payments for the fiscal year 1967 is now set at but \$85 million. It is estimated that such an allowance will provide for the construction of not more than 11 new cargo liners in the forthcoming fiscal year.

This represents a substantial reduction in the number of ships to be built and places us further behind in our replacement program. If we wish to regain the position we once held as a leading maritime nation, we must embark now on an enlarged construction program. Through advanced technology and engineering in ship construction and design, even some of the most recently constructed conventional-type vessels are rapidly becoming obsolete. The appropriation for fiscal 1967, we believe, is below funds requested by the Maritime Administration for ship construction in the year ahead.

We do not have exact information on the number of ships which the Maritime Administrator, the Honorable Nicholas Johnson, proposed for construction when initially presenting his budget. However, we are led to believe that the number requested was substantially higher than was finally approved. In the course of reviews within the Department of Commerce and the Bureau of the Budget, his original request has evidently been reduced drastically to allow only for an estimated 11 new ships for fiscal 1967. In addition to this, it is our understanding that carryover funds within the Maritime Administration might permit the construction of an additional 2 vessels, for a maximum of 13 ships.

This number falls short of the need for new ships and is below the average annual ship construction since 1958, when cooperative efforts by the steamship lines and the Government initiated the largest replacement program in the history of the merchant marine.

I have attached for your consideration a tabulation of the number of ships built or under contract year by year for the specific companies operating under subsidy contracts. It will be noted that this schedule has average about 17 ships per year since that date.

But even this schedule has not kept pace with the requirements of the replacement programs in our contracts with the Government. In testimony given very recently before the House Merchant Marine and Fisheries Committee, Mr. Nicholas Johnson noted that the replacement program had fallen approximately 90 ships behind schedule. One of our member lines, having a scheduled commitment for replacement of a group of ships and desire to proceed with this program, twice has had the commitment deferred; and it may be facing a third extended delay.

This situation affecting the subsidized segment of our fleet constitutes a very serious threat to the ability of our American-flag merchant marine to meet its military support and commercial commitments throughout the world.

It would seem that we have not yet learned a lesson from our experience dating back to World War II to the present conflict in South Vietnam and that simple lesson is that a strong American-flag merchant marine is most essential as the fourth arm of defense in times of emergencies. Our merchant marine was found to be wholly inadequate at the outbreak of hostilities in World War II; the Korean war again found us behind the times in spite of having a large reserve fleet of vessels already becoming obsolete, and today our Government has broken out of this ancient reserve fleet more than 100 ships in an attempt to some degree to meet the pressing need for ocean transportation in direct support of combat units overseas.

The American-flag steamship operators are now constantly being requested to supply additional tonnage for this military operation by withdrawal of valued merchant vessels from commercial trade. Surely such circumstances and the experience of the past would clearly dictate an acceleration in our vessel replacement program rather than, as is the case, a deceleration of our shipbuilding program. The need for additional tonnage cannot be better demonstrated than by inviting your attention to the plans of the Navy, with the support of the Department of Defense, to enter into a crash program for the construction of some 20 fast deployment logistic ships for which, if constructed, the cost would be borne entirely by the Government. Such a program could involve an expenditure in the magnitude of \$1 billion. We also understand this may necessitate the construction of a new shipyard to carry out this program. It is estimated that this would require an additional expenditure of not less than \$100 million.

It seems to us in the ship operating industry most incongruous that the Government would undertake such a ship construction program at tremendous cost while at the same time finding it difficult to continue the support of contractually established ship replacement obligations with subsidized lines, particularly where a substantial part of the cost is borne by private capital.

The members of our association gave protracted and serious review of this seeming anomaly that would provide the Navy with a highly competent merchant fleet of its own, while deterioration of the merchant fleets continue due to lack of shipyard subsidy support. After careful analysis, CASL announced its intention last month of offer for consideration by the Department of Defense a program under which our members would undertake to finance and build approximately 20 merchant ships containing many of the features considered necessary by the military and to be incorporated in the FDL ships. This program to be financed by private capital and chartered to the Defense Department for so long as military needs require. Upon termination of such military requirements in the long sought periods of peace, these ships then would revert to commercial operation as a modern updated segment of our American-flag merchant marine.

The details of this program are being developed and shortly will be presented to the Defense Department for their consideration and review.

The overall status of the U.S.-flag merchant marine can be summarized in the following brief statistics:

In 1965, the 14-knot or faster dry cargo liner fleet of the United States consisted of 901 ships of which 643 were privately owned and 258 in the national reserve fleet.

As of January 1, 1965, the 643 active ships had an average age of 21.8 years and 79.3 percent were 19 years or older.

As of July 1, 1965, the 258 reserve fleet ships of over 14 knots consisted of 135 15-knot Victoriys and 32 16.5-knot Victoriys. The majority of the other 258 ships had a maximum speed of 14 knots.

By 1970, the majority of these 901 ships will be 25 years of age or older.

CASL lines now build or have on order a total of 150 ships. With the limited number of ships now possible to be constructed under the appropriations for fiscal year 1967 and what may be the funds available through fiscal 1970, we can now anticipate but 215 replacement ships by the end of 1970.

I think it must be realized by all who have studied and analyzed the state of affairs in our merchant marine that a significant revolution in cargo-ship construction is going on in this country now, but it needs to be encouraged and expanded. This is needed not only to meet prospective military logistic support requirements and to cope with our burgeoning foreign commerce, but also to at least match the major shipbuilding programs of many foreign powers and particularly the Soviet Republics which have scheduled the construction of the largest, fastest, most modern merchant fleet in the world.

We strongly advocate and support a program of ship construction that would foster the improvement and expansion of the liner fleet without further and costly delay. We are mindful also of the need for a ship replacement program for the offshore tanker fleet, the tramp or bulk cargo fleet, and our domestic fleet. The state of these latter segments of our merchant marine deserves serious consideration in the formulation of a new national policy for the American merchant marine which we are all hopeful will be consummated at the earliest possible time to reduce, if not eliminate, the uncertainty now prevalent in the maritime field.

In the sincere belief that a start toward strengthening the subsidized segment of the merchant marine must be made. CASL very recently canvassed our member lines to determine how many ships they would be prepared to build and operate if adequate Government shipyard subsidy funds were made available. The inquiry was based on two separate premises:

(a) Number of ships that would be built to conform with existing subsidy contract commitments; and

(b) Number of ships that would be built in addition to the above if sufficient shipyard subsidy funds were available.

The result of this canvass shows that our member lines are prepared now to support the construction in fiscal year 1967 of 26 new cargo liners and reconstruction of 2 existing ships to fulfill existing contract commitments. An additional 22 new cargo ships and reconstruction of 4 existing cargo ships would be undertaken if adequate shipyard subsidy funds are made available. All this work to be accomplished in U.S. shipyards.

The estimated domestic price of the ships required to meet contract commitments is \$371 million. Under the present construction-differential ceiling limitation, the shipyard subsidy portion of this amount would be \$204 million with private capital investing \$167 million. As mentioned before, the funds allocated to the Department of Commerce for shipyard construction in fiscal 1967 now totals only \$85 million.

To meet the additional and expanded shipbuilding and reconstruction program which CASL lines are willing to undertake would require an additional \$354 million of which the shipyard subsidy portion would be \$195 million with private capital investing \$150 million.

I have attached as a second appendix a list of the companies and the number of ships which they have indicated a willingness to build if the offsetting shipyard construction-differential funds can be appropriated and made available for ship construction.

We advocate your support for the appropriation of funds to implement these two proposals.

Recently in hearings held by the House Merchant Marine and Fisheries Committee, a proposal was made by one of the committee members that the committee annually review merchant ship requirements and propose for authorization by the Congress the precise number of ships to be built in the forthcoming fiscal year. This procedure, if adopted, would be similar to the procedures now in effect for authorizing in advance of appropriations, the number of ships and shiptypes to be built by the U.S. Navy and the Coast Guard.

We consider this recommendation to be highly desirable as it would place before the appropriate parent committees in both the Senate and the House, where knowledge of maritime matters is extensive, the role of insuring that ship construction is authorized and in numbers adequate to maintain a strong merchant marine. We would urge serious consideration of this procedure both in the Senate and in the house.

I appreciate very much having had the opportunity of presenting these thoughts with my associates and if upon review of the comments made here today there are any questions of any additional information desired we would be most pleased to comply.

(The information referred to follows:)

APPENDIX 1

Status of ship replacement program

Fiscal year	Company	Number ships	Contract	Contract date
1956	Grace Line Inc.	2	FMB-47	Jan. 17, 1956
Do	Moore-McCormack Lines, Inc.	2	FMB-46	Oct. 7, 1955
	Total	4		
1957	No CDS contracts			
1958	American Export Isbrandtsen Lines	4	FMB-67	Feb. 13, 1958
Do	American President Lines, Ltd.	2	FMB-74	Feb. 28, 1958
Do	Lykes Bros. Steamship Co., Inc.	5	FMB-69	Jan. 28, 1958
Do	Moore-McCormack Lines, Inc.	4	FMB-72	Feb. 14, 1958
	Total	15		
1959	American Export Isbrandtsen Lines	4	FMB-94	Mar. 17, 1959
Do	Delta Steamship Lines, Inc.	3	FMB-96	May 19, 1959
Do	Lykes, Bros. Steamship Co., Inc.	4	FMB-85	Oct. 29, 1958
Do	Moore-McCormack Lines, Inc.	3	FMB-92	Jan. 2, 1959
	Total	14		
1960	American Mail Line Ltd	3	FMB-98	Aug. 5, 1959
Do	Grace Line Inc.	3	FMB-105	Feb. 26, 1960
Do	Moore-McCormack Lines, Inc.	1	FMB-115	June 21, 1960
Do	Pacific Far East Line, Inc.	2	FMB-101	Sept. 22, 1959
Do	States Steamship Co.	4	FMB-110	Feb. 29, 1960
	Total	13		
1961	American Export Isbrandtsen Lines	4	FMB-129	Jan. 30, 1961
Do	Farrell Lines, Inc.	6	FMB-125	Sept. 22, 1960
Do	Lykes Bros. Steamship Co., Inc.	4	FMB-123	Sept. 13, 1960
Do	do	4	FMB-133	Jan. 27, 1961
Do	States Steamship Co.	2	FMB-135	Feb. 28, 1961
Do	United States Lines Co.	5	FMB-127	Sept. 7, 1960
Do	do	6	FMB-131	Jan. 11, 1961
	Total	31		
1962	Grace Line Inc.	1	MA/MSB-1	Feb. 1, 1962
Do	Gulf & South American S/S, Inc.	2	MA/MSB-6	Nov. 29, 1961
Do	Lykes Bros. Steamship Co., Inc.	4	MA/MSB-4	Do.
Do	Moore-McCormack Lines, Inc.	6	MA/MSB-2	June 29, 1962
	Total	13		
1963	American Mail Line, Ltd	2	MA/MSB-16	Dec. 27, 1962
Do	American President Lines, Ltd	3	MA/MSB-24	June 27, 1963
Do	Grace Line, Inc.	4	MA/MSB-22	June 14, 1963
Do	Lykes Bros. Steamship Co., Inc.	4	MA/MSB-19	Apr. 3, 1963
Do	United States Lines Co.	5	MA/MSB-12	Oct. 10, 1962
	Total	18		
1964	Grace Line Inc.	2	MA/MSB-33	Jan. 10, 1964
Do	Lykes Bros. Steamship Co., Inc.	4	MA/MSB-31	Nov. 21, 1963
Do	do	4	MA/MSB-36	June 26, 1964
Do	Prudential Lines, Inc.	2	MA/MSB-35	Apr. 24, 1964
Do	Gulf & South American S/S Co., Inc.	3	MA/MSB-26	Aug. 2, 1963
	Total	15		
1965	American President Lines, Ltd	4	MA/MSB-45	Dec. 31, 1964
Do	Delta Steamship Lines, Inc.	5	MA/MSB-49	June 28, 1965
Do	United States Lines Co.	5	MA/MSB-43	Dec. 9, 1964
	Total	14		
1966	American Export Isbrandtsen Lines ¹	3	MA/MSB-55	Nov. 30, 1965
	American President Lines, Ltd. ¹	1	MA/MSB-53	Sept. 21, 1965
		4		
	New ships delivered to date	104		
	Under construction	37		
	Total	141		

¹ To date.

APPENDIX 2

Number of ships subsidized lines would build fiscal year 1967 if funds made available

Steamship company	Number of ships would build to meet contract commitments	Estimated domestic cost (in millions)	Additional ships would build above contract commitments	Estimated domestic cost (in millions)
American Mail Line	1	\$14.5	2	\$29
American President Lines.....	4	56.0	(3)	10
Delta S/S Lines			5	60
Farrell Lines, Inc.	6	88.0		
Grace Line, Inc.			3	81
Lykes	(1)	70.0		
Oceanic	(2)	8.0		
Pacific Far East Line			6	84
Prudential	3	45.0	6	90
U.S. Lines	5	90.0		
Total	26	371.5	22	354

¹ These may be substituted for by 3 barge carriers having approximately the same domestic cost.

² 2 reconstruction.

³ 4 reconstruction.

Senator BREWSTER. Thank you very much, Mr. Ross.

Let me ask this question. Planes constructed in the United States completely dominate the aircraft field. Our planes, and the construction of them, certainly compete very, very favorably with planes constructed anywhere else in the world. Why can't we build ships competitively?

Mr. Ross. With respect to the airlines, many foreign lines are buying planes built in the United States. We think that we can build ships in the United States that are engineered, designed, automated, if you will, to meet the competition requirements of ships built in foreign yards. However, the differential is in the cost of acquiring this equipment. It isn't a lack of technology. It is the matter of the economics of competing in worldwide trade, using a capital investment when built in the United States, without the benefit of CDS that makes it impossible for the regulated advertised berth-line operators to maintain a program providing for sufficient funds in the future to replace equipment.

I believe I can best illustrate that point in this manner: My own company, Pacific Far East Line, operates four ships, and has for almost 20 years, in the trans-Pacific trade to the island of Guam. We are still operating this service with C-2-type vessels and Victory-type vessels.

The service is profitable, but how long can we maintain this very vital service with World War II tonnage? Earnings made through the operation of this service do not in any sense provide sufficient funds by establishment of adequate reserves to replace these vessels. Yet this is considered a domestic trade and we would not under any circumstances under present legislation be available for construction differential.

Senator BREWSTER. Sir, I don't think you answered my question. I want to know why, in your opinion, American shipyards do not build a ship as cheaply as the Japanese shipyard.

Mr. Ross. Principally it is the labor cost. We have a high standard of living in the United States, the highest in the world. In many

respects this goes beyond the direct labor that is employed in ship construction. But all the materials that go into vessel construction. It is the cost primarily of labor, and in many instances this adds to the cost of the material and the fabrication of material.

Senator BREWSTER. Why are ships different than airplanes, from iceboxes, from automobiles. Why can't we compete?

Captain Clark, maybe you would like to jump in here?

Captain CLARK. I just requested Mr. Ross to let me answer that. Yes, Mr. Chairman, I would like to answer it. First of all, the aircraft industry has the benefit of a tremendous defense budget in the development of airframes, of the machinery, of the jet engines, everything that goes into an aircraft, developed primarily in connection with the defense program.

The commercial airlines benefit from this.

Insofar as the question of the refrigerators, or what have you in this country, I think that this largely benefits from the fact that you have a tremendous domestic market in this country. We don't have a domestic market on a comparable level. We must, with our plants, which are ships, compete with low cost foreign labor. This is the problem. We don't sell our services within the continental United States. We are actively competing abroad with foreign plants through our high American standard of living, American plants being our ships.

Senator BREWSTER. You state, Captain, that we do not have a large domestic market. I would argue that we should have, as the greatest trading nation in the world, the greatest economic power in the world, the greatest source of domestic market that any country would have.

Captain CLARK. The distinction, Mr. Chairman, between the shipping trade and the manufacturing trades, within this country the domestic sales are such that they permit many of our manufacturers to export the surplus. We are in the service business. We are limited to services between our ports in the United States and abroad. We don't have a sales outlet within the domestic economy. We must trade from our ports to foreign ports in international competition. This is the point I was trying to make.

Senator BREWSTER. Mr. Ross, you referred to our reserve fleet, and you gave us some very useful figures on that in your statement. I would like you to elaborate on this. Is this reserve fleet, of some 20 or 25 years old, really effective? In another 10 years will we really have anything at all?

Mr. Ross. I doubt that seriously. My basis for this opinion is our own experience in the operation of World War II tonnage, as I mentioned a few moments ago. In all we have five ships of that type presently owned by Pacific Far East Lines and operating in the Pacific area. The cost, each year, in maintaining these vessels in a good, economic, workable condition, is rapidly becoming prohibitive.

We must also recognize the limitation on speed of these vessels, 15 to 16.5 knots. This is the age of speed even on the high seas. Our mariner vessels, largely built during the Korean war and following the Korean war, are 20-knot-plus vessels. We have under study now plans to go to 25 knots for freighter.

It is obsolescence as well as the wearing away of a physical asset that will make this reserve fleet most inadequate for defense purposes.

Senator BREWSTER. In 5 years will it be economically feasible to still operate a Victory or Liberty?

Mr. Ross. I don't believe it will be. Certainly I cannot see where we would find it profitable to be operating 15-knot ships 5 years from today.

Captain CLARK. Mr. Chairman, may I add something to this?

Senator BREWSTER. Please do.

Captain CLARK. The insurance market for cargo insurance has vitally affected the operation of war-built tonnage such as Libertys and Victories. I think there was quite a bit of publicity given to this recently.

The C-2, C-3 type vessels were exempted from regular trades. This does not extend to Libertys and Victories in foreign commerce.

In the case of our own domestic commerce, I don't think this applies. But this is a very grave threat that the great amount of our shipping could be made completely obsolescent overnight if the London market, followed by other insurance markets, increased these insurance premiums.

Senator BREWSTER. Let me ask this question, Captain Clark and Mr. Ross: Do you think that U.S. owners should buy ships from foreign shipyards?

Mr. Ross. I would say so long as we operate under American flag and plead for the buildup of American merchant marine, we should join in support. I know they are very, very vital to national defense, and that is the support of our U.S. shipyards.

Captain CLARK. Mr. Chairman, I would like to add some practical considerations to that. I have, on behalf of CASL, personally discussed this question with the U.S. Coast Guard. I find that they are presently making a study of the possibility of building American-flag ships abroad. The first reaction is that the coast is great. They would have to have U.S. Coast Guard inspectors in practically all the world shipyards.

The question of classification is another one, to meet U.S. standards.

There is a very complex and difficult question involving the technical symbols, as to steel, strength components, chemical components, which involves a multilanguage translation from one standard to another to comply with U.S. regulatory requirements.

Going a step further, if we are to build our ships abroad, you have the question not only of these technical requirements that you have mentioned, but also the question of spare parts, the maintenance of large inventories in this country to fulfill the requirements. These may not be readily available.

You also have the all-important question of shipyard labor. If we are ever to understand this question, I think that we have got to give consideration to the many, many periods of national emergency when this country itself had to engage in large-scale shipbuilding. And when the chips are down, we are going to have to build our own ships.

It is true that there is a naval program here. It is true that the naval program accounts for a very large percentage of our shipbuilding work. But there is a great distinction between naval shipbuilding and commercial shipbuilding.

If we lose the skilled men, the artisans, the planners that will build commercial ships because of the absence of a shipbuilding program in

this country, they are not easily trained again. You cannot mothball that type of labor.

Senator BREWSTER. Gentlemen, I thank you both for a clear, concise, and constructive presentation of the point of view of the U.S. shipping business.

I am going to recess this hearing now and reconvene it at 10 o'clock tomorrow morning. You are of course cordially invited to attend.

I will announce the witness list tomorrow morning.

The hearing stands adjourned.

(Whereupon, at 4:40 p.m., the hearing was recessed, to reconvene at 10 a.m., Tuesday, June 7, 1966.)

The theory of relativity is based on the principle that the laws of physics are the same in all inertial frames of reference. This means that there is no preferred frame of reference in the universe. The theory is based on two postulates: the principle of relativity and the constancy of the speed of light.

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MERCHANT MARINE FLEET REPLACEMENT PROBLEMS

TUESDAY, JUNE 7, 1966

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

The committee met at 10:45 a.m., in room 5110, New Senate Office Building, Hon. Daniel B. Brewster presiding.

Senator BREWSTER. The committee will please come to order.

Your acting chairman is quite late. Please forgive me. The Commerce Committee is in executive session in the next room at the present time. I may have to recess the committee in the course of the hearing this morning to go back in there and vote. I hope not.

The first witness this morning will be Mr. W. Lyle Bull, special representative of the American Export Isbrandtsen Line, New York.

Mr. Bull, you have a prepared statement, I see.

Mr. BULL. Yes, sir.

Senator BREWSTER. Please proceed as you wish.

STATEMENT OF W. LYLE BULL, SPECIAL REPRESENTATIVE, AMERICAN EXPORT ISBRANDTSEN LINES, INC.; WASHINGTON, D.C. ACCOMPANIED BY RICHARD W. KURRUS, ESQ., WASH- INGTON, D.C.

Mr. BULL. Thank you, Mr. Chairman.

My name is W. Lyle Bull. I am special representative of American Export Isbrandtsen Lines in Washington, D.C. I am accompanied by my counsel, Mr. Richard Kurrus.

We consider the most vital ingredient of our maritime program to be the ability to construct new vessels so that we will avoid obsolescence and remain competitive and have the ability to expand and grow.

Unfortunately, the American merchant marine at the present time is being prevented from expanding and adding new, modern and more efficient vessels to its fleet. This is true not only in the bulk carrier and tanker fields—where absolutely no new construction is taking place—but also in the liner industry where appropriations are limited and where growth is stunted.

We consider this situation most alarming and serious. If some steps are not taken to allow all segments of our shipping industry to construct new tonnage, our merchant marine will necessarily atrophy and become little more than a second-rate force.

Our company is in favor of a strong domestic shipbuilding industry. We are in favor of building ships in the United States. However, we

must face the facts as they appear to us, and those facts are that there probably never will be sufficient money requested by the administration and appropriated by the Congress to allow for a meaningful and effective vessel replacement program.

The fiscal year 1967 budget for construction differential subsidy would allow for the construction of only approximately 10 vessels—I might say there is some leeway there; some people say 13, and others say 10—at a time when the industry should in our opinion be building something in the magnitude of 50 or 100 vessels yearly.

At the present time the combined vessel replacement program for the subsidized liner companies alone is approximately 90 vessels behind scheduled replacements. Furthermore, it seems obvious that changing technologies and changing vessel designs will make some existing vessels obsolete far before their anticipated statutory life of 15 years.

Our position can be rather simply stated. If sufficient moneys cannot be appropriated by the Government to promote an adequate ship replacement program, then this fact should be recognized and accepted, and we should proceed with a program where part of our new vessel construction for liners, tramps and tankers, would be accomplished in foreign shipyards.

This is the approach that has been recommended by the American Merchant Marine Institute.

The present situation is the most absurd and foolhardy ostrich-like policy. It is a policy whereunder the Government insists that all new vessels be constructed in the United States but at the same time, because of fiscal considerations, limits the new construction program to about one-tenth of the number which we all know it should be.

While this policy is pursued ostensibly as a means of preserving our shipyard capability, such an objective is more illusory than real—it not only actually fails to serve this purpose but at the same time contributes to the weakening of our merchant fleet.

It is indeed a dead end program under which no one gains and everyone is the loser. The shipyards get no more work. The merchant marine is prevented from being adequately maintained and our merchant seamen steadily lose jobs through attrition as our fleet dwindles.

A well balanced and adequate merchant marine, as envisaged by the Merchant Marine Act of 1936 must also include tramp and tanker segments. Only approximately 32 new tanker vessels have been constructed under the American flag since the end of the Second World War, and those vessels were built shortly after the closing of the Suez Canal in October of 1956 under the Maritime Administration's so-called trade out and build program.

There have been no bulk carriers constructed for operation under the American flag in the foreign commerce of the United States in the last 20 years. This situation is alarming and depressing to us as we believe it should be to the Congress.

I should state in passing that we are in agreement with the statements already made to you by the CASL witnesses concerning the inadequacy of our maritime program. It is most paradoxical that the richest and most powerful Nation in the world has a vessel construction program contemplating fewer new vessels than such countries as Peru and the United Arab Republic.

According to present projections, the Soviet Union, whose merchant marine was in 1960 approximately one-third as large as that of the United States, will have by 1960 a fleet that is 50 percent larger than ours, and by 1980, the Soviet merchant marine will be over three times as large as the American merchant marine. We all recall most vividly, I am sure, Khrushchev's boast that "We will bury you."

The inadequacy of the American merchant marine has been dramatically highlighted by the circumstances surrounding the Vietnam sea-lift. Approximately 50 liner vessels are now on charter to MSTs. It has only been with the severe disruption of our regular liner services that the military cargo requirements for Vietnam have been able to be met.

It should be understood that American-flag liner companies do not and could not have excess vessels to be made available for any emergency that may arise. When liner companies are required to take vessels off of their regular berth service and charter them to the military, their commercial business, which they have taken many years to build up, is lost to the foreign-flag liners. It is, I can assure you, not imagination that some of this cargo may never be regained.

Until recently we have rested on the assumption that our reserve fleet provides us the merchant marine capability necessary for any emergency. The United States has indeed spent, as I understand it, approximately \$5 million annually to keep the vessels in this fleet in a steady of ready preservation.

The Vietnam conflict has proven that the reserve fleet is a slender need for us to lean upon. Approximately 101 vessels have been broken out of the reserve fleet and, according to our information, some of these vessels have required for reactivation as much as \$500,000, which is not much less than the current market value.

Furthermore, even with this reactivation, the condition of these vessels has left much to be desired for really efficient operation. More importantly, these vessels will all very soon be more obsolete than the DC-3 aircraft in air transportation.

There has been marked hesitancy about breaking out additional ships from the reserve fleet because of the extremely high reactivation costs. As a result, the Military Sea Transportation Service is seeking added tonnage from other sources.

Just last Friday MSTs issued a request for offers of either American- or foreign-flag ships, and there is no indication as to when the Department of Defense will consider its requirements as being fully met.

Within the last 10 years there have been more advances in ship design and ship technology than in the previous century. The United States cannot continue to have a merchant marine of any significance unless there is a program whereunder American-flag operators can keep abreast of these technological changes and construct new vessels which competitive circumstances require.

The changes to which I refer are improvements in propulsion plants which have made high speed operations feasible and commonplace. Whereas 10 years ago a 20-knot vessel was considered by some to be economically unfeasible and improvident, several foreign-flag vessels are now in operation or under construction that call for speeds of 25 knots or more.

Even our liner industry, which has been considered the only strong point of the American merchant marine, is now being outdistanced by our foreign-flag competitors.

The tremendous changes in cargo handling have been brought about by containerization and the resulting designs and configurations to accommodate containerized cargo.

We consider that American Export Isbrandtsen Lines is an active and dynamic company. Our management is expansion minded. It has been most frustrating to us that we have been prevented from going ahead with our own vessel construction program.

Recently we awarded contracts for three new cargo vessels for our eastbound round-the-world service. We have requested the authority to construct eight such vessels, but our request was denied.

If we had been able to award contracts for the construction of eight vessels rather than three, we could have achieved a saving in the construction cost of approximately \$700,000 per vessel.

The longer our replacement programs are delayed, so will construction costs increase in view of the current trend toward higher costs, not only in our country but abroad as well. Our Government's present maritime program is not only inadequate but it also inevitably breeds false economy.

Other vessel construction programs of our company—as well as many other companies—are completely bogged down and frustrated. We have pending with the Maritime Administration, an application to construct three high speed container ships for essential trade route 12. That application contemplates either nuclear propulsion or oil-fired equipment.

In addition, we have an application to construct up to 20 bulk carriers for operations in our foreign commerce. That application, which was encouraged by the Administration, has now been gathering dust in the Administration's files for well over a year.

This country does not lack the ingenuity or capability of having the foremost merchant marine in the world. We cannot, however, achieve the objective of having such a merchant marine if we are going to operate within the present straitjacket of vessel construction limitations.

Under present conditions we cannot grow, and an industry in a constantly expanding economy that cannot grow is bound to atrophy. As Cardinal Newman stated in 1868: "Growth is the only evidence of life."

We submit that there must be a reappraisal of our shipping policies, particularly concerning the most important and vital matter of new vessel construction, if there is going to be life in the American merchant marine.

I thank you, Mr. Chairman.

Senator BREWSTER. Thank you very much, Mr. Bull.

With your permission, I have a few questions I would like to advance.

Mr. BULL. Yes, sir.

Senator BREWSTER. In your judgment, sir, why is the United States unable to build ships competitively in the world market?

Mr. BULL. You mean our shipyard costs? I think it is on a par with all of our wage scales in this country, Mr. Chairman. I think there are no industries where their labor costs are not higher in our country than in any other country, and we cannot expect the shipyard workers to take less.

Mr. KURRUS. There is another element, Mr. Chairman, which might be stressed. The Government has done very little in the way

of promoting the American shipyard, as they have done in the aerospace industry, for example. And I have heard the comparison made that our aircraft manufacturers can manufacture aircraft that are actually priced less in the world market than foreign-flag aircraft manufacturers. But there hasn't been, as far as I know, a single commercial aircraft that has ever been developed in this country that wasn't developed completely with Government expense. The Government has paid all of the developmental costs of the aircraft manufacturers. They have paid the design costs.

If something of that approach were made in the shipbuilding industry, it seems to me that we might approach competitiveness with our American shipyards. I think that the amount of subsidy that has been paid to the American shipyards through the construction differential subsidy program—and of course the shipyard is actually the industry that gets the subsidy—has been extremely small when compared with the aircraft industry.

Senator BREWSTER. You would argue then, sir, that the investment that the United States proposes to make in the SST program—the supersonic transport—offsets the ultimate cost of the plane to the individual commercial operator?

Mr. KURRUS. I don't think there is any question about it. There isn't any question whatsoever. If the Government hadn't paid the developmental cost of these aircraft, then the American aircraft producer would be no more able to compete in the world market than the American shipbuilder.

I have heard it said that if one-tenth as much money were spent in the shipbuilding field as in the aircraft field, that our shipyards would approach a competitive situation. I don't know if that is true or not, but I think something in that magnitude might tend to make them competitive.

Mr. BULL. From the standpoint of a shipping man, and obviously with prejudice, it is very hard to comprehend how the Government can contemplate spending \$40 million a ship for the FDL's so-called, and I believe that was testified to yesterday by—

Senator BREWSTER. Please address yourself to that proposition. Do you believe that the commercial lines, the private business shipping interests, can provide the same service for a national defense effort?

Mr. BULL. Mr. Chairman, during World War I, and during the Korean conflict, in fact any time we have had any emergency, the American merchant marine has been able to perform and to serve the military services. And this program for the FDL's is rather ridiculous on its face. If it is the idea to build a \$40 million ship and load it with some material and thus keep it afloat in some alleged strategic location, we are going to pay a terrific price. I mean if we have for the \$40 million per ship, we could build probably six commercial ships which would be available for that service.

Senator BREWSTER. The charge has been leveled against DOD that they are advancing this proposal because they have Navy crews and will not be subject to strikes or high wages. Will you comment on that?

Mr. BULL. On that score, Mr. Chairman, I can't recall of any instance where military cargo has been involved where the unions have failed to come through and sail the ships. I think that is a phantom that is put up as a smoke screen, more or less.

The manning of those ships with Navy crews will cost the taxpayers more than commercial crews will, even with their high wages, because they have about six to one personnel.

Senator BREWSTER. So, Mr. Bull, can you say that you can man a ship with commercial crews just as cheaply as we can man it with Navy crews?

Mr. BULL. Yes, sir, in dollars, in round dollars. As it happened, I expect sometime with the Military Sea Transportation Service. We had a fleet of tankers, some of which were manned by the Navy and others by commercial crews. And I have made many calculations as to the differences in cost. Just in numbers of men, where we would have 120 men on the T-2 type tanker against 46 on a commercial tanker. The money goes.

Senator BREWSTER. Is it a logical proposition in your opinion that a nation such as the United States should consider its merchant marine as its fourth or fifth military arm?

Mr. BULL. It used to be referred to popularly as the fourth arm of defense. Now I think we are coming to the frame of mind where we regard it as the stepchild of the nation.

Senator BREWSTER. Isn't the position of the United States definitely weakened politically, economically, and militarily in international politics by the fact that our merchant marine is on the decline?

Mr. BULL. Yes, sir. Without any question.

Senator BREWSTER. In view of the tremendous sums we are now spending on trips to the moon, wouldn't it seem to be a fair proposition that we should invest a portion, a substantial portion, of our gross national product in the U.S. merchant marine?

Mr. BULL. Yes, sir. We have always advocated that. While I am not familiar, I am not qualified to pass upon outer space activities, it does seem to me that we ought to shake hands with reality and take care of what is here on earth, and get that in order before we start exploring.

Senator BREWSTER. What percentage of our total tonnage to Vietnam has been carried by the merchant marine?

Mr. BULL. Approximately 98 percent.

Senator BREWSTER. Would the U.S. merchant marine be able to handle a second Vietnam at the present time?

Mr. BULL. Not if there were any conflagration of any size that broke out in any other part of the world. We would be hard put to meet the requirement.

Senator BREWSTER. What is the leadtime for the construction of a major vessel, if your company wanted to start building one right now?

Mr. BULL. This is 1966. We would figure on that ship coming into service in 1968.

Senator BREWSTER. You can plan, finance, and construct a ship in 2 years?

Mr. BULL. Well, as it happens, we have the plans. Normally it takes about two and a half to 3 years from the beginning of planning to the delivery of a ship.

Senator BREWSTER. Mr. Bull, what do you see as the reasons for the failure of the Maritime Administration to act on your pending applications?

Mr. BULL. On the pending application for the bulk carriers? Lack of funds has been the explanation. And there never has been any

program yet implemented to provide for construction subsidies for bulk carriers. It is available, but it has never been implemented.

Mr. KURRUS. Mr. Chairman, I don't think there is any question but that the Administration is imbued with the idea of saving money in the American merchant marine and cutting costs. I think this is really the basis of why they haven't themselves requested appropriations from Congress at a time when we should be building more ships, not less.

However, whether this is a directive from a higher part of the Administration or not, I don't know. Certainly the Maritime Administration itself has been rather reluctant to go ahead and request moneys from the Department of Commerce and the Bureau of the Budget.

Senator BREWSTER. I am personally familiar with two shipyards; Bethlehem and Maryland Drydock are operating in the port of Baltimore.

In your judgment, Mr. Bull, are shipyards such as this fully capable of producing the necessary ships for the needs of your company?

Mr. BULL. They are, yes, sir. In fact, all of our shipyards, all of our principal shipyards, are capable. All they require is the order.

Senator BREWSTER. Would it be true to say, then, that the problem is appropriate financing?

Mr. BULL. Entirely, sir.

Senator BREWSTER. And direct national policy which we do not now seem to have?

Mr. BULL. That's right. And doesn't it seem unusual to you, Mr. Chairman, that on our side, that is on the industry side, we are willing to put up our funds. But the Government isn't. We are just stymied. We want to go ahead, but we are in a vise between the upper and nether millstones.

Senator BREWSTER. Thank you very much, sir.

Is there anything further you wish to add?

Mr. BULL. No, sir. Thank you, sir.

Mr. KURRUS. Thank you, Mr. Chairman.

Senator BREWSTER. We have a second witness this morning, Mr. William Moore, president of Moore-McCormack Lines, New York City.

Mr. Moore, will you introduce the people who accompany you?

STATEMENT OF WILLIAM T. MOORE, PRESIDENT, MOORE-McCORMACK LINES, INC., NEW YORK, N.Y., ACCOMPANIED BY RICHARD C. VANCIL, ASSOCIATE PROFESSOR OF BUSINESS ADMINISTRATION, GRADUATE SCHOOL OF BUSINESS ADMINISTRATION, HARVARD UNIVERSITY, AND CAPT. JOHN W. CLARK, PRESIDENT, DELTA STEAMSHIP LINES, INC., NEW ORLEANS, LA., AND CHAIRMAN, COMMITTEE OF AMERICAN STEAMSHIP LINES

Mr. MOORE. On my right is Mr. Richard Vancil of the Harvard Business School. On my left Capt. John Clark, chairman of CASL and president of the Delta Steamship Co.

I am William T. Moore, chairman and president of the Moore-McCormack Lines.

Moore-McCormack Lines is a member of the Committee of American Steamship Lines whose members are involved in long-range replacement plans which are directly related to financial consideration and we at Moore-McCormack Lines, Inc., have come up with a financial plan which we consider worthy of consideration by this committee which we consider a solution to the problem affecting all of us in obtaining adequate returns on the capital invested in our respective fleets.

It should be understood that I am speaking as the president of Moore-McCormack Lines, Inc., and am offering a suggestion which we consider as having merit but which need not necessarily be endorsed by all of the member lines of CASL.

I am happy that you have given me this opportunity to appear before you in order to give some thoughts concerning the future of the American merchant marine, insofar as new construction of ships in the United States is concerned. You have heard other witnesses testify before your committee concerning the necessity of enlarging the American merchant marine and to whose testimony I generally subscribe.

I shall confine my remarks to the basic problems of funds necessary to achieve an expanding American merchant marine, built and manned by American citizens and to offer a suggestion of how this might be achieved without further delving in the pocket of the already harassed American taxpayer.

When the Merchant Marine Act of 1936 was first put into operation, certain rules and regulations were established by the then Maritime Commission, now the Maritime Subsidy Board, concerning the use of the capital and special reserve funds of the various steamship companies; under the act the recapture of subsidy payments is established to be paid to the Government on a 50-50 basis from all profits in excess of 10 percent over and above capital necessarily employed in the business.

Under the rules and regulations then established, to a large extent the funds lie dormant in the reserve funds until such time the Congress authorizes matching funds so that new construction can take place.

When the 1936 act was young, in the late thirties to the midfifties, there was reason to believe that recapture would take place, and did, to the Government's benefit in the amount of approximately \$217,852,000 out of approximately \$1 billion paid out in subsidies.

However, insofar as post-Korean-war ship construction is concerned, with the high ship construction costs, the opportunity of the Government to recapture funds from the companies is indeed minimized, if not entirely eliminated.

The Government therefore, in actuality, currently receives little benefit from the recapture section of the act. In the last 6 years the Government has paid out approximately \$1 billion and received back only \$4 to \$8 million in recapture.

As an example of the increase in the values of the vessels is as follows:

In 1939, Moore-McCormack purchased the SS *Mormacport*, a C-3 vessel with 728,000 cubic feet and able to maintain a speed of 16.5 knots, for \$995,000 after subsidy.

In 1960, Moore McCormack purchased the SS *Mormacpride*, a 19-knot vessel with 562,000 cubic feet at a price of \$5,975,000.

These startling figures reveal the improbability of the Government being able to expect a return of subsidy through recapture.

It is my suggestion, speaking for Moore-McCormack Lines, that funds received from recapture from the companies operating under the 1936 act be placed in a revolving fund to be used for the purpose of industrywide rebuilding of the American merchant marine.

This program may sound contradictory in view of what I have said heretofore. Therefore I suggest the following program so that recapture not only becomes possible, but actually recapture becomes a most prevalent reality.

I use Moore-McCormack Lines as an example, relating to the above proposal in this financial analysis.

For the last 12 years, profits by the subsidized portion of the American merchant marine have yielded the lowest returns on capital of any segment of American industry. Even more unfortunately, the prospects for the future are not much brighter.

Our company has programed the expected future performances over the next 12 years, and even with fast, automated container ships, the best return we can hope for is only about 7 percent on our stockholders' investment. All of the changes proposed in the task force report and the Maritime Advisory Committee report do nothing to improve the inadequate prospect.

We have analyzed our profitability problem intensively, and have identified a major cause of our poor rate of return. It is this analysis which leads me to this proposal: a recapitalization of the financial structure of the industry.

The concept we propose is not new. In fact, we have borrowed freely from the experience of the air transportation industry. Their spectacular performance for their stockholders is in no small part attributable to extensive use of debt capital in financing their fleet.

The merchant marine must adopt a similar capital structure, coupling this suggestion with other recommendations for an efficient fleet and with the use of efficient financing, this will achieve the robust, competitive health that we all desire for the merchant marine.

Back in 1936, when the present act was drawn, the ship operators had very little capital, and the institutional arrangements established at that time were designed to foster the accumulation of capital and its dedication to the industry. Thirty years later these arrangements have proved too successful, with the result that the industry is now overcapitalized.

The penalties of this are twofold. First, because the capital is locked into the industry, the operators are motivated to leave the investment in the reserve fund as long as it holds the prospect to yield better new vessels or until they are forced to build under the contract. The competitive drive that is caused by the mobility of capital in free markets is absent in this industry. Second, because there is too much capital, the average return on all the invested capital is unsatisfactorily low, and therefore no recapture funds accrue to the Government.

The solution to this problem is simple; ship operators should be encouraged to make greater use of debt capital by permitting them to withdraw any excess equity capital from the industry. The results will be dramatic.

For our company it would raise the rate of return on equity by 50 percent, from 7 percent to nearly 10.5 percent, and at the same time it would free \$50 million of our equity for investment in other industries.

In today's well-developed capital markets there is no danger that subsidized shipping would "starve" for new capital; as long as the new capital had the prospect of earning an adequate return it would flow back into our industry as needed. But first, we must structure the industry so that the remaining capital earns a fair return and this can only be done by a recapitalization of the steamship companies.

Recapitalization costs the Government nothing—it is part of the operators' own capital that will be returned to him—but it would be tangible evidence that the Government really does want a strong, healthy group of operators.

What it also does do for Government is to herald the return of recapture of those funds now not available to anyone, which would go toward the revitalization of the American merchant marine, without additional cost to the American taxpayer.

Thank you.

Senator BREWSTER. If these blocked funds were released because of the change in the law, would your company use them for capital construction?

Mr. MOORE. I beg your pardon?

Senator BREWSTER. If these funds that are now blocked by law were released, would your company use them for capital ship construction?

Mr. MOORE. If they were released to my company, we would certainly be interested in, say, building bulk carriers. I think that when the diversification was approved by Secretary Hodges a few years back, that he felt, and so stated, that this would cause a revitalization of the industry, the result being a stronger and more robust American merchant marine insofar as Moore-McCormack was concerned.

Senator BREWSTER. With reference to your statement, what do you mean by leverage?

Mr. MOORE. Leverage is the use of debt capital to finance part of the investment in any business enterprise. For example, if the capital were, say, \$1,000 and you made \$140, you would make 14 percent before taxes, and after taxes approximately 7 percent.

Ordinarily \$400 of the required investment had been in the form of debt capital, it would yield approximately 19.7 percent before taxes, and 10.2 percent after taxes.

Senator BREWSTER. So you argue that in the U.S. merchant marine construction business, that you do not take full advantage of debt capital.

Mr. MOORE. That's correct.

Senator BREWSTER. How can financial leverage increase recapture of operating subsidy?

Mr. MOORE. Take Moore-McCormack as an example, and say our capital is \$100 million. To earn 10 percent on that you would have to make \$10 million after taxes. If, say, approximately 50 percent was in debt financing, we would have to earn much less to make the same \$10 million. You would only have \$50 million and under the same

10 percent you would only have to make \$5 million. Anything over and above that would be split between the Government and the operator.

Senator BREWSTER. Does Moore-McCormack have any bonded indebtedness?

Mr. MOORE. Yes. We have indebtedness on the two passenger ships. It is a small amount.

Senator BREWSTER. Is it customary for U.S. commercial lines to have bonded indebtedness?

Mr. MOORE. Under section 11, I think it is, of the 1936 act, the Government guarantees the loans on new vessels, and also they have done this on some older ones that have been converted.

Senator BREWSTER. How would you go about recapitalizing the company to correct the balance?

Mr. MOORE. If we were given the privilege of doing this, we would go out and obtain loans for approximately up to 75 percent of the vessels now in operation that have no loans attached to them whatsoever. This money would then be divided up to the parent and would be used in diversification, which also may well include tankers and other type bulk cargo vessels.

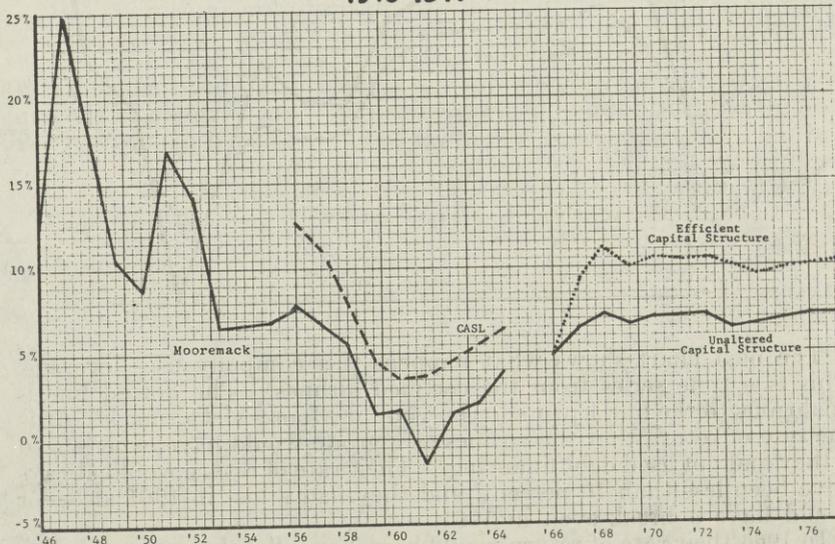
Mr. Chairman, I do have some charts here that might be interesting. Professor Vancil, if desirable, can explain them to you.

Senator BREWSTER. Please proceed.

Mr. VANCIL. I would like to have you have copies of these. These charts are an attempt to show graphically some of the points that Mr. Moore has made in his testimony. I will take you through them in the sequence that you have them.

EXHIBIT 1

**PROJECTED RETURN ON INVESTMENT
1946-1977**



The first point in this first chart is that we have made a serious effort to try to determine what the future of Moore-McCormack holds over the next 11 years.

Our current contract with the Maritime Administration expires in 1977, and we programed out the probable performance of our company over that period.

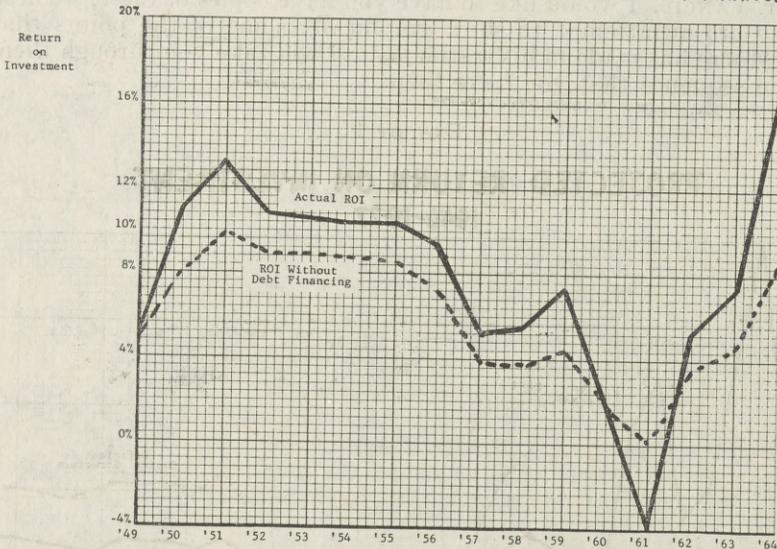
You see on the first chart that the rate of return for Moore-McCormack, that is to say profits after taxes as a percentage of the stockholders' equity, has been as high as nearly 25 percent right after the war, but that since the end of the Korean conflict it has been always less than 10 percent, and in fact we had an operating loss in 1961.

The CASL experience is a little better than ours. For all of the CASL companies as a whole, the rate of return in 1964 was a little over 5 percent.

The more discouraging thing is that even as we plan to build very efficient container ships in the future, we can see no prospect of our rate of return rising above 7 percent. We would expect it to achieve something of that order.

EXHIBIT 2

ALL CERTIFIED AIRLINES - AGGREGATE RATE OF RETURN
ACTUAL CAPITAL STRUCTURE COMPARED TO 100% EQUITY FINANCING



The next chart shows what happens if a company uses leverage. This is a time series from the certified airlines. The dotted line is analogous to the line I just showed you for Moore-McCormack. It is the rate of return that the airlines as a group would have experienced if they had not used debt financing. Their rate of return would always have been less than 10 percent, and they had a loss in 1961 also—or would have a break-even in 1961.

In 1964 their rate of return would have been slightly over 8 percent.

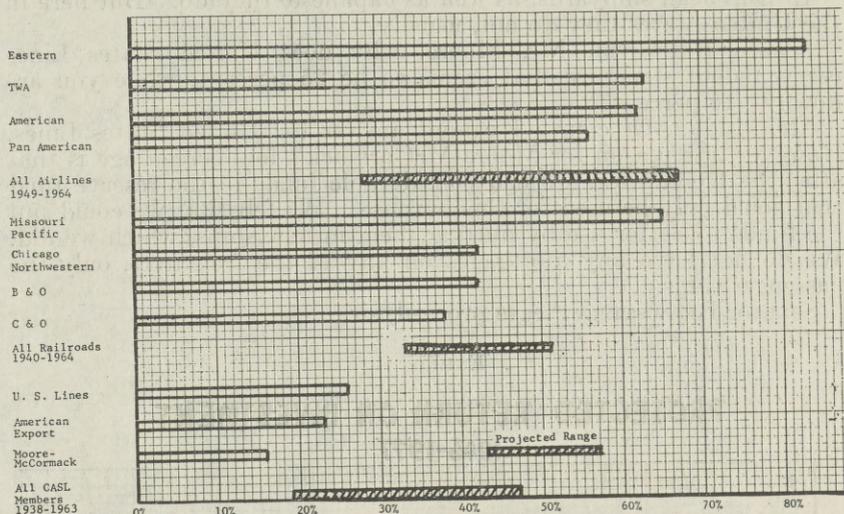
The heavy black line shows what their actual return on investment

was, reflecting their use of debt financing to provide a major portion of the capital used in the air transportation industry.

You see the leverage magnifies the effects of operating performance, it yields a higher return in good years and in bad years, such as 1961, it also magnifies the loss. That is the risk that goes with the use of debt capital. But in 1964, using leverage permitted the airlines to earn 16 percent on their capital rather than only 8 percent.

EXHIBIT 3

SELECTED TRANSPORTATION COMPANIES AND INDUSTRY AVERAGES
DEBT AS A PERCENT OF TOTAL CAPITAL - 1964 FIGURES



The next chart shows typical leverage percentages for analogous companies. Here the scale at the bottom is the percentage of debt as a portion of the total invested capital in the company or the industry. So that 50 percent means that half of the capital is provided in the form of debt and half in the form of stockholders' equity.

You see that for several of the most successful airlines the percentage of debt used is very large. These figures happen to be at the end of 1964, when Eastern had a very high percentage. But for all airlines over a 15-year period, which is the block in the middle of the page, it has ranged from about 30 to 65 percent for the airlines as a group.

Senator BREWSTER. Let me interrupt you there. Is this by way of general bonds or chattel mortgages on the actual equipment?

Mr. VANCIL. It varies. This is all senior indebtedness of the companies involved. It may be mortgage bonds. It may be a debenture issue, which is senior to any form of subordinated debt or stockholders' equity. This is all senior debt of the companies involved. Many times it is mortgages, because you have good equipment here to put a mortgage on.

The steamship companies, as you can see, have not used leverage nearly as much as the airlines or the railroads, and Moore-McCormack,

for example, as of the end of 1964, had only about 15 percent debt in its capital structure.

Our proposal to recapitalize our company would put us in the projected range that you see in the last line from the bottom of about 50 percent debt. It would range, depending upon the year over the next 11 years, from a low of 43 to a high of 57 percent.

The effect of this is shown on the next chart.

Senator BREWSTER. Let me interrupt again. It is my understanding that the airplane construction companies, like Boeing, finance their equipment. Is it customary for U.S. shipyards to finance the ships they build?

Mr. MOORE. I can answer that one, sir. The answer is "No."

In European shipyards, as well as Japanese, they do. But here in the United States they do not, usually.

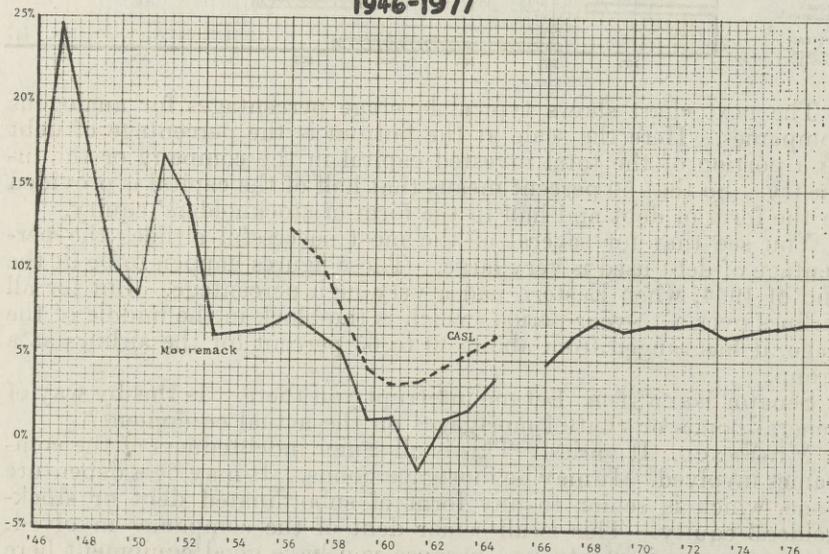
Senator BREWSTER. Mr. Moore, why does United States Lines carry a debt structure that seems to be 25 percent, while you are down to 16 percent?

Mr. MOORE. Of course I cannot answer for United States Lines. However, the reason for Moore-McCormack's low percentage is that after the Korean war we had considerable funds in the reserve fund that could only be used for this purpose. We felt that we could put the funds to better use by putting them in new ships, which we did. We do not have any mortgages on any of the freighters, only the passenger ships.

Senator BREWSTER. Please proceed, sir.

EXHIBIT 4

PROJECTED RETURN ON INVESTMENT 1946-1977

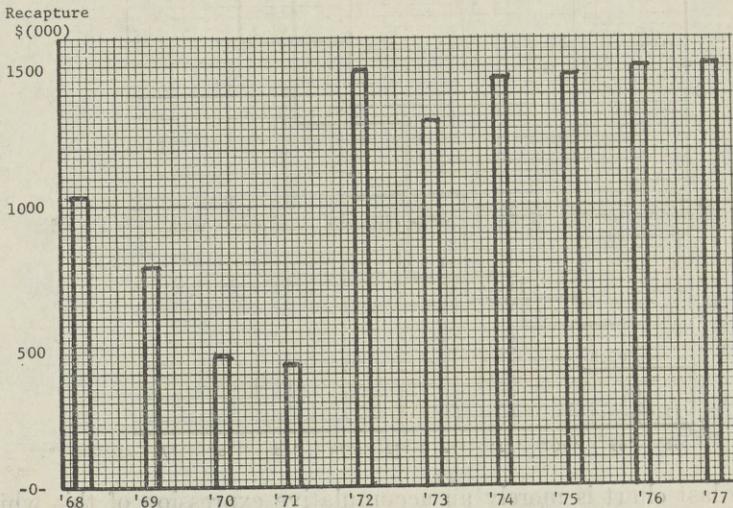


Mr. VANCIL. Turning to the fourth chart, it is the same as the first chart except we have now added an efficient capital structure. We have already assumed we are building an efficient fleet over this period. Now, with efficient financing our return on investment goes up so that it is above 10 percent in almost every year.

Ten percent is not only a more adequate number for our stockholders, it is also the magic number in terms of recapture, because once the company begins to earn more than 10 percent, it then has to refund—it starts to refund its subsidy to the Government.

EXHIBIT 5

RECAPTURE OF O D S 1968 - 1977 PROJECTED



The next chart shows the magnitude of this for our company on a projected basis for the next 11 years.

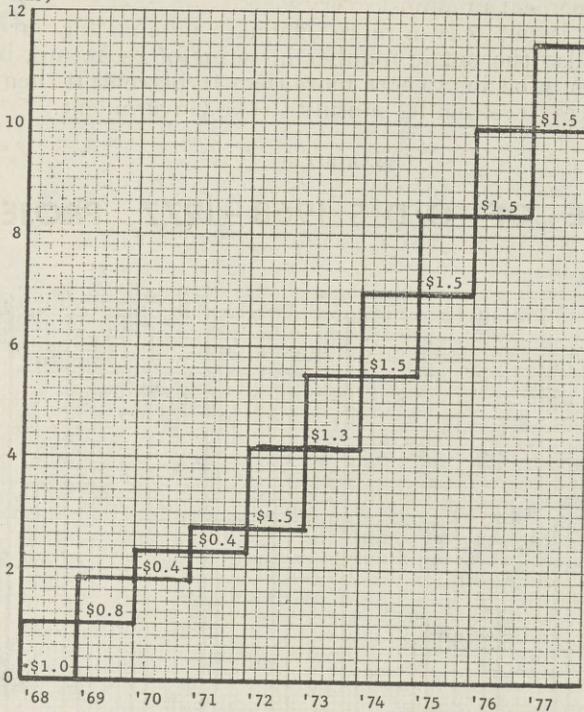
Senator BREWSTER. Is that before or after taxes?

Mr. VANCIL. These numbers are after taxes, sir. This is the projected return on investment after taxes. And it also reflects after the recapture of subsidy that would be possible under this plan.

You see the recapture for our company would begin in 1968 in the amount of \$1 million. It would decline over the next 3 years until we bring on our next fleet of highly efficient ships, and then recapture would run at the level of about \$1.5 million a year for the remaining 6 years under our contract.

EXHIBIT 6

RECAPTURE OF O D S 1968 - 1977 PROJECTED

Recapture of ODS
\$(millions)

The last chart is merely an accumulative expression of this which shows that over the actually now 10 years here, over this 10-year period the Government would expect to recapture approximately \$12 million. So that our proposal essentially is that by permitting the company to finance itself efficiently—we don't require any Government money, we just take back part of the money that we have invested in the company now—by allowing us to do that the Government increases its likelihood of recapture and it will eventually receive \$12 million of subsidy back.

Senator BREWSTER. Are you prepared to suggest to this committee precisely what changes in the law are necessary to effect this change?

Mr. MOORE. I think after a little study, sir, we would be, yes, sir. There is a question in the minds of some of our counsel as to exactly what might be done by general order, and what might be needed in the sense of changing the 1936 act. We will be happy to do that.

Senator BREWSTER. Would you have your attorneys or your people prepare such a recommendation for this committee and submit it for the record?

Mr. MOORE. Yes, sir, we will be delighted to.

(The following response was provided by Moore-McCormack Lines in answer to the request of Senator Brewster. The response is drawn from a report prepared for Moore-McCormack Lines as part

of a proposal to the Maritime Administration for a modification of its operating differential subsidy contract.)

The following four criteria were identified as reflecting both the goals of Moore-McCormack's stockholders and the government's goals for the subsidized shipping industry.

- (1) Reasonable profits for the operator, thus permitting its shareholders to earn a reasonable return on their investment.
- (2) Efficient use of funds invested in new vessels. Instead of planning on a total and blind replacement of present capacity, this criterion states that new vessels should be built only if they represent an efficient use both of Moore-McCormack's funds and of Construction Differential Subsidy.
- (3) Reduction in the company's dependence on Operating Differential Subsidy, thus giving the taxpayer greater transportation capability for the subsidy dollars that he does spend.
- (4) Efficiency and competitiveness in world markets, reflecting the company's responsibility to the taxpayers and to its customers to deliver superior transportation services at reasonable costs.

Not surprisingly, these four do not conflict with each other. It is in fact, a central argument of this report that the proposals herein are in the best interests of both the company and the government. Moore-McCormack has examined the entire range of viable alternatives for subsidized liner services to the areas it serves, and its Board of Directors have adopted the best replacement program that can be identified at this time. This program, coupled with a revised capital structure for the company, will permit Moore-McCormack to become a profitable, healthy operator and an efficient, highly productive and aggressive competitor in world shipping.

THE FLEET

Moore-McCormack has at present 39 cargo ships and two passenger ships in its subsidized fleet. The two passenger ships, eight C-3's and six C-4's are of recent vintage and do not have to be replaced under the present contract. Twenty-five C-2's, C-3's and Victories were built under previous contracts and must be replaced according to the terms of the current agreement.

The best replacement program both in terms of profitability to Moore-McCormack's stockholders and of efficient use of the taxpayers' money involves the following four steps, the first two of which have already been submitted for Maritime approval:

- (1) Sell PRL to Grace Line (six vessels) so that economies of scale can be achieved on the West Coast.
- (2) Build four roll-on, roll-off container vessels for the ASL route to Northern Europe (replaces seven old vessels).
- (3) Build four roll-on, roll-off container vessels for the ARL express service to Brazil and to Buenos Aires (Replaces six old vessels).
- (4) Reserve the replacement decision on the remaining six vessels for several years until changes in technology and routes may make replacement feasible. Direct replacement of these ships with conventional ships at this time would be a poor investment for both Moore-McCormack and the taxpayer.

The high productivity and efficiency of container ships make them a very attractive investment for high density routes. These ships promise the company a high return on its investment, promise the shipping public faster service at a lower cost and promise the taxpayer greater freight capabilities for his subsidy dollar.

While the container ships have great promise for high density routes, they are not practical for routes with a low volume of trade. In fact, with the high cost of new vessels today, new conventional ships are also impractical for low volume routes such as the ARL Great Lakes route or the ASL "B" route to Iceland. At the present time this leaves Moore-McCormack with six ships to replace, but with no specific replacement proposal that would entail a wise investment of Construction Differential Subsidy or of the stockholder's equity. Abandoning these six ships because there is no currently feasible replacement solution is also unwise; there are too many changes in the Maritime Industry to assume that an economic solution to the replacement of these ships will not be developed over the next three to five years. Moore-McCormack would, therefore, like to delay the decision on replacing six ships until a decision can be made according to sound investment principles and the changing technology of the industry.

If this strategy is adopted, Moore-McCormack's fleet at the end of 1977 will consist of a minimum of 22 freighters and the two passenger ships. Operating Differential Subsidy per revenue dollar in that year will be \$0.156 as opposed to \$0.24 projected for 1966; this is mainly due to the high productivity of the container ships which should operate on a subsidy that is less than 10% of revenues. Additionally, Moore-McCormack's request for Construction Differential Subsidy will have been limited to amounts necessary for a few highly efficient ships rather than the commitment necessary for a total replacement program.

Profit after taxes in 1977 are projected at \$8,725,000, yielding a return on investment in the shipping company of about 7.3%. Thus, while an efficient fleet will improve both Moore-McCormack's operations and the taxpayer's return, the improvement is short of the 10% rate of return goal that would bring the company into a subsidy recapture position and make the company attractive as a private investment. And there are ways, aside from an efficient fleet, not only to improve the stockholders' return but also to share that improvement with the taxpayer. The next two proposals, the recapitalization of the shipping company and a separate recapture accounting for the container ships will accomplish these two goals.

FINANCIAL STRATEGY

At the same time that the fleet replacement analysis described above was proceeding, another line of attack to improve Mooremack's financial performance was also being explored. This second approach was purely financial, involving a careful review of the opportunities for and the appropriate utilization of debt capital in the subsidized shipping business.

Moore-McCormack believes that the time has come for a re-appraisal of the financial policies that were incorporated in the Maritime Act of 1936. "Back in 1936, when the present act was drawn, the ship operators had very little capital, and the institutional arrangements established at that time were designed to foster the accumulation of capital and its dedication to the industry. Thirty years later, these arrangements have proved too successful, with the result that the industry is now over-capitalized. The penalties of this are two-fold. First, because the capital is locked into the industry, the operators are motivated to leave the investment in the reserve fund as long as it holds the prospect of a yield that is better than that offered by new vessels or until they are forced to build under the contract. The competitive drive that is caused by the mobility of capital in free markets is absent in this industry. Second, because there is too much capital the average return on all the invested capital is unsatisfactorily low, and therefore, no recapture funds accrue to the government."¹

The concept of leverage.—The use of debt capital to finance part of the investment in a business enterprise is commonly known as financial leverage; the rate of return on the equity capital is increased (levered up) through the use of low-cost debt capital. The effect of leverage is best illustrated through a simple example such as that shown below.

Illustration of financial leverage

Type of investment	Dollars invested	Percentage yield on investment (before taxes)	Division of profits between investors
Debt.....	\$400	5.5	\$22
Equity.....	600	19.7	118
Total.....	1,000	14.0	140

If the total investment of \$1,000. in this example is all made in the form of equity capital, the stockholder will earn a return of 14% before taxes or about 7.3% after taxes. Alternatively, if \$400 of the required investment is in the form of debt capital at an interest cost of 5½% the yield on the equity capital of \$600 will amount to 19.7% before taxes or about 10.2% after taxes. The "cost" of increasing the stockholders' rate of return is the increased risk which he assumes; if profits decline the lender will still receive his 5½% while the stockholder will receive only whatever the additional profit may amount to.

¹ Reference here to W. T. Moore's statement before the Special Sub-Committee of the Senate Commerce Committee concerning the American Merchant Marine. June 7, 1966.

The near-magic of leverage has caused the downfall of many aggressive corporations in the past, and there is little question that debt capital must be used with care. On the other hand, utilization of a moderate amount of debt capital is an accepted part of modern corporate financial policy. The real question is: How much debt capital is appropriate for a particular company? There are two guide posts to assist in answering that question:

(1) Moore-McCormack Lines is a government-regulated transportation company that has many of the financial characteristics of a public utility. Reasoning by analogy, a subsidized shipping company should have a financial structure similar to that used by railroads or airlines. Data about these industries, presented in Part Two of this report, indicates that a capital structure consisting of 40% debt and 60% equity is reasonable and appropriate.

(2) Current national maritime policy provides even more explicit guideposts for subsidized operators. An operator is permitted to use government-insured mortgages equal to 75% of the cost of a vessel thus reducing the operator's equity investment to only 25% of the cost of the vessel plus 100% of the working capital required to operate the business. If this formula were applied to Mooremack, debt capital could be used to provide between 50% and 60% of the total investment in the shipping company.

FINDINGS

A recapitalization of Mooremack's shipping operations would not only greatly improve the profitability of the stockholder's investment, but would also benefit both the taxpayer and the customer. The detailed findings concerning this proposed recapitalization are presented in Part Two of this report and are discussed briefly below.

(1) *Benefit to taxpayer.*—Before measuring the taxpayer's benefit from the recapitalization program, we should specify the cost of the program to him. In point of fact, the recapitalization program costs the taxpayer nothing at all; and this is one of its attractive features. Further, proper financing greatly increases the probability of recapture, thus reducing the net subsidy paid by the taxpayer.

(2) *Benefit to customers.*—Efficient financing would allow shipping companies to operate profitably at lower revenue levels. For example, revenue of \$320,000 per voyage on a container ship in ASL would be needed to achieve a 10% after tax return on stockholders' equity if no debt financing is used. If, however, a mortgage equal to 75% of the vessel's cost is utilized, only \$232,000 per voyage is needed to earn a 10% after tax return on the same route with the same ship. Efficient financing increases the feasibility of lower rates and/or more frequent sailings.

(3) *Attractiveness to the operator.*—Mooremack, properly capitalized, can reasonably expect to earn a 10% rate of return on stockholders' equity. At this point, the company can attract private capital on a favorable basis for enlarging and/or strengthening its fleet and service.

(4) *Conservatism.*—In addition to the benefits that would accrue to the taxpayer, the shipping public and the operator, recapitalization must offer a sound and safe financial base for the company. At December 31, 1977 the capital structure of the shipping company is projected to consist of 43% debt and 57% equity, a normal ratio for a business of this type. Even at the peak year (1971) debt would amount to only 57% of the shipping company's total capitalization, and this is an acceptable ratio for the final year of a major re-equipment cycle.

Two steps must be authorized by the Maritime Administration for the recapitalization of Moore-McCormack to become a reality. First, Moore-McCormack requests that it be allowed to: (a) take \$50 million of mortgages on the 14 fully paid freighters built between 1960-1965, (b) place the proceeds into working capital and (c) make mortgage repayments from reserve fund money. Secondly, Moore-McCormack requests that it be allowed to declare a \$50 million special dividend to the parent company. These two steps are necessary in order to achieve a capitalization that is proper for a company such as Moore-McCormack. The philosophy behind making mortgage repayments with reserve money is twofold:

(1) Had the 14 vessels in question been properly financed originally, Moore-McCormack would have utilized mortgage financing and there would have been no question about using reserve fund money for mortgage payments,

(2) In order to effect efficient financing now, Moore-McCormack should be allowed to utilize the mechanism that has been set up for the financing of vessel construction. The company does not think that it should be penalized for trying to finance itself efficiently after vessels have been built rather than before or during their construction.

SEPARATE RECAPTURE ACCOUNTING FOR CONTAINER SHIPS

It has been suggested to Moore-McCormack by individuals at Maritime that a separate accounting for recapture of Operating Differential Subsidy of new container ships might be attractive. "This would be effected by the execution of a separate Operating-Differential Agreement covering the four ships, assigning to them a separate capital necessarily employed and a separate profit and loss accounting for recapture purposes, distinct from CNE and profit and loss accounting attributable to the rest of the company's operations."²

Such a plan has obvious benefits to the taxpayer and an obvious cost to Moore-McCormack. The container ships promise to be very profitable, more profitable than the rest of Moore-McCormack's fleet as measured by the return yielded on the stockholders' investment. The inability to offset some of the profits from the container ships against that of less profitable services will reduce Moore-McCormack's overall profitability because of the recapture of subsidy that should occur.

Moore-McCormack is willing to accept separate accounting covering container ships because it sincerely wants to be less dependent on Operating Differential Subsidy. The way in which other American industries without subsidy have competed against foreign companies who utilize cheap foreign labor has historically been to take advantage of superior American technology. To date there has been no opportunity for an American shipping company to take advantage of significantly superior technology. Now the superior technology is here in the form of a containerized ship. The reduced turn-around time and the reduced handling necessary reduces the cost of labor per ton of cargo moved. To the extent that these savings can actually be realized, subsidy will become less necessary or even completely unnecessary. If the superior technology of container ships can make an American Flag vessel competitive with a cheap-labor foreign flag ship, Moore-McCormack would prefer to be subsidized by this superior technology rather than by the taxpayer's dollars. A separate accounting for recapture on container ships would allow Moore-McCormack to put at least part of the company on just such a basis.

A second reason for accepting a separate recapture accounting for container ships is that it has already helped Maritime focus on the benefit to the taxpayer of Moore-McCormack using debt financing. It has been suggested to Moore-McCormack that the separate account of recapture for the container ships be based on 25% of capital necessarily employed for the construction of the vessels. We wholeheartedly agree that the vessels in our fleet be financed with mortgages in an amount equal to 75% of the vessels' value; it is the heart of our proposal today. Naturally to pretend that Moore-McCormack is properly financed for recapture purposes only would be a disappointing sham. But to recapitalize Moore-McCormack would allow both the taxpayer and Moore-McCormack's stockholders to share the benefits. The table below demonstrates how such a sharing of benefits should operate according to our projections.

	1 accounting for all ships		Separate accounting	
	Current financing	Efficient financing	Current financing	Efficient financing
ROI 1977 (percent).....	7.3	10.2	7.2	9.4
Recapture 1966-77.....	0	0	\$1,918,000	\$11,444,000

² Letter received March 30, 1966 from Edward Aptaker, Chief, Office of Government Aid.

RECOMMENDATIONS

We request that the Maritime Administration approve the following steps:

- (1) Revise the replacement obligation to be as follows:
 - (a) Four container ships for ASL (Already approved)
 - (b) Four container ships for ARL
 - (c) Decision as to replacement of the six remaining ships presently servicing the ARL Great Lakes and ASL "B" service be deferred to a more propitious time for Mooremack and Maritime to mutually determine the economic feasibility of these services.
- (2) Lift the restriction on earned surplus to permit \$50 million of excess working capital to be declared as a dividend to the parent company, Moore and McCormack Co., Inc.
- (3) Authorize Moore-McCormack to repay new mortgages from the reserve fund after the proceeds from the mortgages have been deposited in working capital.
- (4) Use separate accounting to calculate recapture for the four container ships now authorized and for the next four container ships. In this way both the taxpayer and Moore-McCormack stockholders can benefit from an efficient fleet and efficient financing.

These four steps will strengthen Moore-McCormack both in its ability to earn an attractive return on its stockholders' investment and in its ability to give the taxpayer more for less money.

Senator BREWSTER. If we followed your recommendation, would there be any increased cost to the U.S. taxpayers?

Mr. MOORE. No, sir. Please let me emphasize the fact that this would not cost the American taxpayer one red cent. This would be taken out of recapture funds that under the operating subsidy had already been paid.

We would hope to also alleviate the necessity of extremely large funds for new construction because this recapture amount would go into a fund for the purpose industrywide.

Senator BREWSTER. What is the total amount now being held in these reserve funds?

Mr. MOORE. That varies, sir, in the case of every company. In our particular company right now it is \$17 million.

Senator BREWSTER. Do you know the total for all U.S. merchant marine?

Mr. MOORE. No, sir; I do not.

Mr. VANCIL. We have it. As of December 31, 1964, all members of CASL as a group held better than \$300 million in their reserve funds.

Senator BREWSTER. So you would suggest that some \$300 million be made available for ship construction immediately?

Mr. MOORE. No, sir. This is the amount that we would hope would be leveraged. Under the present rules and regulations none of this reverts to the Government under recapture. Or, say, a small portion of it would.

This all goes into the capitalization of these companies. If you can reduce that by half, the chances are just that much better of the Government getting recapture, which could be put into a fund for new construction.

This is money that is there. It is just a question of how to use it.

Mr. VANCIL. Actually our proposal is aimed at a longer run solution to the problems of this industry in the hope that by making it a healthy industry, one that can earn the kind of investment, earn the kind of return on its investment that the airlines and other healthy industries are able to do, that we will then be able to attract any capital needed

for new ships, and whenever the opportunity comes along to build new, efficient ships, the capital will be available because the return will be adequate.

Now the industry is very unhealthy and not attractive to private investments. Our hope is that by recapitalizing the industry and making it a healthy industry, that we will improve the long-run prospects for the industry.

Senator BREWSTER. Mr. Moore, I am not exactly sure I understand this proposition. If this \$300 million is released, it would then be available to the companies for company business.

Mr. MOORE. That's correct.

Senator BREWSTER. I would presume that a very substantial portion of this would be utilized for new ship construction. Would you build the ships in the United States or overseas?

Mr. MOORE. In my statement, sir, I said that we would build them here. The problem at the moment would seem to be that the steamship companies have the money to build them, but the Government sees fit not to appropriate money to match the funds, which is necessary under the present contracts with the Government. Calling it 50-50 in a new ship costing \$10 million, the steamship company puts in half and the Government puts in half. We have our half, but Uncle Sam hasn't got his.

Senator BREWSTER. In your judgment are U.S. shipyards obsolete and inefficient?

Mr. MOORE. No, I do not think so. I think that some of our shipyards are very efficient. They build very good ships.

Senator BREWSTER. I have already asked Captain Clark and Mr. Ross and Mr. Bull the question why can't we produce ships as cheaply as the foreign yard. What is your answer to that question?

Mr. MOORE. I think that if the standard of living of the United States were the same as in, say, England or Japan, they could. It is a matter of standard of living. The standard of living in this country is quite high and therefore things cost a little more. The wages in this country are double and even more than some of the shipbuilding countries of this world. But as for the quality turned out, the American shipyards produce second to none.

Senator BREWSTER. I can't seem to get it straight why we can build an icebox or an automobile in international competition successfully and we can't build ships successfully in international competition. Would you address yourself to that?

Mr. MOORE. I am not an expert in the automobile industry. You will, I am sure, agree that the export trade of American-built automobiles is decreasing every year. You will find, as in the case of Brazil, that they are producing automobiles down there under the name of Chevrolet or whatever it might be, in plants in Brazil. The American exporters who do export now export such things as the engine or chassis or things like this. This is going on throughout the world. The same goes for iceboxes.

We actually, in the steamship industry, and you might say in the shipbuilding industry, are the only ones in foreign competition paying American wages. Other companies, such as the automobile industry, can compete by having plants in England, France, South Africa. You name it. Or Australia.

Senator BREWSTER. Would you support a direct U.S. subsidy for research and planning in the area of ship construction similar to what the United States is doing in the construction of the SST and the C-5-A?

Mr. MOORE. I am not a shipbuilder. I think the U.S. Government has overlooked to a large extent the matter of seapower. I think we have all been up in the air for quite a few years. I think that the crisis in Vietnam certainly should bring back to the authorities the fact that shipping is needed. I think any revitalization of the steamship industry, through the help of the U.S. Government, would be indeed helpful.

Senator BREWSTER. In your opinion is the answer in DOD's proposal to develop these FDL's?

Mr. MOORE. I have not seen any of the plans that the Navy Department or DOD have put out, if they have any. From the little that I know and have read about, I think that the maritime industry, shipbuilders and operators, certainly could design an appropriate ship for the task.

Senator BREWSTER. We have heard testimony here that your industry could produce these ships for far less than the anticipated cost of \$40 million per ship. Would you agree with that statement?

Mr. MOORE. I would think that we could do it cheaper. When it comes to the figures, I do not think I am qualified to answer. But I feel that private industry in a thing like this might be more efficient and have less overhead.

Senator BREWSTER. As a ship operator yourself, does it make sense in your opinion to station fully loaded ships around the world merely to have them on call?

Mr. MOORE. Being in the commercial steamship business, if I did that I would go out of business pretty quick.

Senator BREWSTER. It would be extremely expensive, wouldn't it?

Mr. MOORE. Extremely.

Senator BREWSTER. Mr. Moore, how do the nonsubsidized operators obtain capital for ship construction, because they do not have this limitation that you operate under.

Mr. MOORE. I think the answer to that is that with very few exceptions they have not built any new ships. They have been unable to build them. I think that at the present moment they are striving to keep their heads above water, much less put away funds for new construction.

If they were to build in foreign yards, such as I understand they may be, this matter could be handled through debt financing by the foreign yards themselves and American-backed ships.

Senator BREWSTER. Are the nonsubsidized operators building any new ships in U.S. yards at this time?

Mr. MOORE. Not that I know of. Maybe a few tankers, but I am just not certain. I couldn't answer.

Senator BREWSTER. Captain Clark, can you provide us with that information?

Captain CLARK. The only vessel that I recall that has been built for American-flag operation, which was built abroad, is the Long Lines, the cable ship, I believe built in Germany and operating under the American flag, which is a highly specialized vessel. I believe that is the only one which I can recall.

Senator BREWSTER. So then it would seem to be generally true that, with perhaps a few exceptions, no new ships are being built for nonsubsidized operations in U.S. yards.

Mr. MOORE. As far as I know, that is correct. At least of the liner type, or bulk, of that type.

You might be interested to note that our new vessels that just came in, they are combination container, roll-on roll-off, and great bulk. The low bid was approximately \$16 million each. The same ship in a foreign yard, in Japan, would cost approximately \$7,600,000.

I think this type ship, with some changes, could be made in one of these FDL types. She is about 602 feet long, with a sustained cruising speed of better than 25 knots, at 31 feet draft.

Senator BREWSTER. So in your judgment it would cost over twice as much to build a modern vessel in U.S. yards as it would overseas?

Mr. MOORE. That's correct.

Senator BREWSTER. Is Japan substantially lower than Great Britain or Germany?

Mr. MOORE. As far as I know, I don't know the actual figures, but at the moment Japan is considered the lowest shipbuilding center.

Senator BREWSTER. Is the quality of their work comparable to Western Europe?

Mr. MOORE. I would think so. They have made a lot of advancements over there, especially in the tanker field. A lot of the largest tankers now afloat were developed in Japan.

Senator BREWSTER. Gentlemen, I thank you very much for your testimony. It obviously has been very helpful and very important.

We will now recess this hearing subject to the call of our chairman, Senator Magnuson.

It is our intention to continue these hearings at a later date and to hear from representatives of tankers, tramps, labor, and the shipyard operators.

Thank you all very much. The hearing stands in recess.

(Whereupon, at 11:50 a.m., the hearing recessed, subject to the call of the Chair.)

(Subsequently, the following statement was received to be inserted in the record:)

STATEMENT OF CORNELIUS WALSH, CHAIRMAN, WATERMAN STEAMSHIP CORP.,
NEW YORK, N.Y.

Waterman Steamship Corporation was established in 1919. Waterman now owns 16 U.S. flag war-built C-2 type vessels which are operated in unsubsidized liner service in a number of essential trade routes in the foreign commerce of the United States. Waterman also operates some chartered vessels in its various services and acts as General Agent for the National Shipping Authority in the operation of 5 vessels recently taken from the laid-up fleet for the use of the Military Sea Transportation Service.

In January 1957, Waterman applied for an operating differential subsidy contract under the Merchant Marine Act of 1936 for its services to Europe and the Far East. After the required public hearings, the Federal Maritime Board examiner brought in a favorable recommendation, and on April 22, 1960 the Federal Maritime Board ruled that there was no bar under Section 605C of the Merchant Marine Act of 1936 to subsidizing Waterman's services.

We are anxious to obtain an operating differential subsidy contract as provided for in the Merchant Marine Act of 1936, in order to perpetuate the company and its organization in the American Merchant Marine for the long-term future, and we are hopeful that favorable action on our pending application will soon be taken by the Maritime Subsidy Board, so that we can make plans to replace our war-built vessels, and begin to accumulate funds to pay for the new ships. Unless

this can be done soon there will not be sufficient time to accumulate funds to build new vessels before the present ships become too expensive to operate because of their advancing age.

Last October, a study made in cooperation among various departments of our Government, entitled the Interagency Maritime Task Force Report, was put forward by the Maritime Administration as a proposed program for the future of the American Merchant Marine. In December, the Maritime Advisory Committee appointed by the President filed a report taking sharp issue with many of the proposals in the Task Force Report. Since that time, controversy has raged among industry, labor, Government departments and Congress about the conflicting views put forward in the two reports and about the best course for our country to follow for the future of the American Merchant Marine. Some parts of the controversial reports agree; for example, on the desirability of expanding the liner subsidy program and the developing of a modern dry bulk cargo fleet. Certainly, it would seem to be sensible to implement these parts on which there is agreement, while the controversial parts are discussed, sifted out and eventually agreed upon. Otherwise, our Merchant Marine continues to be studied, talked about and argued about while it is expiring for want of action.

The Merchant Marine Act of 1936 was carefully thought out before it was enacted into law. I am sure that those who wrote it felt that they had carefully analyzed all aspects of the situation and had provided a practical framework for the support of the American Merchant Marine, with built-in incentives for those taking part in the program, and protection for the interests of the Government. No doubt, after 30 years of observation and experience, we can make some improvements; certainly we can simplify its workings; and possibly we can build in additional incentives.

The Merchant Marine Act of 1936 stated the will of Congress that we should have a Merchant Marine capable of carrying a substantial portion of our commerce and adequate for our national defense. This is fundamentally sound. Only by having an active merchant fleet carrying our foreign commerce can we have the nucleus of the merchant fleet needed for national defense in time of war. Our experience has shown that we must rely on ourselves for shipping in wartime—our allies in one war are often our enemies in the next, and the supply of shipping is always inadequate for wartime needs. Current events show that to expand our Merchant Marine rather than to reduce it would be a sound policy, and our national budget should take this into consideration.

In the build-up of inventories before we became involved in World War II in 1941, we could not obtain ships of other flags for love or money—all Governments directed or requisitioned their own vessels for several years before we became involved in the war. Where would we be in such a period again without an adequate Merchant Marine—even before we ourselves are involved in a war emergency?

All those who qualify now owning and operating American flag vessels should be subsidized. We need more ships to attain the national objectives set forth in the Merchant Marine Act of 1936, and to maintain at least the same total number of jobs aboard ship as automation progresses in the new vessels. The privately owned war-built ships now in operation must be kept in operation until their replacements can be built.

Subsidy contracts should be executed without further delay with the liner companies that have been cleared for subsidy, with a provision that the contracts will be modified to conform to any changes in the program that may be adopted as a result of the present examinations and discussions. Further delay while changes in the program are being considered and acted upon is a further setback to the American Merchant Marine, as the war-built ships approach the end of their useful lives.

While we may have been justified in the last 20 years in looking upon the reserve fleet as a national asset for use in case of emergency needs, most of these ships are now near the end of their useful lives and all of them will soon be in this category, which is another reason for moving forward without delay in an expanded subsidy program. Some usable vessels should be retained in the reserve fleet for a further limited period, but undoubtedly, most of the ships should be disposed of.

Certainly we cannot expect a merchant fleet that is declining in numbers to obtain a greater share of our foreign trade. Many U.S. industries have shown their ability to compete in world markets, primarily through mass production techniques. These techniques, however, were based upon and developed for the U.S. market, and surplus production was later sold overseas. This was a process of gradual development. Our Government and the shipping industry should

institute a constructive program of research and development, which, coupled with an expanded shipbuilding program, will give us the basic elements we need to emulate our other industries in achieving over a period of time ability to either compete in world markets or at least improve our competitive position.

A program to improve port facilities in the United States and abroad in our important trade routes should be undertaken by Government and industry working together to accomplish this in this country and to arrange for other Governments and their industries to do the same abroad for the common good.

I feel very sincerely that the Merchant Marine Act of 1936, which was carefully thought out by Congress, is an adequate framework for the American Merchant Marine. Unfortunately, it has been implemented to only a limited extent since the law was enacted 30 years ago.

Our experience in World War II reemphasized the lesson we learned in World War I about the importance of having an adequate American merchant marine, and we did move forward to a limited extent in carrying out the Merchant Marine Act of 1936 by subsidizing some liner companies and carrying out a modest vessel replacement program. The subsidized liner companies as a result have a number of vessels which compare favorably with any merchant ships in the world, and the liner section of our merchant marine as a result, carries a fairly substantial share of the foreign commerce in our liner trades. Undoubtedly, until a few years ago the implementation of the vessel replacement program was slowed down because we had so many war-built vessels in the reserve fleet, but in more recent years, it has been due to budgetary restrictions and the lack of a constructive program for the future of our Merchant Marine.

These vessels in the reserve fleet proved useful in the Korea crisis, and some of them are again proving useful in the Vietnam situation. However, as the years have passed since the end of World War II, the usefulness of the ships in the reserve fleet has diminished with their increasing age. Today over 70 per cent of our active liner fleet consists of war-built vessels over 20 years of age, and most of the vessels in the laid-up fleet are obsolete. Those that have recently been taken out of the reserve fleet for service in Vietnam have cost substantial sums of money for reactivation, and many of them are now performing unsatisfactorily due to machinery breakdowns. Spare parts are becoming a problem. As we run out of spares and then have to have new ones manufactured, it takes time and the newly manufactured parts become quite expensive for old vessels.

Part of our Merchant Marine problem, perhaps a major part, seems to stem from budgetary considerations. I don't question the dedication of the men in the executive branch of our Government who are making the decisions, but it does seem shortsighted for this great country to fail to provide sufficient funds to promote and expand our American Merchant Marine. Here we are appropriating less each year for the American Merchant Marine in an expanding economy, with a steadily increasing gross national product and budget. At the same time our executive branch cites the increasing gross national product as justification for increased budgets and greater expenditures in other sectors. It does not make sense. With the advancing age of the World War II built vessels, both the active fleet and the laid-up fleet, the problem has become an immediate urgent one, further emphasized by our need for ships in the Vietnam situation.

It has been stated by the Department of Defense that our present supply of ships, including those broken out of the laid-up fleet, is adequate for our present defense needs. But what of our needs 5 years from now or ten years from now—to say nothing of what our needs may be if the Vietnam situation expands or if there should be another outbreak of hostilities in another part of the world. While no one disagrees with the need for economy, or to get the most for the Government's dollar, it seems we have been for several years and are now, as far as our future Merchant Marine is concerned, in an area of false economy, a penny wise and pound foolish situation, as a result of the do-nothing attitude of the Maritime Administration and the others in our Government who are preventing constructive action. After all, if our Merchant Marine program can be improved or should be modified, why don't we take some action to bring about this improvement while we are going forward in a constructive program instead of doing nothing for the future and meeting our present problems on a basis of day to day expediency.

The bad effect of our Government's do-nothing attitude on the American Merchant Marine was highlighted recently when the British cargo insurance underwriters proclaimed a penalty premium rate on all cargoes transported on ships 20 years or older including war-built U.S.-flag vessels. Of the 521 American-flag vessels in berth line operations, 371 were either war-built or 20 years of age or older. This left only 150 which would not be affected by the premium rate,

but many of these would be within two to five years because they would be reaching the 20-year mark. It pointed up somewhat dramatically the fact that this country is already 90 or more ships behind in its own pledged ship replacement program for the subsidized lines, and that not a constructive step has been taken over all of these many years to do anything about the other ships which are not subsidized. And to further highlight the fault of the United States Government, it shamefully emphasizes that appropriations for fiscal 1967 allow for only 11 new ships—13 if Congress permits other funds to be rechanneled—to be built then. And that is the smallest number since the ship replacement program got fully underway in 1958. All of which means that the edict of Congress in 1936 has been flouted because the Merchant Marine Act of 1936 specifically calls for the Administration to maintain a modern and up-to-date Merchant Marine, capable of carrying a substantial portion of America's foreign commerce. Only 7 to 10 per cent of the berth line ships of foreign countries would have suffered cargo losses under the penalty insurance ruling because most of them are postwar built.

Unlike what he did for the airplane industry in the United States, Uncle Sam has made no effort whatsoever to provide vast sums of money for research and development for ships or for the facilities by which those ships would be built in this country. That has happened in the airplane field since the DC-3 was built and is happening today on a four-billion dollar plus scale! Yet no one ever mentions that the airplane industry is subsidized!

When we consider the experience of reactivating the old laid-up ships, the operating problems involved in keeping them moving in even a semblance of efficiency, asking our seamen to accept the discomforts of living aboard these old unused vessels, the fact that our supplies of spare parts for them are rapidly disappearing, and the expense we will face if we must start to manufacture new parts for these old ships, how can our Government fail to take action to start an expanded new building program?

Now, I think we are at the final crossroads of deciding where the American Merchant Marine will go for the future. There can be no doubt that various of our Government departments, although staffed by able and dedicated men, are not wholeheartedly carrying out the mandates of Congress spelled out in the Merchant Marine Act of 1936. Undoubtedly, this is due to some extent to those men being preoccupied with problems that they feel come nearer to the responsibilities of their departments than does the American Merchant Marine. No one can question their loyalty and dedication to the future of our country, but those of us in industry that have experience and knowledge must take issue with any program that we feel is not the best for the future of the American Merchant Marine, and the department of our Government that is charged with the responsibility of carrying out the mandates of Congress spelled out in the Merchant Marine Act of 1936 should be as militant in protecting and building up the American Merchant Marine as the other Government departments are in fighting for their programs.

The Department of Agriculture, the Department of Defense, and the Military Sea Transportation Service, dedicated to their own programs and with the accent on economy, seem to have a lack of understanding and sympathy for the problems of the privately owned American Merchant Marine. When this is brought up, they state they feel it is not the responsibility of their departments to subsidize the American Merchant Marine. However, the bald fact remains that until the presently unsubsidized vessels are directly subsidized under the Merchant Marine Act of 1936, such vessels are dependent upon the indirect subsidy of Government controlled cargo at compensatory rates for U.S. flag vessels, and without this support would have to be laid up or scrapped.

There should be no thought that there is a stigma attached to carrying Government controlled cargo. Certainly we should not want to use foreign ships to carry our military cargo and other Government controlled cargo. It is fundamentally sound to carry our military cargo in U.S. flag vessels and to reserve our other Government-financed cargo for U.S. flag vessels. It is not sensible to voluntarily forego any part of what can be obtained for our national flag vessels—no other country would even consider taking such a position. We must bear in mind the Government-financed cargoes merely take the place of what used to be commercially financed cargoes. Normally, a buyers market prevails in business transactions—the seller must please the buyer. We export more than we import. The foreign buyers of our exports are in position to require shipment in vessels of their flags. All other countries with Merchant Marines not only reserve all their Government cargo for their vessels, but also do their utmost to bring about shipment of commercially financed export freight from this country

in vessels of their flags. Even the national consciousness of the importance of their Merchant Marines in the smaller maritime countries leads their buyers to route their cargo to their own flag ships, whereas in the United States we do not have the same national consciousness of the need for support of our U.S. flag vessels because shipping is not as large a part of our economy. Cargo support reduces subsidy costs through better financial results and consequent recapture of subsidy. Cargo preference should not be phased out. Subsidy is no substitute for cargo.

We should not confuse the carriage of Government cargo with what rates should be paid for the transportation of Government cargo. We can gradually phase out the rate differentials between U.S. and foreign flag vessels as all qualified U.S. flag war-built vessels are either directly subsidized or reach the end of their economic lives. Then the rate differentials would no longer be necessary.

Cargo preference should not be eliminated—only the differential rates which can be phased out of the picture when all qualified U.S. flag vessels have either been subsidized or have reached the end of their economic lives. All other countries favor their own flags on not only their Government controlled cargoes but also on commercial cargoes, either directly or through the patriotism of their receivers and shippers, if for no other apparent reason, because in those countries their Merchant Marines make up a greater part of their economic picture of which their people are aware, contrary to the situation in the United States. Therefore, U.S. flag lines have a very "hard row to hoe" on commercial cargo.

It has always been the policy of our Government that an active privately owned and operated Merchant fleet in peacetime is the best way to provide availability of merchant ships for a national emergency. Is this being changed by the Department of Defense? Despite the fact that the Maritime Administrator replies "no money" to the question of why we and other liner operators have not been able to obtain subsidy contracts (The Maritime Administration is unable to obtain funds to build more than 13 merchant vessels in the next fiscal year), we find the Department of Defense approving plans to build 20 fast deployment logistic vessels for Navy operation at an estimated cost of \$800,000,000. Would it not be better to have private industry build the FDI vessels and operate them in peacetime rather than to have the Department of Defense in effect building its own Merchant fleet to support its activities. I feel sure the steamship industry in collaboration with the Department of Defense can build into the ships in a forward looking Merchant Marine program all the features that are desirable for military availability in an emergency.

It would seem that objectives which are good in themselves are being sought in a confused and uncoordinated way. Our Maritime Administration instead of doing nothing should be drawing these things together and implementing a constructive program of coordination and implementation in the most sensible way to reach the desired objectives. If some of our Government departments are critical of the results achieved by our already subsidized lines, or want bold new concepts worked into our Merchant Marine of the future, would we not be better off to go forward in cooperation between Government and industry to project these things into the future in a coordinated program, rather than to criticize, do nothing, and blind ourselves to the future by continuing to use present expediency as our Merchant Marine program.

How can we expect our shipping industry to go forward and upward in gearing itself to improved performance in the future on a steadily declining merchant ship building program? Would it not be more sensible to get going on a Government/industry program of research and development coupled with an expanding shipbuilding program to encourage the investment of private capital in and expansion of our Merchant Marine. And would it not be better to expand our program to provide more jobs ashore and afloat. I think it is safe to say that labor will be found to be cooperative in an expanding program that provides more jobs in total—even though less per unit of production and operation through automation. Unquestionably, our most serious problems are that we have had an absolute lack of constructive action by our Government in recent years in implementing the Merchant Marine Act of 1936, and in expanding our Merchant Marine, whatever the reason, budgetary or otherwise, and this has been the root of labor/management troubles in the industry.

Tragedy is connected with this story—tragedy because of the fact that those who should know better are permitting the American Merchant Marine to wither away without trying to rectify the long list of mistakes that have led to this tragedy.

We are in urgent need of action on the part of the Maritime Administration to provide direct subsidies for the remaining unsubsidized war-built vessels, or this capacity will be lost to the American Merchant Marine in the next five or six years, when these aging vessels will cost too much to operate due to increased maintenance and repair expenses.

It is the hope of our Company that this Committee will take action to bring about proper implementation of the Merchant Marine Act of 1936 by the Administrative Departments of our Government which have been so woefully lacking in taking constructive steps to implement and wholeheartedly support the will of Congress for the good of our country as spelled out in the Merchant Marine Act of 1936.



We are in urgent need of action on the part of the Maritime Administration to provide direct subsidies for the remaining unutilized war-built vessels or this capacity will be lost to the American Merchant Marine in the next five or six years when these aging vessels will not be operated due to increased maintenance and repair expenses.

It is the hope of our Company that the Committee will take action to bring about proper implementation of the Merchant Marine Act of 1935 by the Administration's Department of our Government which has been so woefully lacking in taking constructive steps to improve and which certainly should be taken. Congress should be our primary ally in the Merchant Marine Act of 1935.