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91-39 A NEW MARITIME PROGRAM

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HEARING
BEFORE THE
MERCHANT MARINE SUBCOMMITTEE
OF THE
COMMITTEE ON COMMERCE
UNITED STATES SENATE
NINETY-FIRST CONGRESS
FIRST SESSION
ON
S. 1915
TO AMEND THE MERCHANT MARINE ACT, 1936, AND OTHER
STATUTES TO PROVIDE A NEW MARITIME PROGRAM

OCTOBER 23, 1969

Serial No. 91-39

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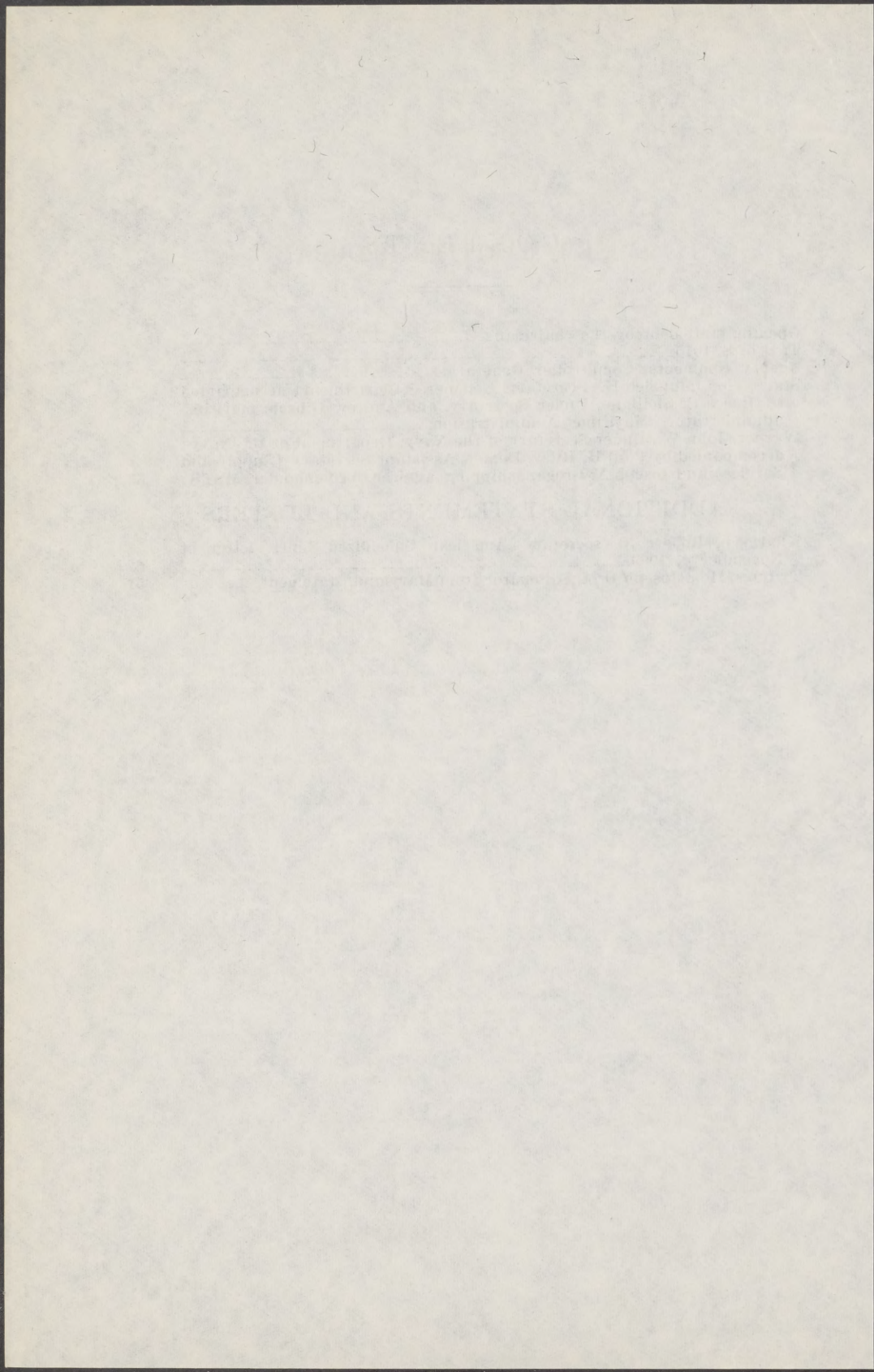
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A NEW MARITIME PROGRAM

THURSDAY, OCTOBER 23, 1969

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

The subcommittee met at 10 a.m. in room 5110, New Senate Office Building, Hon. Russel B. Long (chairman of the subcommittee), presiding.

Present: Senators Magnuson, Long, Hollings, Inouye, Cotton, Prouty, and Griffin.

OPENING STATEMENT BY THE CHAIRMAN

Senator LONG. This hearing will come to order.

We begin hearings this morning on S. 1915, a bill to amend the Merchant Marine Act of 1936 and other statutes to provide this Nation with a new maritime program. S. 1915 represents the latest in a number of attempts by the Congress, extending back for several years, to revitalize the merchant marine. Everyone agrees about the state of our merchant marine. It is deplorable and it is getting worse. However, in years past, the efforts of Members of the House and Senate to remedy this situation and to restore America to her rightful position on the seas have not, to say the least, been warmly received by the executive branch. But that is all history. We now have a new administration, one that has assured us, the maritime industry, and the American people of its vital concern with the revitalization of the U.S. merchant marine.

President Nixon on September 25, 1969, pledged his administration to a new maritime program which would include greatly increased shipbuilding. He set as the goal of that policy a sharp increase of the transport of U.S. trade aboard American flagships from the present rate of 5.6 percent to a rate over 30 percent by the midseventies, with growth accelerating. Last May, before this committee, Mr. Gibson, the Maritime Administrator, stated that the administration intended to come forward with a long-range program by the end of the summer.

The summer has come and gone and we have all been waiting anxiously for the administration to present its program. It is, therefore, with great hopes and high expectations that we will hear this morning's witnesses. Before we proceed I will place in the record a copy of the bill and agency comments.

(The information follows:)

Staff member assigned to this hearing: Emanuel Rouvelas.

91ST CONGRESS
1ST SESSION

S. 1915

IN THE SENATE OF THE UNITED STATES

APRIL 22, 1969

Mr. MAGNUSON introduced the following bill; which was read twice and referred to the Committee on Commerce

A BILL

To amend the Merchant Marine Act, 1936, and other statutes to provide a new maritime program.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 209 (b) of the Merchant Marine Act, 1936 (46
4 U.S.C. 1119 (b)), is amended by inserting before the
5 period at the end thereof a colon and the following: "*Pro-*
6 *vided, however, That, for each of the fiscal years 1970*
7 *through 1974, there is authorized to be appropriated (1) for*
8 *construction-differential subsidy and the cost of national de-*
9 *fense features incident to construction, reconstruction, or re-*
10 *conditioning of ships for operation in foreign commerce, and*
11 *for the acquisition of used ships pursuant to section 510 of*

1 this Act, \$300,000,000, to remain available until expended;
2 and (2) for research and development, \$25,000,000, to re-
3 main available until expended. For fiscal year 1969, there
4 is also authorized to be appropriated for reconstruction of
5 the reserve fleet, \$30,000,000, to remain available until
6 expended."

7 SEC. 2. Section 211 of the Merchant Marine Act, 1936
8 (46 U.S.C. 1121), is amended as follows:

9 (1) Subsection (b) is amended by inserting at the end
10 thereof, immediately before the semicolon, a comma and the
11 words "or which should be employed as contract carriers".

12 (2) Subsection (d) is amended by inserting after the
13 words "services, routes, and lines" a comma and the words
14 "or as contract carriers" and a comma, and by inserting
15 after the words "service, route, or line" a comma and the
16 words "or contract carrier".

17 SEC. 3. Section 501 of the Merchant Marine Act, 1936
18 (46 U.S.C. 1151), is amended as follows:

19 (1) By striking the first sentence of subsection (a) and
20 inserting in lieu thereof the following: "Any privately owned
21 shipyard or proposed shipowner who is a citizen of the
22 United States may make application to the Secretary of
23 Commerce for a construction-differential subsidy to aid in
24 the construction of a new vessel to be documented under the

1 laws of the United States and to be used in the foreign com-
2 merce of the United States.”

3 (2) By striking out of the second sentence of subsec-
4 tion (a) the words “the applicant” and inserting in lieu
5 thereof the words “the proposed owner of the vessel is a
6 citizen of the United States and”.

7 SEC. 4. Section 502 (a) of the Merchant Marine Act,
8 1936 (46 U.S.C. 1152 (a)), is amended by striking the
9 word “applicant” wherever it appears and inserting in lieu
10 thereof the words “proposed shipowner”.

11 SEC. 5. Section 502 (b) of the Merchant Marine Act,
12 1936 (46 U.S.C. 1152 (b)), is amended as follows:

13 (1) By striking the first sentence and inserting in lieu
14 thereof the following: “The amount of the reduction in selling
15 price which is herein termed ‘construction-differential sub-
16 sidy’ shall be computed by taking the excess of the fair and
17 reasonable estimate, as determined by the Secretary, of the
18 cost of constructing a type of vessel in United States ship-
19 yards (excluding the cost of any features incorporated in the
20 vessel for national defense uses, which shall be paid by the
21 Secretary in addition to the subsidy), over the fair and rea-
22 sonable estimate of cost, as determined by the Secretary, of
23 the construction of that type vessel (excluding national defense
24 features as above provided) in a foreign shipbuilding center

1 which is deemed by the Secretary to furnish a fair and repre-
2 sentative example of the determination of the estimated for-
3 eign cost of construction of vessels of the type proposed to be
4 constructed, and expressing the result as a percentage of the
5 fair and reasonable estimate, as determined by the Secretary,
6 of the cost of construction of that type vessel in United States
7 shipyards, and applying such percentage to the lowest re-
8 sponsible bid. Subsidy rates shall be computed separately for
9 different types of vessels and shall be periodically recomputed
10 but not more frequently than once each year. In making his
11 foreign cost estimate, the Secretary shall review and consider
12 any foreign cost estimates and substantiating information
13 submitted by operators, shipyards, or his staff.”.

14 (2) By striking the date “June 30, 1968” and inserting
15 in lieu thereof the words “the expiration of three years from
16 the date of enactment of this amendment”.

17 SEC. 6. Section 504 of the Merchant Marine Act, 1936
18 (46 U.S.C. 1154), is amended as follows:

19 (1) By inserting the designation “(a)” after the sec-
20 tion number.

21 (2) By striking the word “applicant” wherever it ap-
22 pears in the first sentence and inserting in lieu thereof the
23 words “proposed shipowner”.

24 (3) By striking in the second sentence thereof the word

1 "bid" wherever it appears and inserting in lieu thereof the
2 words "bid or negotiated price".

3 (4) By inserting at the end of the third sentence
4 thereof before the period a comma and the words "or the
5 negotiated price".

6 (5) By inserting after the first sentence thereof the
7 following new sentence: "Alternatively, the Secretary may,
8 in accordance with terms and conditions to be prescribed by
9 him, permit the proposed shipowner to submit a negotiated
10 price together with backup cost details and evidence that
11 the price is fair and reasonable."

12 (6) By inserting a new subsection (b) to read as
13 follows:

14 "(b) Where a shipyard is the applicant, it may, in
15 accordance with terms and conditions prescribed by the
16 Secretary, request construction-differential subsidy based
17 upon a price which has been negotiated with the proposed
18 shipowner. If the Secretary considers the negotiated price
19 to be fair and reasonable, he may become a party to a con-
20 tract between the shipyard and the shipowner and agree to
21 pay the cost of national defense features and construction-
22 differential subsidy computed under section 502 (b) of this
23 Act. If the Secretary determines that the negotiated price
24 is not fair and reasonable, he may request renegotiation in

1 an effort to arrive at a fair and reasonable price. As an
2 alternative to accepting a negotiated price, the Secretary
3 may, with the consent of the shipyard applicant, request
4 competitive bids on the proposal, in which case, the appli-
5 cant shipyard may be a bidder. In this event, the Secretary
6 may become a party to a contract between the lowest
7 competitive bidder and the proposed shipowner.

8 SEC. 7. Subsection (1) of section 510 (a) of the Mer-
9 chant Marine Act, 1936 (46 U.S.C. 1160 (a)), is amended
10 to read as follows:

11 “(1) The term ‘obsolete vessel’ means a vessel or vessels
12 each of which is of not less than one thousand three hundred
13 and fifty gross tons; which has been owned by a citizen or
14 citizens of the United States for at least three years imme-
15 diately prior to the date of acquisition hereunder; and which
16 in the judgment of the Secretary should be replaced in the
17 public interest.”

18 SEC. 8. Section 801 of the Merchant Marine Act, 1936
19 (46 U.S.C. 1211), is amended by striking “titles VI or
20 VII” and inserting in lieu thereof “title VI, VII, or XIII”.

21 SEC. 9. Section 804 of the Merchant Marine Act, 1936
22 (46 U.S.C. 1222), is amended by striking the words “op-
23 erating-differential subsidy under title VI” and inserting in
24 lieu thereof the words “operating subsidy under title VI
25 or XIII”.

1 SEC. 10. Section 805 of the Merchant Marine Act, 1936
2 (46 U.S.C. 1223), is amended as follows:

3 (1) Subsection (a) is amended by inserting after the
4 words "title VI" the words "or title XIII".

5 (2) Subsection (c) is repealed.

6 (3) Subsection (d) is amended by inserting "under
7 title VI or XIII of this Act" following the word "con-
8 tractor" in the last sentence.

9 SEC. 11. Contractors with the United States are re-
10 leased from the provisions of their contracts which were
11 inserted pursuant to the provisions of section 805 (c) of
12 the Merchant Marine Act, 1936 (46 U.S.C. 1223 (c)).

13 SEC. 12. Section 810 of the Merchant Marine Act, 1936
14 (46 U.S.C. 1227), is amended by striking the words "oper-
15 ating-differential" and inserting in lieu thereof the word
16 "operating", and by striking the words "title VI" and in-
17 serting in lieu thereof the words "title VI or XIII".

18 SEC. 13. Section 905 of the Merchant Marine Act, 1936
19 (46 U.S.C. 1244 (c)), is amended as follows:

20 (1) By striking in subsection (c) the words "under
21 title VI" and inserting in lieu thereof the words "under
22 title VI or XIII".

23 SEC. 14. The Merchant Marine Act, 1936, is amended
24 by inserting a new title X to read as follows:

1 "TITLE X—AID IN DEVELOPING, CONSTRUCTING,
2 AND OPERATING PRIVATELY OWNED NU-
3 CLEAR-POWERED MERCHANT SHIPS

4 "SEC. 1001. The purpose of this title is to further imple-
5 ment the policy declared in section 101 of this Act, by foster-
6 ing at the least cost to the United States the development,
7 construction, and operation of privately owned nuclear-
8 powered merchant ships whose designs embody significant
9 departures from the designs of existing nuclear-powered
10 merchant ships which may lead to reduction of the cost of
11 constructing and operating future nuclear-powered merchant
12 ships.

13 "SEC. 1002. The Secretary of Commerce is authorized
14 to invite from citizens of the United States proposals for the
15 development and construction of nuclear-powered merchant
16 ships for operation in the domestic or foreign commerce of
17 the United States, including trade on the Great Lakes. Pro-
18 posals shall be invited only for the development and con-
19 struction of nuclear-powered merchant ships (1) of types
20 and general specifications (whether dry-cargo, liquid bulk
21 carrier, or other) determined by the Secretary of Commerce,
22 and (2) with nuclear propulsion systems of general types
23 and conceptual designs which the Atomic Energy Commis-
24 sion has determined could reasonably be expected to accom-
25 plish nuclear power base development program objectives

1 more quickly, more effectively, or at lower cost than other
2 nuclear propulsion systems (these would include, without
3 limitation, objectives of dependability, reliability, operability,
4 and the acquisition of data that would be of value to the future
5 development of merchant marine nuclear propulsion sys-
6 tems). Each proposal shall include a detailed description of
7 the proposed ship or ships; their contemplated use in com-
8 merce, the proposed development, construction, and oper-
9 ating programs; the technical justification and detailed esti-
10 mate of development, construction, and operating costs; the
11 amount of aid applied for itemized separately for the develop-
12 ment, construction, and operating programs; and such other
13 information as the Secretary directs.

14 "SEC. 1003. The Secretary, in cooperation with the
15 Atomic Energy Commission, shall evaluate all proposals
16 determined to be responsive to the invitation and shall select
17 from them the proposal or proposals which will most clearly
18 carry out the purposes of this title. If the Secretary deter-
19 mines that the person who submitted a selected proposal,
20 although such person may have had no experience in the
21 operation of nuclear-powered ships, possesses the ability,
22 experience, financial resources, and other qualifications neces-
23 sary to enable him to operate and maintain ships in that
24 area of the domestic or foreign commerce of the United

1 States (including trade on the Great Lakes) in which
2 he proposes to operate the proposed ship or ships, the
3 Secretary may negotiate the award of a contract with such
4 person (hereafter called the applicant) for the development
5 and construction of the proposed ship or ships. The Secretary
6 may require such modifications in the proposed ship or ships
7 as he deems desirable, taking into account the views of the
8 Atomic Energy Commission with respect to modifications of
9 the nuclear propulsion system, and the views of the Secre-
10 tary of Defense with respect to national defense features.
11 The Secretary may agree to provide so much of the aid
12 authorized by section 1004 of this title as he determines is
13 necessary to carry out the purposes of this title, taking into
14 consideration the financial risk to the applicant, and the
15 contribution which the development, construction, and opera-
16 tion of the proposed ship or ships may make toward carrying
17 out the purposes of this title.

18 "SEC. 1004. (a) (1) In connection with the develop-
19 ment and construction of vessels proposed and selected pur-
20 suant to section 1003, the Secretary may offer the following
21 assistance:

22 (A) With the scientific and engineering advice of
23 the Atomic Energy Commission, he may assist in nego-
24 tiating the award of and become a party to contracts
25 between the applicant and the developer for the devel-

1 opment of the proposed nuclear-powered merchant ship
2 or ships, including the first fuel cores. He may agree
3 in such contracts to pay the developer all of, or part of,
4 the excess of the cost of developing the proposed ship
5 or ships, including national defense features and the first
6 fuel cores, over the estimated fair and reasonable cost
7 of developing a comparable conventional ship or ships
8 without national defense features.

9 (B) He may become a party to contracts between
10 the applicant and the builder for the construction of the
11 proposed nuclear-powered merchant ship or ships, and
12 may agree in such contracts to pay the builder all of,
13 or part of, the excess of the cost of constructing in the
14 United States the proposed ship or ships, including
15 national defense features and the first fuel cores, over
16 the estimated average weighted fair and reasonable
17 foreign cost of constructing a comparable conventional
18 ship or ships without national defense features: *Pro-*
19 *vided, however,* That if the ship or ships are to be
20 operated in the domestic trade (except the noncon-
21 tiguous domestic trade) aid under this paragraph is
22 limited to the excess of the cost of constructing in the
23 United States the proposed ship or ships, including
24 national defense features and the first fuel cores, over
25 the estimated fair and reasonable cost of constructing a

1 comparable conventional ship without national defense
2 features in the United States.

3 (2) The Secretary may also assist in training crews
4 for the ships; plan and design or assist in planning and design-
5 ing appropriate shore facilities to service the ships; make
6 available to the applicant, with the consent of the Atomic
7 Energy Commission, appropriate classified information; pro-
8 vide research and development in Government laboratories
9 which have facilities, personnel, or equipment not available
10 in private laboratories, with the consent of the department
11 or agency which operates the laboratory, and with or with-
12 out charge to the applicant; and provide, without charge,
13 design review services, ship construction inspection services,
14 and ship operation advisory services.

15 (3) If, under section 184 of the Atomic Energy Act
16 of 1954 (42 U.S.C. 2234), the Atomic Energy Commis-
17 sion consents to the creation of a mortgage or lien on the
18 nuclear-powered merchant ship, and if the loan and mort-
19 gage are eligible for insurance under title XI of this Act,
20 the Secretary may insure under that title the interest on and
21 the unpaid balance of the principal amount of the loan and
22 mortgage. In determining the applicant's eligibility, the Sec-
23 retary is not required to make the finding required by sub-
24 section (c) of section 1004 of this Act. The Secretary may
25 make the findings required by subsections (a) (1) and (b)

1 (1) of section 1104 even though the applicant has had no
2 experience in the operation of nuclear-powered merchant
3 ships. The applicability of section 184 of the Atomic Energy
4 Act of 1954 to the ship shall not prevent a mortgage on the
5 ship from being a preferred mortgage under the Ship Mort-
6 gage Act, 1920.

7 “(b) In providing the aid specified in subsection (a) of
8 this section, the Secretary may, upon payment of the costs,
9 and with the consent of the department or agency concerned,
10 avail himself of the use of licenses, information, services, facili-
11 ties, offices, and employees of any executive department,
12 independent establishment, or other agency of the Govern-
13 ment, including any field service thereof.

14 “(c) Section 505 (a) of this Act shall apply to all ships
15 whose construction is aided under this title.

16 “SEC. 1005. Each applicant for aid under this title shall
17 agree that if the ship, after its construction is completed, can-
18 not at any time be operated for a period of more than thirty
19 days because of an interunion dispute in which the fact that
20 the ship is nuclear-powered is an important element, the
21 owner will, if so directed by the Secretary of Commerce,
22 place the vessel up for sale at competitive bidding, with a
23 minimum price in the amount that would be paid if the vessel
24 were requisitioned for title, and on such other terms and

1 conditions as the Secretary of Commerce determines will be
2 conducive to the continued operation of the ship. This obliga-
3 tion shall run with the title to the vessel.

4 "SEC. 1006. Any ship developed and constructed with
5 aid under this title shall be documented under the laws of
6 the United States and shall remain so documented for
7 twenty-five years or so long as it is propelled by nuclear
8 propulsion, whichever is longer.

9 "SEC. 1007. Ships whose construction is aided under
10 this title are eligible to receive operating-differential subsidy
11 under whatever system is in force when the ships go into
12 operation if the applicant qualifies under the statute.

13 "SEC. 1008. There are authorized to be appropriated
14 to the Secretary such sums as may be necessary, to remain
15 available until expended, to carry out the provisions of this
16 title.

17 "SEC. 1009. Authority to contract for the development
18 or construction of ships under this title expires at midnight
19 on the last day of the sixtieth month following the month
20 in which this title is enacted."

21 SEC. 15. Section 152 of the Atomic Energy Act of 1954,
22 as amended (42 U.S.C. 2182), is amended as follows:

23 (1) By inserting in the first sentence thereof immedi-
24 ately after the words "with or for the benefit of the Com-
25 mission" a comma and the following: "or with the Secretary

1 of Commerce under the authority of title X of the Merchant
2 Marine Act, 1936, as amended”.

3 (2) By striking the words “by the Commission” in the
4 first sentence and inserting the words “by the Commission or
5 the Secretary”.

6 SEC. 16. Subsection (1) of section 170 of the Atomic
7 Energy Act of 1954, as amended (42 U.S.C. 2210(1)),
8 is amended by inserting in the first sentence thereof im-
9 mediately before the period a comma and the following:
10 “or any ship whose development or construction is aided
11 under title X of the Merchant Marine Act, 1936, as
12 amended”.

13 SEC. 17. The second sentence of the second paragraph
14 of section 607 (b) of the Merchant Marine Act, 1936 (46
15 U.S.C. 1177 (b)), is amended by inserting after the words
16 “authorized under section 613 of this title” a comma and
17 the words “or new nuclear fuel cores for vessels” and a
18 comma.

19 SEC. 18. Section 1104 (a) (5) of the Merchant Marine
20 Act, 1936 (46 U.S.C. 1274 (a) (5)), is amended to read
21 as follows:

22 “(5) shall secure bonds, notes, or other obligations
23 bearing interest (exclusive of premium charges for in-
24 surance, and service charges, if any) at rates not to ex-
25 ceed such per centum per annum on the principal obliga-

23 "SEC. 1302. A subsidy contract may be awarded on any
24 service which the Secretary, in his discretion, without public
25 hearing, determines is not adequately served. Applicants for

1 such contracts must meet the eligibility requirements of sec-
2 tion 601 of this Act. The Secretary, in his discretion, may
3 apply the provisions of sections 605 (a) and (b), 606 (5),
4 (6), and (7), 607 (a), (b), (c), (d), (e), (f), and (g),
5 608, 609, 610, and 611 of this Act, or any of them, to con-
6 tracts entered into under this title. He may also, in his dis-
7 cretion, apply the provisions of section 607 (h) to contracts
8 entered into under this title with liner operators.

9 "SEC. 1303. The amount payable during the first year of
10 the subsidy contract shall not exceed the difference between
11 the costs incurred in operating the ship for insurance, wages,
12 maintenance and repair, and the cost of such items incurred
13 in the operation of a comparable ship under the flag of a for-
14 eign country whose ships are substantial competitors of the
15 subsidized ship. During the subsequent years of the contract,
16 the amount of subsidy shall be computed in such manner as
17 the Secretary in his discretion may determine. In developing
18 any new system the Secretary shall be guided by the overrid-
19 ing principle that the system must contain incentives which
20 can be reasonably expected to reduce unit costs of subsidy in
21 the future. Such incentives may include the use of an objec-
22 tive index or indices to govern the annual change in costs
23 eligible for subsidy, the use of a formula or formulas reason-
24 ably relating the amount of subsidy payable to the perform-
25 ance or production of subsidized service, or the use of such

1 other reasonable approaches to the determination of the
2 amount of subsidy as the Secretary may in his discretion
3 establish.

4 "SEC. 1304. Such contracts shall provide that upon their
5 termination the operator shall have the option of receiving a
6 contract for the operation of his vessels under whatever sub-
7 sidy system is in force at that time, or of selling his ships to
8 the Government for a price not to exceed their depreciated
9 book value."

10 SEC. 21. (1) There is hereby established a commission
11 to be known as the Commission on American Shipbuilding
12 (hereinafter referred to as the "Commission"). The Commis-
13 sion shall be composed of six members, appointed by the
14 President. At least one member shall be from the United
15 States shipbuilding industry. Members of the Commission
16 shall be appointed for the life of the Commission. The Presi-
17 dent shall designate one of the members of the Commission
18 as Chairman. Four members of the Commission shall con-
19 stitute a quorum.

20 (2) Members of the Commission shall each be entitled
21 to receive \$100 per diem when engaged in the actual per-
22 formance of duties vested in the Commission, including
23 traveltime, and while away from their homes or regular
24 places of business may be allowed travel expenses, including
25 per diem in lieu of subsistence, as authorized by title 5 of the

1 United States Code for persons in the Government service
2 employed intermittently.

3 (3) The Commission shall meet at the call of the Chair-
4 man or at the call of a majority of the members thereof.

5 (4) The Commission shall have the power to appoint
6 and fix the compensation of such personnel, as it deems ad-
7 visable, subject to the civil service laws and the Classifica-
8 tion Act of 1949, as amended.

9 (5) The Commission may procure, in accordance with
10 the provisions of title 5 of the United States Code, the tem-
11 porary or intermittent services of experts or consultants; in-
12 dividuals so employed shall receive compensation at a rate
13 to be fixed by the Commission, but not in excess of \$100
14 per diem, including traveltime, and while away from their
15 homes or regular places of business may be allowed travel
16 expenses, including per diem in lieu of subsistence, as
17 authorized by title 5 of the United States Code for persons
18 in the Government service employed intermittently.

19 (6) The Commission shall conduct a study of the extent
20 to which Federal assistance to the private shipbuilding in-
21 dustry in the United States is necessary to preserve the com-
22 petitive position of such industry and to preserve a national
23 capability for the building and repair of United States mer-
24 chant and United States naval ships.

25 (7) The Commission shall not later than three years

1 after the date of enactment of this Act submit a compre-
2 hensive report of its findings and recommendations to the
3 President and to the Congress, and thereafter shall cease to
4 exist.

5 SEC. 22. The Merchant Marine Act, 1936, is amended
6 by inserting a new title XIV to read as follows:

7 "TITLE XIV—REPLACEMENT AND EXPANSION
8 OF UNITED STATES NONSUBSIDIZED MER-
9 CHANT AND FISHING FLEETS

10 "SEC. 1401. AUTHORITY TO NEGOTIATE CONTRACTS.—

11 (a) For the purpose of promoting the construction or acqui-
12 sition of new merchant vessels or the substantial reconstruc-
13 tion of existing merchant vessels and for other purposes
14 authorized by this Act, the Secretary of Commerce may
15 enter into contracts not to exceed twenty years with any
16 person who is a citizen of the United States if the Secretary
17 determines the person possesses the ability, experience, finan-
18 cial resources, and other qualifications necessary to enable
19 him to conduct the proposed operations of the merchant
20 vessels as to meet competitive conditions and promote United
21 States domestic or foreign commerce.

22 "(b) For the purpose of promoting the construction of
23 new fishing vessels, the Secretary of the Interior may enter
24 into contracts not to exceed twenty years with any person
25 who is a citizen of the United States if the Secretary deter-

1 mines the person possesses the ability, experience, financial
2 resources, and other qualifications necessary to enable him
3 to conduct the proposed operations of the fishing vessel to
4 meet competitive conditions and promote the utilization of
5 fishery resources.

6 "SEC. 1402. TERMS AND CONDITIONS OF CONTRACT.—

7 The Secretary shall include in each contract a provision—

8 " (a) that any new vessel constructed under a con-
9 tract will be built in a shipyard in the United States
10 under a contract with a shipbuilder entered into after
11 the effective date of this Act;

12 " (b) that any new vessel acquired under a contract
13 will be one that was built in a shipyard in the United
14 States for the United States Government under a con-
15 tract with a shipbuilder entered into after the effective
16 date of this Act;

17 " (c) that any vessel substantially reconstructed un-
18 der a contract will be one that was built in a shipyard in
19 the United States and will be substantially reconstructed
20 in a shipyard in the United States under a contract with
21 a shipbuilder entered into after the effective date of this
22 Act;

23 " (d) that any vessel constructed, acquired, or sub-
24 stantially reconstructed under a contract will be of a

1 type, size, and speed that the Secretary determines to be
2 suitable for use on the high seas or Great Lakes;

3 “(e) that any vessel constructed, acquired, or sub-
4 stantially reconstructed under a contract negotiated under
5 section 1 (a) will be of a type which the Secretary of the
6 Navy certifies is suitable for economical and speedy con-
7 version into a naval auxiliary or otherwise suitable for
8 use by the United States in the event of war or national
9 emergency;

10 “(f) for the creation and maintenance of a capital
11 reserve fund;

12 “(g) for the approximate number and type of ves-
13 sels which the contractor will construct, acquire, or sub-
14 stantially reconstruct subject to modifications and exten-
15 sions upon a showing to the satisfaction of the Secretary
16 of acceptable reasons for modifications or extensions;

17 “(h) for additional terms and conditions consistent
18 with this Act, that the Secretary determines to be neces-
19 sary to protect the interest of the United States;

20 “(i) for the early replacement of any war-built ves-
21 sel used in the movement of cargo under section 901 (b) ,
22 Merchant Marine Act, 1936, as amended;

23 “(j) that each contractor agrees not to incur any
24 purchase money indebtedness with respect to any vessel
25 constructed, acquired, or substantially reconstructed

1 under a contract without the prior consent of the
2 Secretary;

3 “(k) that upon failure of the contractor to construct,
4 acquire, or substantially reconstruct any vessel as pro-
5 vided in the contract as modified or extended, all deposits
6 of the contractor will be withdrawn from the fund with
7 the same tax consequences as result from withdrawals
8 from the funds created by section 607, Merchant Marine
9 Act, 1936, as amended, and no further deposits may be
10 made by the contractor until a new contract is nego-
11 tiated; and

12 “(l) that the contractor agrees that any vessel con-
13 structed or acquired under a contract will remain docu-
14 mented under the laws of the United States for twenty-
15 five years from the date of its delivery by the shipbuilder
16 and any vessel reconstructed under a contract will remain
17 documented under the laws of the United States for the
18 remainder of its economic life as determined by the
19 Secretary.

20 “SEC. 1403. CREATION AND MAINTENANCE OF CAPI-
21 TAL RESERVE FUND.—(a) Each contractor shall create and
22 maintain for the duration of the contract, in depositories ap-
23 proved by the Secretary, a capital reserve fund under the
24 joint control of the operator and the Secretary.

25 “(b) Each contractor shall deposit in the capital reserve

1 fund as is required to be deposited by subsidized operators
2 under section 607, Merchant Marine Act, 1936, as amended,
3 the proceeds of sales of vessels, the proceeds of insurance
4 and indemnities, the depreciation charges, as earned, and
5 the earnings made on deposits in the capital reserve fund,
6 and shall annually deposit any percentage of differential
7 payments received on the movement of cargo under section
8 901 (b), Merchant Marine Act, 1936, as amended, that
9 the Secretary determines is from profits and is necessary
10 to fulfill the contractor's obligation under the contract.

11 “(c) The contractor may deposit in the fund other earn-
12 ings from his vessel operations.

13 “SEC. 1404. TAX DEFERMENT OF DEPOSITS IN THE
14 FUND.—(a) Deposits of capital gains into the fund are taxed
15 in the same manner as deposits of capital gains by subsidized
16 operators under section 607, Merchant Marine Act, 1936, as
17 amended.

18 “(b) Deposits of earnings and differential payments into
19 the fund are taxed in the same manner as deposits of earn-
20 ings of subsidized operators under section 607, Merchant
21 Marine Act, 1936, as amended.

22 “SEC. 1405. WITHDRAWALS FROM THE FUND.—
23 Contractors may withdraw deposits from the fund with the
24 same restriction and limitation, under the same conditions
25 and with the same tax consequences as deposits may be with-

1 drawn from the capital reserve fund by subsidized operators
2 under section 607, Merchant Marine Act, 1936, as amended.

3 "SEC. 1406. INVESTMENT OF THE FUND.—Contractors
4 may invest deposits in the fund under the conditions and
5 with the same restriction as deposits of subsidized operators
6 under section 607, Merchant Marine Act, 1936, as amended.

7 "SEC. 1407. DISCONTINUANCE OF DIFFERENTIAL
8 PAYMENTS.—No operator of a nonsubsidized vessel may re-
9 ceive any differential payments for cargo moved by such ves-
10 sel under section 901 (b), Merchant Marine Act, 1936, as
11 amended, unless the operator has concluded a contract with
12 the Secretary under this Act before January 1, 1968.

13 "SEC. 1408. DEFINITIONS.—In this Act—

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

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

21 "(c) 'Documented' includes enrolled.

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

24 "(e) 'Earnings made on deposits' means earnings on

1 funds deposited as well as earnings on accumulated earnings
2 and gains made on sale of securities.

3 “(f) ‘Fund’ means the capital reserve fund authorized
4 by this Act.

5 “(g) ‘Nonsubsidized vessel’ means any vessel not in-
6 cluded in an operating differential subsidy contract under the
7 Merchant Marine Act, 1936, as amended.

8 “(h) ‘Person’ includes corporation.

9 “(i) ‘Reconstruction’ means the substantial reconstruc-
10 tion and major modernization of a vessel if the Secretary
11 determines that the objectives of this Act will be promoted
12 by such reconstruction.

13 “(j) ‘Secretary’ means the Secretary of Commerce in
14 reference to powers and duties relating to contracts for the
15 construction, acquisition, or substantial reconstruction of mer-
16 chant vessels and means the Secretary of the Interior in
17 reference to powers and duties relating to contracts for the
18 construction of fishing vessels.

19 “(k) ‘Subsidized operators’ means persons who have an
20 operating-differential subsidy contract under the Merchant
21 Marine Act, 1936, as amended.

22 “(l) ‘Vessel’ includes non-self-propelled vessels, cargo
23 containers, cargo vans, and other related equipment.

24 “(m) ‘War-built vessel’ means a vessel as defined in
25 section 3, Merchant Ship Sales Act, 1946.”

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

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., July 8, 1969.

DEAR MR. CHAIRMAN: Reference is made to your letter of April 24, 1969, requesting our comments on S. 1915, a bill to amend the Merchant Marine Act, 1936, and other statutes to provide a new maritime program.

The proposed legislation would, among other things, establish a new method of determining construction-differential subsidy, extend operating-differential subsidy to certain nonsubsidized operators and allow the Secretary of Commerce to establish a new method of computing operating-differential subsidy on an experimental basis for these operators, and extend certain tax deferments to certain operators of the nonsubsidized merchant and fishing fleets who establish capital reserve funds.

The purpose of the proposed legislation is a matter of policy for the determination of the Congress, and therefore we make no recommendation as to its enactment. However, the following comments are offered for your consideration.

Section 3 of the bill would amend section 501(a) of the Merchant Marine Act of 1936, to allow privately-owned shipyards to be eligible applicants for construction-differential subsidy. Under existing legislation only shipowners are considered eligible applicants for construction subsidy. Also, section 5 of the bill would establish a new method of determining the construction subsidy.

Under the present method, the subsidy is computed for each ship construction contract and is based on the difference between the lowest responsible domestic bid for a particular vessel and the estimated cost of constructing the same vessel in a representative foreign shipbuilding center. The subsidy on new construction is limited to 55 percent of the cost of the vessel. Under the proposed bill, subsidy rates would be developed by estimating the foreign and domestic construction cost for each vessel type. The rates would be based on the difference between the foreign and domestic construction cost estimates, subject to the 55 percent limitation, and would be determined not more frequently than once a year regardless of the number of contracts in any one year.

We note that the proposed method of computing construction-differential subsidy would not consider the actual contract price on the individual construction contracts and would be subject to revision not more frequently than once each year. We have also noted that in the past, subsidy rates for the same type ship have varied by as much as five percentage points during a one-year period. Because accurate domestic construction cost information is available after the award of each contract, the Committee may wish to consider providing that a new subsidy rate be established for each construction contract or to provide for rate adjustment more frequently than once a year where there has been a significant change in the market.

Section 6(6) of the bill would add a new subsection (b) to section 504 of the Merchant Marine Act, 1936, which would allow the proposed shipowner to negotiate a construction price for a vessel with a shipyard in lieu of the present method of competitive bidding. Since negotiated procurements do not offer the Government the same benefits as those where competitive bidding is employed, we believe the bill should include provision for audit of these contracts by the Comptroller General. We suggest the following language:

"The Comptroller General of the United States or any of his duly-authorized representatives shall, until the expiration of three years after final payment, have access to and the right to examine any directly pertinent books, documents, papers and records of the Contractor or any of his subcontractors related to the negotiation or performance of any contract or subcontract negotiated under this subsection, and the Secretary shall include in each contract, and shall require the contractor to include in its subcontracts, a provision to that effect."

Section 10(2) of the bill would repeal subsection 805(c) of the Act, and section 11 of the bill would release present contractors from the provisions in their contracts which were inserted pursuant to subsection 805(c) of the Act. This change would remove the provision that precludes subsidized ship operators from including salary costs of any individual in excess of \$25,000 per annum in their subsidizable expenses. While there may be reasons to increase the amount of the limitation which was established in 1936, we question whether the limitation should be removed entirely. We note that for the accounting year 1965 a total of \$490,211 was excluded by the \$25,000 limitation in computing income subject

to recapture by the Government from four operators who are in a recapture position. Thus, the Committee may wish to consider the desirability of increasing the limitation rather than repealing the limitation completely.

Section 14 of the bill would add a new title X to the Merchant Marine Act of 1936 authorizing the Secretary of Commerce to grant financial aid in the development, construction, and operation of privately-owned nuclear-powered merchant ships whose designs embody significant departures from the designs of existing nuclear-powered merchant ships which may lead to reduction of the cost of constructing and operating future nuclear-powered merchant ships. Since the contracts to be entered into to carry out the provisions of this title would be negotiated, we believe that the proposed new title should include a section which would specifically provide for the audit of these contracts by the Comptroller General. We suggest the same language as proposed by us in connection with section 6(6) of the bill.

Section 22 of the bill would add a new title XIV to the Merchant Marine Act of 1936, to aid in the replacement and expansion of the United States nonsubsidized merchant and fishing fleets. Subsection 1403(b) of this new title requires certain deposits to be made by each contractor in a capital reserve fund, including an annual deposit of "any percentage of differential payments received on the movement of cargo under section 901(b), Merchant Marine Act, 1936, as amended, that the Secretary determines is from profits and is necessary to fulfill the contractor's obligation under the contract." The meaning of the quoted language is not clear, nor does the bill describe the method or criteria to be used by the Secretary in establishing the percentage of differential payments to be deposited. We believe the Committee should clarify the intent of the proposed legislation in this respect during its deliberations on the bill.

Sincerely yours,

ELMER B. STAATS,

Comptroller General of the United States.

Senator LONG. Mr. Secretary, we are pleased to have you here today.

I have not had occasion to be briefed on President Nixon's recommendations and on your thoughts on this subject, so I will weigh with interest your views on it. I hope very much that we can work together toward the general objective to which the President directed his interest.

STATEMENT OF HON. MAURICE H. STANS, SECRETARY OF COMMERCE; ACCOMPANIED BY UNDER SECRETARY ROCCO C. SICILIANO, DEPARTMENT OF COMMERCE; AND ANDREW GIBSON, MARITIME ADMINISTRATOR, MARITIME ADMINISTRATION

Secretary STANS. Thank you very much, Mr. Chairman.

I am here today to present the administration's program and proposals to the Congress for the merchant marine.

I am accompanied by Under Secretary Rocco Siciliano of the Department of Commerce and by Andrew E. Gibson, the Maritime Administrator, and they will fill in the details after my statement.

I would like to proceed with reference very largely to the President's message amplified by a few comments of my own, and since the President's message designated for release at 12 noon, I will attach that same proviso to my remarks.

Senator LONG. In other words, you would like to say you want this released at noon so you won't be releasing it ahead of the President's.

Secretary STANS. The U.S. merchant marine—the fleet of commercial ships on which we rely for our economic strength in time of peace and our defense mobility in time of war—is in trouble.

While only one-fourth of the world's merchant ships are more than 20 years old, approximately three-fourths of American trading ves-

sels are at least that antiquated. In the next 4 years, much of our merchant fleet will be scrapped. Yet we are now producing only a few new ships a year for use in our foreign trade. Building costs for American vessels are about twice those in foreign shipyards and production delays are excessive. Operating expenses also are high by world standards, and labor-management conflicts have been costly and disruptive.

Both Government and industry share responsibility for the recent decline in American shipping and shipbuilding. Both Government and industry must now make a substantial effort to reverse that record. We must begin immediately to rebuild our merchant fleet and make it more competitive. Accordingly, I am announcing today a new maritime program for this Nation, one which will replace the drift and neglect of recent years and restore this country to a proud position in the shipping lanes of the world.

Our program is one of challenge and opportunity. We will challenge the American shipbuilding industry to show that it can rebuild our merchant marine at reasonable expense. We will challenge American ship operators and seamen to move toward less dependence on Government subsidy. And, through a substantially revised and better administered Government program, we will create the opportunity to meet that challenge.

The need for this new program is great since the old ways have not worked. However, as I have frequently pointed out, our budget constraints at this time are also significant. Our program, therefore, will be phased in such a way that it will not increase subsidy expenditures during the rest of fiscal year 1970 and will require only a modest increase of fiscal year 1971. We can thus begin to rebuild our fleet and at the same time meet our fiscal responsibilities.

Our shipbuilding program is designed to meet both of the problems which lie behind the recent decline in this field: Low production rates and high production costs. Our proposals would make it possible for shipbuilders to build more ships and would encourage them to hold down the cost of each vessel. We believe that these two aspirations are closely related. For only as we plan a major long-range building program can we encourage builders to standardize ship design and introduce mass production techniques which have kept other American products competitive in world markets. On the other hand, only if our builders are able to improve their efficiency and cut their costs can we afford to replace our obsolescent merchant fleet with American-built vessels. These cost reductions are essential if our ship operators are to make capital investments of several billion dollars over the next 10 years to build new, high-technology ships.

Our new program will provide a substantially improved system of construction differential subsidies, payments which reimburse American shipbuilders for that part of their total cost which exceeds the cost of building in foreign shipyards. Such subsidies all our shipbuilders—despite their higher costs—to sell their ships at world market prices for use in our foreign trade. The important features of our new subsidy system are as follows:

1. We should make it possible for industry to build more ships over the next 10 years, moving from the present subsidy level of about 10 ships a year to a new level of 30 ships a year.

2. We should reduce the percentage of total costs which are subsidized. The Government presently subsidizes up to 55 percent of a builder's total expenses for a given vessel. Leaders of the shipbuilding industry have frequently said that subsidy requirements can be reduced considerably if they are assured a long-term market. I am therefore asking that construction differential subsidies be limited to 45 percent of total costs in fiscal year 1971. That percentage should be reduced by 2 percent in each subsequent year until the maximum subsidy payment is down to 35 percent of total building expenses.

We are confident that the shipbuilding industry can meet this challenge. If the challenge is not met, however, then the administration's commitment to this part of our program will not be continued.

3. Construction differential subsidies should be paid directly to shipbuilders rather than being channeled through shipowners as is the case under the present system. A direct payment system is necessary if our program is to encourage builders to improve designs, reduce delays, and minimize costs. It will also help us to streamline subsidy administration.

4. The multiyear procurement system which is now used for other Government programs should be extended to shipbuilding. Under this system, the Government makes a firm commitment to build a given number of ships over a specified and longer period of time, a practice which allows the industry to realize important economies of scale and to receive lower subsidies.

5. The increased level of ship construction will require a corresponding increase in the level of federally insured mortgages. Accordingly, we should increase the ceiling on our present mortgage insurance programs from \$1 billion to \$3 billion.

6. We should extend construction differential subsidies to bulk carriers, ships which usually carry ore, grain, or oil and which are not covered by our present subsidy program.

7. A commission should be established to review the status of the American shipbuilding industry, its problems, and its progress toward meeting the challenge we have set forth. The commission should report on its findings within 3 years and recommend any changes in Government policy which it believes are desirable.

Now for the ship operating industry.

My comments to this point have related to the building of merchant vessels. The other arm of our maritime policy is that which deals with the operation of these ships. Here, too, our new program offers several substantial improvements over the present system.

1. Operating differential subsidies should be continued only for the higher wage and insurance costs which American shipping lines experience. Subsidies for maintenance and repair and for subsistence should be eliminated. Instead of paying the difference between the wages of foreign seamen and actual wages on American ships, however, the Government should compare foreign wages with prevailing wage levels in several comparable sectors of the American economy. A policy which ties subsidies to this wage index will reduce subsidy cost and provide an incentive for further efficiencies. Under this system, the operator would no longer lose in subsidies what he saves in costs. Nor would he continue to be reimbursed through subsidies when his wage costs rise to higher levels.

2. At the same time that we are reducing operating subsidies, it is appropriate that we eliminate the "recapture" provisions of the Merchant Marine Act of 1936. These provisions require subsidized lines to pay back to the Government a portion of profits. If the recapture provisions are removed, the purpose for which they were designed will be largely accomplished through corporate taxes, which were at much lower rates than these provisions were instituted. We will also save the cost of administering recapture provisions.

3. Many bulk carriers presently receive indirect operating subsidies from the Government because of the statutory requirement that certain Government cargos must be shipped in U.S. vessels at premium rates. When the Department of Agriculture ships grain abroad, for example, it pays higher rates out of its budget than if it were allowed to ship at world market rates. We will propose a new, direct subsidy system for such carriers, thus allowing us to phase out these premium freight rate and reduce the costs of several nonmaritime Government programs.

4. Ship operators now receiving operating differential subsidies are permitted to defer Federal tax payments on reserve funds set aside for construction purposes. This provision should be extended to include all qualified ship operators in the foreign trade, but only for well defined ship replacement programs.

5. Past Government policies and industry attitudes have not been conducive to cooperation between labor and management. Our program will help to improve this situation by ending the uncertainty that has characterized our past maritime policy. Labor and management must now use this opportunity to find ways of resolving their differences without halting operations. If the desired expansion of merchant shipping is to be achieved, the disruptive work stoppages of the past must not be repeated.

6. The larger capital investment necessary to construct a modern and efficient merchant fleet requires corresponding port development. I am therefore directing the Secretary of Commerce and the Secretary of Transportation to work with related industries and local governments in improving our port operations. We must take full advantage of technological advances in this area and we should do all we can to encourage greater use of intermodal transportation systems, of which these high-technology ships are only a part.

Now as to equal employment opportunities.

The expansion of American merchant shipbuilding which this program makes possible will provide many new employment opportunities. All of our citizens must have equal access to these new jobs. I am therefore directing the Secretary of Commerce and the Secretary of Labor to work with industry and labor organizations to develop programs that will insure all minority groups their rightful place in this expansion.

RESEARCH AND DEVELOPMENT

We will also enlarge and redirect the maritime research and development activities of the Federal Government. Greater emphasis will be placed on practical applications of technological advances and on the coordination of Federal programs with those of industry.

The history of American commercial shipping is closely intertwined with the history of our country. From the time of the colonial fishing

sloops, down through the great days of the majestic clipper ships, and into the new era when steam replaced the sail, the venturesome spirit of maritime enterprise has contributed significantly to the strength of the Nation.

Our shipping industry has come a long way over the last three centuries. Yet, as one of the great historians of American seafaring, Samuel Eliot Morrison, has written: "all her modern docks and terminals and dredged channels will avail nothing, if the spirit perish that led her founders to 'trye all ports.'" It is that spirit to which our program of challenge and opportunity appeals.

It is my hope and expectation that this program will introduce a new era in the maritime history of America, an era in which our shipbuilding and ship operating industries take their place once again among the vigorous, competitive industries of this Nation.

Now, Mr. Chairman, and gentlemen, this is the end of the President's statement which will be released officially at noon.

I would like to add just a few bits of data and statistics to the information in that as a further basis for our program.

The United States accounts for nearly one-third of the world's trade. Ocean transportation is essential to this trade. In 1968 the total value of U.S. exports and imports of goods was \$67 billion, of which \$41 billion moved by ship. The efficient shipment of these goods at reasonable cost is essential to the continued economic well-being of this country.

At the close of World War II, as a result of the greatest shipbuilding program in history, the United States possessed the largest merchant fleet in the world, totaling 3,696 ships. In the 24 years since that time, the fleet has steadily decreased. Neglect in recent years, resulting from a fundamental lack of understanding of the role of seapower, has reduced the U.S.-flag fleet to 967 ships, 650 of which are engaged in foreign trade making us now fifth in the world on a tonnage basis.

In submitting the new maritime program, the new administration considered among other things the following facts:

1. Approximately three-fourths of the total U.S. fleet is over 20 years of age.

2. Wornout World War II ships constitute the largest segment of the U.S. fleet. The age of these 395 war-built ships creates an immediate problem of block obsolescence. Vessels which were constructed before 1945 will all be phased out of the fleet during the period 1972-74. Continued operation of these ships thereafter cannot be expected.

3. An additional 53 ships will become overage in the succeeding 8 years. As a result, the present 650-ship foreign trade fleet will drop to 202 ships by 1982, assuming no new construction after 1970.

There is a program for 10 ships and it is assumed that if another 10 ships were built in another 10 years, we would still have only the equivalent of 220 modern ships at that time and that would be totally inadequate.

4. The impact of this projected decline is being felt now and will reach a critical stage in the next few years. Eighty-five percent of the decrease will have occurred by the end of 1973.

5. The present-day fleet carries approximately 6.4 percent of the total tonnage of U.S. trade. If the decline of the fleet is allowed to con-

tinue the 202 ships which will remain by 1982 will be able to carry less than 3 percent of U.S. trade tonnage.

We believe that the dismal vessel replacement record of the past few years and the alarming rate of decline projected for the fleet must be reversed. The U.S. merchant marine can be successfully brought through the severe decline projected for the next few years only if action is taken now to replace the ships expected to disappear during that time. If this is done promptly and continued for an extended period, our fleet can become economically viable again and can enhance American participation in international trade.

Mr. Chairman and gentlemen, this is the conclusion of my opening presentation.

The Under Secretary, and the Administrator of the Maritime Administration and I are here to answer any questions you may have on this program.

Senator LONG. Mr. Secretary, may I say that I am going to confine myself to 10 minutes and that way each person can have a chance to ask questions during the morning session. I will have to go down to a Finance Committee meeting in the next 40 minutes, but I would like to ask a few questions before that time.

In the first case, now, we are going to need money to do what you want to do about this shipbuilding program and I, myself, have been trying to think of ways we can raise money to revitalize the American merchant marine. We have a big tax bill in the Senate Finance Committee right now—so big, I lose count of figures. It runs into many billions of dollars both on the up side and the down side. It raises money and reduces money at the same time.

Do you think that you might need to ask us for some additional revenue in order to do what you have in mind for this shipbuilding program?

Secretary STANS. No, Mr. Chairman, if I may analyze that briefly. By the time the program can be enacted and be effective we will be well into fiscal 1970 and we would not expect any increase of expenditures in 1970 above that in the budget. For fiscal 1971, we would expect an increase of about \$80 million in authorizations and somewhat less than that in expenditures. Over the entire life of the program, taking into account the cost of building the extra 200 ships above what would be our normal program, and taking into account the savings by reason of the reduction in the construction subsidies and the savings we expect by reason of the reduction in the operating subsidy, we expect the program would cost an extra billion dollars, approximately \$1 billion, which will be the cost of bringing this entire fleet into being in our program over 10 years. Now, there are some offsets to that. One offset is that we would expect employment in the industry to be considerably higher than would otherwise be the case.

We would expect the profits of the industry to be considerably higher than would otherwise be the case, and we would think there would be offsetting revenues to the Federal Government as a result of that.

There would also be savings by reason of the inclusion in this program of the subsidy costs of the ships that now receive premium

rates for carrying Government goods, so there would be a savings to the Department of Agriculture over this period of time.

In addition and not as a tax benefit, there should be a saving—a benefit of approximately \$2 billion over this period of years in our balance of payments as a result of the increased ship earnings. So there are very substantial benefits against the cost of a billion dollars this program will entail and we do not believe, Mr. Chairman, that it will be necessary at this time or at any time in the future to ask for additional revenues, especially for this particular program.

Senator LONG. Well, now, Mr. Stans, you have been Budget Director under a previous President, and you know some of the problems that we have here on the Hill. We still are trying to find a better way of doing business up here and it leaves much to be desired. Otherwise, we would not be in session here in October. If I had my way, we would do business on such a basis that you could not appropriate money for anything unless you had authorized it. Then when you go on the appropriations you would vote on those before you vote on the tax bill. After we see how much has been appropriated, we fellows in the Finance Committee would vote you a tax bill on what we saw fit to expend so we would not leave you in a deficit position to go further in debt and do what should be done.

We have a huge tax bill in the committee right now and if money is needed, I, for one, will do my part to tailor that bill so the money will be available for the things you want. You have not said anything about the \$145 million that we have authorized wherein we would seek to build 18 to 20 ships rather than 10 ships that are presently projected.

Now, I wish you all the luck in the world and, if we must have a Republican administration, I would just as soon have you in your job as anybody that could be sent down here. But there is no way we can be sure that you are going to be here 4 years from now, and I would think that if you think enough of this program, you would be willing to get on with it.

What is your attitude about putting 20 ships into construction in line with what we have authorized so that we can get moving rather than waiting a year?

Secretary STANS. Mr. Chairman, I suggest the Under Secretary might be in a better position to answer that question.

Mr. SICILIANO. Actually, the way this program is designed—and of course it will have to be defined in greater detail after this hearing to the Congress—we are talking about authorization to proceed to construct additional ships. It's true that in this particular fiscal year we have only 10 ships being funded, but Mr. Gibson plans, with the kind of authority we are seeking, to be able to contract for about 17 to 20 ships in a fiscal year. That does not mean that the expenditure will occur this year or even next year, but the contracting for these additional ships will begin in fiscal 1970 and will continue in fiscal 1971, and we will only—not till we get to fiscal 1972, reach the 30-ship figure, so that our feeling is that the present budget request which is now before Congress is adequate for us because it permits us to take a different funding approach. That approach is as I have just explained.

Senator LONG. Well, you see, we had \$101 million frozen by the economy cut last year and we tried to stay within our budget and

stay within the deficit—that was the basis of it. We tried to authorize both the release of the frozen funds of \$145 million and giving \$246 million authorization which would be enough to put under contract 18 to 20 ships. From our point of view, that is about two-thirds of what you envision here and it seems to me that if it's good enough to proceed with on the basis of 30 ships a year, it ought to be good enough to get the show on the road with 20 ships as soon as we can get them under contract. As far as I am concerned, may I say, with the kind of business we are voting on in the Finance Committee, I know it would not make a difference to put another \$1 billion in there. That is a very small item. [Laughter.]

Secretary STANS. Mr. Chairman, the contract authority that we are asking in our proposals would give us the ability to contract for 20 ships this year provided all of the arrangements can be completed, of course, for the design of the ships, the standardization and provided also that the yards can handle the contracts.

Now, this is the program that we have in mind and this is the reason that we do not need an additional authorization at this time or higher expenditure at that time.

The program would get going the day after the Congress enacts the legislation giving us the authority we want.

I would like Mr. Gibson to answer further on that.

Senator LONG. I would hope we can stop this warfare between Louisiana and Maryland over these shipping contracts so we would have people in both States employed rather than have people unemployed.

Secretary STANS. I think we may very well have the situation which will test the capacity of the shipyards and we expect that they will be required to spend perhaps \$500 million to develop their facilities to be able to handle this program.

Mr. GIBSON. The significant feature in a change in our procurement practices comes from this multiyear procurement basis. This is a system that has been used for a number of years by the Navy in the long-range ship procurement. It makes a great deal of sense. It has never been used by the Maritime Administration and the significant fact right now is that when you begin to use this type of procurement contracts—it takes into consideration that the contracts are let and the expenditures are made over quite different periods of time, and so our—up to now, we have only let contracts that equalled that year's appropriations, although the expenditures were not made sometimes until 2 or 3 years after that.

We will now undergo contracts on this basis and we would plan this year with the appropriations for approximately 10 ships to enter into what would amount to a conditional contract where the 10 ships will be built. The builder is to procure and plan on the basis of 18 or 19 ships with that funding to come out from next year, and this has a rolling effect.

Eventually of course you catch up with yourself in 3 years. By that time, we are in the full 30-ship funding and contract level.

Senator LONG. My proposition to you, Mr. Secretary, is one as a committee chairman and a Senator. I am willing to vote for whatever is required to keep this Government solid and provide for the essential needs of this country and keep America in the position that it should be.

Now I am willing to vote for that sort of thing, but there is criticism from the people who do not like to pay taxes.

I hope you will pursue the meritorious programs such as the kind of thing you are advocating here and not waste too much time in getting on with it. People can appreciate the fact that they pay taxes if they feel they are getting their money's worth for what they are buying. I will vote to raise the revenues or whatever is necessary, but we think that the type of thing you are advocating is the thing you would not expect at the moment—the full cooperation to provide the funds to pay for it.

Senator Magnuson is the chairman of the full committee.

The CHAIRMAN. I have all kinds of questions I want to ask and as we proceed with the hearings, we will get at them.

I first want to compliment the Department on getting up here with a program—a proposed program as far as the administration is concerned.

We waited a long time, but we are finally now at it. Now, many of these proposals that you put together in one package have been before the committee for some time, for many years, with different variations of them. They sometimes have been in separate bills and sometimes they have been in a program that we have tried to put together. I am glad to see it all in one package, as it were, so we can work on it in that way.

There will be a great deal of testimony by those interested in the industry, both pro and con about the proposals. But I am sure you are going to find an area of agreement among all of us that we have got to get moving in this field, knowing that everybody is going to have to give and take a little bit here to achieve this legislative objective. There is one part of this in ship construction that is the real guts of being able to get ships constructed. That is the question of tax reserve for construction or holding. Now is that substantially different? You call it a tax deferred capital reserve fund. What is the difference between that and the present system?

I think that for nearly everybody in the audience that is concerned with ship construction, this has been the thing we have been trying to get at. I must say that all Secretaries of the Treasury, regardless of administration, have always opposed it.

Secretary STANS. Senator, the operation of the tax reserve is not proposed to be changed in this proposal except in two respects: One, we would extend it not only to subsidized ships, but also to nonsubsidized ships, and two, we would like some kind of provision in the law limiting the accumulation of the tax reserve beyond any point of necessity. In other words, if the reserves get larger than are likely to be useful, we would like to see a limit in the law to prevent their further accumulation; otherwise, it's the same in principle as it is now.

The CHAIRMAN. You would eliminate the recapture clause on the theory that you pick that up in corporate taxation if the profits are over 10 percent anyway?

Secretary STANS. We pick up a good part in that. We pick up a good part of it in the economy of the Government and the shipowner in the tremendous amount of auditing and detailed administration that is involved in it. So actually, there is—on the basis of recent recaptures in the last few years, there will be very little net loss to the Government by dropping the recapture provisions.

The CHAIRMAN. I presume that when we get at the reserve funds proposition, what we are trying to say is that a person, it could be a company or an operator, to take advantage of it, must have some sort of a building plan so that these reserves would not get out of line and so that they would be consistent with the plan that he is going to operate. Is that correct?

Secretary STANS. Exactly, Senator.

The CHAIRMAN. If we agree to the 10-year period, he has 10 years to take a look at his shipbuilding future.

Secretary STANS. That is correct.

The CHAIRMAN. I do not want to go into this at any length, but I am sure we are going to have a great deal of testimony on what you call the representative wage index. I am not too familiar just what formula we are going to use, but I imagine we will hear from a great number of people as to what they think of the type of formula to be used.

Secretary STANS. We will consult with the Bureau of Labor Statistics about that formula.

The CHAIRMAN. You are very optimistic about reducing the 55 percent to 35. If it can be done, I am for it because we continually, from year to year, from Congress to Congress, pass temporary legislation pegging it. One time it was 45 and then it got to be 50 and then it got to be 55. But in hopes it might go down, we only passed this legislation for—what do we have, a 2-year period?

STAFF. We extended it for only 1 year.

The CHAIRMAN. One year. So that is wide open to see what we can do with it.

Secretary STANS. Senator, we have been assured on the basis of conversations that the Under Secretary and the administration have had with shipbuilders where if they are given this program where they can plan ahead and contract in larger quantities and for more standardized ships that they can meet this target of 45 percent in a year and down gradually to 35 percent.

The CHAIRMAN. I am hopeful of that. I do not think you will find any disagreement in this committee. We have talked for some time about the payment of subsidies directly to the shipbuilder on the theory that then he can start to work on more efficient designs and lesser costs. This may be a factor, a big factor, in dropping that 55 percent. I hope so.

Secretary STANS. That is correct.

The CHAIRMAN. And then in the foreign yards, the labor costs are moving up gradually due to many reasons. Just one other question so we will get the record clear. On the operating subsidy, do you propose that this be extended to all of the merchant marine tramps?

Secretary STANS. No. We propose to extend it only where it is really necessary.

The CHAIRMAN. Well, there will be a lot of testimony that it will be necessary.

Secretary STANS. I would like Mr. Gibson to answer in more detail on that.

Mr. GIBSON. In the Secretary's testimony, I think he stressed the point that we would definitely open a form of direct operating subsidy to the tramps in—

Senator COTTON. Pardon me, will you please speak into the microphone. I cannot hear you.

Mr. GIBSON. Pardon me. We propose to develop a form of direct operating subsidy to tramps. This is contained in the President's message—in order that they can compete at world rates for bulk cargoes and phase out the premium rates which are paid for preference cargoes. There is every intention to address ourselves to that problem; yes, sir.

The CHAIRMAN. Well, here we are going to have to go into some detail as to the formula you are going to try and use but generally speaking, you are advocating the extension of the operational subsidy, are you not?

Mr. GIBSON. That is correct.

The CHAIRMAN. Not holding it tight as it is now?

Mr. GIBSON. I believe what the Secretary said is that it would be provided where necessary—and obviously some trade routes subsidy is necessary.

The CHAIRMAN. I do not think this is going to be a success under the present system unless there is a more liberal interpretation of who would be eligible for subsidies.

Mr. GIBSON. We are in complete agreement. This is a program for the entire American merchant marine.

The CHAIRMAN. Do you have any plans to rearrange the trade routes?

Mr. GIBSON. No, sir; we believe—

The CHAIRMAN. Or add to them or something?

Mr. GIBSON. Well, the trade routes as defined in 1936, I think, encompass the entire world. Some of these are no longer serviced. The routes are there. We believe administratively this can be handled and the point is there were some six trade routes in the North Atlantic—the North Atlantic is clearly becoming a trading area where the limited trade routes that were originally laid out are no longer applicable because of the container systems.

The CHAIRMAN. I notice the complete lack of any mention whatsoever of passenger ships. What have you got to say about that?

Secretary STANS. Senator, there is no mention of passenger ships in the program because we have not as yet found a solution to the very difficult problem that is presented by the circumstances of that part of the industry. We know that the ships are operating at a very substantial loss despite very heavy subsidies from the Government. The labor organizations have offered to make some concessions to help the passenger ships. There have been suggestions that the Department has sponsored and supported a program to put the passenger ships into a single, overall operation. It is also contemplated that the passenger ships could operate much more effectively if they were not tied to specific routes, but could be permitted to engage in cruise traffic.

All of these things combine in a hope that some or all of the present passenger ships can continue in service. But we just do not have the solution for the problem. We have to continue to research it, to work with the industry and with labor to see what can be done. When a ship industry in the United States, with approximately \$12 million of subsidy, still results in a loss of \$4 million to the carrier, it presents a problem that goes beyond any solution that we have been able to find yet. At the same time, we want to save as much as we can of the passenger fleet.

The CHAIRMAN. Well, I think we have got to take a look at it. There is also something a little more than actual costs involved. If we do not do so pretty soon, why, the American flag will just disappear from the seven seas of the world in the passenger field. There ought to be some way that we can work this out because it is a matter of not only dollars and cents, but a matter of the defense spinoff on a passenger ship, the national prestige and all sorts of things.

Secretary STANS. We think the major potential here is to give the shipowners full latitude as to how to use their ships.

The CHAIRMAN. Yes, and somebody may come up with a solution that would lower these losses and we would still be able to sail the seas flying the American flag. The employment of a great number of people is involved.

Secretary STANS. Yes.

The CHAIRMAN. Now, you are going to take a look, or you suggest we take a look, at extending the subsidization of construction of dry bulk carriers.

Secretary STANS. Yes, that is part of the proposal.

The CHAIRMAN. So we can bring in more of our imports.

Secretary STANS. That is correct.

The CHAIRMAN. What about the 50-50 cargo preferences?

Was anything said about that in your conferences?

Secretary STANS. We do not propose any change in those provisions.

The CHAIRMAN. Don't touch it. Even if Agriculture calls you every day and State Department—don't touch it.

Now, was there any discussion as to relaxation of the Jones Act?

Secretary STANS. No, that is not involved in this proposed legislation.

The CHAIRMAN. No, but it's part of the whole thing. I think the committee may want—the Under Secretary may have something to say on that.

Mr. SICILIANO. The Jones Act which provides that transport between domestic points be carried by U.S.-flag ships would remain unchanged.

The CHAIRMAN. There might be one or two exceptions. This committee has them every once in a while.

Mr. SICILIANO. We have to look at them from the point of view of this program.

The CHAIRMAN. We have some ships exempted from the Jones Act—and one of your Cabinet colleagues has a problem on the Jones Act.

Mr. SICILIANO. Yes, the Alaska oil situation.

The CHAIRMAN. And he wants to talk about that and the rest of them up there during the hearings here and we might be able to work something out. It would not violate the principle of the Jones Act, but it would be the rare exception that might be necessary.

Thank you, Mr. Chairman.

Senator HOLLINGS. Senator Cotton.

Senator COTTON. Thank you, Mr. Chairman.

I won't take too much time. My colleague, Senator Prouty, outranks me on this subcommittee and I do not wish to impose upon his time.

Mr. Secretary, I personally would like to join with the chairman of the full committee, Senator Magnuson, in expressing our gratification and satisfaction at this comprehensive and progressive maritime program which you have presented on behalf of the President.

Although not through any lack of desire on the part of the people downtown, we in the Congress have experienced a delay of more than 40 months awaiting such a program. There have been innumerable conferences between this committee and former Secretary of Transportation Boyd and others who were working on such a program.

Whether this committee eventually agrees with every detail of your proposed program remains to be seen, but I personally think you have presented a rounded out program in the few months you have been able to work on it, and it is an exceedingly fine step forward.

Now, Mr. Secretary, I note the following on the second page of the President's message at the end of the first paragraph after speaking about the economy features of the program: "These cost reductions are essential if our ship operators are to make capital investments of several billion dollars over the next 10 years to build"—I emphasize this—"new, high-technology ships."

For a long time now, we have been inclined to believe and have been constantly told—and I think certainly no one can deny it without some justification—that the great handicap facing the American merchant marine is the higher wage scale faced by our operators as compared to that of foreign competitors.

On the other hand, in recent years this differential has been attributable in large measure to the fact that we have had overaged ships and that a substantial portion of this differential could be overcome if we had new and more efficient ships.

Now, is my understanding correct that you are not simply proposing an increased number of ships, be it 30 a year or so? Rather, are you not proposing as our policy that such ships shall be the very last word in capacity, size, speed, and efficiency? Is that correct?

Secretary STANS. That is very much correct, Senator. What we must do is to reduce to the extent we can the characteristics of this industry as a labor intensive industry, to one which is capital intensive; thereby, if we can build high technology ships with faster turn-around time, faster speed, we can get much greater use out of the capital investment in relation to each dollar of labor and this is the only way we are going to solve the problem of the competitive situation within any reasonable subsidy requirement.

Senator CORTON. That includes, I assume, modern container ships, as well as the so-called Lash type?

Secretary STANS. The container ships, the barge-type ships, yes, and as much as possible they are built to standard design so the ship-builder can do what Henry Kaiser did in World War II—build one after the other to the same pattern and thereby very substantially reduce the cost of construction.

Senator CORTON. I hope they will be a little more substantial than some of those proved to be. [Laughter.]

Under your proposed program—and still referring to the advanced technology of ships—can you tell us what would be done, if anything, with respect to marine nuclear propulsion and what its effect may be upon the future operation of the NS *Savannah*?

Mr. GIBSON. We propose to continue the operation of the *Savannah* until such time as we have let contracts to build second generation nuclear ships. It is our opinion that we could not provide this next generation ship with—at this precise moment—with such upgrading of technology to warrant the very large expenditure that would have

to be made and the differential between the nuclear reactor and the fossil fuel powerplant. We have outlined a major research program to bring us to this point as quickly as possible.

The requirements for huge high-powered supertankers are brought about by the Alaskan oil discoveries, the growing trend to very large high-speed container ships—all bring us much more rapidly to the type of power requirement that the nuclear power is tailored to and we continue to press forward so that we will maintain the position of preeminence in nuclear powered merchant shipping that was represented by the *Savannah* when it was inaugurated during the Eisenhower administration some 9 years ago.

Senator COTTON. Well, do the experts encourage you to believe that in the not too distant future the cost of constructing and operating nuclear-powered ships will become competitive with fossil-fueled plants before the expiration of your proposed 10-year program so that something may be done without being unduly lavish and expensive.

Mr. GIBSON. Well, we believe that this entire—the problem needs a lot more research. The technology is improving rather rapidly and all of the indicators are that the most efficient plants are very large plants, so you have the size of ship and speed increasing where the ships can utilize this larger plant and at the same time the cost of the reactor is coming down and it would be my judgment that before the end of this 10-year program we would have arrived at a crossing of those curves where the ship requirements would be such and the cost of the plant would be such that we could recommend that we go ahead with the building of such a ship.

Senator COTTON. Now, if Senator Griffin, who is ranking on this side of the subcommittee, had been able to be here, I know that he probably would ask a question concerning the Great Lakes. I will imagine he has requested me to do so and ask it for him.

May I assume that in planning for these new ships you have been mindful of the needs of the Great Lakes traffic as well as our ocean-going foreign trade?

Mr. GIBSON. We are very mindful of the age of the fleet on the Great Lakes. We are very mindful of their problems. As the President pointed out, we are also very mindful of the present restraints put on to provide programs that are tailored to immediate needs. We feel that with the protection of the Jones Act, with some other alternatives for domestic transportation, this could be deferred as far as the administration program went and addressed at a somewhat separate time than this program. This program is tailored entirely to our foreign commerce. It is a fleet that cannot continue to operate without some form of Government assistance on a large scale. It is a fleet that is—has the unique problem of block obsolescence which makes further delays, I believe, in starting this revitalization unthinkable and it is not that we ignored the lakes problem, but we just thought at this precise moment we had to get on with the more pressing problems of the Nation.

Senator COTTON. I have just one more question. I was waiting for my distinguished chairman to ask it, but perhaps he was too courteous to do so. Therefore, it's got to come from me.

First, I want to repeat that by coming up here in 9 months' time with this proposal, you have done credit to the energy and the dedication

of your Department and the administration. But, here is the \$64 question: We are in October now. This committee has been waiting eagerly for a long time to consider a new maritime program and so I ask you, When will you submit proposed legislation to carry out the President's maritime program?

Secretary STANS. Senator, we are already working on it. I would guess that it would take possibly 4 weeks to have the final draft of the legislation available. We have had all of our time and resources devoted over the last several months after we had studied this problem carefully with developing the outlines of the legislation and as is always the custom in Government, there were differences of opinion that had to be resolved before we could come before you today. So we have not had time to present to you at the same moment the exact draft of the legislation.

We are working on it and we will proceed as expeditiously as we can and we hope we can have it in 4 weeks.

Senator COTTON. Off the record.

(Discussion off the record.)

Senator COTTON. Thank you, Mr. Chairman.

The CHAIRMAN. We can write this legislation. We are going to proceed and consider your ideas. I think we know about them. We have been at this matter for so many years now, I think I could write in 24 hours the legislation to cover what you have here. We would just pull out some old bills we have around here. They are all covered and I do not know why it should take 4 weeks to do that. You do not want to study it anymore. We have two storerooms full of studies back there.

Secretary STANS. As the Senator pointed out, there are still some matters to be resolved in detail such as the wage matters.

The CHAIRMAN. We would incorporate them.

Secretary STANS. The committee may proceed as it wishes and we will proceed with our legislation and we would be happy to work together because our interests in this are mutual.

The CHAIRMAN. We will get a working paper here which will include many or all of these things. And we do not need many hearings on this thing because we have hearings. As I say, we have a storeroom full of hearings back there. I don't know about your proposal about establishing a commission. I do not think we need a commission. We have been commissioned to death. We know what we need to do. I am appreciative that you people are joining us in things that we have advocated for a long time.

Secretary STANS. Senator, I just hope we can succeed where others have failed.

The CHAIRMAN. I want to ask the Administrator one thing. There has been a great deal of confusion about the cost of running the *Savannah*. Some people even say that if you did not have that extra workload—you know, the different shifts, the training for a nuclear ship—that it might hold its own. Other people say it is costing us so much. Last year we finally, as I recall, had to come up with close to a million dollars to keep it going. I think it was a million—around that figure, but there has been a great deal of confusion. See if you can give us some cost figures on the *Savannah*.

Mr. GIBSON. The budget for this fiscal year for the operation of the *Savannah* is approximately \$4 million.

The CHAIRMAN. \$4 million.

Mr. GIBSON. We feel that the training feature is extremely important. It is one of the reasons to continue operation of the ships.

The CHAIRMAN. We feel that the training feature is extremely important. It is one of the reasons to continue operation of the ships.

If we are going to have a regular nuclear ship, it would be run on a different basis than the *Savannah*.

Mr. GIBSON. There is no question about it. The *Savannah* was never intended, may I say, to be a profitable commercial vessel. It's provided a great number of firsts. It has opened up the entire maritime world to these types of ships.

Senator HOLLINGS. The actual operating subsidy is \$1.4 million.

Mr. GIBSON. I included our research effort that is closely tied into that to be the total cost. We would have part of that cost whether we had the *Savannah* or not.

The CHAIRMAN. I am through.

Senator HOLLINGS. Senator Prouty.

Senator COTTON. If I may, I would like to make one observation. I now am sure those were good questions I asked based upon the responses. However, I feel we should bear in mind that the President's message is just a general outline. I hope you will get some specifics up here promptly in the form of proposed legislation, and even though this hearing may continue I would further hope that we will work together.

Senator HOLLINGS. Go ahead.

Senator PROUTY. Mr. Secretary, I am inclined to take mild issue with the earlier observation by Senator Long when he suggested you might not be here 4 years hence. I hope you are and I think you will be, if you desire. I am very much impressed with the proposal submitted to the subcommittee and I am sure if it is carried out, it will strengthen the American merchant marine significantly. I think those on both sides will cooperate with the Department. And I think you are doing a good job which is desperately needed.

In his message, the President referred to additional employment opportunities as relating to construction. Will you and the Secretary of Labor work with industry and labor organizations to follow up programs that will insure all minority groups their rightful place in this expansion? Also, is there any estimate as to the additional job opportunities that will be available as a result of this?

Mr. GIBSON. I could not give you accurate estimates at this time, Senator.

Senator PROUTY. But it would be quite significant?

Mr. GIBSON. It would be quite substantial.

Senator PROUTY. Will the proposal require any change in our current national maritime policy as set forth in title I of the Merchant Marine Act of 1936?

Mr. GIBSON. Not in title I as I recall. Those will require a number of amendments to various sections of the 1936 Merchant Marine Act.

Senator PROUTY. Will the proposed program recognize, as it is—results in a revision of the current replacement programs begun under the administration of the late President Eisenhower?

Mr. GIBSON. It modifies the replacement program to the extent of numbers of ships. Any number of the operators which now have sub-

sidy contracts with the requirements to replace their fleets—they are replacing and exceeding in many instances the productivity capacity of the fleets being replaced, but as Senator Cotton observed, this is being done with fewer ships which are larger, faster, far more productive.

Senator PROUTY. Will the proposed revision in the manner of paying operating-differential subsidies based upon an index remove the necessity for the Maritime Subsidy Board to pass upon the fairness and reasonableness of such items as wages and therefore expedite current administration procedures?

Mr. GIBSON. I might say just to run back to your question that these new ships are replacing the ship—the prior ships in an order of magnitude of about 3 to 1. That varies with the ship. The answer to that is generally, yes. We—this phase of the subsidy administration as far as the board goes has not been one which has been too illustrious. These are difficult questions.

Fairness and reasonableness at best has to be a very vague determinant and we believe that that is the reason—we are proposing an index system where the Bureau of Labor Statistics would say what comparable American workers are getting in terms of wages and benefits.

Senator PROUTY. I think this next question has been touched upon by the chairman of the full committee, but I will ask it anyway.

Does your program propose to extend Government assistance both for construction and operation of ships to all American ship operators and thereby eliminate the alleged inequities in the past between the so-called haves and have-nots?

In other words, are you proposing to so amend the 1936 act as to get away from its criticism as being enacted solely for the benefit of the present dozen or so lines holding operating-differential subsidy contracts?

Mr. GIBSON. Yes, sir; although the 1936 act is more maligned in the way it was administered from the way it was enacted. It has been administered partially from lack of funding to be in many aspects restricted to a relatively few companies. We have every intent, and I believe this is clear in the President's message that this is a new program for the entire American merchant marine, that there is no favorite segment and the Government assistance would be equally and equitably distributed where necessary to all operators.

Senator PROUTY. Thank you.

Senator HOLLINGS. Senator Inouye?

Senator INOUE. Thank you, Mr. Chairman.

Mr. Secretary, my question has limited application and limited significance. Before I proceed with my question, I would like to preface it with the following observations.

The recent study indicated that the city of Honolulu has the highest cost of living of all the major cities in the United States. Within the last week the largest container ship to be used in the domestic trade was launched in one of the Baltimore shipyards at a cost of more than \$25 million. Another ship with identical specifications being built in a Germany shipyard would cost less than half of that.

This ship is not receiving any operational—any construction differential subsidy because it will be used in domestic trade specifically

between the west coast and Hawaii. Whenever the industry and labor enter into negotiations, there is no differentiation between the domestic trade and foreign trade, so it is all in one bundle.

I somehow get the impression that those operators of ships in the foreign trade sometimes rely upon operational differential subsidies, so therefore, they are not too adamant in refusing wage hikes and such, but those in the domestic run will have to keep up with the wage scale without any subsidy.

My question—and in the State of Hawaii, about 89 percent of all the goods used and consumed by the people there have to be transported by these ships and so, I think one can reasonably say that a significant cause of the cost of living in the city of Honolulu is due to shipping.

My question is, Would the administration consider amending the Jones Act or providing some sort of limited formula in construction differential subsidies for ships going between the mainland of the United States and Hawaii?

Secretary STANS. Senator, as was said earlier, the Jones Act—considerations were not part of this program which relates strictly to our foreign fleet. We will become increasingly aware—when I say “we,” I mean me particularly—of problems under the Jones Act, particularly with the Alaskan oil transportation system that has to be developed.

I am not prepared to suggest any position on the part of the administration at this time on the Jones Act other than to say that this aspect of the problem will be given further study as soon as we get underway with the foreign fleet solution.

Mr. Gibson may want to add to that answer.

Mr. GIBSON. I don't really have anything, Senator.

The container ships that have been provided by the particular company you refer to it is my impression have done a rather outstanding job of holding down freight rates at a period of rising labor costs.

The use of the index system that we are proposing would be to eliminate to the extent that it has occurred any thought on the owner's part that they could be more relaxed, if you will, in bargaining because of a subsidy backing it up. We are saying when the operator goes to the bargaining table, he knows in advance what the subsidy will be in broad terms and that will be the—what the increase—that the comparable American laborer enjoys and therefore if the negotiations will exceed that level, then he is doing this with a full knowledge that he will be without the benefit of subsidy.

Senator INOUE. The operators of the domestic trade will not benefit from the operational subsidy, would they?

Mr. GIBSON. No, but they are linked together with operators that have subsidy.

Senator INOUE. Would you consider providing operation differential subsidy to domestic operators?

Mr. GIBSON. As the Secretary said we feel that the critical need has been to address ourselves to the foreign fleet and we recognize that there are very significant domestic problems which should be addressed as soon as possible.

Senator INOUE. I can well appreciate the rationale for the existence of the Jones Act to see that our shipbuilding industry is maintained strong and stable but in the building of this last ship in the Baltimore shipyard, this company naturally invited all of the shipyards of the United States to submit bids. One company submitted a bid.

Mr. GIBSON. I am very much aware of that.

Senator INOUE. And in discussing the Jones Act, because of relation of transportation, it has just occurred to me that in other modes of transportation—airlines, trains and trucks—there is no law in our books which would require those in a domestic trade between Detroit and San Francisco to use only trucks that were built in American yards or trains that were built in American yards. In fact at the present time, I could very well buy a locomotive from Germany if I wanted to and go into operation and no one would fuss about it, but when it comes to ships, all of a sudden a red flag stands up and it becomes very un-American, and I hope that the administration would consider shipping at par with trucking and the railroads and see if we can't come up with something as I have said of limited application because specifically the people of Hawaii are suffering and I think a bit too much more than the rest of us here.

Secretary STANS. Thank you, Senator.

Well, as Mr. Gibson said—as soon as we get on the way on the foreign shipping problem, we will consider the matter of the Jones Act and see whether we can come up with any recommendations that will be helpful to the problem you described.

Senator INOUE. I appreciate it very much, sir.

Senator HOLLINGS. Senator Griffin?

Senator GRIFFIN. Mr. Chairman, having come in late I am not going to try to ask any questions.

I have had an opportunity, however, to be briefed on this program and I think, in general, it is a very imaginative program and I will reserve the right to ask questions at a later point.

Thank you, Mr. Chairman.

Senator HOLLINGS. Thank you.

The CHAIRMAN. One further thing as long as the Secretary is here.

We have another maritime matter before this committee which involves whether we should have, as you know, the independent agency or keep it in the Commerce Department or send it down to Volpe. That is a legislative matter that we are going to have to resolve. I understand that. But in your opinion would it make any difference in the carrying out of a program such as this if it were in either place?

Secretary STANS. Senator, first as to an independent agency, I doubt very much whether an independent agency for the Maritime Administration would have had the opportunity, the muscle, the ability to work out a program like this with all of the conflicting points of view that naturally do exist in the administration. I think the Maritime Administration is much better off as part of a Cabinet department with Cabinet level access to the President.

As between ours and Transportation, I hesitate to answer knowing how long this—

The CHAIRMAN. I understand.

Secretary STANS (continuing). This argument has prevailed.

The CHAIRMAN. I am trying to say for your benefit and all of the rest that this is a separate matter that is a legislative matter that we have to make a decision on.

Secretary STANS. It is now in the Department of Commerce. As long as it is in the Department of Commerce, it is going to get the fullest attention in this administration that we can possibly give it.

The CHAIRMAN. The proof of that pudding is that you are here today.

Secretary STANS. That is correct.

The CHAIRMAN. Off the record.

(Discussion off the record.)

Mr. GIBSON. Senator, I would like also to respond to your question about the independent agency and I can say categorically more than the Secretary can that without the full support of the Cabinet officer working in this administration, we would not be here today.

The CHAIRMAN. Well, I don't want to draw out from you opinions on this because this has got to be a legislative matter that we have to decide up here.

Senator HOLLINGS. Thank you, Mr. Gibson.

Do you feel that you have full support? Let me preface my questions specifically with the apprehension by Senator Long that 4 years from now you might not be here and therefore it wouldn't be carried out. I have the proposition you are here and you may not be able to carry it out during these 4 years. I think it is a good program. We have complete confidence in the Secretary and Mr. Gibson. We see the two approaches on every one of these programs and we want to make certain that we really follow through.

I have had an eerie feeling that you and the Secretary will be working perhaps much more closely with this committee than you will with your Administration.

Is that a justified feeling? You took 9 months to get it out. We are going to get it in September. You say 33 ships, you got down to 33. At one time it was 20. I know you have had struggles down there but are we going to be tackled from behind?

Secretary STANS. Senator, I don't think so. I think you can rest in confidence that this is the President's program. It is only natural that there be divergences of viewpoints of all the elements of a program like this but they have all been resolved. They have been discussed fully. The President has made a decision. This is now the President's program and everyone in the administration I am sure is going to support it to the fullest extent of his ability.

Senator HOLLINGS. I commend you for it. To bring it into focus with respect to its competitiveness, the President pointed out in the last phrase about competitiveness. I think we ought to bring into focus the program itself in respect to being a competing merchant marine with other countries.

If this program were carried out, how many vessels would we have and what merchant marine would we have in 10 years; 300 vessels, Mr. Gibson?

Mr. GIBSON. We would have at the end of this period a merchant marine composed of approximately 450 of the most modern, highly productive vessels in foreign trade. This is more than a 25-percent increase in productive capacity. This is not just on a maintenance of the existing fleet, but a substantial expansion of that fleet.

Now we have not obviously attempted to replace ship for ship because they are much bigger, much faster, and much more productive.

Senator HOLLINGS. The Soviets project by 1975 at a rate of 100 ships each year. About 60 percent would carry their own domestic tonnage. The Japanese project about 60 percent of exports and 70 percent of imports and around 2,000 vessels by 1975.

Is there any way to project the domestic tonnage at the present level? I think we have come from 57.6 percent in 1950 down to about 5 percent this year.

Now what would we be carrying at the completion of this program?

Mr. GIBSON. In our liner trades—and we are talking about by your figures are by weight, which we don't really consider good measure. If we were just interested in weight carryings, the thing would be to build huge tankers and we are talking about percentage of something that isn't the best measurement.

In the terms that you are referring to, in percentage of weight, we are talking about more than doubling that. In our liner trades, where we have the high revenue cargo, where the major impact on balance of payment is made. We are talking about at the end of this program coming close to 50 percent of our liner cargo. I believe this is what the Japanese figure of 60 percent refers to.

As to the Soviet fleet, they are building—although I noticed in an announcement the other day that they are projecting a container ship—they have been building small, slow inefficient ships by our standards. I don't minimize their effort but you have to conclude their objectives are different than ours—to trade to the undeveloped nations. The Soviet fleet, no matter what we do—they have been building at such a rapid rate, and we are playing catchup football, to use an analogy—that will outstrip our total weight tonnage in 1975.

Although the Russians have a large fleet and an important fleet it would in no way jeopardize our security. Our security would only be jeopardized if we don't have a strong fleet of our own and this program takes care of that.

Senator HOLLINGS. From the national defense standpoint, what does the Defense Department think of that?

I know we have another witness about that. Ninety-eight percent of our shipments go into Vietnam by ship.

Secretary STANS. There is a witness from the Defense Department and I would defer to him rather than put words in his mouth.

Senator HOLLINGS. As far as you know, the Defense Department supports this program wholeheartedly?

Secretary STANS. Yes, but I would rather have their witness tell you that.

Senator HOLLINGS. I would, too, but I would like to know your position on it.

You were talking to the matter of the construction and the phrase was used, "We are confident the shipbuilding industry can meet the challenge. If not, then the commitment to the program will not be continued."

Now, did you talk with the shipyards? Did they give some indication Mr. Gibson, that they could respond and could meet this job?

Mr. GIBSON. Yes, sir; these projections are based on any number of public statements that shipbuilders and the shipbuilders council has

made over the past few years. If they had a program of this size that they were allowed to build ships that were properly designed, they could meet this criteria.

During the development of this program, since it is such a dramatic change, I have constantly queried them as to the fact that this administration was prepared to make the challenge and I was—I had to be assured that this challenge would be accepted.

I have briefed the representatives of the entire shipbuilding industry before coming up this morning just so there could be no doubt about that. They recognize this as a very difficult challenge. I can assure you they have accepted that challenge.

Senator HOLLINGS. They have accepted it?

Mr. GIBSON. Yes, sir.

Senator HOLLINGS. The impact for example on seagoing labor—won't your program have quite an impact on seagoing labor and how have they accepted that, if at all?

Mr. GIBSON. Our program has a very beneficial effect on seagoing labor because the way they were going they were headed right for oblivion. Seagoing labor, although they get very little credit for this has made it possible for the American shipowner today to—these high productive ships are in being—that we have any number of ships that have replaced past ships on the basis of 2, 2½, to 1 with smaller crews than the existing ships they replaced.

There has been a high degree of automation introduced into merchant ship operation with considerable cooperation from the union. I can speak from firsthand knowledge that the ship operating unions recognize the existence of positive Government support and the well-defined program is very much in their interest.

Senator HOLLINGS. Does the subsidy differential being reduced really mean they are going to reduce the total purchase price of the ship or will the operator simply have to pay a larger share?

Mr. GIBSON. This clearly indicates the purchase price which will have to come down. We are not putting a heavier burden on the operator. This assumes the parity concept is essentially kept intact. We are assuming that the differential for a comparable ship, foreign built, which will be 45 percent scaled down to 35. This is the challenge, not just to pass higher costs on to the operator whose costs are high enough already.

Senator HOLLINGS. Mr. Gibson, what provision, if any, does your program have with relation to the national reserve fleet? In other words, what is the present status and composition of the fleet and its usefulness to the future of that program which you submitted?

Mr. GIBSON. The national reserve fleet can only be regarded as approximately 150 World War II built ships that have been very substantially refurbished and reconditioned for the Vietnam war. These ships will be retained in the reserve fleet in a considerable extent of readiness for the next 4 or 5 years anyway because we have little or nothing to take their place in the event of emergency. Our hope would be that as the new ships could be built and put into operation that our dependents in this reserve fleet would be lessened but we have no alternative at the present time than to take care of those ships.

Senator HOLLINGS. What type of replacement program would be necessary to establish the tax reserve fund?

Would a program based on receipt of tax deferred capital reserve fund qualify?

Mr. GIBSON. Qualifying for construction subsidy would meet a great deal of those qualifications that would be comparable to qualify for the tax reserve. What we have in mind, and this legislation has not been drafted to extend these provisions, would be that these are well established operators with well-defined replacement programs, and the capital resources to carry this out.

Senator HOLLINGS. The administration is reaffirming our existing cargo preference laws.

Mr. GIBSON. That is correct, Mr. Chairman.

Senator HOLLINGS. You know we have mentioned every department except the Department of Agriculture. You have got the Department of Transportation, the Department of Defense and everyone else mentioned. They have been using that as a ceiling rather than a floor.

Has any negotiation been made within the administration to try to increase that 50 percent?

Mr. GIBSON. We recognize that the law clearly states it's a minimum of 50 percent. I believe that.

Senator HOLLINGS. Have you talked to the Secretary of Agriculture about that?

Mr. GIBSON. I have talked to the Assistant Secretary of Agriculture about that.

Senator HOLLINGS. What does he think?

Mr. GIBSON. He is as aware of the provisions of the law as we all are.

Senator HOLLINGS. That about answers my question.

You got the same answer I get. [Laughter]

Now, on the matter of Government operating the general agency ships when private ships are available. Do you think the Government should do that?

Mr. GIBSON. No, sir: we do not.

Senator HOLLINGS. What is the present status of the U.S. merchant marine fleet in comparison to the fleets of other—well, I will just withdraw that question before I get into it.

My colleague, Senator Spong, could not be present, Mr. Secretary. He has a great interest in this hearing this morning but he had to preside in the hearings on fishery bills in the Committee on Energy, Natural Resources, and the Environment, and he will submit a statement for the record.

Without objection, we will submit the statement of the Senator from Maryland, Senator Tydings who has taken a leading role in developing our merchant marine.

(The statement follows:)

STATEMENT OF HON. JOSEPH D. TYDINGS, U.S. SENATOR FROM MARYLAND

Mr. Chairman, I'd like to take this opportunity to congratulate the Subcommittee and the distinguished chairman of our full Committee for holding these hearings and for taking the initiative in offering concrete legislative proposals designed to revitalize our merchant fleet.

For too long the Administration has delayed sending up its own maritime proposals. This delay has resulted in an unfortunate and costly postponement of the day when the new merchant ships this nation so urgently requires will be launched and operating.

I am delighted that Secretary Stans and Administrator Gibson are with us this morning. I look forward to their comments on S. 1915 and to their discussion of the Administration's plan to rebuild our merchant marine.

These can be no doubt that our merchant fleet is in trouble. I need not expand this statement here—there has been enough talk on the subject already. Let me just say that a maritime nation which permits two-thirds of its fleet to become over twenty years old and carries only seven percent of its ocean trade in its own vessels has an obsolete and internally weak merchant marine.

The continued economic prosperity and national security of the United States depends in part on our possessing a modern, efficient merchant marine fleet.

These hearings and enactment of the legislation we are considering today should help us obtain such a fleet.

I would like now, Mr. Chairman, to mention just briefly a few points that I feel are important when considering any efforts to rebuild our fleet. I know the Subcommittee will touch on them in their review of the legislation. I would hope that our distinguished witnesses will discuss them in their testimony:

1. *Ship Construction.*—Over the next five years we must build at least thirty ships per year. Yet the revival of our fleet to a large extent depends on the health of our shipyards. These have been subject to considerable criticism lately. It is my strong belief that the American shipbuilding industry can hold its own against foreign competitors. Our yards can deliver the ships if the government will deliver a program. The basic economic health of American shipyards was confirmed by a 1969 report of the Center for Maritime Studies at the Webb Institute of Naval Architecture. This report noted that the productivity of American shipyards increased considerably in the last ten years and that U.S. yards are presently more efficient than either Japanese or British yards.

2. *Operating subsidies.*—The present system of operating subsidies needs to be revised. It often discourages efficient operation and is in fact self-perpetuating. The "recapture" provision, whereby half the profits over ten percent of the capital commitment for a ship's operation is turned over to the government, should be eliminated. The recent decision of two major lines to withdraw their application for the operating subsidy on a trans-Pacific route is an encouraging indication that with more productive ships, our operators increasingly will be able to go it alone without governmental assistance.

3. *Containerization.*—The United States now leads the world in the construction and use of container vessels. We must take every step to ensure that we retain this lead. Container ships offer a quick and efficient means to transport cargo. Yet they require a high initial outlay of funds and special port facilities. They are indeed the ships of the future but we must remember that they are no maritime panacea.

4. *Passenger Ships.*—It may well be that U.S. flag passenger liners have no future. The pride of our merchant fleet, the S.S. *United States*, continues to lose money while other passenger ships have been laid up, two in my own state's port of Baltimore. U.S. passenger service should not be discontinued by default. We should make a final conscious determination of their ultimate desirability and of the length to which we should go as a matter of public policy to maintain it.

5. *Labor-Management Relations.*—All the new ships in the world will mean very little if labor and management are unable to provide the stability the industry requires. Recent actions, however, indicate both sides realize this and will work together to rebuild the fleet.

6. *Nuclear Ships.*—In the long run, nuclear-powered commercial ships are definitely desirable. Yet the current need for ships is so great that major emphasis on the development of second generation nuclear vessels will divert our resources from the more immediate concern. We need ships and we need them quickly. Nuclear ships pose special problems of construction, operation, and public acceptance. To expand our energies on their extensive development now would be a misdirected effort. We should continue a modest research and development program regarding nuclear vessels, but, for the moment at least, concentrate our resources on the more basic problem of building conventional ships.

Thank you, Mr. Chairman.

Senator HOLLINGS. Mr. Chairman, any other questions of the Secretary?

The CHAIRMAN. No, I was just going to say to the Administrator when I passed the 50-50 bill, we envisioned that we would get a report every once in a while as to whether they were living up to it or not. I have not seen any lately. Have you got figures you could submit?

Mr. GIBSON. Yes, I have, and we will be pleased to do that.

The CHAIRMAN. We did not say the exact figure could ever be reached, but the average would be 50 percent.

Just one thing, I do hope that when we are working on this whole merchant marine program that—and you mentioned this, Mr. Secretary—we come up with some kind of a corollary program for the ports because we can build all of these fine ships and if the port handling is not efficient, it is going to absolutely defeat our purpose. I do not know all the answers to it, but I think we ought to be, and I am glad you are, thinking about correlating this with the ports as to how they can fit into this program.

Mr. SICILIANO. Thank you, and we will.

Senator HOLLINGS. Mr. Secretary, we have some other questions if you don't mind that will be submitted in writing to you and you can submit your answers for the record.

If there are no further questions, we want to thank you and our Maritime Administrator, Mr. Gibson, for his excellent presentation. We are very, very encouraged. I know our great colleague, Senator Bartlett, would have liked to see a program like this in the years that he fought for this and led the subcommittee.

Thank you very much.

(The answers by Mr. Gibson to the additional questions by the committee follow:)

1. What kind of priority, if any, will be utilized to determine what types of vessels will receive construction subsidy?

Answer: The new program proposes to extend government assistance for both construction and operation of ships to all American ship operators. Unlike the present program, which for several reasons focuses mainly on a select segment of the American merchant marine, government assistance under the new program will be available to all segments of our merchant marine involved in foreign trade.

2. What part of the fleet do you think has the greatest need for new vessels? Is that reflected in your projection of mix of vessels to be constructed?

Answer: Our studies show two main areas which have the greatest need for newer vessels to replace existing fleets. These are, first, the high technology liner service fleets such as the container ship, LASH and SeaBee type vessels, etc. to replace our breakbulk ships, and, secondly, new dry bulk carriers to replace existing ships which were mostly constructed during the Second World War. We believe the proposed program is consistent with these needs. Of the proposed 30 ships to be constructed annually, approximately 25 will be cargo ships, 3 dry bulk carriers and 2 tankers, although the mix in any given year will vary. We have recently let two ship design contracts to further identify requirements in terms of ship types, size and capacity.

3. Can you give us more detail on the type of operating subsidy system to be put in effect for bulk carriers? Would tankers qualify also for operating subsidy?

Answer: The subsidy program intended for bulk carriers is still being worked out by our staff. We expect to complete this work by the time the legislation is introduced. Our basic approach is to preserve, as nearly as possible, the parity concept. We appreciate that some modifications will be necessary and we are exploring alternative approaches to determine methods of computing subsidies. We expect the selected method would include an incentive for efficient management.

The program calls for construction of two tankers annually. These vessels would be eligible for operating subsidies.

4. This Committee and the Congress has authorized funds to allow the Maritime Administration to enter into subsidy contracts with 2 additional liner companies. Is this provided for in your program?

Answer: The program anticipates increasing the number of liner companies who will receive subsidy. This includes also companies engaged in essentially bulk trades. Our present program also anticipates increasing the number of qualified liner companies that will receive subsidy. This is provided for in our budget for the next fiscal year.

5. What type of "replacement program" would be necessary to establish tax deferred reserve funds? Would a replacement program based upon receipt of construction subsidy qualify?

Answer: Tax deferred funds will be extended to qualified operators who are willing and capable of replacing their fleets. We believe this will require operators to demonstrate both managerial ability as well as adequate financial resources. The present program, through the Title XI Mortgage Insurance Program, has given us ample experience in making these determinations. It would appear that many operators who qualify for construction subsidies would also meet requirements for tax deferred funds. Naturally, these would be considered on a case by case basis.

6. You have suggested nothing in the way of a passenger ship program. Do you urge that such operation be phased out of the operating subsidy system?

Answer: We are unable at this time to offer an effective solution to problems of the passenger ship operators. It is a subject of current study and we are hopeful that meaningful solutions can be found. Most of the U.S. flag passenger ships are operating at a very substantial loss even though subsidy payments place each vessel on a parity with foreign flag ships.

There have been several plans proposed which are designed to help these operators, but in our judgment, as they now exist, none holds any promise of lasting solutions. We have been working on a plan to extend cruising privileges and that legislation is now before the Congress. The unions have offered to allow more flexible manning scales based on passenger bookings and have indicated a willingness to consider moderate crew reductions. These and other measures are designed to improve this situation and we hope that at least some ships will be able to continue sailing.

7. Will you be seeking authority by legislation to construct 3 nuclear merchant ships? Do you agree that a land based prototype is not necessary as a precondition to development of such vessels?

Answer: We will not be seeking authority with this legislation to construct 3 nuclear merchant ships. We are embarking on a research and planning program which should result in economical nuclear ship designs by the early 70's, possibly 1972. Depending on the final outcome of this planning process, we will then seek legislation for nuclear shipbuilding program.

At this time we do not feel a land based prototype reactor will be necessary in the development of the next generation of nuclear vessels.

8. Will bulk carriers not receiving operating subsidy still be able to receive a rate differential for the carriage of cargo preference cargo?

Answer: The program provides for the eventual elimination of preferential rates for the carriage of government impelled cargoes. During the transition period, when older vessels constructed prior to the program are still in existence, controls will be instituted to protect this older segment of the fleet from unfair competition. In addition, the new ships would not receive a rate differential although the differential may be maintained for the older ships.

9. Will subsidized liners or new dry bulk carriers be able to receive operating subsidy and a rate differential payment as well for carriage of cargo preference cargo?

Answer: Freight rate differentials are maintained essentially for that segment of cargo preference cargo which moves under full shipload lots by voyage liners. New Dry bulk carriers constructed under the proposed program and receiving operating subsidies will not receive freight rate differential payments as well for the carriage of this cargo. Cargo moved on subsidized liner is almost entirely parcel shipments by the Department of State, Agency for International Development. Specific rate differentials are not maintained for this cargo.

Senator LONG. The committee will now hear our next witness, the Under Secretary of the Navy, the Honorable John Warner.

Mr. Warner, if you have a prepared statement that the members may have the copies of—or do you have a prepared statement?

STATEMENT OF JOHN W. WARNER, UNDER SECRETARY OF THE NAVY, DEPARTMENT OF THE NAVY; ACCOMPANIED BY PAUL H. RILEY, DEPUTY ASSISTANT SECRETARY (SUPPLY AND SERVICE); AND JOSEPH A. BROGAN, SHIPPING ADVISER TO COMMANDER, MSTs

Mr. WARNER. Mr. Chairman, gentlemen, I just have two paragraphs I would like to read and I will make myself available for any questions you might wish to present.

Senator HOLLINGS. Excellent. You may proceed.

Mr. WARNER. I am pleased, of course, to be here today to support the President's maritime program as has just been outlined by the Secretary of Commerce.

The Department of Defense endorses the President's purposes and objectives to vitalize the merchant marine. It is rightly termed a challenge program in that it is a challenge to the industry as well as to the Government.

At the convenience of the committee, the Department of Defense would expect to submit detailed testimony.

I would presume, however, that most of the material available from the Department of Defense would bear security classifications; therefore, the committee may well consider holding hearings in executive session when questioning DOD witnesses.

I, however, would be pleased to remain and answer any questions which the gentleman or yourself might have.

The CHAIRMAN. Mr. Chairman, can I ask this broad question? I do not direct this to you because there are constant changes down there, but we have never felt in this committee, or in the whole maritime industry, that we have received sufficient support from the Defense Department on the value of the American merchant marine. It is a necessity in time of emergency. We have had testimony and been given a little lipservice. It usually comes from the head of the Logistics Department only. I do not recall any statement from any Secretary of Defense urging that the merchant marine be built up or deploring the fact that it has gone downhill. I do not know of any time that anyone of them has ever appeared before the Bureau of the Budget jointly with the Administrator when we were struggling for money, to ask for help for the merchant marine. I am hopeful that maybe that attitude, or lack of attitude, is changing. I have said on many occasions—and I am sure you do not want to deny this—the merchant marine is a fourth arm of defense anyway you look at it. I know the Defense Department has its own budget, but without the merchant marine—in World War II, in Korea, and now in Vietnam—I do not know what the Defense Department would have done.

And we were somewhat lucky, I think, in a sense, that there were a few of these old World War II ships around or we would be in serious, serious trouble. So I am hopeful that the attitude down there would be more affirmative in helping to carry out these programs because

they are a part of you. I don't know what the figures will be. They are not classified, but I think we are carrying 95 percent of our bulk tonnage to Vietnam in private merchant marine. In World War II it was 96.5. That is how important it was. Korea was even a greater amount. So I am glad you are here and I do hope that the committee will feel that we are going to get a little more affirmative action down there on the importance of this merchant marine. If we did not have what is available now, if we did not have this laid up fleet of the old World War II vessels, we would be in serious trouble.

Mr. WARNER. Senator Magnuson, I think I can be optimistic in my reply. In the 8 months I have been in the Department, I have met with many members of both industry and the unions—the shipping. As you may know, the Secretary of the Navy and I as Under Secretary have the principal responsibility for the MSTs fleet, and in that capacity I have sought to learn the subject quite thoroughly, not only from the defense standpoint but from that of industry as well as labor.

The CHAIRMAN. I hope that is true because there has got to be a combined effort of the two. The merchant marine is important to us, not only in peace economically, but it is important in time of emergency. It is literally the fourth arm of defense. It has got to be a joint effort. And I must frankly say that we have never had much help from the Defense Department in our struggle.

Mr. WARNER. I think you can expect a great deal of assistance at this time.

The CHAIRMAN. You know, sometimes they say, "Why don't you help us?" We are asking for certain amounts for ship construction and they were small compared to what we needed to do. I have often said the Defense Department spills that much down once a week. I have to go to another meeting, but I am glad, Mr. Chairman, that they are here on this program. There are many times when we could not even get them up here to testify on merchant marine bills.

Senator HOLLINGS. And obviously the Under Secretary would be quite interested in it.

The CHAIRMAN. I have to go to another meeting. Excuse me.

Senator HOLLINGS. Senator Prouty?

Senator PROUTY. Mr. Secretary, if my recollection is correct, I believe that several years ago former Secretary of Defense McNamara did not think too much of the national defense value of the American merchant marine. Can you tell this subcommittee at this time whether this view of the former Secretary is shared by you? I gather from what you have said that you do not.

Mr. WARNER. I do not recollect the exact words that former Secretary McNamara used; however, I am aware that he made a statement along the lines that you have characterized. I can only reply that I have studied the situation carefully. Within the past few weeks on a number of occasions I have worked with the White House staff as well as the Secretary of Commerce, Mr. Gibson, Maritime Administrator, on the proposals submitted to you this morning.

Senator PROUTY. I take it that the Department supports the President's statement.

Mr. WARNER. Yes; it does.

Senator HOLLINGS. You are talking about Secretary McNamara. He did not use words; he always used figures. The economy section of his

thrust and drive at the Pentagon always had this as the No. 1 target. I take it it is not the No. 1 target anymore. Do you know of any statement by Secretary Laird with respect to the importance of the merchant marine?

Mr. WARNER. If you will bear with me a minute, I think we have one with us.

Senator HOLLINGS. We are handling his public relations and we could not get one.

Mr. WARNER. Mr. Chairman, the Secretary of the Navy in executive session before the Armed Services Committee of the Senate did speak to the question of the merchant marine.

Senator HOLLINGS. Now the reduction, for example. During the negotiations in bringing out this program at one time they considered 33 for 10 years. The Defense Department cut it back to 30 didn't they?

Mr. WARNER. No, no, we did not.

Senator HOLLINGS. Are you familiar with the declaration of policy of the Merchant Marine Act of 1936 which states that it is necessary for the national defense of the United States to have a merchant marine capable of carrying a substantial portion of waterborne export and import and capable of serving as a naval and military auxiliary?

Mr. WARNER. Yes, I am, sir.

Senator HOLLINGS. Do you concur in that statement of policy?

Mr. WARNER. Yes, sir; I do.

Senator HOLLINGS. Do you believe that our existing merchant marine is adequate for security purposes?

Mr. WARNER. A full answer to that question, Mr. Chairman, would require reference to a number of items which bear classifications and I would urge that I have the opportunity to answer that question in executive session.

Senator HOLLINGS. I understand. We will accept that and receive that information the Chairman used a moment ago. The figure you quote was 98 percent, approximately, of all cargo being sent to Vietnam by ships. Now, that is contemporary proof of the importance of the merchant marine in national security to you, isn't it?

Mr. WARNER. Yes, I think I could give you some figures there which would be responsive to your question.

Today, 88 percent of the outbound Department of Defense cargo is shipped in privately owned ships; whereas, only 7 percent has moved in the GAA shipping. The MSTS nucleus fleet carries only 5 percent of the outbound cargo.

Senator HOLLINGS. Well, now, what is the projection, if you can give us one in open session, of the sealift capacity that we need in the 1970's?

Mr. WARNER. This would be a subject that we could explore in detail in executive session, but I hesitate now.

Senator HOLLINGS. With respect to whether we need more or not, do you agree with the statement made by the former Secretary of Defense, Clifford, in his last posture statement, that additional commercial shipping will have to be constructed if we are to meet our military contingency requirements in the mid-1970's?

Mr. WARNER. In general, we concur in his statement, Mr. Chairman. At present, today, there are sufficient ships in the Merchant Marine to handle our current needs, but our projections show that we will require more, particularly modernization.

Senator HOLLINGS. If you don't mind, Mr. Secretary, I will read the statement I refer to. The statement of former Secretary Clifford, and it is not classified, but an open statement of the projections for the sealift force:

In addition to this rapid response sea-lift force, we will still require a substantial amount of U.S. commercial shipping up to 460 national cargo ships to meet two simultaneous major contingencies in Europe and Asia in the mid-1970's. Today's U.S. commercial cargo fleet of 635 national ships (including 340 subsidized and 90 nonsubsidized liner ships in foreign trade, 55 in domestic trade and 1,550 tramp freighters), is large enough to fulfill that requirement. However, the overall capability of the fleet is decreasing as older, World War II built ships are retired. We expect that all the existing non-subsidized line ships in foreign trade will have been retired by 1975, and that we cannot count on continued availability of the present domestic trade and tramp fleet. Accordingly, we must assume that the subsidized liner fleet will be the primary, if not the sole, source of commercial augmentation in the mid-1970's. This is so because only the direct subsidized fleet receives subsidies to permit the construction of new ships in the U.S."

That is generally what I have reference to, and I think the program as submitted by Secretary Stans answers up to this particular apprehension that Secretary Clifford had.

Secretary Clifford also said—

It is clear, therefore, that additional commercial shipping will have to be constructed if we are going to be able to meet our total military contingency requirements in the mid-1970's.

Mr. WARNER. I would concur that additional shipping must be available if we are to meet our contingency requirements in the mid-1970's.

Senator HOLLINGS. You have given us the percentage of the Merchant Marine capacity currently employed for the military requirements in Vietnam. If we are faced with another contingency in Europe, Mr. Secretary, or Latin America, of the magnitude of Vietnam, would our merchant marine be adequate to cope with that as well as Vietnam?

Mr. WARNER. Did you state a timing for that contingency?

Senator HOLLINGS. The next 2 or 3 years—everybody says 3 years. I would hate to be around if we are not out of Vietnam by then.

Mr. WARNER. This is another question, Mr. Chairman, that I respectfully defer answering until we reach executive session.

Senator HOLLINGS. What would happen to U.S. commercial shipping if we faced two such simultaneous military conditions? You would have to answer that in executive session I suppose.

How many of the national defense reserve fleet are cargo ships? I want to know the average age and the general condition.

Mr. WARNER. Of the existing inventory which is just below a thousand ships, only about 150 would meet the criteria that you set forth.

Senator HOLLINGS. And the average age—are most of them rust buckets?

Mr. WARNER. Over 20 years old.

Senator HOLLINGS. Well, 5 years from now, aren't most of them slated for scrapping? They will not be serviceable in the next 5 years?

Mr. WARNER. That is correct.

Senator HOLLINGS. Isn't it true that our effort in Vietnam is a two-pronged one, consisting both of a military operation and civil devel-

opment and pacification? In other words, both of those aspects are extremely important to the conflict?

Mr. WARNER. Yes, sir; yes, of course.

Senator HOLLINGS. Isn't the ability to support and supply the civil deployment as important to our national defense as the ability to support and supply the military operation? Don't you feel so, Mr. Secretary?

Mr. WARNER. That is the integral part of the President's program of Vietnamization.

Senator HOLLINGS. If we feel it is poor security to rely on foreign ships to transport military hardware and rely on foreigners to transport civilian cargo essential to security?

Mr. WARNER. I would prefer to defer the answer to that question to an executive session.

Senator HOLLINGS. Mr. Secretary, your statements about the Department of Defense requirements for sealift related exclusively to military hardware and nothing else that might be essential to our security. The total sealift capacity necessary to our security would be really greater in what you really have outlined; isn't that right—concerning the vessels?

Mr. WARNER. In general, yes.

Senator HOLLINGS. MSTs today—is that continuing to use some Government-owned reserve fleet ships which were broken out during the Vietnam crisis?

Mr. WARNER. Do I understand your question to refer to GAA's?

Senator HOLLINGS. Yes. The reserve fleet ships operated under the general agency agreement.

Mr. WARNER. Yes.

May I answer that by referring to—

Senator HOLLINGS. In other words, how many of these GAA's are operating and what types of ships are they—Victorys?

Mr. WARNER. We have 53 GAA Victorys operating today. We hope to reduce that number within the next 30 days perhaps by as many as 10.

Senator HOLLINGS. How do these GAA's compare in age and type to privately owned ships? Are they in any way superior to the privately owned ships?

Mr. WARNER. Would you categorize "privately owned" as being break-bulk carrier types?

Senator HOLLINGS. Yes.

Mr. WARNER. Then they are comparable, I would say.

Senator HOLLINGS. Not superior?

Mr. WARNER. No.

Senator HOLLINGS. Do privately owned ships carry ammunition and interport cargo for the MSTs?

Mr. WARNER. Within the past few months, some of the private owners have come forth to meet the shipping requirement.

Senator HOLLINGS. Are you proceeding with negotiations along that line?

Mr. WARNER. Yes.

Senator HOLLINGS. While MSTs is employing the GAA's, are they using all the service offered to it by the private berth lines?

Mr. WARNER. May I introduce Mr. Brogan, my associate from MSTs—Mr. Riley is on my right.

Mr. BROGAN. Today MSTs is utilizing as much of the privately owned tonnage under what we call berth terms as we possibly can. It is necessary however to maintain a small fleet of GAA's at this time in order to meet surge requirements. These would be potential requirements in the event a withdrawal were required in the short period of time.

However, we maintain a continuing surveillance of these requirements and do, as Mr. Warner has indicated, withdraw the GAA's from operation as rapidly as these requirements permit.

Senator HOLLINGS. Do you know if private ships have been idle in the last few months?

Mr. BROGAN. We have been made aware of the fact that a certain number of ships are idle, but we have not received any significant response to a continuing request for proposals from the industry to charter these idle ships to us. This request for proposals—RFP—has been "on the street," as it is termed in the trade, since March of this year and we have chartered a number of ships that have been offered. However the response to the RFP has not been to the degree as the amount of alleged idle tonnage would seem to indicate it should be.

Senator HOLLINGS. Are you making every effort?

Mr. BROGAN. Yes, sir; we will negotiate with any operator who offers his ship to us.

Senator HOLLINGS. Mr. Secretary, have you examined the intent of Congress in making reserve fleet ships available in emergency?

Mr. WARNER. We examined with great interest your bill S. 1915. We were prepared today to address ourselves to some of the provisions.

Senator HOLLINGS. Do you think, in your view, that it was Congress intention to allow the reserve fleet ships to be used when private ships were available?

Mr. WARNER. I don't know that we addressed ourselves to that specific question, Senator.

Senator HOLLINGS. My understanding of the priority department is that the first MSTs nucleus fleet, then the private berth, thirdly, the private tramps and then GAA. Is that right?

Mr. WARNER. I think, Senator, you are referring to an agreement known as the Wilson-Weeks agreement, which is dated 1954; isn't it?

Mr. BROGAN. Yes.

Mr. WARNER. That is the agreement that is currently in existence between the Department of Defense and the Department of Commerce. It relates primarily to how the Department of Defense would proceed to meet its shipping requirements during a period of peace as well as under emergency conditions. We have during the Vietnam crisis done the very best we can to abide by the intent of that agreement.

Senator HOLLINGS. Is there any difference in MSTs control of GAA ships and ship's time chartered from private owners?

Mr. WARNER. The degree of control, is approximately the same. Of course the time charters remain with the commercial owners whereas the GAA ship is owned by the U.S. Government. It is operated of course by a civilian union crew under the direction of a civilian agent.

Senator HOLLINGS. Isn't MSTs cargo carried by berth line where and when MSTs wants to ship it?

Mr. WARNER. Might Mr. Brogan answer that? This is his direct responsibility in MSTs.

Mr. BROGAN. The so-called berth service provided by the steamship companies generally follows the commercial trade patterns. Berth service by definition is that service which is advertised to the public on regularly scheduled sailings. A good deal of the berth service is provided by the subsidized operators which must serve certain routes pursuant to their subsidy contracts with the Maritime Administration.

Therefore, this category of shipping does not have the same degree of flexibility as that shipping which is placed under MSTs control to meet military requirements such as they exist to Vietnam. This degree of control is exercised over time chartered and the GAA fleets.

Senator HOLLINGS. When a GAA ship is put into this status of reduced operating status or ROS, how long does it take to put a crew on that ship and sail it?

Mr. BROGAN. It depends upon the number of ships that you have in that state. If, for example, you have just six or 10 ships in ROS and a fairly large labor pool readily available, I would imagine that we could man them within a week to 10 days. However, at the present time MSTs and the Maritime Administration have a total of 57 GAA's in reduced operational status. It would take, therefore, a much longer time to man that total fleet than one of a smaller size.

Senator HOLLINGS. Isn't that the same time it takes a private owner to sail his ship which has been idle—to get it manned with a crew and sailing?

Mr. BROGAN. If he has one or two ships, it would not take as long. This is one of the reasons why we are seeking to charter additional ships, but few have been offered.

Senator HOLLINGS. There is a general feeling that you really haven't gone shopping. That is why I am submitting the questions here and trying to put them in this record. This is a problem that I am not completely familiar with myself, but there is that feeling.

Do you have any comment or elaboration to give this committee in testimony to show that you have used every effort?

Mr. BROGAN. Yes, the industry is well aware of the fact that there is a standing invitation to submit proposals for the charter of ships. I think the problem stems partly from the fact that MSTs procures shipping basically in two different ways. We have what we call shipping agreement rates which are established annually through a process known as competitive procurement. These rates and this procedure is used primarily for the shipment of less than full shipload lots of cargo on berth service, which I described a moment ago.

These rates are generally higher than those available to us under charter. The problem facing an owner of a ship is how best to employ his ship, to offer to us for booking under booking of cargo under shipping agreement rates which will produce more revenue tomorrow, or under charter rates for a full shipload lot which is more or less the chartering process for the use of any transportation facility is more or less standard in the transportation industry whether we are talking about a bus or an airplane or a ship and this is a part of the problem that we are facing today and I suspect this is part of the reason why there has not been much response to our request for proposals.

Senator HOLLINGS. How much is the MSTs current charter rate for the equivalent private ship?

Mr. BROGAN. An equivalent to a charter ship—they are approximately the same. The cost of shipping the cargo on a GAA and a time charter is approximately the same.

Senator HOLLINGS. What is the cost of operating a GAA?

Mr. BROGAN. The cost of operating a GAA is \$4,500 a day. This is the total cost of operation.

Senator HOLLINGS. Mr. Secretary, unless you have a further comment to submit for the record, I think the better procedure would be to wait until the legislation is submitted here in the next few weeks and we will have you back, if you will, in executive session, to see how the proposal at that time meets our national security requirements.

Do you have any further comment you wish to submit?

Mr. WARNER. I do not, Mr. Chairman.

I thank you.

For purposes of the record, I would like to read in the names of my associates. On my right is Paul H. Riley, Deputy Secretary of Defense (Supply and Services). On my left, Joseph A. Brogan, shipping adviser to commander, MSTs.

Thank you.

Senator HOLLINGS. I appreciate Mr. Brogan and Mr. Riley being here. If there is nothing further, the subcommittee stands adjourned. (Whereupon, at 12:05 p.m., the subcommittee was adjourned.) (The following letter was subsequently received:)

AMERICAN UNSUBSIDIZED LINES,
Washington, D.C., November 4, 1969.

Re Continued Employment of Reserve Fleet Ships ("GAAs") When Privately Owned Ships are Available.

Hon. RUSSELL B. LONG,
Chairman, Merchant Marine Subcommittee, Senate Committee on Commerce, Washington, D.C.

DEAR SENATOR LONG: On October 23, 1969 the Merchant Marine Subcommittee of the Senate Committee on Commerce held a hearing on S. 1915, and heard testimony from Secretary of Commerce Stans, Under Secretary of Commerce Siciliano, Maritime Administrator Gibson, and Under Secretary of the Navy Warner.

Mr. Warner's testimony dealt in some detail with the Navy's current use of Reserve Fleet Ships (the so-called "GAAs") although sufficient privately-owned ships are available to carry all military cargo. This continued use of Reserve Fleet ships is a matter of urgent concern to all segments of the merchant marine, and particularly to the members of the American Unsubsidized Lines group. Thus, we believe that it would be useful to supply some additional facts for the record before you.

1. THE AUL GROUP

The American Unsubsidized Lines group consists of six companies who own and operate unsubsidized United States-flag ships in berth services. The six companies are: Central Gulf Steamship Corporation; Columbia Steamship Company, Global Bulk Transport, Incorporated; Isthmian Lines, Inc.; States Marine Lines, Inc.; and Waterman Steamship Corporation.

As your Committee knows, unsubsidized United States-flag lines are largely dependent on carriage of government-generated cargoes of all types. Carriage of military cargoes is a basic part of the business of unsubsidized lines. In peacetime, the unsubsidized lines have carried large quantities of military cargo. In times of emergency, the unsubsidized lines are ready to serve. Both in Korea and in Vietnam, the unsubsidized lines were ready to respond to military demands. Their contributions were officially recognized by the Secretary of Defense. Today, and for many months, privately-owned ships have been lying idle while reserve fleet ships are carrying cargo. This is not sound national policy, and it is not what the Congress and this Committee intended.

2. LEGISLATIVE INTENT

The last time this Committee considered the use of reserve fleet ships was in 1950, when P.L. 81-591 was passed, amending the Merchant Ship Sales Act of 1946. In Section 11 of the 1946 Act, there is a limited provision for use of reserve fleet ships. That provision is that reserve fleet ships "shall in no case be used for any purpose whatsoever except that any such vessel may be used for account of any agency or department of the United States during any period in which vessels may be requisitioned. . . ."

On its face, the plain meaning of this section is that reserve fleet ships are not to be used except when private ships are not available, and the emergency would justify outright requisitioning. This plain meaning is confirmed by reading the 1950 Committee reports.

This Committee's report—Senate Report 1783, 81st Congress—said: "With trade returning to normal peacetime patterns, privately owned tonnage is now being only partly utilized or laid up for lack of cargo offerings. . . . It can be said that except for certain special situations, the chartering of Government-owned ships in competition with privately-owned vessels should cease."

The special situations involved only passenger ships or special-type ships, not the standard cargo ships which MSTs is using today.

The House Merchant Marine Committee's Report (House Report 2353, 81st Congress) used almost identical language. Again, the Congressional intent was clear: Government-owned Reserve Fleet ships should not be used when private ships are available.

3. CURRENT MARKET CONDITIONS

Current market conditions for U.S.-flag ships are similar to those this Committee was considering in 1950 when it plainly said there was no justification for continued use of reserve fleet ships. Today, privately-owned ships are lying idle. Today, the shipping market for U.S.-flag ships is depressed. Today, reserve fleet ships are nevertheless operating.

We have prepared some exhibits, attached to this letter, which cover the facts in detail. The first exhibit shows the idle days of ships operated by the Columbia Steamship Company since July this year. Five of Columbia's ships are idle today—tied up to the dock waiting for cargo.

The next exhibit shows Columbia's offerings of West Coast space to MSTs. Since July 7, Columbia offered space for 790,000 measurement tons of cargo to MSTs. Only 30,000 tons were booked. No MSTs cargo has been shipped on Columbia since the July 14 booking period. The story is the same on the Gulf Coast—ships offered but no bookings.

Next, the exhibits show the situation of States Marine Lines and Isthmian Lines. For these lines, since June 23, some MSTs cargo has been booked, but usually less than one-quarter of the space offered. States Marine and Isthmian too have had idle ships throughout the period. The Badger State was idle for 58 days; the Keystone State for 57 days.

The exhibits for Waterman Steamship Corporation show the same thing. Eight ships idled. Two ships still idle today on the West Coast. Seven ships sent in ballast from the West Coast through the canal after waiting vainly for cargo. MSTs bookings with Waterman since mid-August have been exactly zero.

An owner of an idle U.S.-flag ship has only a few options open. He can let his ship remain idle, with no income and substantial expenses every day. He can scramble for the limited amount of bulk cargo moving, by bidding rates below cost. Or, and this is now a regular practice, he can apply to transfer his ship foreign, either for foreign-flag operation or for scrapping. There is now a regular market for "one-way" charters. A U.S.-flag ship picks up a bulk cargo at low rates, takes it abroad, and then reports to the shipbreakers for scrapping. Our exhibit shows 95 foreign transfers approved in the last fiscal year, 48 for scrapping.

Our next exhibit shows that while these privately-owned ships were lying idle, reserve fleet ships were continually being used to carry cargo. The practice continues today. Three times in the last three weeks, when privately owned U.S.-flag ships under charter to MSTs were scheduled to lift cargoes of ammunition, instructions from MSTs in Washington were to use reserve fleet ships instead. The time-chartered ships then lifted general MSTs cargoes, and little or no cargo was available for the berth lines.

Our next exhibit shows, in detail, the rates being paid U.S.-flag ships in recent months for carrying bulk cargoes. Until recently, the Maritime Administration

published a schedule of "fair and reasonable" rates for U.S.-flag ships. This schedule has not been adjusted upward to reflect recent very costly wage increases. But, with the shortage of cargo for U.S.-flag ships, the operators have had to bid so low that in every instance their rates are below the unadjusted "fair and reasonable" level, and still farther below a reasonable level with current wage costs considered.

In short, the facts are plain—privately-owned U.S.-flag ships are in need of cargo. They are idle. Still, MSTs insists on employing government-owned reserve fleet ships. There is a real threat to the survival of a good portion of the merchant marine.

We want to be clear on one point: no member of the American Unsubsidized Lines, and surely no American shipowner, has any objection to the use of reserve fleet ships in an emergency when sufficient privately-owned ships are not available. At the height of the Vietnam emergency, when over 160 ships were broken out of the reserve fleet, there was no objection.

Today, however, there are still 50 to 60 reserve fleet ships operating, and Under Secretary Warner has announced that the policy will be to keep at least 45 reserve fleet ships operating, whether or not there are private ships available.

Using 45 or 55 surplus government-owned ships when the private fleet can do the job has a major effect. The latest statistics show that on September 1, the entire privately-owned U.S. Merchant Marine contained only 632 dry cargo ships. Of these 278 were owned by subsidized lines, 193 by unsubsidized lines, 134 were in tramp operations and 27 were industrial carriers. As of September 1, MSTs had 153 of these ships under charter. The detailed figures appear in the two last exhibits attached to this letter.

No matter how the facts are viewed, the continued use of 45 or 55 reserve fleet ships will drive 45 or 55 privately-owned ships out of the active, privately-owned merchant marine. This will be a destruction of 20% or 30% of the present unsubsidized break-bulk ships in the American-flag fleet.

4. THE REASONS GIVEN FOR CONTINUED USE OF RESERVE FLEET SHIPS

We have, of course, tried hard to understand what policy lies behind the continued employment of reserve fleet ships when private ships are available. We have had considerable correspondence with MSTs and the Under Secretary of the Navy, and a number of meetings. We know that many members of Congress, including Senator Magnuson and other members of this Committee, as well as other Senators and Representatives, have asked for the reasons behind the policy. Last month, we were encouraged by the action of Under Secretary of the Navy Warner in ordering a 10-day freeze on use of reserve fleet ships. Yet, after the freeze the determination was made to continue employing at least 45 reserve fleet ships.

We have examined, with great care, all the reasons given both earlier and during the October 23 testimony of Under Secretary Warner for continued use of reserve fleet ships. Upon examination, the reasons simply do not justify the policy of allowing private ships to lie idle.

One reason given is that "the worldwide political situation and overall military requirements remain the major factor governing the size of the MSTs controlled fleet." This means, apparently, that the reserve fleet ships might be needed in an emergency. Of course, they might, *but in any emergency the privately-owned fleet will also be needed.*

When reserve fleet ships are not used, they are not put away so as to be unavailable in emergency. Instead, the reserve fleet ships are put in "Reduced Operational Status" or "ROS". This is equivalent to what a private operator does when his ship is idle: the ship is tied up to the dock, and kept ready to sail when needed. The reserve fleet ships in "ROS" are available for service within a few days.

During the October 23 hearing, Mr. Brogan of MSTs stated: "Today MSTs is utilizing as much of the privately-owned tonnage under what we call berth terms as we possibly can. It is necessary however to maintain a small fleet of GAAs at this time in order to meet surge requirements. These would be potential requirements in the event a withdrawal were required in the short period of time."

When the facts are carefully examined, it is apparent that possible "surge requirements" cannot justify continued use of GAAs, for two principal reasons:

First, the GAAs are now being fully utilized in regular shuttle business carrying ammunition to Vietnam, and interport cargo. They are not free, and would

not be free to carry "surges" of cargo. In contrast, a Reserve Fleet ship kept in ready reserve ("ROS") is ready to meet surges in cargo.

Second, the fleet available to meet surges in cargo consists of privately-owned ships and GAAs. If privately-owned ships are kept employed, then both the full private fleet and GAAs will be available to meet surges. But, if private ships are left idle, and driven to scrapping, to foreign flags, or to carriage of bulk cargoes off-route, then only the GAAs will be available to meet "surges" in cargo.

Mr. Brogan also stated to the Committee on October 23 that continued use of GAAs was justified because labor might be short to man a large number of GAAs if a number were needed. Once again, upon examination this does not justify continued use of GAAs and continued idling of private tonnage. There are only so many trained American seamen. They are available to serve either on GAAs or private ships. If private ships are idled by GAA competition, then in case of emergency it would be just as difficult to man an idle private ship as a GAA. In other words the time required to activate an idle private ship is the same as the time to activate a GAA, and there is no reason to choose to leave a private ship idle.

Again, we have heard that the reserve fleet ships are "controlled" by MSTs, as a reason for keeping them operating. Again, the facts show this is not a valid reason.

As a matter of fact, all reserve fleet ships are operated under General Agency Agreements with the Maritime Administration. Hence, the reserve fleet ships are usually called "GAAs". The General Agents for the ships are the regular American companies who own and operate ships. The General Agents provide crews, attend to supplies and so on. Thus, there is absolutely no difference between the "control" of MSTs over a reserve fleet ship or over a privately-owned ship. A private time-chartered ship goes where MSTs directs the owner to go; a reserve ship under GAA goes where MSTs tells the same private operator to send it. For that matter, MSTs also controls all berth cargo shipped on liners—the liners carry cargo where and when MSTs directs. Contrary to the statement of Mr. Brogan at the October 23 hearing, MSTs has asked berth lines to bid on transportation of cargoes on all major routes, and the lines have responded. It is a fact that liner transportation is available to MSTs where and when MSTs wants the cargo to move. This includes intratheatre cargoes which liners regularly carried prior to the substitution of GAAs.

Or again, the statement is made that the reserve fleet ships are only carrying ammunition or interport cargo. Apparently, present practice is to use the GAAs principally—but not always—for these cargoes. But, there is nothing special about the capability of the reserve fleet ships. These are either exactly the same ships as the war-built ships which are privately owned or operated, or somewhat inferior. The GAAs are conventional break-bulk ships, just as are most of the 153 private ships now time-chartered by MSTs. Private ships are fully capable of carrying ammunition and they do so. All that is required is—sometimes—to provide some wooden lining called "sheathing". Ammunition ships are not now being fully sheathed, but if sheathing is needed, any ship can be sheathed in a few days. Private ships can and have carried interport cargo—until the GAAs were used.

The effect of MSTs directing that GAAs should be used to carry ammunition instead of time-chartered ships is simply to have the time-charter lift general cargo, and to leave no general cargo for private carriage.

During the October 23 hearing, Mr. Brogan stated to the Committee that MSTs was receiving few offers for charter of private ships. At the same time, Mr. Brogan responded to Senator Hollings that "the cost of shipping the cargo on a GAA and a time charter is approximately the same."

Of course, if the cost of operating a GAA and the cost of chartering an equivalent private ship are approximately the same, this means that MSTs is offering charter rates so low that a private operator can earn nothing on his investment, set aside nothing for depreciation, pay nothing for insuring his asset, and, naturally, earn no profit. The cost of operating a GAA does not include interest on investment, does not include an allowance for depreciation, does not include hull insurance, and does not include any profit allowance.

In other words, the continued use of GAAs is distorting the entire free market mechanism. MSTs is offering charter rates below private operator's costs, which naturally means the rates do not "attract" ships. At fair rates, not loss rates, privately-owned ships are available to MSTs for charter. In addition, as we have noted, MSTs has consistently had huge quantities of space offered to it by berth lines, at rates fixed by competitive bidding.

Finally, we have been told that there are many factors adversely affecting U.S.-flag unsubsidized liners. Some of the factors named are a decline in military cargo; a shift to use of containers; a decline in government-aid cargoes moving. Each of these is true, but none is a reason to continue to employ reserve fleet ships. A decline in military cargo is a reason for *not* using GAAs, not a reason for using them. The shipping emergency is over.

Similarly, a shift to containerization is not a reason for using GAAs which are conventional ships, *not* container ships. If break-bulk cargo is declining there is all the less reason for using reserve fleet ships which carry break-bulk cargo.

Last, the decline in government-aid cargo makes it more urgent, not less urgent, not to divert such cargoes as there are to the reserve fleet ships. The less cargo, the more care should be taken not to destroy the private fleet.

5. THE LEGISLATIVE REMEDY REQUIRED

As we showed at the outset of this letter, the clear intent of Congress and of your Committee was to make reserve fleet ships available only when private ships were not available. This intent is not being observed, and apparently will not be observed unless further, clarifying legislation is forthcoming.

There is now pending before the House Committee on Merchant Marine and Fisheries H.R. 14257, a one sentence bill which provides (in full):

"That subsection (2) of section 11 of the Merchant Ship Sales Act of 1946 (50 U.S.C. App. 1744(a)) is amended by adding at the end thereof the following: 'Notwithstanding the exceptions contained in the preceding sentence, no vessel from such reserve shall be used to carry cargo for any agency or department of the United States when a privately owned United States-flag vessel is available and is offered to carry such cargo.'"

Although only one sentence long, H.R. 14257 would:

Make unmistakably clear the original Congressional intent: to have reserve fleet ships used only when transportation on private ships is not available;

Provide employment for many idle privately-owned ships, and additional cargo for ships sailing with unused space open; and

Have an immediate and beneficial effect on the shipping market, thus strengthening all segments of the merchant marine, liner and tramp, subsidized and unsubsidized.

In no way would the Bill restrict the use of reserve fleet ships whenever they are needed because private ships are not available.

In hearings before the House Committee H.R. 14257 was strongly supported by all elements of the merchant marine. Witnesses appeared on behalf of unsubsidized lines, subsidized lines and tramps. We believe the Bill also has the support of major maritime unions, who also believe a strong private merchant marine is our major maritime asset.

With this united support, and the support of many individual Senators and Congressmen, we have every hope that H.R. 14257 will be favorably reported, and will pass. When it reaches your Committee, we urge that it receive your early and favorable consideration. The need is urgent.

We appreciate this opportunity to submit these facts for the record, and we are ready to provide any further information the Committee requires.

Very truly yours,

AMERICAN UNSUBSIDIZED LINES,
By ROBERT N. KHARASCH,

Secretary.

COLUMBIA STEAMSHIP CO.
SHIPS IDLE JULY 1969 TO OCT. 10, 1969

Location and Ship	Idle time began	Days idle through Oct. 10, 1969
West coast:		
Kentuckian ¹	July 11	30
Col. Beaver	July 19	² 81
Col. Eagle	Aug. 4	25
Fairview ¹	Aug. 10	14
Col. Trader	Aug. 13	60
V. Progress ¹	Aug. 17	30
Elwell ¹	Aug. 17	53
Richwood ¹	Sept. 4	29
Col. Baron	Sept. 23	² 18
Gulf/Atlantic coast:		
Col. Hawk	Sept. 8	² 32
Col. Tiger	Sept. 25	² 15
Col. Mariner	Sept. 26	² 14

¹ Time chartered; charter terminated.

² Still idle on Oct. 10.

COLUMBIA STEAMSHIP CO.

SPACE OFFERED TO MSTs FOR WEST COAST-FAR EAST CARGO, AND MSTs CARGO BOOKED
JULY 17 TO OCT. 6, 1969¹

Date offered	Number of vessels	Space offered ²	Cargo booked ²
July 7	1	10,000	10,000
July 14	3	33,000	20,000
July 21	1	11,000	0
July 28	2	24,500	0
Aug. 4	3	34,500	0
Aug. 11	7	77,500	0
Aug. 18	8	88,500	0
Aug. 25	8	88,500	0
Sept. 1	6	67,500	0
Sept. 8	7	67,500	0
Sept. 15	6	66,000	0
Sept. 22	6	66,000	0
Sept. 29	8	78,500	0
Oct. 6	7	77,000	0
Total	73	790,000	30,000

¹ 14 booking periods.

² Measurement tons of 40 cubic feet.

COLUMBIA STEAMSHIP CO.

SPACE OFFERED TO MSTs ON GULF/ATLANTIC AND CARGOES BOOKED SEPTEMBER TO OCT. 7, 1969

Date offered	Number of vessels	Space offered ¹	Cargo booked ¹
Sept. 2	4	44,000	0
Sept. 9	3	33,000	0
Sept. 16	3	33,000	0
Sept. 23	3	33,000	0
Sept. 30	4	44,000	0
Oct. 7	4	44,000	0
Total	21	231,000	0

¹ Measurement tons of 40 cubic feet.

STATES MARINE LINES, INC.

ISTHMIAN LINES, INC.

SPACE OFFERED TO MSTs FOR WEST COAST-FAR EAST CARRIAGE, AND MSTs CARGO BOOKED JUNE 23 TO OCT. 6 1969¹

Offer date	Offered		MSTs bookings	
	Number of ships offered	Space offered ²	Vessels booked	MSTs cargo booked ²
June 23.....	4	43,000	1	13,856
June 30.....	2	23,000	1	12,579
July 7.....	3	31,900	0	0
July 14.....	5	49,750	0	0
July 21.....	6	71,400	1	7,119
July 28.....	12	120,450	3	22,056
Aug. 4.....	9	92,400	5	43,390
Aug. 11.....	12	110,400	3	24,450
Aug. 18.....	11	89,800	1	2,997
Aug. 25.....	10	104,200	1	11,317
Sept. 2.....	9	96,450	2	21,077
Sept. 8.....	8	77,750	1	9,921
Sept. 15.....	4	36,800	2	17,850
Sept. 22.....	4	36,800	3	17,869
Sept. 29.....	8	70,700	4	27,959
Oct. 6.....	4	33,800	3	21,963
Totals.....	102	1,088,600	31	254,403

¹ 16 booking periods

² Measurement tons of 40 cubic feet.

STATES MARINE LINES, INC., ISTHMIAN LINES, INC.—SHIPS IDLE (IN "ROS") JULY TO SEPTEMBER 1969

Ship	Area	Idle days		Days idle
		Com-mence	Ter-mi-nate	
Steel Executive.....	San Francisco.....	July 17	Aug. 14	29
Americal Oriole.....	do.....	July 21	Aug. 12	23
Garden State.....	Seattle.....	July 24	Aug. 3	11
Magnolia State.....	San Francisco.....	July 25	Aug. 4	11
Badger State.....	Seattle.....	July 29	Sept. 24	58
Keystone State.....	San Francisco.....	do.....	Sept. 23	57
Steel King.....	Seattle.....	Aug. 9	Sept. 10	33
Palmetto State.....	San Pedro.....	Aug. 14	Aug. 24	11
Green Mountain State.....	San Francisco.....	Aug. 15	Sept. 11	28
Empire State.....	do.....	Aug. 22	Sept. 23	33
Evergreen State.....	New York.....	Aug. 27	Sept. 7	12
Steel Surveyor.....	Seattle.....	Aug. 28	Sept. 8	12
Overseas Natalie.....	Portland.....	Aug. 29	Oct. 2	35
Total, days idle.....				353

WATERMAN STEAMSHIP CORP.—IDLE WATERMAN SHIPS, WEST COAST, SINCE JUNE 1, 1969

LISTING OF SHIPS THAT HAVE BEEN IN IDLE STATUS ON THE WEST COAST IN RECENT MONTHS

Ship	Start	End
Jeff Davis.....	0001 hrs. Aug. 2.....	Still idle as of Oct. 10.
Morning Light.....	0001 hrs. Aug. 31.....	Do.
La Salle ¹	0001 hrs. Sept. 13.....	2400 hrs. Sept. 29.
Mobilian ¹	0001 hrs. Sept. 12.....	2400 hrs. Sept. 22.
Choctaw ¹	0001 hrs. June 7.....	2400 hrs. June 16.
Hurricane.....	0001 hrs. May 1.....	2400 hrs. Aug. 17.
Fanwood ¹	0001 hrs. July 19.....	2400 hrs. July 30.
Citrus Packer ¹	0001 hrs. July 11.....	Do.

¹ Eventually ballasted to gulf or Atlantic (with no cargo). Total ballast costs (7 ships); \$570,000.

WATERMAN STEAMSHIP CORP.

SPACE OFFERED TO MSTs FOR WEST COAST-FAR EAST CARRIAGE, AND MSTs CARGO BOOKED, JUNE 30-OCT. 6, 1969

Date	Number of ships	Dry Cargo (M/T) ¹	Cargo booked (M/T)	Reefer offered (cu. ft.)	Reefer booked (cu. ft.)
June 30, 1969	4	38,200	10,840	0	0
July 7, 1969	3	27,300	1,900	0	0
July 14, 1969	3	25,400	1,900	0	0
July 22, 1969	6	68,000	0	132,000	0
Aug. 4, 1969	4	45,000	10,769	132,000	0
Aug. 11, 1969	5	46,000	9,550	132,000	18,000
Aug. 18, 1969	4	24,000	0	70,000	10,000
Aug. 25, 1969	3	34,500	0	44,000	0
Sept. 2, 1969	5	58,500	0	88,000	0
Sept. 8, 1969	4	48,000	0	88,000	0
Sept. 15, 1969	4	48,000	0	88,000	0
Sept. 22, 1969	3	35,500	0	88,000	0
Sept. 29, 1969	2	24,000	0	44,000	0
Oct. 6, 1969	3	36,500	0	44,000	0
Total (14 booking periods)		558,900	34,959	994,000	28,000

¹ Space offered (measurement tons of 40 cu. ft.).

APPROVALS GRANTED BY MARITIME ADMINISTRATION FOR TRANSFERS FROM PRIVATE UNITED STATES TO FOREIGN OWNERSHIP AND/OR REGISTRY—JULY 1, 1968 THROUGH JUNE 30, 1969

Total transfers approved:	
Tankers	17
Dry cargo ships	58
Miscellaneous	20
Total	95
Transfers for scrapping:	
Tankers	10
Dry cargo ships	37
Miscellaneous	1
Total	48
Transfers for foreign operation:	
Tankers	7
Dry cargo ships	21
Miscellaneous	19
Total	47

Source: Maritime Administration Office of Ship Operations.

RESERVE FLEET ("GAA") SHIPS LOADED WEST COAST—JULY TO SEPTEMBER 1969

Month	Name of GAA
July	Morgantown, Ocala, Council Bluffs, Manderson, Las Vegas, Grove City, Citadel, Drake, Winthrop, Navajo, Kenyon, Lane, Creighton, Enid.
August	Las Vegas, Lahaina, Clarksburg, Norwich, Hamilton, Meredith, Boise.
September	Navajo, Winthrop, Lahaina, Alma.
Total GAA's loaded, 25.	

Source: Company records.

LATEST FIXTURES OF U.S. FLAG FULL CARGOES

Vessel and date	Cargo and country	Rate fixed	Ceiling	Difference
Pine Tree State, C-3, Oct. 4	Fertilizers, Pakistan	\$37.80	\$42.78	-4.98
Amercloud, C-2, Oct. 4	Bagged grain, Vietnam	¹ 48.00	² 54.98	-6.98
Marine Enterprise (Bulk), Oct. 4	Bulk grain, Brazil	19.40	22.59	-3.19
Columbia Mariner, C-2, Oct. 4	do.	19.75	23.12	-3.37
Rambam (Tanker), Oct. 4	do.	20.18	23.38	-3.20
Marine Electric (Bulk), Oct. 4	do.	19.45	23.38	-3.93
Ogden Wabash (Tanker) Sept. 27	Bulk grain, Turkey	13.00	20.87	-7.87
Ogden Willamette (Tanker) Sept. 27	do.	13.00	20.87	-7.87
Penn Transporter (Bulk), Sept. 27	Bulk grain, Pakistan	30.75	35.04	-4.29
Yellowstone, C-4, Sept. 27	do.	30.75	35.04	-4.29
Columbia Star, C-2, Sept. 27	Fertilizers, Pakistan	39.89	44.21	-4.32
Columbia Hawk, C-2, Sept. 27	do.	39.89	44.21	-4.32
Evanthie, C-3, Sept. 20	Bagged rice, Indonesia	47.40	55.91	-8.51
Hudson (Bulk), Sept. 20	do.	47.40	55.91	-8.51
Marathon Victory (AP-3), Sept. 20	do.	47.40	57.29	-9.89
Mobilian, C-3, Sept. 2	Bagged rice, Vietnam	46.35	53.73	-7.38
Amercrest, C-2, Sept. 13	do.	47.68	54.98	-7.30
Evergreen State, C-3, Sept. 13	do.	46.50	53.73	-7.23
Amerwave, C-2, Sept. 13	do.	47.68	54.98	-7.30
Steel Surveyor, C-3, Sept. 13	do.	46.50	53.73	-7.23
Vantage Progress, C-2, Sept. 13	Fertilizers, India	34.82	41.31	-6.49
Helen H (Bulk), Sept. 6	Bulk grain, Tunisia	20.55	23.35	-2.80
Peary (Bulk), Sept. 6	Bagged flour/Ceylon	46.78	48.98	-1.20
Spitfire (Bulk), Sept. 6	do.	47.88	48.98	-1.10
Silver Eagle (AP-3), Sept. 6	do.	51.25	54.33	-3.12
Amerigo, C-2, Sept. 6	Bagged flour, Indonesia	52.00	57.29	-5.29
Point Fermin (Tanker), Sept. 6	Bulk grain, Korea	17.95	23.09	-5.14
Kentuckian (AP-2), Aug. 30	Fertilizer, Pakistan	41.74	43.51	-1.77
Julia (C-2), Aug. 30	Fertilizers, Pakistan	40.80	43.70	-2.90
Rachel V (C-3), Aug. 30	do.	40.50	44.21	-3.71
Abiqua (Bulk), Aug. 30	Fertilizers, India	35.00	36.84	-1.84
Alcoa Master (C-2), Aug. 23	Bulk corn, Ivory Coast	25.20	26.26	-1.06
Silver Eagle (AP-3), Aug. 23	Bagged rice, Vietnam	49.25	54.98	-5.73
Marine Transport (C-2), Aug. 23	Bulk grain, Morocco	20.15	23.98	-3.83
Copper State (C-3), Aug. 9	Bagged rice, Vietnam	44.87	53.73	-8.86
Buckeye State (C-3), Aug. 9	do.	44.87	53.73	-8.86
Windsor Victory (AP-3) Aug. 2	Bulk grain, Chile	20.40	23.88	-3.48
Transo-Gulf (Bulk), Aug. 2	do.	19.25	22.65	-3.40
Transoceanic Freedom (C-2), Aug. 14	Bulk grain, Morocco	19.85	23.98	-4.13
Galaxy (C-2), July 12	Bulk urea, Indonesia	63.00	63.55	-0.55
Amercloud (C-2), July 12	Bulk urea, Pakistan	45.70	45.95	-0.25
Bayou State (C-2), July 12	do.	43.50	45.46	-1.96
Reading (C-2), July 19	Bulk grain, St. Domingo	9.70	12.05	-2.35
Halcyon Panther (AP-3), July 19	Fertilizers, India	39.71	43.71	-4.00
Cottonwood Creed (Bulk), July 19	do.	36.25	39.98	-3.73
Missouri (C-4), July 19	do.	34.50	37.59	-3.09
Jennene (AP-2), July 19	do.	36.31	41.06	-4.75
Flower Hill (C-2)	do.	37.31	41.31	-4.00
Sofia (C-2), July 19	Fertilizers, Pakistan	44.56	45.46	-1.00
Trans-Gulf (Bulk), July 5	Bulk grain, Chile	19.90	22.65	-2.75
Marine Clipper (AP-2), July 5	do.	21.85	23.88	-2.03
Overseas Progress (Bulk), July 5	Bulk grain, India	28.88	30.88	-2.00
Overseas Carrier (Bulk), July 5	do.	28.88	30.88	-2.00
Marine Electric (Bulk), July 5	do.	28.88	30.88	-2.00
Avenger (Tanker), July 5	do.	25.10	27.01	-1.91
Midlake (Tanker), July 5	do.	25.10	27.01	-1.91
Volusia (C-2X), July 5	Fertilizers, India	37.48	45.18	-7.70

¹ Berth terms.² Free out.

U.S. MERCHANT MARINE DRY CARGO SHIPS, SEP. 1, 1969

	Post WWII (over 17 kilotons)	WWII (14 to 17 kilotons)
Subsidized lines:		
Breakbulk.....	157	104
Container.....	13	4
RO/RO.....		
Nonsubsidized berth lines:		
Breakbulk.....		116
Container.....		74
RO/RO.....	2	1
Tramps:		
Breakbulk.....		109
Bulk.....		25
Industrial carriers:		
Bulk.....		15
Reefer (U.F.).....		12
Total.....	172	460

U.S. MERCHANT MARINE SHIPS UNDER CHARTER TO MSTs, SEPT. 1, 1969

	Post WWII (over 17 kilotons)	WWII (14 to 17 kilotons)
Subsidized lines:		
Breakbulk.....	34	10
Container.....		
RO/RO.....		
Nonsubsidized berth lines:		
Breakbulk.....		29
Container.....	1	9
RO/RO.....	1	1
Tramps:		
Breakbulk.....		54
Bulk.....		5
Industrial carriers:		
Bulk.....		9
Reefer (U.F.).....		
Total.....	36	117

