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CERTAIN RESTRICTIONS ON CRUISE OPERATIONS

GOVERNMENT
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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. 2498 and H.R. 12605

TO AMEND SECTION 613 OF THE MERCHANT MARINE ACT,
1936, AS AMENDED

NOVEMBER 7, 1969

Serial No. 91-40

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CERTAIN RESTRICTIONS ON CRUISE OPERATIONS

HEARING

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CERTAIN RESTRICTIONS ON CRUISE OPERATIONS

FRIDAY, NOVEMBER 7, 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. Russell B. Long (chairman of the subcommittee) presiding.

Present: Senators Long and Inouye.

OPENING STATEMENT BY THE CHAIRMAN

Senator LONG. This morning we open hearing on H.R. 12605 and S. 2498, companion bills to amend section 613 of the Merchant Marine Act of 1936. The bills would eliminate certain restrictions on the cruise operations of subsidized U.S. passenger vessels. H.R. 12605 was passed by the House with some amendments and therefore differs somewhat from S. 2498.

(The bills and agency comments follow:)

[S. 2498, 91st Cong., first sess.]

A BILL To amend section 613 of the Merchant Marine Act, 1936, as amended

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 613 of the Merchant Marine Act, 1936, as amended (47 U.S.C. 1183), is amended by:

(a) Striking subsection (c) thereof and inserting a new subsection (c) to read as follows:

“(c) When a vessel is being operated on cruises—

“(1) it shall carry no mail unless required by law, or cargo except passengers' luggage, except between those ports between which it may carry mail and cargo on its regular service assigned by contract;

“(2) it may not carry one-way passengers between those ports served by another United States carrier on its regular service assigned by contract, without the consent of such carrier, except between those ports between which it may carry one-way passengers on its own regular service assigned by contract;

“(3) it shall stop at other domestic ports only for the same time and the same purpose as is permitted with respect to a foreign-flag vessel which is carrying passengers who embarked at a domestic port, except that a cruise may end at a different port or coast from that where it began and may embark or disembark passengers at other domestic ports, either when not involving transportation in the domestic offshore trade in competition with a United States-flag passenger vessel offering berth service therein, or, if involving such transportation, with the consent of such carrier: *Provided, however,* That nothing herein shall be construed to repeal or modify section 805(a) of this Act.”

Staff member assigned to this hearing: Emanuel Rouvelas.

"Section 605(c) of this Act shall not apply to cruises authorized under this section."

(b) Striking subsection (e).

[H.R. 12605, 91st Cong., first sess.]

AN ACT To amend section 613 of the Merchant Marine Act, 1936, as amended

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 613 of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1183), is amended by:

(a) Striking subsection (c) thereof and inserting a new subsection (c) to read as follows:

"(c) When a vessel is being operated on cruises—

"(1) it shall carry no mail unless required by law, or cargo except passengers' luggage, except between those ports between which it may carry mail and cargo on its regular service assigned by contract;

"(2) it may not carry one-way passengers between those ports served by another United States carrier on its regular service assigned by contract, without the consent of such carrier, except between those ports between which it may carry one-way passengers on its own regular service assigned by contract;

"(3) it shall stop at other domestic ports only for the same time and the same purpose as is permitted with respect to a foreign-flag vessel which is carrying passengers who embarked at a domestic port, except that a cruise may end at a different port or coast from that where it began and may embark or disembark passengers at other domestic ports, either when not involving transportation in the domestic offshore trade in competition with a United States-flag passenger vessel offering berth service therein, or, if involving such transportation, with the consent of such carrier: *Provided, however,* That nothing herein shall be construed to repeal or modify section 805(a) of this Act."

Section 605(c) of this Act shall not apply to cruises authorized under this section. Notwithstanding the applicable provisions of section 605(a) and section 506 of this Act requiring the reduction of operating differential subsidy and the partial payback of construction differential subsidy for operating in the domestic trades, such reduction of operating subsidy and partial payback of construction subsidy under such sections 605(a) and 506, respectively, shall not apply to cruises authorized under this section."

(b) Striking subsection (e).

Passed the House of Representatives October 6, 1969.

Attest:

W. PAT JENNINGS,
Clerk.

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., November 7, 1969.

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

Dear Mr. CHAIRMAN: This is in further reply to your request for the views of this Department with respect to H.R. 12605 and S. 2498, similar bills to amend section 613 of the Merchant Marine Act, 1936, as amended.

Section 613 of the Merchant Marine Act, 1936, provides that the Secretary may permit passenger vessels that are being operated with operating differential subsidy, to cruise off their essential trade routes for not exceeding two-thirds of each year (but for not more than 7 months of each year to ports regularly served by another subsidized passenger vessel) if he makes the following findings:

(1) That the operation of the vessel on the trade route is not necessary for this period in order to furnish adequate service.

(2) After notice to all other American-flag operators who may be affected and after affording all such operators an opportunity to submit written data, views or arguments, with or without opportunity to present the same

orally, and after consideration of all relevant matter presented, that the specific cruise proposed will not substantially adversely affect an existing operator's service performed with American-flag passenger vessels.

The section defines a passenger vessel as a vessel of not less than ten thousand gross tons with passenger accommodations for not less than one hundred passengers.

The section provides that the cruises it authorizes must begin and end at a domestic port or ports on the same seacoast of the United States from which the operator conducts his regular service and that when the vessel is being operated on cruises—

(a) It shall carry no mail unless required by law, or cargo except passengers' luggage, except between those ports between which it may carry mail and cargo on its regular service assigned by contract.

(b) It shall carry passengers on a round-trip basis, except between those ports between which it may carry one-way passengers on its regular service assigned by contract.

(c) It shall embark passengers only at domestic ports on the same seacoast of the United States as that to which the vessel is assigned on its regular service.

(d) It shall stop at other domestic ports only for the same time and the same purposes as is permitted with respect to a foreign-flag vessel which is carrying passengers who embarked at a domestic port.

The section further provides that section 605(c) of the Act shall not apply to cruises.

S. 2498 would amend section 613; (1) by eliminating the requirement that the cruise shall begin and end at a domestic port or ports on the same seacoast of the United States from which the operator conducts the regular service to which it is assigned; (2) by permitting the vessel to carry one-way passengers between ports that are on another operator's regularly assigned service but not on the cruise vessel's regularly assigned service, if the other operator consents; and (3) by permitting the operator to disembark passengers at one domestic port who were embarked at another domestic port either when this is not in competition with another American flag passenger vessel or if it is in competition with such a carrier, if the carrier consents.

Our interpretation of S. 2498 is that it would not require reduction of operating differential subsidy under section 605(a) of the Act or payback of construction-differential subsidy under section 506 of the Act if the cruise operator embarks passengers at one domestic port and disembarks them at another domestic port. These sections apply only when the vessel is operating on its regular assigned service.

H.R. 12605 is identical to S. 2498, but contains an additional provision specifically providing that the penalty provisions of section 605(a) and section 506 would not apply to such passenger vessel cruise operations in the domestic trades.

We have no objection to either bill.

Eliminating the requirement that the cruise begin and end on the same seacoast of the United States from which the operator conducts his regular assigned service will not be prejudicial to other American-flag vessel operators because under subsection (d) of the section, the Secretary cannot approve a cruise unless he determines, after notice to persons who may be affected and an opportunity for them to present written data, views, and arguments, that the cruise will not substantially adversely affect an existing operator's service performed with American-flag passenger vessels.

Permitting cruise vessels to carry one-way passengers between ports on another operator's assigned service which are not on the cruise vessel's assigned service, if the other operator consents cannot adversely affect the other operator because that operator will not consent if he will be adversely affected. The same is true of the provision of the bill that would permit cruise vessels to embark passengers at one domestic port and disembark them at another domestic port.

These provisions of the bills may enable American-flag passenger vessels to earn some additional revenue. As the Committee knows, American-flag passenger vessels have been having substantial financial problems and are in need of any assistance that can reasonably be extended to them.

We have the following subsidized passenger vessels at the present time:

Vessels	Passenger accommodations
Argentina.....	557
Brasil.....	557
Monterey.....	365
Mariposa.....	365
Santa Paula.....	300
Santa Rosa.....	300
Santa Magdalena Class (4 ships) (each).....	125
Independence.....	1, 088
Constitution.....	1, 088
Atlantic.....	854
President Cleveland.....	686
President Wilson.....	686
President Roosevelt.....	450
United States.....	1, 930

The *Argentina*, *Brasil*, *Independence*, *Constitution* and *Atlantic* are in lay-up, and the future operation of the *United States* is in doubt. The remaining passenger vessels that cruised in 1969 are the *President Cleveland*, *President Wilson*, *President Roosevelt*, the *Monterey*, the *Mariposa* and the *United States*. The latest firm earnings figures we have for these vessels is for 1968, and in that year all of these vessels were in a loss position after subsidy except the *Monterey* and *Mariposa*.

American flag passenger vessels are having continuing financial problems. The bills may be of some assistance to them.

The Bureau of the Budget advises that while there is no objection to the submission of this report to the Committee, the Bureau believes that the Committee will wish to consider whether H.R. 12605 and S. 2498, in permitting subsidized passenger vessels to engage in coastwise or intercoastal trade without loss of subsidy, are consistent with the basic purpose of operating-differential subsidies under the Merchant Marine Act, 1936, which are premised on the need to provide essential service on a route or line in the foreign commerce of the United States in competition with foreign flag operators.

Sincerely,

WILLIAM E. MURANE,
Acting General Counsel.

Senator LONG. Our first witness this morning will be Mr. Robert Blackwell, the Deputy Maritime Administrator.

We are pleased to have you here, sir.

STATEMENT OF HON. ROBERT J. BLACKWELL, DEPUTY MARITIME ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. BLACKWELL. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to present the views of the Maritime Administration and the Department of Commerce with respect to H.R. 12605 and S. 2498.

Section 613 of the Merchant Marine Act, 1936, provides that the Secretary may permit passenger vessels that are being operated with operating-differential subsidy, to cruise off their essential trade routes for not exceeding two-thirds of each year—but for not more than 7 months of each year to ports regularly served by another subsidized passenger vessel—if the Secretary makes the following findings:

(1) That the operation of the vessel on the trade route is not necessary for this period in order to furnish adequate service.

(2) After notice to all other American-flag operators who may be affected and after affording all such operators an opportunity to submit written data, views or arguments, with or without

opportunity to present the same orally, and after consideration of all relevant matter presented, that the specific cruise proposed will not substantially adversely affect an existing operator's service performed with American-flag passenger vessels.

The section defines a passenger vessel as a vessel of not less than 10,000 gross tons with passenger accommodations for not less than 100 passengers.

The section also provides that the cruises it authorizes must begin and end at a domestic port or ports on the same seacoast of the United States from which the operator conducts his regular service and that when the vessel is being operated on cruises—

(a) It shall carry no mail unless required by law, or cargo except passengers' luggage, except between those ports between which it may carry mail and cargo on its regular service assigned by contract; that is, the subsidy contract.

(b) It shall carry passengers on a roundtrip basis, except between those ports between which it may carry one-way passengers on its regular service assigned by contract.

(c) It shall embark passengers only at domestic ports on the same seacoast of the United States as that to which the vessel is assigned on its regular service.

(d) It shall stop at other domestic ports only for the same time and the same purposes as is permitted with respect to a foreign-flag vessel which is carrying passengers who at U.S. domestic ports.

The section further provides that section 605(c) of the act, that is, the Merchant Marine Act of 1936, shall not apply to cruises.

S. 2498 would amend section 613: (1) by eliminating the requirement that the cruise shall begin and end at a domestic port or ports on the same seacoast of the United States from which the operator conducts the regular service to which it is assigned; (2) by permitting the vessel to carry one-way passengers between ports that are on another operator's regularly assigned service but not on the cruise vessel's regularly assigned service, if the other operator consents; and (3) by permitting the operator to disembark passengers at one domestic port who were embarked at another domestic port either when this is not in competition with another American-flag passenger vessel or if it is in competition with such a carrier, if that carrier consents.

Our interpretation of S. 2498 is that it would not require reduction of operating-differential subsidy under section 605(a) of the act or payback of construction-differential subsidy under section 506 of the act if the cruise operator embarks passengers at one domestic port and disembarks them at another domestic port. These sections apply only when the vessel is operating on its regular assigned service.

H.R. 12605 is identical to S. 2498, but contains an additional provision specifically providing that the penalty provisions of section 605(a) and section 506 of the Merchant Marine Act would not apply to such passenger vessel cruise operations in the domestic trades.

We have no objection to either bill.

Eliminating the requirement that the cruise begin and end on the same seacoast of the United States from which the operator conducts his regular assigned service will not be prejudicial to other American-

flag vessel operators because under subsection (d) of the section, the Secretary cannot approve a cruise unless he determines, after notice to persons who may be affected and an opportunity for them to present written data, views, and arguments, that the cruise will not substantially adversely affect an existing operator's service performed with American-flag passenger vessels.

Permitting cruise vessels to carry one-way passengers between ports on another operator's assigned service which are not on the cruise vessels assigned service, if the other operator consents cannot adversely affect the other operator because that operator will not consent if he will be adversely affected. The same is true of the provision of the bill that would permit cruise vessels to embark passengers at one domestic port and disembark them at another domestic port.

These provisions of the bill may enable American-flag passenger vessels to earn some additional revenue. As the committee knows, American-flag passenger vessels have been having substantial financial problems and are in need of any assistance that can reasonably be extended to them.

At the present time we have the following subsidized vessels under contract:

The *Argentina* with accommodations for 557 and the *Brasil* with a like number of accommodations. The *Monterey* and the *Mariposa* with 375 accommodations each.

Senator LONG. What steamship lines are those two ships, the *Argentina* and the *Brasil*?

Mr. BLACKWELL. That is Moore-McCormack Steamship Line, and the *Monterey* and *Mariposa* are with the Oceanic Steamship Co.

The *Santa Paula* and *Santa Rosa* have accommodations for 300 passengers each.

The *Paula* and the *Rosa* and the *Magdalena* class ships of which there are four, and which carry 125 passengers each, are all with Grace Lines, sir.

The *Independence* and the *Constitution* each carry 1,088 passengers, and those ships belong to American Export Isbrandtsen Line, as well as the *Atlantic* which has 854 passengers.

The *President Cleveland* and the *President Wilson* each have accommodations for 686 passengers. They are operated by American President Lines, as well as the *President Roosevelt* which has accommodations for 450 passengers.

The SS *United States* which has accommodations for 1,930, of course is operated by United States Lines.

The *Argentina*, the *Brazil*, *Independence*, *Constitution*, and *Atlantic* are now in layup, and the future operation of the SS *United States* is in doubt. The remaining passenger vessels that cruised in 1969 are the *President Cleveland*, *President Wilson*, *President Roosevelt*, the *Monterey*, the *Mariposa* and of course the SS *United States*. The latest firm earnings figures we have at the Maritime Administration for these vessels is for 1968, and in that year all of these vessels were in a loss position after subsidy except the *Monterey* and *Mariposa*.

American-flag passenger vessels are having continuing financial problems. The bills may be of some assistance to them, and the Maritime Administration has no objection to them.

Senator LONG. Can you give me some idea as to how much subsidy is required to keep these ships operating and how much they have contributed to our favorable balance of payments?

Mr. BLACKWELL. I don't have those figures before me, Mr. Chairman. I do know one figure offhand—and I will be very happy to make those figures available for the record—I do know that the SS *United States* receives something in the order of \$12 million a year for the operation of that ship, which is operated by the United States Lines. I believe the figure is \$12.4 million. Despite this rather large expenditure of Government funds, that ship after subsidy is in the net loss position amounting to some \$5 million a year from its operations.

Senator LONG. Can you tell me how much that ship contributed to our balance of payments? Did you have any information on that?

Mr. BLACKWELL. I do not have any specific information on that. The balance of payments is somewhat illusive. It does indeed earn money from American passengers, from passengers embarking at this country who might otherwise take foreign airplanes or indeed foreign ships.

Senator LONG. I would think that if a passenger went by ship, he wanted to go by ship. If that is the case and he went on a foreign flagship and not on ours the foreign nation would have earned the dollars instead of this nation.

So, I think when you add up the factors that justify the subsidy, we would be in a position to translate those. Maybe you can provide those to the committee.

Mr. BLACKWELL. We will do the best we can to provide those figures to the committee, Mr. Chairman.

(The information requested follows:)

The six passenger ship companies (12 ships) after having generated \$91,865,806 of revenue and having received \$46,574,938 in operating subsidy sustained a net loss of \$14,886,478 from passenger ship operations.

The revenues and net profits (losses) for 1968 are shown below:

Company	Revenue	Net profit (loss)
AEIL.....	11,040,044	(5,966,567)
APL.....	16,627,843	(3,883,665)
Grace.....	18,214,102	877,729
Mormac.....	13,614,897	(2,572,545)
Oceanic.....	15,497,936	2,130,747
USL.....	16,870,984	(5,472,177)
Total.....	91,865,806	(14,886,447)

In the above table it is shown that two companies, Grace and Oceanic, had a net profit after subsidy from passenger operations. The remaining four companies sustained losses of some \$17,894,954, again after subsidy. In order to place these companies in a break-even position it may be assumed that they would require additional subsidy to the extent of their losses. Based on 1968 operations, the total amount of subsidy required to keep all 12 ships operating would then be the \$46,574,938 plus \$17,894,954 for a grand total of \$64,469,892.

About 73% of the total revenue received from passenger operations may be said to contribute to out favorable balance of payments. Based on 1968 operations, this would amount to approximately 67 million dollars.

Senator LONG. I like to work out some way of explaining to someone the argument for anything I vote for, and you ought to be in a position to support your program with facts and figures available for it.

Mr. BLACKWELL. As you know, Mr. Chairman, there is nothing in this bill which in any way limits the subsidy otherwise available to

American-flag passenger vessels under the subsidy. This bill is a rather limited liberalization of certain cruise restrictions placed on the American-flag operators when they go off their regular routes to cruise.

Senator LONG. I do not see any reason why we shouldn't pass this bill but these are items relevant to it.

How many of our passenger flag ships are engaged in cruising operations now?

Mr. BLACKWELL. The ships that are subsidized that are considered to be in cruising operations at the present time are the *Cleveland*, the *Wilson*, the *Roosevelt*, the *Monterey*, and the *Mariposa*.

The Matson Navigation Co. operates the *Lurline* in Hawaiian service, but that ship is not subsidized. That ship however, occasionally does go on cruises.

Senator LONG. How many make a profit or are at least break even?

Mr. BLACKWELL. The only ships that are subsidized that cruised and made a profit were the *Mariposa* and the *Monterey*.

Senator LONG. How many Americans take cruises in a year and what percentage used American-flag lines?

Mr. BLACKWELL. I am sorry, I didn't get the question.

Senator LONG. How many Americans take cruises each year?

Mr. BLACKWELL. How do they?

Senator LONG. How many Americans take cruises?

Mr. BLACKWELL. I do not have that figure available, sir.

Senator LONG. Would you provide it? How many of them are using American-flag lines? If you don't have the first, I don't imagine you would have the second, but you can provide it.

Mr. BLACKWELL. I think we can get those figures for you, sir. I think the number of Americans taking American-flag cruise ships is rather nominal simply because of an overpreponderance of foreign-flag ships offering the type of service from our various ports, particularly Florida.

Statistics compiled by the Immigration and Naturalization Service of the United States Department of Justice show that during the fiscal year ending June 30, 1969, 439,800 citizens departed from the United States on cruise voyages by sea, of which total 28,284 were on U.S.-flag ships.

Senator LONG. Now, the new maritime program outlined by the administration did not contain any provisions for passenger ships. Secretary Stans and Mr. Gibson said you are working on that. What progress have you made?

Mr. BLACKWELL. We have been engaged for a considerable amount of time in conversations with various passenger operators, hopefully leading to an agreement to operate passenger ships essentially under one corporate entity.

This would be done for the purpose, largely, to eliminate the overhead that attends the type of passenger operations.

Senator LONG. Do you have any studies of the recent passenger business or the expansion of the cruise business?

Mr. BLACKWELL. I don't know whether I could say that we have finite type studies but I am sure we have considerable information that could be gathered that would essentially constitute an adequate report on this subject, Mr. Chairman.

Senator LONG. Do you have any knowledge that carriers would take advantage of this proposed legislation if it is passed?

Mr. BLACKWELL. I know of no specific proposals, but to the extent that carriers are not filling their ships with passengers and are indeed operating on a marginal basis, I think that a considerable number of the carriers that are left—and there aren't many left—would attempt to take advantage of the provisions of this bill.

The bill—this bill would give those operators some additional flexibility that is now denied to them by section 613. I don't think we can pretend that the passage of this bill is going to be that beneficial to American-flag passenger operators. However, I think it is rather clear that this bill will be of some help.

Senator LONG. We are looking for some proposals—and if we don't receive them, then we will try to generate them ourselves—that will be very helpful to the American-flag operators. We are anxious to make the merchant marine a success and also to restore it to its rightful place on the high seas, and we certainly want to work with you on it to achieve that result.

What information do you have relating to the amendment to this bill being proposed by certain persons on behalf of the Commonwealth of Puerto Rico and what is your position on it?

Mr. BLACKWELL. I have been afforded a copy of that document, Mr. Chairman. I haven't had the time to study it with great care, but I have read it, and I believe I understand it.

The amendment that is now proposed by the Commonwealth of Puerto Rico, as I understand it, sir, would enable the Secretary of Commerce to authorize vessels in regular subsidized service, that is, as distinct from vessels operating on cruises, to transport passengers in domestic trades without reduction of operating differential subsidy and partial payback of construction differential subsidy, provided he finds that such domestic service will not result in substantial deviation from the service, route or line which operating differential subsidy is paid and will not adversely affect service on such service route or line.

I believe that there is also involved in that legislation a further protection to lines regularly serving those trades which would require the lines serving those trades on a regular basis to give their consent. This seems to me a logical extension of both the House bill and the Senate bill on which I am now testifying.

There are essentially two trades, I think, where the bill might be applicable in some considerable way. One obviously is Puerto Rico in as much as this bill apparently has been sponsored or this amendment has been sponsored by the Commonwealth of Puerto Rico.

The other of course, is its potential applicability to service to Hawaii. At the present time there is no passenger service of any sort from the United States to Puerto Rico by regular lines under subsidies or indeed very occasionally by cruise.

I think this bill would assist Puerto Rico in attracting passengers by ship. I think it would additionally allow the passengers operators who do not now call at Puerto Rico because of the requirement to pay back, to increase their carrying somewhat and be in a better position.

So, consequently, I think that the bill is advantageous to the Commonwealth as well as to any line that would be interested in serving Puerto Rico from the United States.

The other side of the coin is there is no one here to be injured. There is no domestic operator presently affording service to Puerto Rico.

The bill is also limited, as I understand it, in that this type of ex-

tension of service to Puerto Rico without payback has to be incidental or ancillary to an essential foreign service. In other words, we are not opening the door in this bill to completely subsidizing a passenger service in domestic trade. It has to be a segment or a facet of a passenger liner operation which essentially is in foreign service. So, essentially, the bill is supplementary in that respect.

I think there are obvious advantages to the bill, as I say, for the American merchant marine, for individual carriers, and for the Commonwealth and indeed for the passengers that would use these ships, both the American passenger citizens and foreign.

On the other hand, the bill could cause some problems to people who have interests in Hawaii. However, there is ample protection there because the current operator providing nonsubsidized passenger service to Hawaii is Matson, and under the protections written into the amendment proposed by the Commonwealth, no additional service could be provided there under this amendment unless Matson consented. If it obviously felt that there would be no competitive injury to it, it would very likely consent. If Matson felt it had to protect that trade because it operates essentially without subsidy, then it would not give its consent.

Senator LONG. Senator Inouye.

Senator INOUE. Thank you very much, Mr. Chairman.

Mr. Blackwell, I appreciate the Administration's position on both these bills and on the Puerto Rico one. My question relates to a possible further amendment to the bill. This present bill, as I understand it, applies to operating-differential subsidies and construction-differential subsidy. Now for a ship to be in foreign trade, I presume you can have a ship built in a foreign yard, can you not?

Mr. BLACKWELL. You can. Any American can build a ship abroad for foreign trade, but that ship is not entitled to receive Government support in terms of direct subsidy support either through—obviously, if it is built abroad it would not get construction subsidy and it would not be qualified for operating subsidy.

Senator INOUE. I realize that. This is either one or the other. We are giving certain benefits to those who are operating under these subsidies. What would you say if this bill also applied to those who built their ships in foreign yards? In other words, an amendment to the Jones Act? Theoretically, is it not the same thing?

Mr. BLACKWELL. I really do not think so, Senator Inouye. The responsibilities of the Maritime Administration are quite clearly defined to protect the American merchant marine, which includes not only the ships that fly U.S. flags but in a sense the yards that build those ships in American shipyards. That type of an amendment would in a sense be of some type of concession or benefit to operators who built their ships abroad. I do not think it is in keeping with the Administration's merchant marine program or indeed the policies that are set forth in the Merchant Marine Act of 1963.

Senator INOUE. The construction-differential subsidy is to make up for the difference between the cost or construction in a foreign yard and an American yard?

Mr. BLACKWELL. Right.

Senator INOUE. Therefore, by providing these extra benefits to those who are operating under subsidies, you do not think that

theoretically it would be the same if it applied to those who built in foreign yards?

Mr. BLACKWELL. I would like to say I am not sure that even if we acquiesced in your position, sir, that the bill would materially assist any U.S.-flag passenger operator who operates ships built abroad, because the difficulties that the American operators are having now are not necessarily the cost of their ships. Many of these ships are old, they have been on the seas 10 or 12 years. While most of our merchant marine is becoming more and more competitive with or without subsidy, that fact is due to the change in the industry, which is changing the cargo carrying capacity from essentially labor intensive to capital intensive. I think this was reflected in the last round of union agreements that were negotiated with the seagoing union. However, the problems that the passenger ships have is that they are still labor intensive. They are staffed by very, very significant numbers of highly paid seagoing personnel. It is this problem I think that is causing them to operate at a considerable strain.

Senator INOUE. Can you submit for the record how much money the Government saves each year through reduction of operating subsidy under section 605(a) and payback of construction subsidy under section 506? Is most of that a result of subsidized passenger ships providing a Hawaii service?

(The information requested follows:)

The total refund of operating-differential subsidy (Sec. 605(a)) for calendar year 1968 was \$2,876,800. Of this amount \$499,983, or 21.0% was attributable to passenger ships all of which were providing Hawaii service.

The total refund of construction-differential subsidy (Sec. 506) for calendar year 1968 was \$425,626, of which \$48,547, or 12.9% was a result of passenger ship operations, all of which were providing Hawaii service.

Together the Section 605(a) and Section 506 refunds totaled \$3,302,426 for 1968. Of this grand total \$548,530, or 16.6%, resulted from passenger ship operations.

Senator INOUE. Mr. Blackwell, I am appreciative of the position taken by the Administration. I think it is about time that we got a bit more realistic about our merchant marine. I think your position on these bills should, as you say, help our industry, although slightly, but I think it will help.

I thank you very much, Mr. Chairman.

Senator LONG. Thank you, sir.

Mr. BLACKWELL. Thank you, Mr. Chairman.

(The following letter was received from Senator Griffin:)

NOVEMBER 10, 1969.

HON. ROBERT J. BLACKWELL,
*Deputy Administrator, Maritime Administration,
Department of Commerce, Washington, D.C.*

DEAR MR. BLACKWELL: I regret that my schedule did not permit me to be in attendance at the hearing held last Friday, November 7th, before the Subcommittee on Merchant Marine of our Senate Committee on Commerce concerning the bills H.R. 12605 and S. 2498. However, I have been advised of your testimony and that of the other witnesses concerning these two measures.

In this connection, I am attaching several questions and would appreciate receiving your response to them for possible insertion in the hearing record on the two bills.

Thank you.

Sincerely,

ROBERT P. GRIFFIN,
U.S. Senator.

Question 1. What will be the estimated cost, if any, of the bill, H.R. 12605, if enacted with the House language contained in the last sentence of the proposed new subsection 613(c) concerning no reduction in either construction or operating-differential subsidy as now provided for under Section 506 and subsection 605(a) respectively?

Question 2. What do you estimate will be the increased cost, if any, if the bill, H.R. 12605, is enacted with the House language concerning no loss of subsidy where a segment of the cruise is in the coastal or intercoastal trade, plus the amendment offered before the Subcommittee by the Honorable Jorge Luis Córdova so as to enable American-flag passenger ships to serve Puerto Rico?

Question 3. Does the Maritime Administration and the Department of Commerce support (a) the House amendment concerning no loss of either construction or operating-differential subsidy under Section 506 and subsection 605(a) respectively, and (b) the amendment offered by the Resident Commissioners of Puerto Rico which would enable American-flag passenger ships to serve Puerto Rico?

U.S. DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington, D.C., January 23, 1970.

HON. ROBERT P. GRIFFIN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR GRIFFIN: Thank you for your letter of November 10, 1969 enclosing several questions concerning the bill H.R. 12605, and subsequent communication. We are pleased to comment on your questions as follows:

1. Question. What will be the estimated cost, if any, of the bill, H.R. 12605, if enacted with the House language contained in the last sentence of the proposed new subsection 613(c) concerning no reduction in either construction or operating-differential subsidy as now provided for under section 506 and subsection 605(a) respectively?

Answer. The last sentence of the proposed new subsection 613(c) provides that under specified conditions, when a cruise vessel embarks passengers at one domestic port and disembarks them at another domestic port, the provisions of section 605(a) requiring a reduction of operating-differential subsidy and section 506 requiring the partial payback of construction-differential subsidy will not apply.

There would not be any additional cost attributable to the bill as cruising vessels do not now provide this service, confining their operations to where they are not subject to the penalty provisions of section 605(a) and section 506.

If H.R. 12605 is enacted without the last sentence of the proposed new subsection 613(c), concerning no reduction of operating or partial payback of construction subsidy, we do not believe cruising vessels would find it profitable to embark passengers at one domestic port and disembark them at another domestic port, but would continue to confine their operations to where they are not subject to the penalty provisions of section 605(a) and section 506.

If H.R. 12605 is enacted with the last sentence of the proposed new subsection 613(c) concerning no reduction of operating or partial payback of construction subsidy, to the extent cruising vessels found it profitable to embark passengers at one domestic port and disembark them at another domestic port, there would be a loss to the Government of the reduction of operating-differential subsidy and partial payback of construction-differential subsidy otherwise payable. At this time we are unable to project what this loss would be as it would depend upon the market found to exist for this passenger service.

2. Question. What do you estimate will be the increased cost, if any, if the bill, H.R. 12605, is enacted with the House language concerning no loss of subsidy where a segment of the cruise is in the coastal or intercoastal trade, plus the amendment offered before the Subcommittee by the Honorable Jorge Luis Córdova so as to enable American-flag passenger ships to serve Puerto Rico?

Answer. The amendment to the bill offered by the Honorable Jorge Luis Córdova would authorize the Secretary of Commerce to permit passenger vessels to provide domestic service between specified ports and under certain limitations without reduction of operating-differential subsidy and partial payback of construction-differential subsidy. At the present time there is no passenger vessel service between Puerto Rico and the United States, and we understand this amendment to the bill was proposed in order to provide such service.

As in question No. 1 above, there would not be any additional cost as these passenger vessels do not now provide this service, but there would be a loss to the Government of the reduction of operating-differential subsidy and partial payback of construction-differential subsidy to the extent this domestic service is provided. Again, we are unable to project what this service would be.

3. *Question. Does the Maritime Administration and the Department of Commerce support (a) the House amendment concerning no loss of either construction or operating-differential subsidy under section 506 and subsection 605(a) respectively, and (b) the amendment offered by the Resident Commissioner of Puerto Rico which would enable American-flag passenger ships to serve Puerto Rico?*

Answer. The Maritime Administration and the Department of Commerce have no objection to H.R. 12605 as passed by the House of Representatives, and with the further amendment offered by the Resident Commissioner of Puerto Rico. United States-flag passenger vessels are having continuing financial problems. These provisions of the bill may be of assistance by enabling them to earn some additional revenue.

Your interest in the bills H.R. 12605 and S. 2498 is greatly appreciated.

The Bureau of the Budget advises that while there is no objection to the submission of this report, the Bureau believes that the Congress will wish to consider whether H.R. 12605 and S. 2498, in permitting subsidized passenger vessels to engage in coastwise or intercoastal trade without loss of subsidy, are consistent with the basic purpose of operating-differential subsidies under the Merchant Marine Act, 1936, which are premised on the need to provide essential service on a route or line in the foreign commerce of the United States in competition with foreign flag operators.

If we can be of further assistance, please advise.

Sincerely,

ROBERT J. BLACKWELL,
Deputy Maritime Administrator.

Senator LONG. Our next witness will be Mr. Jorge Luis Córdova the Resident Commissioner of the Commonwealth of Puerto Rico.

STATEMENT OF HON. JORGE LUIS CÓRDOVA, RESIDENT COMMISSIONER, COMMONWEALTH OF PUERTO RICO, ACCOMPANIED BY EDWARD SCHMELTZER, COUNSEL TO COMMONWEALTH OF PUERTO RICO

Mr. Córdova. Thank you, Mr. Chairman. Sitting with me is Mr. Edward Schmeltzer, counsel for the Commonwealth of Puerto Rico.

I have a prepared statement. It will not be necessary for me to read all of it. Some of the grounds have already been covered by Mr. Blackwell. It would be repetitious for me to go into it. I will read parts of it and summarize parts of it and will indicate this as I go along. I would ask that the prepared statement be taken as my direct statement.

Senator LONG. Yes.

(The statement follows:)

STATEMENT OF JORGE LUIS CÓRDOVA, RESIDENT COMMISSIONER, COMMONWEALTH OF PUERTO RICO

Puerto Rico has a great need for regular passenger service between ports in Continental United States, particularly the Port of New York and San Juan. At one time, Bull Lines offered passenger service with regular passenger vessels and on freighters between the Port of New York and Puerto Rico and other lines, such as Alcoa Steamship Company offered to carry passengers on freighters. For the last few years, however, there has been no passenger service from North Atlantic ports and the only passenger service from other coastal areas has been on freighters which carry a maximum of twelve persons. As will be shown, the air routes between Continental United States and Puerto Rico, particularly New

York to San Juan, are among the most heavily trafficked air routes in the world and there is a great market for transporting passengers by ocean between the Port of New York and San Juan.

Puerto Rico is deprived of ship passenger service by maritime laws which were intended only to promote and not to restrict the United States Merchant Marine. H.R. 12065, as passed by the House of Representatives would enable American-flag cruise ships to transport passengers between the Continent and Puerto Rico. But cruise service because of its seasonal characteristics would provide only sporadic service. Puerto Rico needs and should have regular passenger service.

Attached to my written statement is a copy of a proposed amendment to H.R. 12605, as passed by the House of Representatives, which would enable American-flag passenger ships to serve Puerto Rico at regular intervals and, we think at a profit.

Need for Amendment to Section 613, Merchant Marine Act, 1936

We have no doubt that foreign flag ships could institute regular passenger service between Continental ports and Puerto Rico at a profit. Foreign flag lines, however, are prohibited from serving the trade by the cabotage laws. See, 46 U.S.C. 289. The present request of Puerto Rico for an amendment to H.R. 12605 is in no way a criticism of the cabotage laws. Moreover, it has been amply demonstrated that generally, American flag vessels cannot carry passengers without subsidy.¹ We think that American flag ships could develop a healthy passenger liner business if they were not required to pay back subsidy to the extent they provide *domestic* service as part of their foreign voyages.

Sections 506 and 605(a) of the Merchant Marine Act, 1936, however, require a reduction of operating differential subsidy and partial pay back of construction differential subsidy for operating in the domestic trades, e.g., between Continental United States and Puerto Rico. The amendment now proposed by the Commonwealth of Puerto Rico would enable the Secretary of Commerce to authorize vessels in regular subsidized liner service to transport passengers in domestic trades without reduction of operating differential subsidy and partial pay back of construction differential subsidy, provided he "finds that such domestic service will not result in a substantial deviation from the service, route or line for which operating differential subsidy is paid and will not adversely affect service on such service, route or line."

In the case of the Puerto Rico trade, the amendment we propose will not result in any additional cost to the United States. There are liner vessels providing regular scheduled subsidized service from New York to South America. Because under existing law, they would be required to pay back operating or construction differential subsidy, these vessels by-pass Puerto Rico even though there is a demand for this service and the vessels are not operating at full capacity. Our amendment would allow subsidized passenger liners to call at Puerto Rico as part of their regular foreign subsidized service. This, in turn, would provide Puerto Rico with much needed passenger service and make the subsidized voyage more profitable without additional cost to the government.

Need of Puerto Rico for Service

Puerto Rico needs passenger service for a number of reasons. First, because of an almost total lack of natural resources, Puerto Rico relies to a large degree on tourism to generate desperately needed jobs and resolve its chronic unemployment. Last year 1,070,000 tourists visited Puerto Rico and spent \$230 million—a significant contribution to this island's economy. More than 90 percent of those tourists visiting Puerto Rico came by air. Cruise ships now calling at Puerto Rico brought the remainder. Supplementing cruises with regular service so that passengers could stay in Puerto Rico as long as they like would be a further important contribution to the tourism segment of Puerto Rico's economy.

Second, Puerto Rico is attractive as a site for conventions. Some of the people who want to attend many large conventions, however, prefer not to fly or even refuse to fly. Indeed, Puerto Rico has lost conventions because ship passenger service was not available. Thus, our proposal to amend Section 613, Merchant Marine Act, 1936 would help Puerto Rico's convention business.

Third, many people who must go from the mainland to Puerto Rico or from Puerto Rico to the mainland on business or family visit trips would prefer the leisure of a short voyage to the speed of the airplane. There is no way they can now enjoy such travel. Moreover, the wives of many businessmen might join them in Puerto Rico or on the mainland if ship service were provided.

¹ The only unsubsidized American flag passenger ship is the *Lurline* operated by Matson Navigation Co. between California and Hawaii.

In short, there is an important need for Puerto Rico to be served by ship and there is an important existing passenger market for ships in the Puerto Rican trade.

Availability of Berths on American Flag Ships in Service or in Lay-Up Status

The fine ships that constitute the American flag passenger fleet are identified at page 4 of House Report No. 91-518, 91st Congress, to accompany H. R. 12805. The report notes that the *Independence* and *Constitution* formerly operated by American Export-Isbrandtsen lines have been laid up, the *Argentina* and *Brazil*, owned by Moore-MacCormack Lines have been withdrawn from service, and only the *Monterey*, *Mariposa*, *Santa Paula* and *Santa Rosa* are operating profitably, after subsidy.

The *Santa Paula* and *Santa Rosa* under the banner of the Grace Line provide regular service every two weeks between New York (Friday), Curacao (Tuesday), Caracas (Wednesday), Aruba (Thursday), Kingston (Saturday), Port-Au-Prince (Sunday), Fort Lauderdale (Tuesday), and return to New York Thursday. The *Santa Paulo* and *Santa Rosa* sail by Puerto Rico on their northward and southward legs. Puerto Rico passenger service could be fit into the itinerary of either or both of these ships and probably would make the voyage more profitable, provided there were no subsidy reductions.

The Grace Line also operates four other ships identified as the *Santa Magdalena* class which would also be ideal for Puerto Rico passenger service. These four ships can carry 125 passengers per voyage together with cargo in containers. Three of these ships operate on 19 day voyages and the fourth has a 39 day turn around. The 19 day service calls at Santo Domingo in the Dominican Republic immediately after leaving New York. It takes only a few hours to steam from Santo Domingo to San Juan. We understand that the *Santa Magdalena* ships are full of cargo but often have space available for passengers. These ships would also be ideal for Puerto Rico regular passenger service and we think they would benefit from this business.

The Grace ships are the only ones now in operation that are likely to serve San Juan from New York on a regular basis. We would hope that the new business generated by the Puerto Rico service would be great enough to warrant an increase in U.S. flag Caribbean and South American service. This could be provided by reactivation of the *Argentina* or *Brazil* of Moore-McCormack Lines or other American flag passenger ships that have been laid up because they have not been able to operate profitably.

Our proposed amendment, of course, is not designed to benefit Puerto Rico only. Similar passenger service could be provided in other coastwise or intercoastal trades; for example, between Florida and New York, the east coast and west coast of the United States, and between the Continental United States and Guam.

The fact is that the U.S. has a fine passenger fleet that is operating at a far from optimum efficiency. We think our proposed amendment of Section 613 of the Merchant Marine Act of 1936 will be a healthy source of revenues for these ships and at the same time satisfy an important need for Puerto Rico.

Protection of Nonsubsidized Carriers

The proposed amendment could in no way harm American flag cargo or passenger services now serving the domestic trades. Section (d)(1) of the proposed Bill attached to this statement specifically prohibits transportation of cargo either on cruises or regular passenger service authorized under Section (c). The only exception is that vessels authorized to carry passengers in domestic trades under the proposed Bill may carry cargo on their "regular service assigned by contract." The regular service assigned by contract, of course, would be foreign service and could not include service between Continental United States and Puerto Rico.

Moreover, Section 805(a) of the Merchant Marine Act, 1936 prohibits subsidized carriers from operating in the domestic intercoastal or coastwise service without the written permission of the Secretary of Commerce. The Secretary may not grant the application if he finds it "would result in unfair competition to any person, firm or corporation operating exclusively in the coastwise or intercoastal service or that it would be prejudicial to the objects and policy of the Act." Passenger ships operating in domestic trades pursuant to the proposed amendment to Section 613 would not, in our opinion, have any greater claim in applying for Section 805(a) permission than any other carrier. The last sentence in Section (d)(3) of the proposed amendment specifically provides that "nothing herein shall be construed to repeal or modify Section 805(a) of this Act."

Nor do we think that the amendment could be detrimental to American flag lines that provide passenger service in domestic trade without subsidy. We think that Section (d)(3) of the proposed Bill would prohibit "transportation in the domestic offshore trade in competition with a United States flag passenger vessel offering berth service therein" without the "consent of such carrier."

In summary, Puerto Rico has a vital need for passenger service which we think could be fulfilled if the proposed amendment were enacted. There would be virtually no cost to the government and there could be no harm to existing American flag cargo or passenger carriers now serving domestic offshore trades. The Governor and people of Puerto Rico pray that you enact this amendment to Section 613 of the Merchant Marine Act.

SECTION 613, MERCHANT MARINE ACT, 1936, AS AMENDED (46 U.S.C. 1183)

SEC. 613. (a) In this section, "passenger vessel" means a vessel which (1) is of not less than ten thousand gross tons, and (2) has accommodations for not less than one hundred passengers.

(b) If the Secretary of Commerce finds that the operation of any passenger vessel with respect to which a contract for the payment of an operating-differential subsidy has been entered into under section 601 of this title effective before January 2, 1960, is required for at least one-third of each year, but not for all of each year, in order to furnish adequate service on the service, route, or line covered by such contract, he may amend such contract to agree to pay an operating-differential subsidy for operation of the vessel (1) on such service, route, or line for such part of each year, and (2) on cruises for all or part of the remainder of each year if such specific cruise is approved by the Secretary of Commerce under subsection (e) of this section: Provided, however, That no such vessel may cruise for more than seven months of each year to ports which are regularly served by another United States-flag passenger vessel pursuant to an operating-differential subsidy contract.

(c) *The Secretary of Commerce may authorize passenger vessels under operating-differential subsidy contracts to provide domestic service between specified ports while the vessels are on voyages in an essential service in the foreign commerce of the United States without reduction of operating-differential subsidy and the partial payback of construction differential subsidy for operating in the domestic trades, if he finds that such domestic service will not result in a substantial deviation from the service, route, or line for which operating-differential subsidy is paid and will not adversely affect service on such service, route, or line.*

(d) When a vessel is being operated on cruises or has been authorized under this section to provide domestic passenger services on voyages in foreign trade—

(1) it shall carry no mail unless required by law, or cargo except passengers' luggage, except between those ports between which it may carry mail and cargo on its regular service assigned by contract;

(2) it may not carry one-way passengers between those ports served by another United States carrier on its regular service assigned by contract, without the consent of such carrier, except between those ports between which it may carry one-way passengers on its own regular service assigned by contract;

(3) it shall stop at other domestic ports only for the same time and the same purpose as is permitted with respect to a foreign-flag vessel which is carrying passengers who embarked at a domestic port, except that a cruise may end at a different port or coast from that where it began and may embark or disembark passengers at other domestic ports, either when not involving transportation in the domestic offshore trade in competition with a United States-flag passenger vessel offering berth service therein, or, if involving such transportation, with the consent of such carrier: Provided, however, That nothing herein shall be construed to repeal or modify section 805(a) of this Act.

Section 605(e) of this Act shall not apply to cruises authorized under this section. Notwithstanding the applicable provisions of Section 605(a) and Section 506 of this Act requiring the reduction of operating differential subsidy and partial payback of construction differential subsidy for operating in the domestic trades, such reduction of operating subsidy and partial payback of construction subsidy under Section 605(a) and 506, respectively, shall not apply to cruises or domestic service authorized under this section.

(e) Upon the application of any operator for approval of a specific cruise, the Board, after notice to all other American flag operators who may be affected and after affording all such operators an opportunity to submit written data, views or arguments, with or without opportunity to present the same orally in any manner,

and after consideration of all relevant matter presented, shall, if it determines that the proposed cruise will not substantially adversely affect an existing operator's service performed with passenger vessels of United States registry, approve the proposed cruise. Such approval shall not be given more than two years in advance of the beginning of the cruise.

Mr. CORDOVA. Puerto Rico once had passenger service which was perhaps adequate to our needs. Our needs are much greater now and we now have no passenger service, no ship passenger service. All of our transportation as far as passengers are concerned is by air.

Now let us go into the question of the amendment we propose, what it might mean. I will read a part of the statement. It goes into the question of possible cost.

In the case of the Puerto Rico trade, the amendment we propose will not result in any additional cost to the United States. There are liner vessels providing regular scheduled subsidized service from New York to South America. Because under existing law, they would be required to pay back operating or construction differential subsidy, these vessels bypass Puerto Rico even though there is a demand for this service and the vessels are not operating at full capacity. Our amendment would allow subsidized passenger liners to call at Puerto Rico as part of their regular foreign subsidized service. This, in turn, would provide Puerto Rico with much needed passenger service and make the subsidized voyage more profitable without additional cost to the Government.

The next couple of pages go to Puerto Rico's need for the service, not only for people who cannot travel by air, but for our tourist industry which is a vital part of our economy and could be increased considerably.

Now I also remark in my prepared statement on the availability of American ships, specifically, the *Santa Paula* and the *Santa Rosa* of the Grace Line, which are going right by Puerto Rico on their regular runs to Venezuela and elsewhere in the Caribbean but do not touch because they would lose their subsidy. They could very easily stop at Puerto Rico and take passengers.

Senator LONG. That would be a very nice break in the trip, too.

Mr. CORDOVA. That is right. I am sure the passengers would welcome it.

Senator LONG. Just to get that in my mind, where do those ships originate from? Is it the New York area?

Mr. CORDOVA. They do. Most of the Puerto Rican traffic originates in the New York area.

Senator LONG. How long does it take for those ships to get from New York to the Puerto Rican area?

Mr. CORDOVA. It should be about 3 days.

Senator LONG. How long does it take to get from there all the way down to Venezuela?

Mr. CORDOVA. An additional day.

Senator LONG. After a person has been aboard ship for 3 days, that would be very nice to have a chance to get off.

Mr. CORDOVA. Right now their services is outlined at the bottom of page 6. They leave New York on Friday, they get to Curacao on Tuesday, Caracas Wednesday, Aruba Thursday, Kingston Saturday, Port-au-Prince Sunday, and Fort Lauderdale Tuesday. They could easily stop Monday in Puerto Rico.

In addition to that there are four other ships in the *Santa Magdalena* class which would also be suitable for the Puerto Rico passenger service, and which ships of this class now touch Santo Domingo, a very short trip could bring them into San Juan.

The Grace ships, at the bottom of page 7, are the only ones now in operation that are likely to serve San Juan from New York on a regular basis. We would hope that the new business generated by the Puerto Rico service would be great enough to warrant an increase in U.S.-flag Caribbean and South American service. This could be provided by reactivation of the *Argentina* or *Brasil* of Moore-McCormack Lines or other American-flag passenger ships that have been laid up because they have not been able to operate profitably.

Our proposed amendment, of course, is not designed to benefit Puerto Rico only. Similar passenger service could be provided in other coastwise or intercoastal trades; for example, between Florida and New York, the east coast and west coast of the United States, and between the continental United States and Guam.

The proposed amendment could in no way harm American-flag cargo or passenger services now serving the domestic trades. Section (d)(1) of the proposed bill attached to this statement specifically prohibits transportation of cargo either on cruises or regular passenger service authorized under section (c). The only exception is that vessels authorized to carry passengers in domestic trades under the proposed bill may carry cargo on their "regular service assigned by contract." The regular service assigned by contract, of course, would be foreign service and could not include service between continental United States and Puerto Rico.

Moreover, section 805(a) of the Merchant Marine Act, 1936 prohibits subsidized carriers from operating in the domestic intercoastal or coastwise service without the written permission of the Secretary of Commerce. The Secretary may not grant the application if he finds it "would result in unfair competition to any person, firm or corporation operating exclusively in the coastwise or intercoastal service or that it would be prejudicial to the objects and policy of the Act." Passenger ships operating in domestic trades pursuant to the proposed amendment to section 613 would not, in our opinion, have any greater claim in applying for section 805(a) permission than any other carrier. The last sentence in section (d)(3) of the proposed amendment specifically provides that "nothing herein shall be construed to repeal or modify section 805(a) of the act."

Nor do we think that the amendment could be detrimental to American-flag lines that provide passenger service in domestic trade without subsidy. We think that section (d)(3) of the proposed bill would prohibit "transportation in the domestic offshore trade in competition with a U.S.-flag passenger vessel offering berth service therein" without the "consent of such carrier."

In summary, Puerto Rico has a vital need for passenger service which we think could be fulfilled if the proposed amendment were enacted. There would be virtually no cost to the government and there could be no harm to existing American-flag cargo or passenger carriers now serving domestic offshore trades. The Governor and people of Puerto Rico pray that you enact this amendment to section 613 of the Merchant Marine Act.

Thank you, Mr. Chairman.

Senator LONG. Thank you very much, sir. I think you have made a good case for your position.

Senator INOUE?

Senator INOUE. Thank you, Mr. Chairman.

At the present time there is no regular passenger service from the mainland United States to Puerto Rico, is there?

Mr. CORDOVA. There is not.

Senator INOUE. This is just a technical question. If your amendment is approved by the Congress and enacted into law, what would happen if subsequent to that some shipping company institutes regular passenger service from the mainland United States to Puerto Rico?

Mr. CORDOVA. If they do, they could object—refuse to give their consent to the continuance of any service that might then be operating, such as the Grace Line service if they decided to stop at San Juan. Of course, I believe the Senator's question is really academic. I just do not see anybody becoming interested in the service in the light of the experience heretofore.

Senator INOUE. I meant to ask Mr. Blackwell this question. On this consent provision, all the regular passenger company has to do is say we do not consent?

Mr. CORDOVA. That is right.

Senator INOUE. They have to give no reasons?

Mr. CORDOVA. Absolutely. It is not a question of their convincing someone to exercise their discretion of their withholding consent. That is the way I understand it.

Senator INOUE. You have done a great job, Mr. Cordova. I hope that the subcommittee and the full committee will go along with the amendment.

Mr. CORDOVA. Thank you, Senator.

Senator LONG. Our last witness is Mr. Warren Titus, president of the American President Lines Passenger Services.

STATEMENT OF WARREN TITUS, PRESIDENT, AMERICAN PRESIDENT LINES PASSENGER SERVICES, INC., WASHINGTON, D.C., ON BEHALF OF THE LINER COUNCIL OF THE AMERICAN INSTITUTE OF MERCHANT SHIPPING, ACCOMPANIED BY JOHN N. THURMAN, VICE PRESIDENT, GRACE LINE, INC., WASHINGTON, D.C.

Mr. TITUS. Mr. Chairman, Senator Inoue: I am Warren Titus, president of the American President Lines Passenger Services, Inc. I am accompanied by Mr. John Thurman, vice president of W. R. Grace Co., and we appear before you on behalf of the Liner Council of the American Institute of Merchant Shipping, Inc. The Liner Council consists of the presidents of those 14 steamship lines that hold subsidy contracts with the U.S. Government. Included are all American-flag steamship lines that operate passenger vessels in the foreign service. In this testimony I also represent Matson Navigation Co., which operates in domestic service and which is the only major U.S.-flag passenger service not represented by the Liner Council of AIMS.

I appreciate the opportunity to appear before your committee in support of H.R. 12605, which is designed to convey a much needed legislative authorization to U.S.-flag passenger operators. Since the enactment of the original cruise law 87-45 in May 1961 much has been learned about cruise type ship operations. That legislative authorization has been responsible for permitting American-flag passenger carriers to compete with the concerted efforts of foreign-flag lines that have capitalized on the cruise business from U.S. ports. Nevertheless, I can assure this committee that the foreign-flag operator enjoys a very distinct advantage in competing for the American tourist dollar. As an illustration I offer the example of the round the world schedule of the S.S. *Rotterdam* of the Holland America Line. The *Rotterdam* is scheduled to depart from New York in January 1970, proceed eastbound, arriving in San Francisco 65 days later. There is nothing to prevent *Rotterdam* from landing anywhere she stops, passengers who embarked at New York or elsewhere. It is rather remarkable that if the S.S. *United States* were to schedule the identical cruise, she could not under existing U.S. statutes book passengers other than from New York to New York.

The purpose of H.R. 12605 is to provide greater flexibility in the operation of U.S.-flag passenger ships on cruises. Specifically, we seek legislative authority to perform one-way carriage of passengers, along with the privilege of beginning or terminating our cruises on different coasts of the United States. H.R. 12605 contains this flexibility while at the same time protecting the rights of U.S.-flag passenger carriers on their regular assigned service. The proposed amendment to the Merchant Marine Act of 1936 does not make any change in the provisions for the carriage of cargo, but merely to the transport of passengers and their personal baggage.

I would now like to explain our proposed amendment in more detail.

Referring to the existing act, subsection 613(c) requires that cruises must begin and end at a domestic port or ports on the same seacoast of the United States from which the operator operates or conducts the regular service to which the vessels are assigned. That is, an operator engaging in regular service from the east coast of the United States to northern Europe could begin and end cruises from the east coast, but not from the gulf or west coasts. As long as the interests of other U.S.-flag operators are otherwise protected on their regular service, we consider this language to be unnecessary and unduly restrictive. Accordingly, the first sentence of 613(c) has been omitted in the proposed amendment. Ancillary thereto, subsection 613(e) in the present law defines the respective coasts of the United States. If the restriction as to coasts with respect to beginning and ending cruises is removed, then the definition of coasts becomes unnecessary. Therefore, subsection 613(e) is stricken in the proposed amendment.

Subsection (c)(2) of the existing law requires that passengers be carried on a round trip basis except between those ports between which a vessel may carry one-way passengers on its regular service assigned by contract. For example, a ship that might stop at Yokohama and Hong Kong on its regular service, and that also stopped at Yokohama and Hong Kong on a cruise, would be permitted to carry one-way passengers between those two points on a cruise.

However, another ship, that does not have these two points on its regular service, could not do so on a cruise. No U.S.-flag passenger ship on a cruise could carry passengers between two ports that might not fall on the regular service of any U.S.-flag ship, because they would be constrained to round trip passage. These restrictions do not apply to foreign ships, and appear to be an unnecessary penalty to U.S.-flag operators. The revised subsection (c)(2) preserves the interest of any U.S. passenger line with regular service between ports sought to be served by cruise ships, unless the regular carrier gives his consent and thereby waives his interest. Otherwise, it will permit one-way passage between ports on cruises.

Subsection (c)(3) of the present act restrict embarkation to domestic ports on the same seacoast of the United States as that to which the vessel is assigned on its regular service. This is an unnecessary restriction in managing cruises, and retention of this language would be inconsistent with the deletion of the first sentence of subsection (c) and the striking of subsection (e).

Subsection (c)(4) of the present act imposes upon U.S.-flag ships the same restrictions as are imposed upon foreign-flag ships with respect to time and purposes of stops at domestic ports when carrying passengers embarked at a domestic port. These restrictions were placed on foreign-flag operations in order to preserve the domestic passenger trade to U.S.-flag ships. Their application to U.S.-flag subsidized operators by subsection (c)(4) serves to preserve the interests of the U.S.-flag unsubsidized operator in the domestic trade. The proposed new subsection (c)(3) will retain all the safeguards in present law and at the same time provide greater flexibility in cruise operations where there is no threat to the purposes of those safeguards: that is, exceptions are made which permit a cruise to start or end at any coast, and passengers may be embarked or disembarked at ports other than the port at which originally embarked—but, with two important provisions:

First, "either when not involving transportation in the domestic off-shore trade in competition with a U.S.-flag passenger vessel offering berth service therein." For example, if there is no berth service servicing Mobile, Ala., a cruise ship may stop therein for more time than the 24, or qualified 48, hours available to a foreign-flag ship, and could embark or disembark passengers at Mobile. On the other hand, a U.S.-flag berth service is provided to Honolulu, so other U.S.-flag carriers on cruises would be subjected to the same restrictions as foreign-flag ships at Honolulu, unless the regular carrier should grant permission to do otherwise, or unless the other carrier held an exemption under section 805(a) of the Merchant Marine Act of 1936.

Second, a provision is included that "nothing herein shall be construed to repeal or modify section 805(a) of this act." Section 805(a) precludes operations by a subsidized operator in the intercoastal or coastwise service without approval of the Secretary of Commerce, who is directed to deny such application if it would result in unfair competition.

Section 605(a) and section 506 of the Merchant Marine Act of 1936 require the reduction of operating subsidy and the partial payback of construction differential subsidy for operating in the domestic trades.

H.R. 12605 specifically provides that reduction of operating subsidy and partial payback of construction subsidy do not apply to cruises authorized under section 613.

Overlying all of the foregoing is the steadily declining presence of the U.S.-flag passenger ship in the ports of the world. In fact, there are so few of them left that likelihood of their working competitive injury on each other is quite remote and easily controllable. On the other hand, if these ships are to continue to operate, they deserve the maximum flexibility and opportunity that can justifiably be provided to them.

Our passenger ships provide many jobs for American seamen and companion industries and also permit the flag and the image of the United States to be exposed in many ports of the world. Also our vessels make a substantial contribution to the balance of payments and the conservation of dollars in the American economy. Enactment of the proposed legislation will not in and of itself assure a profitable operation, as the problems confronting American-flag passenger operations are too varied and complex to be resolved by this bill. I am convinced, however, that passage of this legislation will make a significant contribution to our endeavors.

Mr. Chairman and members of the committee, we urge passage of H.R. 12605 and I want to thank you for the opportunity to appear before you today.

Senator LONG. We are very happy to have you, Mr. Titus. You have made a fine presentation. I can't quite understand why we have so many limitations on what an American ship operator can do. A lot of them seem to be completely outdated I take it.

Mr. TITUS. I join in that feeling, sir.

Senator LONG. As far as I can see, I think all your suggested amendments are well taken. What do you think about the proposal by the Commonwealth of Puerto Rico?

Mr. TITUS. I cannot speak for AIMS because AIMS as an association has not had an opportunity to discuss it. I can speak for American President Lines and say that we do not oppose it.

Mr. Thurman of W. R. Grace is far more directly involved and perhaps he would like to comment on it. I do not know of any individual passenger lines that are in opposition to it.

Mr. THURMAN. Mr. Chairman, a few weeks ago the Council for the Commonwealth of Puerto Rico and I discussed this proposition because I guess we are about the only passenger ship company who could serve Puerto Rico as they requested. I have taken it up with the officials of our company in the operating division. We would have to look into it very thoroughly, of course because it would mean slight adjustments in our scheduling, steaming times and so forth, and present obligations on the trade routes we serve.

However, I think there is a distinct possibility that we could work it out and perhaps for the first time in quite a number of years people could go by ship to Puerto Rico.

Senator LONG. I cannot understand why you would be limited under the law to requiring on a cruise that you have to book the passengers on a round trip. People are busy nowadays, and if they can go to some place, South America or some other foreign country, many times they just do not have the time to take the cruise both

ways. They want to go one way by ship and fly back or vice versa. Would that not offer you more flexibility in what you can offer passengers, if you could offer them a one-way ship?

Mr. TITUS. We are operating under laws that are archaic as they relate to the present passenger ship operation, and it might be well to talk a little bit about cruising, if I may, sir.

Senator LONG. Yes, sir.

Mr. TITUS. The popular image of cruising is a number of elderly people in deck chairs or running around in evening gowns in beautiful ballrooms. Cruising involves everybody today from the stenographer to the very wealthy. Cruising does not involve necessarily a round voyage from New York to New York or San Francisco to San Francisco. In our case at least a third of our total sales involve interline sales. They may fly out to Japan and take our interport operation from Japan to Manila and Hong Kong and then to Japan and back home. This is the kind of flexibility that we are trying to achieve. We need this to compete with our foreign-flag competitors who do exactly this.

Senator LONG. We are preparing in the Finance Committee to repeal about 100 pages of outdated legislation that has to do with taxes that people pay; sections that are seldom used; many of them completely unnecessary. It seems to me we ought to take a good look at these restrictions and repeal as many of these as we do not need.

Before air transportation, the only way one would get to Hong Kong or to Yokohama or Manila would be by ship. So you were thinking in terms of round trips because you had to come back by round trip or you had to swim. Nowadays, when more people are going by air and getting there so much more quickly it makes all the sense in the world to look upon the ocean cruise as something of a luxury where you get a chance to meet the people who are on the same ship going over, getting acquainted and enjoying shipboard life some, and then to fly back when you have finished your cruise or the other way around.

It came as a surprise to me to know that you had that limitation.

Thank you very much for your statement.

Mr. THURMAN. Mr. Chairman, if I might, I would like to make one or two short observations. I do not want to be so presumptuous to speak for Mr. Blackwell, but in his statement when he was calling the *Rosa Paula*, it is printed in the record that we carry 300 passengers. He inadvertently said 500.

Also in his statement, he discussed the difference between the House and the Senate bills, and the House bill has a slight amendment in it. I believe that we would prefer the House version because, as he points out in his written statement, in the Senate version they have interpreted that section 605(a) would not apply.

Senator LONG. Senator Inouye.

Senator INOUE. Mr. Chairman, I agree with you that our merchant marine laws should be brought up to date, and I think these amendments will help in that sense.

Mr. Titus, you gave an example of the *Rotterdam*. If these amendments are approved by the Congress would you be able to compete with the *Rotterdam* on an equal basis?

Mr. TITUS. We would. We do have an around-the-world service. It is very questionable that we will have one after the one that is

departing in December because the *Roosevelt* is close to the end of her life and it is questionable she will be operating that vessel year from now.

We do have a situation in this around-the-world cruise. Because of the closure of the Suez we have to divert from our regular around-the-world service to the Mediterranean. We are coming around Capetown and up the west coast of South Africa, up to London and over to Fort Everglades, Jamaica, the Panama Canal and to the west coast again. We cannot carry passengers under the existing bill between Bermuda and San Francisco. We have requested permission from Jamaica to San Francisco as a specific case, and we have had that authorization from the Maritime Administration as an exception. Under the bill we do not have that authority.

This bill would give authority to take passengers from London, Bermuda, Fort Everglades, wherever we wanted to pick them up.

Senator INOUE (presiding). What percentage of your passengers are foreign passengers?

Mr. TITUS. We book a very small percentage, Senator. I would say certainly not more than 20 percent of our passengers originate at the Orient ports are citizens of the people we serve. This would vary by time, of course, but not more than 20 percent.

Senator INOUE. Would these amendments make it easier for you to attract foreign passengers?

Mr. TITUS. This would not affect our Far East service. It would make it easier for us if when we are cruising to attract passengers out of Canada if we were cruising up to Vancouver, out of Mexico if we were cruising in Mexico.

Senator INOUE. So you could get some foreign money?

Mr. TITUS. We could get some one-way business which we are not getting.

Senator INOUE. I thank you very much. I hope the subcommittee and the full committee will expeditiously look upon these measures with favor.

Mr. THURMAN. Chairman Long mentioned a little earlier is the cruise business expanding. It is expanding at an unbelievable rate, but not for us as American operators. For example, 10 years ago there were approximately 60 foreign-flag cruise operators sailing out of the U.S. ports with almost exclusively U.S. citizens cruising in the Caribbean. Today there are 360 foreign vessels serving our ports to the Caribbean.

Mr. TITUS. I think it might be noted that this is an industry that probably grosses in this country alone in excess of a quarter of a billion dollars a year. It is an industry that is not peculiar to the United States. We think of cruising out of the States. Actually there is a very substantial cruise market out of the United Kingdom and Western Europe and out of Australia and to a much lesser degree cruising out to the Far East. Australia, Western Europe and the United Kingdom have very substantial cruising. So, it is not unique to this country.

In my judgment, in 10 years' time the sales of cruise and cruiselike business in the United States alone will approximate a billion dollars a year, and this is an industry that is very sensitive, very much involved in our balance-of-trade problems.

We are talking about legislation today that certainly will not contribute to maintaining a viable American-flag passenger ship. I think we have to recognize this. The problem we are faced with is

we are operating ships that in most cases are overaged, they are close to the end of their career. We are operating ships that were designed for another time and another purpose. There is not a ship operating under U.S. flag today that is suitable for cruising in competition with the modern foreign-flag cruise vessels. This is what we are faced with.

What we need is a new generation of American-flag vessels if we are going to participate in this very lucrative international market.

Senator INOUE. I have two other questions, Mr. Titus. These amendments somehow affect regular passenger vessels. How many regular unsubsidized passenger vessels are operating now?

Mr. TITUS. There is one, the *Lurline*.

Senator INOUE. Is that the only one?

Mr. TITUS. That is the only ship under American flag.

Senator INOUE. So, in other words, for all intents and purposes, no one is going to get hurt?

Mr. TITUS. Not to my knowledge; no, sir. Hawaii would be the only place if you are talking about the Puerto Rico amendment. Hawaii is the only instance where you have a domestic carrier that could be injured.

Senator INOUE. I recall as a young man when it was rather popular to travel on these freighters where they had accommodations for about 14 passengers. Do you think it would be helpful if we encouraged this type of activity?

Mr. TITUS. Well, it is very much in existence. Certainly the subsidized American-flag companies, ourselves, and Grace Line, operate 12-passenger freighters. You have no flexibility with them. They have to be locked into their primary purpose which is their cargo trade. They cannot deviate for particular passengers, and they have very excellent passenger accommodations, they are very modern, but they must stay on their cargo trade routes.

Senator INOUE. You can drop them off anywhere you want to?

Mr. TITUS. Yes; pretty much, within the trade route; yes.

Senator INOUE. There is no restriction as to roundtrips or anything like that?

Mr. TITUS. You mentioned your younger days. You recall that you had four domestic passenger ships at one time operating to Hawaii. I started my working career working for the Inter-Island Steamship Co. of Honolulu.

Senator INOUE. I think it is about time these changes were made. I am sure the committee will look upon these measures with good favor. I thank you very much.

The hearings are closed.

(Whereupon, at 11:10 a.m. the subcommittee was adjourned.)

OFFICE OF THE SECRETARY OF TRANSPORTATION,
DEPUTY UNDER SECRETARY,
Washington, D.C., December 31, 1969.

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

DEAR MR. CHAIRMAN: This is in reply to your request for the views of this Department with respect to H.R. 12605, an Act "To amend section 613 of the Merchant Marine Act, 1936, as amended."

H.R. 12605 is similar to S. 2498, which was introduced in the Senate on June 26 of this year. Our views are equally applicable to both proposals.

The subject Act would amend the Merchant Marine Act to eliminate the requirement that a cruise must begin and end at a domestic port or ports on the same seacoast of the United States from which the operator conducts its regular service. It would permit a vessel to carry one-way passengers between ports that are on another operator's regularly assigned service but not on the cruise vessel's regularly assigned service, if the other operator consents. In addition, it would permit an operator to disembark passengers at one domestic port who were embarked at another domestic port either when this is not in competition with another American flag passenger vessel or, if in competition with such a carrier, with the consent of that carrier.

The purpose of the foregoing liberalizing provision is to enable American-flag passenger vessels to earn additional revenue through offering the public cruise itineraries and services more fully competitive with those now offered by foreign flag vessels.

The subject Act would also settle the question of whether subsidized passenger vessels engaged in the coastwise or domestic trade as a part of a cruise under the liberalized provisions of section 613 are subject to the provisions of sections 506 and 605(a) of the Merchant Marine Act, which respectively require a partial pay back of construction-differential subsidy and a reduction of operating subsidy when a vessel was operating on other than an essential trade route. The Act would specifically exempt the passenger vessel cruises from the provisions of sections 506 and 605(a).

It is clear that, under the subject Act, there would be a substantial dilution of operating subsidy funds paid to maintain essential routes as a result of greater utilization of the vessels in the cruise trade. Serious questions could be raised as to the "essentiality" of a route on which a vessel was needed for an indeterminate portion of the year. A thoughtful examination of the operations of a vessel subject to extensive diversion might suggest more effective utilization of operating subsidy funds.

This Department is therefore concerned about the proposed further relaxation of the requirements contained in section 613, and its effect upon the essential trade route concept underlying the granting of operating differential subsidies. We are concerned that further departure from the current limitations on cruise operations might well transform the operating subsidy into a support primarily for a luxury and leisure service not previously encompassed within the essential trade route philosophy.

For the foregoing reasons we would not favor enactment of either H.R. 12605 or S. 2498.

The Bureau of the Administration has advised that there is no objection from the standpoint of the Administration's program to the submission of this report for the Committee's consideration.

Sincerely,

CHARLES D. BAKER.

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