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MERCHANT MARINE MISCELLANEOUS

GOVERNMENT

DOCUMENTS

Part 1

Storage

MAY 18 1974

KANSAS STATE UNIVERSITY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON

MERCHANT MARINE AND FISHERIES

HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

ON

Negotiated Contracting

H.R. 6187

A BILL TO AMEND SECTION 502(a) OF THE MERCHANT MARINE ACT, 1936

MAY 24, 1973

Capital Construction Funds—Noncontiguous Trade

H.R. 7395, S. 902

BILLS TO AMEND SECTION 607(k)(8) OF THE MERCHANT MARINE ACT, 1936, AS AMENDED

JULY 26, 1973

Transfer of NS Savannah

H.R. 9450

A BILL TO AUTHORIZE THE SECRETARY OF COMMERCE TO TRANSFER THE NS SAVANNAH TO THE CITY OF SAVANNAH

SEPTEMBER 11, 1973

Sale of SS Independence

H.R. 8586

A BILL TO AUTHORIZE THE FOREIGN SALE OF THE PASSENGER VESSEL STEAMSHIP INDEPENDENCE

SEPTEMBER 20, 1973

Serial No. 93-21

Printed for the use of the Committee on Merchant Marine and Fisheries

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MERCHANT MARINE MISCELLANEOUS

Negotiated Contracting

THURSDAY, MAY 24, 1973

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The Subcommittee on Merchant Marine met in room 1334, Longworth Office Building, pursuant to call, at 10:05 a.m., Hon. Frank M. Clark (chairman of the subcommittee) presiding.

Mr. CLARK. The meeting will please come to order.

This morning we open hearings on H.R. 6187, a bill that would amend section 502(a) of the Merchant Marine Act of 1936 to extend for 3 years the negotiating authority contained in that section, provided that the statutory productivity goals are met. I joined the chairman and other members of the committee in introducing this bill at the request of the Department of Commerce.

Direct negotiations can often produce a better result than competitive bidding, but the concept of competitive bidding for large sums of the taxpayer's money is so deeply ingrained that we must proceed cautiously to insure that necessary safeguards are maintained.

This morning we look forward to receiving testimony from the Maritime Administration, the American Institute of Merchant Shipping, and the Shipbuilder's Council of America. The Comptroller General reported that they had no comments to offer on the bill, and declined to testify.

[H.R. 6187 follows:]

[H.R. 6187, 93d Cong., first sess.]

A BILL to amend section 502(a) of the Merchant Marine Act, 1936

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the third sentence of section 502(a) of the Merchant Marine Act, 1936 (46 U.S.C. 1152(a)), is amended as follows:

(1) By striking out "June 30, 1973" and inserting in lieu thereof "June 30, 1976".

(2) By striking out the words "and 41 per centum in fiscal 1973" and inserting in lieu thereof the words "41 per centum in fiscal 1973, 39 per centum in fiscal 1974, and 37 per centum in fiscal 1975, and 35 per centum in fiscal 1976".

[Executive Communication No. 616]

THE SECRETARY OF COMMERCE,
Washington, D.C., March 20, 1973.

HON. CARL ALBERT,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Enclosed are four copies of a draft bill to amend section 502(a) of the Merchant Marine Act, 1936, together with a statement of purposes and provisions in support thereof.

We have been advised by the Office of Management and Budget that there would be no objection to the submission of our proposed legislation to the Congress and further that its enactment would be consistent with the Administration's objectives.

Sincerely,

FREDERICK B. DENT,
Secretary of Commerce.

[The draft bill became H.R. 6187.]

STATEMENT OF THE PURPOSES AND PROVISIONS OF THE DRAFT BILL "TO AMEND SECTION 502 (a) OF THE MERCHANT MARINE ACT, 1936"

Section 505 of the Merchant Marine Act, 1936, provides that all construction in respect of which a construction-differential subsidy is allowed shall be performed as a result of competitive bidding. This provision was in the Merchant Marine Act, 1936, prior to the enactment of the Merchant Marine Act of 1970. One of the purposes of the Merchant Marine Act of 1970 was to bring the shipyards into the design work on vessels so as to achieve economies of production. To accomplish this, it was necessary to provide a means whereby it would not be necessary for a shipyard to put its design up for competitive bidding, because the shipyard that developed the design, at its own expense, might not be the lowest responsible bidder.

The Merchant Marine Act of 1970, therefore, amended section 502(a) of the Merchant Marine Act, 1936, to provide that notwithstanding the provisions of section 505 of the 1936 Act, the Secretary of Commerce is authorized at any time prior to June 30, 1973, to accept a price for construction of a ship that has been negotiated between a shipbuilder and a proposed ship purchaser if (1) the price yields a subsidy that is equal to or less than 45 percent in fiscal 1971, 43 percent in fiscal 1972, and 41 percent in fiscal 1973; (2) the proposed ship purchaser and the shipyard submit backup cost details and evidence that the price is fair and reasonable; and (3) the Secretary finds that the price is fair and reasonable; and (4) the shipyard agrees that the Comptroller General of the United States shall, until 3 years after final payment, have the right to examine any pertinent books, documents or records of the shipyard or its subcontractors related to the negotiation or performance of the contract.

Under section 502 of the Merchant Marine Act, 1936, the Secretary is authorized to contract with a shipyard for construction of the vessel and is required concurrently to contract with the ship purchaser for sale of the vessel upon its completion at the cost of construction less construction-differential subsidy. This section has not been used since enactment of the Merchant Marine of 1970. The provisions of the section with respect to negotiation, however, are incorporated by reference in section 504 of the Merchant Marine Act, 1936, under which the Secretary agrees to pay the shipyard the construction-differential subsidy and the ship purchaser agrees to pay the shipyard the balance of the construction cost.

Since enactment of the Merchant Marine Act of 1970, all contracting for construction of ships has been done under the negotiation authority incorporated into section 504 of the 1936 Act, and awards for 37 new ships have been made.

The draft bill would extend the authority to negotiate to June 30, 1976, and it would provide that the productivity goals that must be met to permit negotiation for fiscal years 1974, 1975 and 1976 are 39 percent, 37 percent and 35 percent respectively.

The authority to negotiate has induced the shipyards to enter the marketing business and as a result they are developing and building standard ships. This authority makes the shipowners and the shipyards aware of the productivity goals, because the authority is available only if the productivity goals are met. This results in negotiating prices downward so the goals can be met.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., May 15, 1973.

HON. LEONOR K. SULLIVAN,
Chairman, Committee on Merchant Marine and Fisheries, House of Representatives, Washington, D.C.

DEAR MADAM CHAIRMAN: With respect to your letter of March 29, 1973, requesting our views on H.R. 6187, 93d Congress, a bill to amend section 502(a) of

the Merchant Marine Act, 1936, this is to advise that we have no comments to offer.

Sincerely yours,

PAUL G. DEMBLING,

(For the Comptroller General of the United States).

Mr. CLARK. Before I call the first witness, Madam Chairman, have you a statement?

Mrs. SULLIVAN. Yes, I would like to make a statement on the bill for the record. It is not long.

This bill would amend section 502(a) of the Merchant Marine Act, 1936, to enact a 3-year extension of the negotiated ship construction price provisions contained in the Merchant Marine Act of 1970, by deleting the present termination date of June 30, 1973.

During the hearings which led to enactment of the Merchant Marine Act of 1970, private industry suggested that to encourage the shipbuilder to seek market opportunities to sell his product it was necessary that there be authority, in appropriate circumstances, and quite naturally under the surveillance of the Government, to negotiate design characteristics and production contracts directly between shipbuilder and shipowner.

The Congress recognized the concern that had been expressed by industry that planned reductions in permissible subsidy could not be realized without this negotiation authority as an alternative to competitive bidding in ship procurement. On this basis, section 502(a) of the act was amended to permit negotiation between the shipyard and purchaser of proprietary designs, as well as those proposed by the Maritime Administration. However, the right to negotiate a ship price was limited to a 3-year trial period ending June 30, 1973.

Subsequent events have now validated the Congress wisdom in permitting the alternative of negotiated contracting. All merchant ship construction contracts awarded U.S. shipyards since October 21, 1970, have evolved from negotiation. These have involved 40 new ships with a total value of approximately \$1.7 billion.

The industry is of the unanimous opinion that continuation of this option beyond June 30, 1973, will produce even more beneficial results in the future and that enactment of this bill is vital to continued progress in the shipbuilding program envisioned by the 1970 amendments to the Merchant Marine Act, 1936.

The third sentence of section 502(a) of the Merchant Marine Act, 1936, would be amended by this bill to read:

Notwithstanding the provisions of the first sentence of section 505 of this act with respect to competitive bidding, the Secretary of Commerce is authorized at any time prior to June 30, 1976, to accept a price for the construction of the ship which has been negotiated between a shipyard and a proposed ship purchaser if (i) the negotiated price will result in a construction-differential subsidy that is equal to or less than 45 per centum in fiscal 1971, 43 per centum in fiscal 1972, 41 per centum in fiscal 1973, 39 per centum in fiscal 1974, 37 per centum in fiscal 1975, and 35 per centum in fiscal 1976; (ii) the proposed ship purchaser and . . .

I think, Mr. Chairman, after we hear these witnesses this morning, and get the information they have, we should be able to move quickly on this proposed legislation.

Mr. CLARK. Thank you very much, Madam Chairman.

The first witness this morning is H. Clayton Cook, Jr., General Counsel, Maritime Administration.

**STATEMENT OF H. CLAYTON COOK, JR., GENERAL COUNSEL
MARITIME ADMINISTRATION**

Mr. Cook. Mr. Chairman and members of the committee, I appreciate this opportunity to appear before your committee to testify on behalf of H.R. 6187. This bill would extend for another 3 years the authority of the Secretary of Commerce to award subsidy for the construction of vessels, on which the price has been established by negotiation between the prospective owner and the shipyard.

Under this authority, a prospective shipowner, rather than soliciting competitive bids from various yards for the construction of that vessel, may now select a shipyard with demonstrated experience and ability, and negotiate directly with that builder for a satisfactory vessel at a reasonable price. Negotiation also encourages a shipyard to become involved in the design of a standardized vessel and to attempt to market that design to several potential purchasers.

Section 505 of the Merchant Marine Act, 1936, provides that all construction for which a construction-differential subsidy is allowed shall be performed as a result of competitive bidding.

The Merchant Marine Act of 1970, amended section 502(a) of the 1936 act, to provide that notwithstanding the provisions of section 505 of the 1936 act, the Secretary of Commerce would be authorized at any time prior to June 30, 1973, to accept a price for construction of a ship that has been negotiated between a shipbuilder and a proposed ship purchaser if (1) the price yields a subsidy rate that is equal to or less than 45 percent in fiscal 1971, 43 percent in fiscal 1972, and 41 percent in fiscal 1973; (2) the proposed ship purchaser and the shipyard submit backup cost details and evidence that the price is fair and reasonable; (3) the Secretary of Commerce finds that the price is fair and reasonable; and (4) the shipyard agrees that the Comptroller General of the United States shall, until 3 years after final payment, have the right to examine any pertinent books, documents, or records of the shipyard or its subcontractors related to the negotiation or performance of the contract.

Under section 502 of the Merchant Marine Act, 1936, the Secretary is authorized to contract with a shipyard for construction of the vessel and is required concurrently to contract with the ship purchaser for sale of the vessel, upon its completion, at the cost of construction less construction-differential subsidy. This section has not been used since enactment of the Merchant Marine Act of 1970. The provisions of the section with respect to negotiation, however are incorporated by reference into section 504 of the Merchant Marine Act, 1936, which provides that the Secretary may agree to pay the shipyard the construction-differential subsidy and for any national defense features and the ship purchaser may agree to pay the shipyard the balance of the construction cost.

The bill would extend the authority to negotiate to June 30, 1976, subject to reducing the rate of subsidy for fiscal years 1974, 1975, and 1976 to 39 percent, 37 percent, and 35 percent respectively.

The Secretary of Commerce was granted authority to accept prices derived from negotiation between a prospective ship purchaser and a shipyard by the Merchant Marine Act of 1970. It was this committee that amended the original draft of the 1970 act to include the negotiating authority. The experience of the past 3 years has borne out

the judgment of your committee; freedom to contract for the construction of a vessel on the basis of negotiation has proved itself a valuable and highly desirable alternative to competitive bidding.

Since passage of the 1970 act, contracts have been awarded for the construction of 37 new ships with a value in excess of \$1.6 billion. These new vessels represent an increase in the carrying capacity of the U.S. merchant marine of over 2.9 million deadweight tons. Vessels for which construction subsidy has been awarded include 10 tankers between 35,000 and 87,000 dwt. 9 barge-carrying LASH ships, 6 very large crude carriers, VLCC's, of more than 200,000 dwt., 6 liquefied natural gas carriers, 4 large roll-in/roll-off van carriers, and 2 versatile combination dry and liquid bulk cargo ships.

Additionally, contracts have been awarded under the 1970 act for 16 conversions of existing conventional freighters into highly efficient containerships.

The final price of each of the 37 new ships and 16 conversions receiving construction subsidy under the 1970 act, resulted from the negotiation of design detail and price between the shipyard and prospective buyer. Shipyards and ship purchasers have demonstrated by their actions a strong preference for a negotiated method of establishing vessel price. Negotiation enhances freedom of choice and permits a prospective owner to select a yard that he believes will best satisfy his requirements. It is consistent with the general practice of shipyards throughout the world. It has the added advantages of promoting ship design by shipyards, encouraging standardization and economies of scale, and eliminating potentially inefficient shipbuilding techniques.

Permit me to elaborate on each of these advantages.

1. FREEDOM OF CHOICE

Under the system of competitive bidding employed pursuant to title V of the Merchant Marine Act prior to 1970, a prospective shipowner was obliged to have his ship built by the lowest responsible bidder, or else pay the difference between that price and the price of the bid he selected. Once the low bidder was determined to be responsible, the shipowner generally selected that bid. Factors such as demonstrated ability and expertise in construction of a particular type of vessel and a yard's ability to perform satisfactorily and deliver vessels on time are crucial to a normal business decision. The negotiated pricing alternative authorized under the 1970 act, permits these important concerns to be given cognizance by a prospective ship purchaser. Low price is only one of several important considerations which a businessman will and must take into account in selecting a shipyard for vessel construction.

2. YARD DEVELOPED SHIP DESIGN

Since shipyards are now free to market their product rather than merely respond to invitations for bids by potential purchasers they are encouraged to develop ship designs both on their own initiative and jointly in cooperation with prospective shipowners. This was one of the principal reasons for originally creating the negotiating authority in the 1970 act. Under a system of competitive bidding, the yards were reluctant to devote their resources to ship design for fear

they would not receive the construction contract and would lose their investment in their design work.

Formerly, when a prospective shipowner wanted a vessel built he would first contact a naval architect who would work out the design specifications and plans. An invitation for bids would then be formally issued. Various yards would respond with their competitive offers. Several shortcomings existed under this system.

First, since the architect was designing the vessel for a particular client and a particular usage, his specifications frequently contained excessive detail. This overspecification of detail tended to increase costs unnecessarily. Negotiation now allows representatives of the yard to meet with the prospective owner and attempt to reduce costs by eliminating unnecessary or unduly costly features, or by adopting a standard design offered by the yard, or by utilizing a more efficient construction technique.

Second, since the naval architect did not design the proposed vessel with a particular yard in mind, unique features of a particular yard, which could result in cost savings and efficiencies in design were not likely to have been given adequate consideration. Negotiation with a particular yard permits taking full advantage of efficiencies unique to that yard.

National Steel and Shipbuilding Co. of San Diego provides us with an example of a yard-developed ship design. Working on their own initiative, NASCO designed an oil-bulk-ore dry and liquid bulk carrier, (OBO). The shipyard obtained a contract for two of these OBOs in June 1971. As a result to their continuing marketing efforts, they obtained a contract for three tankers in June 1972 which are to be built with identical ship lines and machinery as the OBO's. The price of tankers reflect the savings resulting from the use of that yard-developed design. Contracts at Bethlehem, Avondale, General Dynamics, Newport News and Sun Shipbuilding and Dry Dock present further examples of yard-initiated standard vessel designs which have been aggressively marketed.

Another example of economies due to yard involvement in the design of a vessel occurred when States Steamship Co. solicited competitive bids for the construction of their roll-on/roll-off vessels. All the bids received were unacceptably high. Subsequent negotiation between the company and Bath Iron Works produced an acceptable price level due to changes in the design of the vessel.

3. STANDARDIZATION

Another price advantage realized from a negotiated system of ship purchasing is that it encourages standardization. The tremendous costs allocated to each ship for tooling up to build only one or two ships are significantly reduced when a yard produces multiple vessels of a standard design.

During the Second World War, Henry Kaiser demonstrated that the cost savings and efficiencies inherent in standardization could apply as well to the construction of ships as they did the construction of automobiles. The Japanese experience over the past decade has demonstrated only too well that when a prospective shipowner can approach a yard and take advantage of a standard design which the yard has adopted, cost savings will be the result.

The price of each of three roll-on/roll-off vessels awarded to Bath Shipyard in June 1972 was \$37.8 million. By exercising its option in December of that year, States Steamship Co. purchased a fourth ship at a total cost of \$35.1 million. Moreover, that contract was awarded at a decreased subsidy rate, which provided a substantial savings for the American taxpayers.

We expect that an extension of the authority to approve negotiated prices will give industry an added impetus to continue to develop improved techniques which will further reducing the cost of ship construction and improve the position of American shipyards in world competition.

Standardization and large volume production result in what economists call "economies of scale." The more vessels of a given design that are produced, the lower the cost for each vessel. Economies of scale are due to several factors:

First, the construction of more than one ship permits yards to secure a discount on their acquisition of materials due to the volume purchasing. This volume discount applies to most of the materials which are required in the construction of a vessel.

Second, design costs and startup expenses may be amortized over a larger number of vessels. Consequently, the costs charged to each vessel will be lower.

Third, as the yard and its employees become familiar with a particular design, their work becomes more efficient because of the development of expertise and experience. Progress occurs at a faster rate and errors tend to diminish. There is evidence that efficiency increases on each vessel built in a series until the "learning curve" flattens out, at which point further increases in efficiency due to this factor diminish.

Fourth, as a shipyard and prospective shipowner become familiar with the costs associated with a vessel of a particular design, contingency funds and other precautionary cost cushions can be reduced or eliminated. Experience on similar ships permits the shipyard to reduce "contingencies" and "cushions" to the minimum, thereby reducing costs.

There are several disadvantages associated with competitive bidding which are eliminated by a negotiated system of determining vessel prices. Under a system of competitive bidding, all interested shipyards must prepare and submit proposals. These bid proposals are prepared by each yard at a substantial expense which is lost to every yard except the one to whom the contract is awarded. This is a necessary expense of operations under such a system, but it constitutes a substantial and unnecessary waste of time, talent, and opportunity to the shipbuilders who do not obtain the contract and to the maritime industry as a whole.

Moreover, a system of negotiation significantly reduces the possibility that overly optimistic bids will be submitted to get the contract in the hope that change orders can be priced sufficiently high to make the contract profitable.

The authority of the Secretary of Commerce to approve construction subsidy on a vessel—the price of which is established by negotiation—is available only if the subsidy rate does not exceed the ceiling on those rates as established by the 1970 act. The 1970 act established a

declining scale of ceilings for construction subsidy rates. Since passage of the 1970 act, construction subsidy rate ceilings have been reduced from 55 percent of the cost of the vessel prior to enactment of the act to 41 percent in 1973.

By 1976, the construction subsidy rate guideline will be 35 percent. American shipyards have succeeded in meeting these reductions in subsidy and have accepted the challenge of reducing costs of construction. This success is a significant accomplishment and is a testimony both to the ingenuity of American shipyards and to the effectiveness of cost reductions worked out by the parties through the negotiation process. The fact that negotiated prices can be accepted by the Secretary of Commerce only if the statutory productivity goals are achieved and the price is fair and reasonable is a strong incentive for shipyards to meet these goals.

There might be some concern that a contract based on a negotiated price could be subject to carelessness, collusion, rebates, and other practices which competitive bidding is designed to prevent. Our recent experience does not indicate this to be a real problem.

When a construction-differential subsidy rate has been established in advance, as it was for the LASH vessels ordered by Delta, Waterman, and Central Gulf, the owner realizes a reduction in his costs to the extent he obtains through the negotiation reductions in the contract price. Despite Government construction subsidy, the prospective owner must himself pay the greater part of the costs for the construction of his vessel. Consequently, the owner's self-interest dictates that he must negotiate for the best price he can get. This incentive alone is sufficiently strong to keep the negotiated price as low as possible.

The proposed ship purchaser and the shipyard must submit to the Secretary of Commerce backup cost details and evidence that the price is fair and reasonable. This cost information is carefully analyzed by the Maritime Administration to determine that the proposed price is, in fact, fair and reasonable. Moreover, the shipyard agrees that the Comptroller General of the United States will have, until 3 years after final payment, the right to examine any and all pertinent books, documents, or records of the shipyard or its subcontractors concerning the negotiation or performance of the contract. These requirements provide the Government with added assurance that the negotiated price is fair and reasonable.

In conclusion, the experience of the past 3 years in negotiated procurement has been highly favorable. Merchant ships can be and are being built at costs as low as, and I believe lower than, can be achieved under a system of competitive bidding. As I have previously stated, contracts have been awarded for the construction of 37 new vessels and for 16 conversions of existing vessels, all based on negotiation between owner and builder.

Thus far, no complaints have been received by the Maritime Administration from any shipyard or shipowner. On the contrary, industry enthusiastically favors a negotiated technique for awarding ship construction contracts.

Moreover, the Commission on American Shipbuilding, created by the 1970 act to review the status of U.S. shipbuilding industry and recommend a course of action to improve the competitive position of the U.S. shipbuilding industry in world shipbuilding markets, has

found negotiated contracting to be effective and desirable and has endorsed its continued use.

This concludes my statement, Mr. Chairman. I will now be happy to answer any questions that you or members of the committee may have regarding this bill.

Mr. CLARK. Thank you.

I have five questions which I am going to read to you. In the interest of time, I would like to have you respond for the record. Some of these questions may require lengthy answers.

1. Would the American shipbuilding industry be able to meet the declining CDS rates provided by the Merchant Marine Act of 1970 if they are denied an extension of authority to negotiate with the ship purchaser? If so, why not?

2. Does the Comptroller General make it a practice to examine pertinent books, documents, or records of the shipyard or its subcontractors related to the negotiation or performance of the contract? In this regard, have they ever brought any irregularities to your attention?

3. On page 12 you state that no complaints with respect to negotiated contracting have been received from any shipyard or shipowner. Has the General Accounting Office, or anyone else, ever complained to MarAd? If so, who, and what was the nature of the complaint?

4. When you say on page 9 that "The authority of the Secretary of Commerce to approve construction subsidy on a vessel—the price of which is established by negotiation—is available only if the subsidy rated does not exceed the ceiling on those rates as established by the 1970 act," are you saying that unlike competitive bidding, the CDS rates must be at or below the statutory requirements before the Secretary of Commerce could approve construction subsidy on a vessel?

5. On page 10 you say that the recent experience of MarAd does not indicate that irregularities resulting from a negotiated price are a real problem. What do you mean by a real problem? Do you consider it a problem at all?

Mr. Cook. Thank you, Mr. Chairman.

[Answers to foregoing questions follow:]

ANSWERS TO QUESTIONS SUBMITTED BY CONGRESSMAN CLARK

1. While I am confident that the American shipbuilding industry would meet the declining CDS rates provided by the Merchant Marine Act of 1970 under a system of competitive bidding, the extension of the negotiated contracting authority should assist the industry in meeting these goals. Negotiated contracts require bargaining between the shipowner and shipyard, which may well result in a reduction in the domestic price of the purchased vessel below what would be available under competitive bidding.

2. The Comptroller General has not made it a practice to examine the books and records of shipyards or subcontractors relating to the negotiation or performance of their contracts. The staff of the GAO has examined pertinent pricing materials at two of the shipyards which were awarded contracts and discussed their examination with the staff of the Maritime Administration. The Comptroller General has never brought any irregularities to our attention.

3. As indicated in our response to the previous question, the staff of the GAO has informally discussed pricing and procedures of two shipyards with respect to negotiated contracts with the staff of the Maritime Administration. They have suggested to members of the staff of the Maritime Administration certain changes in MarAd procedures to insure that prices are the lowest possible. The Maritime

Administration has agreed to take cognizance of the staff recommendations by GAO in future negotiated price contracting. The GAO has never formally complained to MarAd about any of the contracts which have been negotiated and has not field a report on these contracts. It is our understanding that the GAO declined to testify on the proposed legislation and we assume that they do not oppose its enactment. In summary, we have received no complaints from the Comptroller General or the GAO with respect to negotiated contracts.

4. Yes. One of the conditions precedent to an award of construction-differential subsidy by the Secretary of Commerce after negotiation of a contract by a shipyard and ship purchaser is that the subsidy rate must meet or fall below the applicable statutory guideline rate for the fiscal year in which the subsidy is awarded. The statutory prohibition on awarding subsidy in an amount which exceeds the guideline rate does not apply to contracts which result from competitive bidding. Of course the Maritime Subsidy Board could, as a matter of policy, decline to award subsidy for such a contract.

5. In my testimony I mentioned certain hypothetical concerns about negotiated contracts such as carelessness, collusion and rebates. I intended to express my belief that these hypothetical concerns are completely unreal and unfounded and that no problems exist in this area.

Mr. CLARK. Madam Chairman?

Mrs. SULLIVAN. I have one question that I would like to ask.

I understand that the shipyards, the ship operators, and the Maritime Administration are in general agreement that so-called negotiated procurement is more efficient than competitive bidding for constructing a vessel.

Therefore, my primary concern is to insure that the Government, and the American taxpayer, have sufficient protection from the practices that competitive bidding are designed to prevent.

In your opinion, how are the Government and the American taxpayer protected, and do you believe that the existing statutory requirements are adequate in this regard?

Mr. COOK. Yes, I do believe that the existing statutory requirements are adequate.

The General Accounting Office has, as I understand, been involved in a study of the operation of the so-called negotiated procurement method as it has operated initially under the 1970 act.

To my knowledge, nothing has been demonstrated in that study other than that the program is working as we had all hoped it would, and as it was intended.

Under the 1970 act it is contemplated that the Maritime Administration will fix CDS rates or prices on vessel types annually, and that on the basis of these published determinations, a prospective purchaser will talk with a yard or yards to determine which yard the purchaser wishes to go forward with in the purchase of its vessel.

Because the subsidy rate is fixed in advance, the prospective purchaser will know that he will be paying a major and fixed portion of the purchase price, and he will know that he has a vital interest in seeing to it that the procurement is on a businesslike and proper basis at the lowest possible cost.

In the case of the LNG vessels, for example, based upon our tentative rate determination which has been published and which has not yet become final, the prospective purchaser will be paying approximately 85 cents out of every dollar of the purchase price. In this context, it seems to me quite clearly in the interest of the prospective purchaser to acquire the vessel of his choice in the best and most efficient yard for the production of the vessel, and at the best possible price that the purchaser can negotiate.

I think that this bargaining process, together with the provisions in the act which provide for review by the Secretary of Commerce to determine that a price is "fair and reasonable" and the provisions for Government review of the pricing information and documentation provide the Government with real protection of its interests.

Mrs. SULLIVAN. Well, I think you have given a good, clear explanation. I just want to be sure that we are careful in the wording of this kind of an amendment, in order to prevent abuses. I am not saying that there have been any abuses by shipyards or ship purchasers, but we are all familiar with the history of negotiated contracting. I just want to be sure that the Government is protecting the taxpayers, too.

So that I will not have to repeat this question, I would like for Mr. Hood and Mr. May to also, give us an answer to this question because I think it is terribly important.

Thank you.

Mr. CLARK. Mr. Grover?

Mr. GROVER. I concur with the concern of Madam Chairman in this area, and I think we do seem to have built-in checks and balances here with the oversight and the Comptroller General's oversight, and this committee will continue its annual oversight each time we have the hearings each year, because experience in other fields and other industries has shown us that the negotiated contract can be subject to abuses.

I am satisfied that we have built-in protection here, but we and you and the Comptroller General and the parties concerned must continue to exert great discretion and concern for potential, which there always is, of abuse.

I am satisfied at this point that we do have adequate protection.

I should leave this question for Mr. Hood when he addresses us, but I will express it now. I would like to feel that the shipbuilding industry is sufficiently satisfied that there is no discrimination against one yard as opposed to another.

If we have competitive bidding, they may all be in there swinging away to get the contract.

On a negotiated basis, I hope the shipbuilding industry can assure us that everybody is getting a fair shake.

Mr. CLARK. Mr. Downing?

Mr. DOWNING. Generally, has the standard design concept worked out? You know, hopefully they were going to have a uniform designed ship that could be produced en masse, thereby reduce the cost.

Has that actually been implemented?

Mr. COOK. I believe that we are in the process of seeing the standard vessel design concept work out, although it has not been implemented as rapidly or in exactly the fashion that we had all thought it would be implemented at the time of the 1970 act.

You will recall that the Maritime Administration did go forward with certain so-called standard vessel designs under the 1970 act. That vessel design program has been only a very limited success. Only one of these designs has found favor in the private sector, that of the Panamax, OBO or tanker, which is now being used by NASSCO in San Diego, where they have contracted for two OBO's, and three tankers of the same design as the OBO's, so that the yard has realized the sort of follow-on economies which we anticipated, and has passed the benefit of these economies on to the purchasers in the yard pricing of these vessels.

At the General Dynamics yard in Quincy, as a result of the 1970 act and the flexibility it gave in negotiated contracting and in encouraging a yard to go forward with vessel design and then merchandise the design, we have seen the development of the first of the liquid natural gas carriers on the Moss-Rosenberg design here in the United States. While the selling efforts by that yard have to date only resulted in contracting for three of those vessels, I would expect future contracts for a substantial number of additional vessels of the same design in that yard.

We are seeing similar developments with non-MarAd designs at Newport News Shipbuilding and Dry Dock, with their design of LNG carriers, and at Bethlehem, with the 265,000 dwt tanker. Sun Shipbuilding and Dry Dock has followed this approach in the construction of the roll-on-roll-off vessels which have been sold to three different purchasers. And, of course, at Avondale we have had the experience with the LASH vessels, which had been initiated prior to the 1970 act program, and which have gone forward with nine additional vessel contracts under the program.

The yards are working toward series production of what I would call uniform vessels of their own design. And, we are all seeing the benefits of this series production as it is reflected in vessel costs and prices.

Mr. DOWNING. Thank you.

My last question is with rising costs and rising wages, and inflation and all those factors, are these percentage figures in this bill realistic?

Mr. COOK. Congressman Downing, I believe that the percentage figures continue to be realistic, and that the yards should be able to meet the goals that have been fixed.

Mr. DOWNING. What recourse would the yards and prospective ship purchasers have if the percentage figures are not realistic?

Mr. COOK. As the statute is written there is a legal disability insofar as the Secretary of Commerce is concerned in granting subsidy for a negotiated contract where the negotiated price does not meet the statutory goals. These percentage goals are, however, only a guideline insofar as competitive bidding is concerned. So that if a purchaser found itself unable to negotiate a purchase price within the goals, within the guideline area, it could go over to a competitive bidding procurement, and if the competitive bid came in above the guideline figure, the Secretary of Commerce would nevertheless have the legal ability to award subsidy in that case.

Mr. DOWNING. He has that within the law now?

Mr. COOK. Yes, sir, the Secretary has the legal ability under existing law.

The Secretary would still have to face the policy question as to whether he should be going forward with an award if our yards were unable to meet the goals, but that is an entirely different matter.

Mr. DOWNING. In other words, would not it take an act of Congress to remedy that?

Mr. COOK. That is correct.

Mr. DOWNING. You can supply this answer for the record.

Where the CDS rate for a negotiated contract is at or below the statutory level, does this constitute the basis for the finding by the Secretary of Commerce that the price is "fair and reasonable"?

Has the Secretary of Commerce even found that a price which met the CDS requirements was not "fair and reasonable"?

[Answer to above question follows:]

FAIR AND REASONABLE RATE

A mere finding that the construction subsidy rate is below the statutory level guideline rate is not sufficient to determine that the price is fair and reasonable. The Secretary of Commerce must make that determination independently. Thus, for example, with respect to LNG carriers the statutory guideline subsidy rate for this year is 41 percent. Nevertheless, the two contracts which have been entered into provide for a subsidy rate which averages less than 25 percent.

The Secretary of Commerce has never found that a price which met the construction subsidy requirement was not fair and reasonable.

Mr. CLARK. Mr. Cohen?

Mr. COHEN. Thank you.

Just a couple of questions.

Who sets the guidelines as to what the cost of the ship should be?

Mr. COOK. They were set as a part of the overall program thinking at the time the 1970 act was enacted in an effort to reduce the then subsidy rates that were as high as 55 percent, and move the subsidy grants back down into a more sensible framework.

Mr. COHEN. What I am talking about in respect to construction of a particular ship is a guideline set forth.

Mr. COOK. Yes. There will be an annual cost determination and that is made by the Maritime Subsidy Board.

Mr. COHEN. The question I had is:

How does the Maritime Subsidy Board come about in setting the guideline, what do they use for that information, do they rely upon private industry supplying the information of going costs and current construction costs?

How do they get that information?

Mr. COOK. The board relies upon a combination of information sources. Within the Maritime Administration's Office of Ship Construction, we have expert engineers, estimators and marine architects. We also have foreign representatives of the Maritime Administration located in Tokyo, London, Paris, and Rome, and we rely upon these men to maintain contact with foreign ship brokers and yards to supply us with information on foreign construction costs, pricing trends, pricing under recent contracts, and so forth.

What the Board does is to gather all the information that we can internally, then to solicit information from the private sector and from those shipyards and purchasers that have been immediately involved in recent contracting, and then to arrive at a tentative CDS determination. This tentative CDS determination is then published, with an opinion as to how we reached the subsidy rate for the particular vessel type. A period of from 15 to 30 days is allowed for comment on the part of the public, in the hope of soliciting additional information from interested parties.

At the end of that period, then, once we have these written comments, and the oral comment of people that have requested to come in and talk to us, once all this information has been received about the tentative decision, then the Maritime Subsidy Board will issue a final foreign cost determination rate for the particular vessel type.

We are, for example, currently making a foreign cost determination for LNG carriers. Our tentative opinion was issued on May 4 and notice of the opinion was published in the Federal Register on May 2, 1973. Any person having an interest in the matter has been invited to file written comments with the Board by the close of business on June 1, 1973. We have had a number of communications from interested persons in the United States and abroad. Several of the Board members have had an opportunity to discuss foreign pricing, and this tentative determination, with the principals involved in the most recent LNG transactions abroad.

After June 1, the staff will evaluate the written submissions and the Board will consider the staff recommendation and make its final foreign price determination which again will be issued in the form of a Board opinion.

Mr. COHEN. The other question is: How do you determine the number, types of ships that are to be built, and is there any coordination between the Maritime Administration and industry in that regard?

Mr. COOK. There is coordination and, in fact, as our experience with the standard vessel designs under the 1970 act illustrates, in substantial part the Maritime Administration reacts to the private sector. We cooperate closely with the private sector, and the decisions of the vessel types are largely made in the private sector, based upon the commercial needs which the prospective vessel owners see.

Now, there have been examples of a very different course at the Maritime Administration. The MarAd construction program during the 1950's provides an example where the private sector felt the *Mariner's* were just too big and were not going to be commercially useful, but MarAd went forward, and as it turned out the *Mariner's* were a very great success commercially, and by the time the construction on them was well under way, the private sector parties had changed their minds and there was a great demand for them.

By and large, however, under the 1970 act program we have been reacting to private sector decisionmaking.

Mr. COHEN. Thank you.

Mr. CLARK. Thank you very much for coming this morning, and answering our questions.

Mr. COOK. Thank you, sir.

Mr. CLARK. Our next witness is Mr. Edwin M. Hood, president, Shipbuilders Council of America.

STATEMENT OF EDWIN M. HOOD, PRESIDENT AND BOARD CHAIRMAN, SHIPBUILDERS COUNCIL OF AMERICA

Mr. Hood. Mr. Chairman, members of the subcommittee:

My statement in support of H.R. 6187 to extend that part of section 502(a) of the Merchant Marine Act of 1936, as amended by the Merchant Marine Act of 1970, whereby ship construction contracts are negotiated between shipbuilder and ship buyer, will be brief.

On frequent occasions, it has been my privilege to appear before this distinguished subcommittee on matters pertaining to merchant shipbuilding, and I do so again this morning in my capacity as president and board chairman of the Shipbuilders Council of America.

As you may recall, the council is an industry trade association composed of shipbuilders, shiprepairers and ship component manufacturers in all sections of the country. Among others, our purpose over more than 50 years has been to endeavor to improve the procurement and production environment in which U.S. shipyards can construct efficient merchant ships at optimum prices at lowest possible levels of Federal support, hopefully at a reasonable profit for both builder and operator.

In this regard, enactment of the Merchant Marine Act of 1970 in which members of the Committee on Merchant Marine and Fisheries, collectively and individually, had a substantial voice, has tended to shape the destiny of the American shipbuilding industry as it applies to the construction of merchant ships, under Federal auspices, to enhance commercial interchange with other nations and to transport essential strategic commodities, including sorely needed energy supplies.

As has been stated, since enactment of the 1970 act in October 1970, approximately \$1.7 billion in merchant shipbuilding contracts have been awarded U.S. yards with Federal support. These have involved 15 separate contracts placed with 8 shipyards for a total of 37 ships.

All of these contracts have been negotiated between shipbuilder and ship buyer in accord with section 502(a) as amended by the 1970 act. This provision, now scheduled to expire June 30, 1973, was included in that statute principally as a result of your vision and that of your colleagues.

The rationale was, and still is, that it would stimulate marketing efforts by individual shipyards and permit competition in terms of both design and price. Subsequent events, we believe, have validated the Congress wisdom in granting the alternative of negotiated contracting, and we of the shipbuilding industry earnestly hope that extension of this provision will merit your approval.

By your previous actions in these respects, it has been possible, through negotiating techniques, for owner and builder to reach decisions on ship designs which cannot only be produced economically but operated economically. In the process, optimum prices and costs have been reached, and it has been possible to insure that the declining scale of construction differential subsidy, CDS, payments, as prescribed by the 1970 act, has been adhered to.

There is every reason to expect that the same results will prevail in connection with a substantial volume of prospective merchant ship construction contracts now in various stages of negotiation. For authoritative support of this comment, as well as in further support of negotiated contracting, permit me to quote two paragraphs from a letter which Rear Adm. A. G. Mumma, USN retired, Chairman, Commission on American Shipbuilding, addressed to the Honorable Leonor K. Sullivan, chairman, Committee on Merchant Marine and Fisheries, on March 9, 1973:

More than \$1.7 billion in merchant ship construction contracts have derived from this option since enactment of the 1970 Act. Since then, with the assistance of negotiated contracting, construction differential subsidy requirements have been reduced from 55 percent to 41 percent, with resultant savings to the government of approximately \$120 million. Our assessments to date indicate that additional shipbuilding work for American shipyards would be facilitated

by a permanent extension of this procurement technique beyond the present statutory expiration of June 30, 1973.

Virtually all shipbuilding contracts abroad, we find, are handled in this manner with significant benefits in terms of design and production costs and with a high degree of mutual satisfaction for builder and owner. We believe negotiated contracting can now be fairly ascribed as effective and desirable in this country. It has been instrumental in the development of an improved marketing outlook and capability in American shipyards which have invested considerable effort and money in developing standardized, productive designs.

This testimonial by an objective fact-finding group, created by the 1970 act, plus the record of the past 31 months, leads us to join in urging your favorable consideration of an extension of the negotiated contracting provision in the 1970 act. We also urge prompt enactment of H.R. 6187, on either a 3-year or indefinite basis, so that the momentum of merchant shipbuilding in this country will be maintained and so that potential new contracts will not be in jeopardy on June 30, 1973 and thereafter.

Thank you.

Mr. CLARK. Thank you very much for a good statement.

I have some questions I would like to ask you, but, as I said earlier, we are going in at 11 o'clock this morning, and in the interest of time I will just read them and you may supply answers for the record when you get your transcript.

The first is: Would the American shipbuilding industry be able to meet the declining CDS rates provided by the Merchant Marine Act of 1970 if they are denied an extension authority to negotiate with the ship purchaser? If so, why not?

Do you feel that requiring the American shipbuilding industry to meet the declining CDS rates in order to engage in negotiated contracting is sufficient protection for the American taxpayer?

What are the advantages of negotiation between a shipbuilder and a ship purchaser over competitive bidding? Can you give me a practical example?

You may supply to answers for the record.

Mr. HOOD. I will be happy to do so.

Mr. CLARK. Mr. Downing?

Mr. DOWNING. I have two that he can supply the answers for the record.

What do you mean when you say on page 2 that negotiated procurement "would stimulate marketing efforts by individual shipyards and permit competition in terms of both design and price?"

On page 3 you say that "virtually all shipbuilding contracts abroad * * * are handled * * * (by negotiated contracting) with significant benefits in terms of design and production costs and with a high degree of mutual satisfaction for builder and owner."

Would you expand on this statement as to who and what you are referring to?

You may submit this information for the record.

[Information to be supplied follows:]

REPLY TO QUESTIONS ASKED BY CONGRESSMEN CLARK AND DOWNING

1. Would the American shipbuilding industry be able to meet the declining CDS rates provided by the Merchant Marine Act of 1970 if they are denied an extension of authority to negotiate with the ship purchaser; and if not, why?

A. Negotiated contracting can facilitate series or multiple construction of ships of identical or near identical design. In other words, through negotiation, a shipbuilder may consolidate the requirement of several purchasers into a single contract with the economies of scale which go with multiple production. Thereby, the opportunity to meet the declining CDS scale is enhanced. CDS, of course, represents the relative differences between U.S. and foreign shipbuilding prices, but it must be remembered that this correlation can be influenced by a variety of other factors, monetary revaluations, inflation, wage increases, among others.

2. Do you feel that requiring the American shipbuilding industry to meet the declining CDS rates in order to engage in negotiated contracting is sufficient protection for the American taxpayer?

A. The answer to the previous question, it seems to me, covers this point. I would add, however, that the pressures of the market place dictate that the shipowner must obtain the most efficient, economical vessels at the lowest possible level of capital cost, if he is to be competitive, and the overview of the General Accounting Office (GAO), as required by the 1970 Act, ensure that the public interest will be protected. In concert, these would seem to serve the interest of the taxpayer.

3. What are the advantages of negotiation over competitive bidding? Can you give a practical example.

A. The most important advantage, in our opinion, is that negotiated contracting encourages competition in the truest sense—competition between private builders for the needs of private owners. The owner has the product of several builders to choose among. The owner chooses the product best enhancing his economic opportunity—hence, in the long run, makes a selection in the best interest of the Government. The competition is in the full market place, not in a market place limited by the Government.

Second, the Comptroller General finds the Government's interest in the case of negotiated contracts to be adequately protected if the Government retains the right of audit of builder costs, as it does under the 1970 Act.

Third, there is little publicized but nonetheless widespread and growing belief that, in many areas, formal advertisement is an outmoded technique of public purchase—one which impedes, not supports, prudent and effective procurement by the Government. Shipbuilding is among these areas.

4. What do you mean when you say on page 2 that negotiated procurement would "stimulate marketing efforts by individual shipyards and permit competition in terms of both design and price"?

A. Negotiated contracts, in the context of the legislative history of the 1970 Act, also carries with it the responsibility that shipyards will market individual capabilities and designs which can be produced at optimum costs in their separate facilities. This has been taking place over the past two and one half years, I believe, with satisfactory results.

5. On page 3 you say that virtually all shipbuilding contracts abroad are handled by negotiated contracting with sufficient benefits in terms of design and production costs and with a high degree of mutual satisfaction for builder and owner. Would you expand on this statement as to who and what you are referring to?

A. The referenced statement comes not from me but from the Chairman of the Commission on American Shipbuilding. I can only add that my understanding of world shipbuilding economics and procurement practices coincides with what Admiral Mumma has stated.

I understand that the shipyards, the ship operators and MarAd are in general agreement that so-called negotiated procurement is more efficient than competitive bidding for constructing vessels. Therefore, my primary concern is to ensure that the Government and the American taxpayer have sufficient protection from the practices that competitive bidding is designed to prevent. In your opinion, how are the Government and the American taxpayer protected and do you believe that the existing statutory requirements are adequate in this regard?

A. My view in this respect is unequivocal. Through optimum pricing resulting from negotiated contracting, outlays for CDS payments, in particular cases, have been lower than anticipated. Negotiated contracting has amalgamated the interests of the shipowner and shipbuilder in such a fashion as to provide ships which can be built economically as well as operated economically. Moreover, and properly so, the General Accounting Office (GAO) by the provisions of the 1970 Act, is required to monitor these transactions in a manner which will ensure that the Government and the American taxpayer are protected.

Mr. DOWNING. Thank you, Mr. Chairman.

Mr. CLARK. Mr. Grover?

Mr. GROVER. Yes. The question I verbally addressed to you before. How many shipyards do we have in the country presently participating in this construction?

Mr. HOOD. Presently in the Maritime Administration program as envisioned by the 1970 act, there are 8 shipyards participating, but I believe the Maritime list of qualified shipyards capable of doing this same type of work number some 17 to 20 shipyards.

Mr. GROVER. Well, of those who are not participating, why are they not participating?

Mr. HOOD. There is a trend toward specialization in ship construction in this country among various shipyards.

I think the most vivid example at the moment is in the context of LNG vessels and large tankers, the so-called VLCC's.

Four shipyards are building or plan to build VLCC's. Three and possibly four may eventually be building LNG's, so you can see within those two categories there is opportunity for negotiation with a sufficient number of yards to assure competition.

Mr. GROVER. But can you assure the committee that all of those with capability within the construction expectation envisioned in the 1970 act, all those with capability do have the opportunity to negotiate?

In other words, nobody is blackballed, nobody is discriminated against.

Mr. HOOD. Not in that sense, no, but with capability, the 1970 act envisions additional responsibilities on the part of individual shipyards to merchandise their product, the ships that they have either designed or ships that can be effectively and economically produced in their own facilities.

Mr. GROVER. Thank you.

Mr. CLARK. Thank you very much, Ed.

We appreciate your coming this morning.

Our next witness is Albert E. May, vice president, American Institute of Merchant Shipping.

Always good to have you with us, Al.

STATEMENT OF ALBERT E. MAY, VICE PRESIDENT, AMERICAN INSTITUTE OF MERCHANT SHIPPING

Mr. MAY. Thank you, Mr. Chairman. It is good to be here with you and members of the committee staff.

Mr. Chairman and members of the subcommittee:

My name is Albert E. May, and I am Vice President of the American Institute of Merchant Shipping, AIMS, a national trade association composed of 34 American companies which own and operate over 400 U.S.-flag oceangoing vessels in our Nation's foreign and domestic commerce. These ships include all types of oceangoing vessels and in total represent approximately two-thirds of the country's merchant marine.

I appreciate this opportunity to testify in support of H.R. 6187, a bill to amend section 502(a) of the 1936 Merchant Marine Act, so as to extend for 3 years the Secretary of Commerce's authority to accept negotiated bids for ship construction.

Prior to 1970, the Merchant Marine Act of 1936 required that all vessels built with the aid of construction differential subsidy be contracted through competitive bidding.

Competitive bidding is often, indeed usually, not an efficient or cost effective means of procuring ship construction contracts. This is evidenced by the fact that virtually all ship construction contracts in foreign yards result from negotiated procurement. There are several reasons for this.

First, shipyards have different procedures, methods, and equipment. If a ship design is compatible with the procedures, methods, and equipment already in use by a yard, then construction costs are reduced.

In negotiated procurement, representatives of the prospective owner and of shipyards can discuss possible changes in plans and specifications that will permit a yard to build a lower-cost vessel which still meets all of the owner's operating and service requirements.

Second, shipyards can reduce their costs and thus their prices if they have a steady volume of orders over an extended period of time. Through negotiation, owners are often able to time the keel laying and delivery of their vessels to coincide with efficient operation of a yard so as to achieve a lower price for the ship.

Third, during negotiations the actual present cost of various equipment and features in a ship design is positively identified. When costs for certain equipment or features are higher than the owner had anticipated, these may be modified so as to achieve lower cost. This benefit of negotiated procurement is illustrated by experience since 1970 with the States Steamship Co. roll-on/roll-off vessels. This operator originally sought competitive bids which are authorized in the law as an alternative to negotiated procurement. The low bid received was considered too high and through a process of negotiation the cost of the States ships was reduced over \$3 million a vessel.

This committee appreciated these benefits of negotiated procurement and included such authority in the Merchant Marine Act of 1970 on an interim basis.

The national interest in insuring that ships built with construction subsidy are procured at the lowest possible price is fully protected under negotiated procurement. The Secretary of Commerce is authorized to accept negotiated contracts only if he finds that they are fair and reasonable and within the guidelines of declining subsidy rates. These contracts are also open to scrutiny by the Comptroller General.

Even more important than these Government controls in holding down prices is the shipowner's knowledge that if he is to compete in the world market, he must keep his capital costs at least as low as those of his foreign competitors. The construction differential subsidies paid to shipyards in the United States are "parity" type subsidies and simply permit a shipowner to purchase a vessel in the United States at a price approximating the price in efficient foreign shipyards. Thus, the U.S. owner is paying the full world price and has exactly the same incentive as does the foreign owner to hold prices down.

We are convinced from experience at home and abroad that negotiated contracts are usually the best and most suitable for the shipbuilding industry, vessel owners, and the general public. Accordingly,

we respectively urge a 3-year extension of authority for the Secretary of Commerce to accept negotiated contracts as provided in H.R. 6187.

During the questioning of Mr. Cook, I did a little arithmetic that may illustrate the point.

If a shipowner is told by a yard that the price is \$30 million, then at the present subsidy rate of 41 percent to the yard, the owner will have to pay \$17.7 million for the ship.

If the owner can negotiate the price of that ship down to \$25 million, then he will save, of the \$5 million saving, he will reduce his own capital cost, \$2.950 million.

The Government will also save \$2.05 million, but, you see, it is the shipowner who has the prime incentive to keep that price down, and that is why I think the situation here is somewhat different than in procurement where the Government is paying the whole price.

There, you do not have the two controls that we do here.

Mr. Chairman, with the exception of noting one or two changes which I did with the reporter, that completes my statement.

Mr. CLARK. Thank you very much.

I have a few questions that I would submit for the record and you can answer them later. Mr. Sutter will see that you get them before you leave.

[Questions and answers thereto follow:]

RESPONSE TO QUESTIONS ASKED BY COMMITTEE MEMBERS

The American Institute of Merchant Shipping herewith submits for the record its answers to questions asked during hearings by the House Committee for Merchant Marine and Fisheries during hearings on H.R. 6187. The first question was asked by Chairwoman Sullivan and the other three by Chairman Clark.

Question. I understand that the shipyards, the ship operators and the Maritime Administration are in general agreement that so-called negotiated procurement is more efficient than competitive bidding for the construction of vessels. Therefore, my primary concern is to insure that the government and the American taxpayer have sufficient protection from the practices that competitive bidding is designed to prevent. In your opinion, how are the government and the American taxpayer protected, and do you believe that the existing statutory requirements are adequate in this regard?

Answer. A detailed answer to this question may be found in the testimony of Albert E. May on behalf of the American Institute of Merchant Shipping on H.R. 6187. In summary, we believe that the government has sufficient protection under negotiated procurement because:

(a.) Section 502 (a) of the Merchant Marine Act of 1936 as amended, requires that if a contract price is negotiated, then the ship purchaser and the shipyard must submit "backup cost details and evidence that the negotiated price is fair and reasonable;". This evidence and other evidence that may be requested is carefully reviewed by the competent and experienced professional staff at the Maritime Administration.

(b.) Section 502 (a) further requires that the "Secretary of Commerce (must) find that the negotiated price is fair and reasonable;".

(c.) Section 502 (a) also requires that if a price is negotiated, the shipyard must agree that "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 pertinent books, documents, papers, and records of the shipyard or any of its subcontractors related to the negotiation or performance of any contract or subcontract negotiated under this subsection and will include in its subcontracts a provision to that effect."

(d.) The shipyard subsidies provided in the Merchant Marine Act of 1936 are "parity" type subsidies. This means that the government pays the difference between the actual United States cost and the cost of an identical vessel in a major low-cost foreign shipyard. Thus, the U.S. owner pays the U.S. shipyard

the full world price for his vessel. Accordingly, the U.S. owner has exactly the same incentive as his foreign competitor to negotiate the lowest possible price for a ship which will efficiently meet the requirements of the trade he serves.

As a price can be negotiated downward, the owner actually saves more than the government. For example:

Assume that at the beginning of negotiations, the shipyard asked thirty million dollars for a vessel. If this price can be negotiated down to twenty-five million dollars, the total saving will be five million dollars. If the current maximum CDS rate of forty-one per cent is paid, the government will save \$2,050,000 of the five million dollars and the owner, \$2,950,000. If the CDS rate determined is less than the current maximum of 41%, the owner will have an even greater incentive to negotiate price downward for he will receive a greater percentage of any savings.

Accordingly, we are convinced that the existing statutory requirements are adequate to protect fully the government and the American taxpayer.

Question. Would the American shipbuilding industry be able to meet the declining CDS rates provided by the Merchant Marine Act of 1970 if they are denied an extension of authority to negotiate with the ship purchaser? If not, why?

Answer. In some cases, our shipbuilding industry probably could meet the declining CDS rates even without negotiated procurement; for example, with regard to high technology LNG ships where the differential between U.S. and foreign costs is relatively small. However, in other cases it is possible and even probable that the industry could not meet the declining rate ceilings without the give and take that is possible under negotiated procurement. During negotiations, modifications can be made in the design, equipment and delivery dates of vessels so as to minimize costs. These same modifications are difficult or impossible to achieve in competitive procurement. It is for this reason that virtually all shipbuilding contracts in foreign countries are negotiated.

Question. Do you feel that requiring the American shipbuilding industry to meet the decline in CDS rates in order to engage in negotiated contracting is sufficient protection for the American taxpayer?

Answer. We believe that in addition to requiring shipbuilders to meet the declining CDS rates schedules, the other safeguards presently found in Section 502 (a) of the statute, are desirable and should be continued. (See answer to Question One above.)

Question. You cite RO/RO vessels of States Steamship Company as an example of cost savings achieved from negotiated procurement. What was the low bid received as the result of competitive bidding and what was the final cost of the four vessels under negotiated procurement?

Answer. The low competitive bid for each of three States Steamship Company RO/RO vessels was \$41,697,905. After negotiation, the actual contract price for each of three was \$37,800,000. An additional example is found in the case of the DELTA LASH vessels where the low bid for each of three was \$29,526,842. After negotiation and some modifications, the actual contract price for each of three was \$28,531,000.

Mr. CLARK. Mr. Grover?

Mr. GROVER. Well, you underscore the matter of concern some members of the committee expressed before, and it would appear that the same protection, the oversight protection that exists with the competitive contract system, exists with the negotiated system as well, and there is an ultimate right of rejection by the Secretary of Commerce in both cases, where he feels the bid or negotiated price is out of line.

It occurs to me that negotiation probably has an additional protection. In competitive bidding it would seem to me there would be more room for rigging of prices than in negotiated bidding where you have the single bidder.

Mr. MAY. I believe that is right.

Mr. CLARK. Thank you for coming this morning.

The subcommittee is adjourned, subject to the call of the Chair.

[Whereupon, at 10:50 a.m., the subcommittee adjourned, subject to the call of the Chair.]

The world price for the metal "cobalt" is about the same as for the metal "nickel" and is about the same as for the metal "copper". The world price for the metal "manganese" is about the same as for the metal "iron" and is about the same as for the metal "zinc".

The world price for the metal "chromium" is about the same as for the metal "vanadium" and is about the same as for the metal "molybdenum". The world price for the metal "tungsten" is about the same as for the metal "niobium" and is about the same as for the metal "tantalum".

The world price for the metal "rhenium" is about the same as for the metal "osmium" and is about the same as for the metal "iridium". The world price for the metal "platinum" is about the same as for the metal "gold" and is about the same as for the metal "silver".

The world price for the metal "palladium" is about the same as for the metal "rhodium" and is about the same as for the metal "cobalt". The world price for the metal "nickel" is about the same as for the metal "copper" and is about the same as for the metal "manganese".

The world price for the metal "iron" is about the same as for the metal "zinc" and is about the same as for the metal "chromium". The world price for the metal "vanadium" is about the same as for the metal "molybdenum" and is about the same as for the metal "tungsten".

The world price for the metal "niobium" is about the same as for the metal "tantalum" and is about the same as for the metal "rhenium". The world price for the metal "osmium" is about the same as for the metal "iridium" and is about the same as for the metal "platinum".

The world price for the metal "gold" is about the same as for the metal "silver" and is about the same as for the metal "palladium". The world price for the metal "rhodium" is about the same as for the metal "cobalt" and is about the same as for the metal "nickel".

The world price for the metal "copper" is about the same as for the metal "manganese" and is about the same as for the metal "chromium". The world price for the metal "vanadium" is about the same as for the metal "molybdenum" and is about the same as for the metal "tungsten".

The world price for the metal "tungsten" is about the same as for the metal "niobium" and is about the same as for the metal "tantalum". The world price for the metal "rhenium" is about the same as for the metal "osmium" and is about the same as for the metal "iridium".

The world price for the metal "iridium" is about the same as for the metal "platinum" and is about the same as for the metal "gold". The world price for the metal "silver" is about the same as for the metal "palladium" and is about the same as for the metal "rhodium".

The world price for the metal "cobalt" is about the same as for the metal "nickel" and is about the same as for the metal "copper". The world price for the metal "manganese" is about the same as for the metal "chromium" and is about the same as for the metal "vanadium".

The world price for the metal "molybdenum" is about the same as for the metal "tungsten" and is about the same as for the metal "niobium". The world price for the metal "tantalum" is about the same as for the metal "rhenium" and is about the same as for the metal "osmium".

The world price for the metal "iridium" is about the same as for the metal "platinum" and is about the same as for the metal "gold". The world price for the metal "silver" is about the same as for the metal "palladium" and is about the same as for the metal "rhodium".

The world price for the metal "cobalt" is about the same as for the metal "nickel" and is about the same as for the metal "copper". The world price for the metal "manganese" is about the same as for the metal "chromium" and is about the same as for the metal "vanadium".

MERCHANT MARINE MISCELLANEOUS

Capital Construction Funds—Noncontiguous Trade

THURSDAY, JULY 26, 1973

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE OF THE
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m. in room 1334 Longworth House Office Building, Hon. Frank M. Clark (chairman of the subcommittee) presiding.

Mr. CLARK. The subcommittee will come to order.

Good morning. This morning, we open hearings on H.R. 7395 and S. 902, identical bills that would correct an ambiguity in the Merchant Marine Act of 1970 by extending the benefits of the capital construction fund to expressly include trade between points within Alaska, Puerto Rico, and the insular territories and possessions of the United States.

[The bills follow:]

[H.R. 7395 93d Cong., 1st sess.]

A Bill to amend section 607(k) (8) 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 607(k) (8) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1177(k) (8)), is amended by striking that entire portion of section 607(k) (8) which follows the lowercase roman numeral "(ii)", and inserting in lieu thereof "trade from any point in Alaska, Hawaii, Puerto Rico, and such territories and possessions to any other point in Alaska, Hawaii, Puerto Rico, and such territories and possessions."

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C. July 26, 1973.

HON. LEONOR K. SULLIVAN,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives,
Washington, D.C.

DEAR MADAM CHAIRMAN: This is in reply to your request for the views of this Department with respect to H.R. 7395 and the Senate passed bill S. 902, identical bills—

"To amend section 607(k) (8) of the Merchant Marine Act, 1936, as amended."

In order to encourage the construction of a modern, efficient American flag merchant fleet, section 607 of the Merchant Marine Act, 1936, was amended by the Merchant Marine Act of 1970 to provide for the establishment of Capital Construction Funds. These Funds may be created by agreements between the Secretary of Commerce and vessel operators that commit the operators to programs of fleet modernization. Earnings generated from shipping operations of vessels covered by the agreements and some other funds, such as proceeds from the sale of vessels, may be placed in the Funds and receive tax deferral benefits. Moneys in the Funds are to be used to provide for replacement vessels, additional vessels, or reconstructed vessels.

Under the present provisions of section 607 of the Merchant Marine Act, 1936, Capital Construction Fund moneys may be used to construct or reconstruct vessels to be operated in the U.S. foreign, Great Lakes or noncontiguous domestic trade as well as in the fisheries. Subsection 607(k) (8) defines the "noncontiguous trade" as, (i) trade between the contiguous 48 States on the one hand and Alaska, Hawaii, Puerto Rico and the insular territories and possessions of the United States on the other hand, and (ii) trade between Alaska, Hawaii and Puerto Rico and such territories and possessions, and (iii) trade between the islands of Hawaii. This definition does not include trade between one point in Alaska and another point in Alaska, or trade between one point in Puerto Rico and another point in Puerto Rico, or trade between one point in an insular territory or possession and another point in the same insular territory or possession.

The bills would expand the definition of noncontiguous trade for Capital Construction Fund withdrawal purposes to include trade from any point in Alaska, Hawaii, Puerto Rico and the insular territories and possessions to any other point in Alaska, Hawaii, Puerto Rico and such territories and possessions. As a consequence, Fund moneys could then be used with respect to vessels to be employed in trade between all points in our outlying States, territories and possessions.

Under present law vessels may be constructed for the Hawaiian inter-island trade with Capital Construction Fund moneys, but vessels cannot be similarly constructed for trade between the islands of Alaska, or the Alaskan mainland and Alaskan Islands, or for inter-island trade in the Virgin Islands. The bills would correct this inequity. They would also allow construction of vessels for trading between points on the same body of land in these outlying States and territories. Because our outlying States and territories rely to a great extent on water transportation, the Department of Commerce favors enactment of the bills. Their passage should encourage the construction of modern vessels to serve the needs of noncontiguous States and territories of this country.

The Office of Management and Budget advises that there is no objection to the submission of this report to the Congress from the standpoint of the Administration's program.

Sincerely,

KARL E. BAKKE,
Acting General Counsel.

FEDERAL MARITIME COMMISSION,
Washington, D.C., May 15, 1973.

HON. LEONOR K. SULLIVAN,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives,
Washington, D.C.

DEAR MADAM CHAIRMAN: This is in response to your request of May 2, 1973, for the views of the Federal Maritime Commission with respect to H.R. 7395, a bill to amend section 607 (k) (8) of the Merchant Marine Act, 1936, as amended.

The bill would enlarge the term "noncontiguous trade" for purposes of section 607, to include trade between points in Alaska, Hawaii, Puerto Rico, and territories and possessions of the United States. As now written the term includes (i) trade between the contiguous forty-eight States on the one hand and Alaska, Hawaii, Puerto Rico and the insular territories and possessions of the United States on the other hand, and (ii) trade between Alaska, Hawaii, and Puerto Rico and such territories and possessions. Also included is trade between the islands of Hawaii.

Section 607 authorizes the Secretary of Commerce to enter into agreements with U.S. citizens owning or operating "eligible" vessels in the U.S. Foreign, Great Lakes or noncontiguous trades, providing for tax deferments on certain monies deposited into a "capital construction fund". As now written operators of vessels between points in Alaska, in Puerto Rico or in U.S. territories or possessions, are denied these tax benefits. Further, a vessel constructed with "capital construction funds" is prohibited from operating between points in such trades.

Since enactment of H.R. 7395 would not affect the jurisdiction or responsibilities of the Commission, we defer to the views of the Secretary of Commerce who is charged with the administration of Section 607 of the Merchant Marine Act, 1936.

The Office of Management and Budget has advised that there would be no objection to the submission of this letter from the standpoint of the Administration's program.

Very truly yours,

GEORGE H. HEARN,
Vice Chairman.

Enclosure.

OFFICE OF THE SECRETARY OF TRANSPORTATION,
Washington, D.C., July 25, 1973.

HON. LEONOR K. SULLIVAN,
Chairman, Committee on Merchant Marine and Fisheries, House of Representatives, Washington, D.C.

DEAR MADAM CHAIRMAN: This is in response to your request for Departmental comments on H.R. 7395, a bill "to amend section 607(k) (8) of the Merchant Marine Act, 1936, as amended."

Section 607 of the Act permits a capital construction fund to be established for the purpose of providing replacement vessels, additional vessels, or reconstructed vessels, built in and documented under the laws of the United States for operation in the U.S. foreign trade, Great Lakes trade, noncontiguous domestic trade, or fisheries of the U.S.

At the present time, noncontiguous trade is defined to mean:

(1) trade between the contiguous 48 states on the one hand, and Alaska, Hawaii, Puerto Rico and the insular territories and possessions of the U.S. on the other hand;

(2) trade between Alaska, Hawaii, and Puerto Rico and such territories and possessions; and

(3) trade between the islands of Hawaii.

H.R. 7395 would eliminate definitions (2) and (3) above, and would substitute the following:

"Trade from any point in Alaska, Hawaii, Puerto Rico, and such territories and possessions, to any other point in Alaska, Hawaii, Puerto Rico, and such territories and possessions."

Construction funds, which heretofore have been available only for ships moving in Hawaiian intrastate commerce, would now also be available for ships moving in Alaska, Puerto Rican, and Virgin Islands intrastate commerce. Since H.R. 7395 merely extends to Alaska, Puerto Rico, and the Virgin Islands, provisions of existing law applicable to Hawaii, the Department of Transportation has no objection to the enactment of this bill.

The Office of Management and Budget has advised that from the standpoint of the Administration's program, there is no objection to the submission of this report for the consideration of the Congress.

Sincerely,

J. THOMAS TIDD,
Acting General Counsel.

[S. 902, 93d Cong., 1st sess.]

AN ACT To amend section 607(k) (8) 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 607(k) (8) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1177(k) (8)), is amended by striking that entire portion of section 607(k) (8) which follows the lower case roman numeral "(ii)", and inserting in lieu thereof "trade from any point in Alaska, Hawaii, Puerto Rico, and such territories and possessions to any other point in Alaska, Hawaii, Puerto Rico, and such territories and possessions."

Passed the Senate June 30, 1973.

Attest:

FRANCIS R. VALEO,
Secretary.

Mr. CLARK. As you know, S. 902 passed the other body and is before us for consideration. H.R. 7395 was introduced by two members of this committee, Hon. Don Young of Alaska and Hon. Joel Pritchard of Washington.

This morning we look forward to hearing from the Maritime Administration and Mr. Sid Campbell of Foss Launch & Tug Co. In lieu of testifying, the American Institute of Merchant Shipping has filed a statement in strong support of these bills. If there is no objection, this statement will be inserted in the record at this point.

[The statement follows:]

STATEMENT OF AMERICAN INSTITUTE OF MERCHANT SHIPPING

The American Institute of Merchant Shipping, representing 34 U.S. companies owning and operating two-thirds of the American flag vessels engaged in the country's domestic and foreign commerce, welcomes this opportunity to express its support for S. 902. This bill places ships serving the intra-Alaska trade on an equal footing with those trading among the islands of Hawaii with regard to provisions of the 1936 Merchant Marine Act governing Capital Construction Funds.

Section 607 of the 1936 Merchant Marine Act provides that an American citizen owning or leasing eligible vessels may enter into an agreement with the Secretary of Commerce to establish a Capital Construction Fund. Deposits into the Fund are tax deferred in order to make more capital available for the construction of ships in our domestic shipyards. The Merchant Marine Act of 1970 expanded this tax incentive to include vessels in the "noncontiguous trade." Unfortunately, the definition of "noncontiguous trade" failed to include trade points within Alaska.

We believe that this failure was an oversight attributable to a lack of understanding of the formidable transportation problems created by the State's geography. A map is enclosed with this testimony which graphically illustrates many of these problems. Most of the coast of the Alaskan mainland is comprised of mountains which often range far inland. The construction of highways or railroads along the coast is generally physically impossible due to the extraordinarily rugged nature of the terrain. Offshore the Panhandle of Alaska is a giant Archipelago where transportation is impossible except by sea or air. This same situation prevails along much of the northwest coast and, of course, throughout the Aleutian Island chain. Thus, the State is literally dependent in large measure upon steamship service for movement of cargo and supplies from the mainland and for the export of fish products, timber, raw materials and other goods.

Under existing law, the ships built with Capital Construction Funds are authorized to trade between the mainland and Alaska but may not pickup and deliver cargos between Alaskan ports. Unless corrected, this situation will inhibit the development of the Alaskan economy since the intra-Alaskan trade is usually not sufficient in volume to support economically the construction and operation of vessels for that exclusive purpose.

AIMS urges the Committee to give S. 902 prompt consideration, since legislative action is considered necessary before vessels engaged in intra-Alaska trade—even though this trade may be incidental to clearly noncontiguous trade—can become eligible for the tax deferral privileges which are essential to encourage new shipbuilding.

According to Senator Stevens, who co-sponsored the bill with Senator Magnuson, "the conditions which impelled Congress to extend the benefits of the Act to the inter-island Hawaiian trade are equally present in the case of Alaska and the insular territories." The Senator pointed out, in remarks made on the Senate floor February 19, 1973, that there are more islands in Alaska than in any other state. The attached map shows the Archipelago which makes the State of Alaska just as heavily dependent on water transportation as the State of Hawaii. AIMS believes that similarly situated states should be treated equally, and favors corrective action to achieve this goal.

The change in the 1936 Merchant Marine Act which would result from enactment of S. 902 would stimulate ocean shipping in the trade between Alaska and the West Coast—clearly of benefit to the economy of the nation as a whole. We have carefully studied the statement by Senator Stevens on S. 902 and concluded that it thoroughly covers the reasons favoring passage of the bill. AIMS can think of no reason why Congress should hesitate to act affirmatively on this noncontroversial but important measure. U.S. flag shipowners trading the Alaskan area believe that S. 902 will be of great assistance in building replacement vessels in U.S. shipyards.

For the sake of uniformity, AIMS supports the general language of the bill to extend the tax deferral privileges in Section 607 of the Act to trade within Puerto Rico, Guam and other United States territories and possessions.

Mr. CLARK. Our first witness this morning is the Honorable Don Young, author of H.R. 7395.

Mr. YOUNG. Mr. Chairman, I think that I will relinquish part of my time to my colleague, who has another bill on the floor, and he would like to present it to the committee.

Mr. CLARK. Proceed.

STATEMENT OF HON. JOEL PRITCHARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. PRITCHARD. Thank you, Mr. Chairman. I will not read all of my prepared statement but let me say that I cosponsored H.R. 7395 because I believe it would correct an oversight in the definition of "non-contiguous trade" as presently defined in section 607(k)(8) of the Merchant Marine Act of 1936, as amended.

This would provide similar treatment for Alaska as is presently provided for Hawaii and would allow vessels built under the capital construction fund provision of the Merchant Marine Act of 1936 to operate intra-Alaska trade.

The current definition of "noncontiguous trade" works an undue hardship on those vessel operators who operates vessels between Seattle and Alaska, and yet wish to pick up and deliver small amounts of cargo between Alaskan ports. Substantial penalties could result from the use of vessels constructed with capital construction funds in intra-Alaska trade. The definition contained in section 607(k)(8) forces diseconomies on the operators of vessels constructed with such funds. H.R. 7395 would cure such diseconomies and allow vessel operators to carry intrastate Alaskan cargoes incidentally to the carriage of interstate cargoes.

Mr. Chairman, I will ask that my whole statement be put in the record. Before I leave let me say that I am very pleased that Mr. Campbell from Seattle, who is chairman of the board of directors of Foss Launch & Tug Co. and who also represents American Waterways Operators, is here. He knows far more about this bill than I ever will. I am delighted that he is here.

I think that this bill is a matter of equity and it does pertain to the economies and well-being of our neighbors in Alaska, aside from the people in the Yukon area.

As I say, I do have another bill on the floor and, if you will excuse me, I will run.

Mr. CLARK. If there is no objection, the statement will be put in the record at this point.

[The statement follows:]

STATEMENT OF THE HONORABLE JOEL PRITCHARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. Chairman, I co-sponsored H.R. 7395 because I believe it would correct an oversight in the definition of "noncontiguous trade" as presently defined in section 607(k)(8) of the Merchant Marine Act of 1936, as amended.

Section 607 of the Act provides for the establishment of tax-deferred Capitol Construction Funds by American vessel operators pursuant to agreements entered into with the Secretary of Commerce. The purpose of the tax deferment

is two-fold: (1) to facilitate interstate, intrastate, and foreign trade between those U.S. possessions and states which must, to a larger extent, depend on the shipping industry; and (2) to serve that nation's interest in the revitalization of the U.S. foreign and domestic shipping industry, as well as the U.S. shipbuilding industry.

In order to make withdrawals from the Capital Construction Fund the vessel operator must agree that the vessel to be built will be operated in United States foreign, Great Lakes, or noncontiguous domestic trade or in the fisheries of the United States. Currently the definition of "noncontiguous trade" in section 607(k) (8) explicitly allows intrastate trade between the Islands of Hawaii, but overlooks intrastate trade within Alaska and between islands in Alaska.

H.R. 7395 would provide similar treatment for Alaska as is presently provided for Hawaii. The bill would allow vessels built under the Capital Construction Fund provision of the Merchant Marine Act of 1936 to operate in intra-Alaska trade.

The current definition of "noncontiguous trade" works an undue hardship on those vessel operators who operate vessels between Seattle and Alaska, and yet wish to pick-up and deliver small amounts of cargo between Alaska ports. Substantial penalties could result from the use of vessels constructed with Capital Construction funds in intra-Alaska trade. The definition contained in section 607(k) (8) forces diseconomies on the operators of vessels constructed with such funds. H.R. 7395 would cure such diseconomies and allow vessel operators to carry intrastate Alaskan cargoes incidentally to the carriage of interstate cargoes.

STATEMENT OF HON. DON YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALASKA

Mr. YOUNG. Mr. Chairman, whatever is your desire. I hear a quorum call.

Mr. CLARK. Go ahead. I am going to sit through the quorum call.

Mr. YOUNG. Mr. Chairman and members of the subcommittee, I do have a prepared statement, and we have all worked very hard on it, including my staff. I will submit it for the record.

Mr. CLARK. If there is no objection, it is so ordered.

[The statement follows:]

STATEMENT OF HON. DON YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALASKA

Mr. Chairman and members of the subcommittee. I have introduced this bill on behalf of myself and the Congressman from Washington to clarify an ambiguity which could have the unfortunate effect of denying the citizens of Alaska the full benefit of certain provisions of the Merchant Marine Act of 1970. As Congressmen will recall, in the 91st Congress we enacted a historic new maritime program to revitalize our merchant marine. The Merchant Marine Act of 1970, amended the Merchant Marine Act of 1936, to, among other things, extend the coverage of certain tax deferral privileges previously available only to one small segment of our fleet.

The act also recognized the unique dependence of the citizens of Alaska, Hawaii, Puerto Rico and the noncontiguous territories and possessions on marine transport, and provided tax incentives decreasing the cost of building vessels for these trades, and thus the cost of marine transportation.

This provision was intended to provide long overdue relief to the people of our noncontiguous States and territories. Unfortunately, the definition of "noncontiguous trade" in section 607(k) (8) is ambiguous with respect to whether incidental intrastate carriage between ports in Alaska would qualify for this benefit, even though it clearly provides that similar carriage between the Islands of Hawaii does. Also, the privileges apply to similar carriage on the Great Lakes. Given the clear public policy of these provisions of the act, it seems to me that incidental intrastate carriage between ports in Alaska could be permitted by administrative interpretation. However, there has been an understandable re-

luctance to so interpret the literal words of section 607(k) (8), even though such an interpretation would be clearly consistent with the objectives of the act. Consequently, I have introduced this legislation to remedy the situation.

The bill would amend the Merchant Marine Act of 1936, to clarify the meaning of the term "noncontiguous trade," in section 607(k) (8), so that trade between points wholly within an offshore State or possession can qualify as a permissible trade in which to operate vessels which are built with capital construction funds. Tnactment of this bill will enable offshore operators of vessels built with such funds to move these vessels in the most efficient manner without violating the act.

"Noncontiguous trade" is presently defined in section 607(k) (8) to mean:

First, trade between the contiguous 48 States on the one hand and Alaska, Hawaii, Puerto Rico, and the insular territories and possessions of the United States on the other hand, and second, trade between Alaska, Hawaii, and Puerto Rico and such territories and possessions and third, trade between the islands of Hawaii.

As now structured, this definition of "noncontiguous trade" is susceptible to uncertainty regarding the status of ocean shipping within Alaska, Puerto Rico, or the insular territories and possessions of the United States.

Although trade between the islands of Hawaii is clearly noncontiguous—clause (iii) of section 607(k) (8), it is not altogether clear that trade between points in Alaska, for instance, can similarly be regarded as "noncontiguous trade" as that term is presently defined. Alaska's reliance on water transportation and its need to obtain such transportation as economically as possible dictates that section 607(k) (8) be amended to include intra-Alaska trade within the meaning of "noncontiguous trade."

For example, a few carriers—mostly tug and barge operators—serve the off-shore domestic trade between the contiguous 48 States and Alaska. In the course of a voyage between Seattle and Alaska, cargo may be carried to a number of Alaskan ports. In serving these ports, incidental cargoes may also be carried from one Alaskan port to another Alaskan port. From the carrier's point of view, the carriage of these incidental intrastate cargoes represents the most efficient use of its equipment. Although these cargoes are minor in volume compared to the major intrastate trade, they are also very important to Alaska shippers since there is no regular privately owned service operating only between ports in Alaska. The interstate movement is clearly within the scope of section 607(k) (8), but the incidental intrastate movement is arguably outside the definition of "noncontiguous trade."

If Alaskan operators, for example, were forced to abandon incidental intrastate carriage in order to benefit from the capital construction fund program, the intrastate shippers dependent on water transportation would obviously be injured; and since there would be an irreplaceable loss of freight from this movement, the interstate shipper might have to pay increased rates in order to offset the loss of intrastate revenue. The proposed amendment would relieve the carrier from having to choose between the benefits of the act and the efficient use of its equipment.

Another reason for specifically including intra-Alaska also intra-Puerto Rico, intra-Guam, and so forth—trade within the scope of the act arises from Congress inclusion of interisland Hawaiian trade—wholly intrastate—in the definition of "noncontiguous trade." It was apparently recognized that Hawaii's dependence on ocean shipping, even for intrastate movement, dictated that Hawaiian carriers, shippers, and consumers should benefit from the construction of water transport equipment with capital construction funds.

For the same reason Congress extended the benefits of the act to the inter-island Hawaiian trade it should extend the benefit of the act to intra-Alaskan trade. For instance, there are 6,640 miles of general coastline in Alaska and 33,904 miles of coastline if all of its islands are included. There are more islands in Alaska than in any other State. Alaska and the insular territories are just as heavily dependent on water transportation as is Hawaii.

An equally important reason to extend the act is to encourage the growth of the boat building industry in Alaska. With its wealth of natural materials, particularly timber, so close to so many potential customers, Alaska is a State particularly advantageously situated for the development of a boat building industry. The largest accessible stands of good lumber are in southeastern Alaska, close to many potential customers. This bill will, incidentally, encourage

the growth of the shipbuilding industry in Alaska. Of course, it will also encourage the domestic Alaska shipping industry which is, as I have indicated, still, like Alaska shipyards, relatively small and in need of assistance.

The proposed legislation accomplishes the objectives set forth above. In addition, the wording of the bill also encompasses the meaning of original clause (ii) to section 607(k) (8): "trade between Alaska, Hawaii, and Puerto Rico and such territories and possessions."

I urge that H.R. 7395 be favorably reported by this subcommittee.

Mr. YOUNG. Mr. Chairman, as my colleague from Washington stated, this is a bill that will actually remedy an oversight in the passage of the original Merchant Act of 1970. Washington is very close to us as far as supplying Alaska with necessary food and things which Alaskans need. The people involved in the industry of transportation by water serve our State. In fact, that is where a good deal or the majority of our products come from—the Seattle region.

I believe this bill will correct the oversight and benefit Alaska, and that is the reason I am sponsoring the bill. The Members who will testify on the technicalities of the bill are more versed in the technicalities than I am, and I would rely upon their judgment and their statements to this committee.

Many times when laws are passed by Congress they forget Alaska is a State and noncontiguous. Many things are passed that indirectly affect us, and it is my belief as a Congressman from Alaska that I will do whatever I can to benefit my constituents and will be of benefit to the people of all other States.

That is a summary of what I have to say.

Mr. CLARK. Thank you very much.

We do appreciate you bringing this to the attention of the Merchant Marine Subcommittee, and I am sure that we have no objection, nor do I know of anyone who will have any objection to this bill. I am sure that we can get it out of the subcommittee after this session and I hope that we will have a couple more members here soon.

Mr. YOUNG. I will be back as soon as I answer the quorum call.

Mr. CLARK. I am sure there will be no objection to it.

Mr. YOUNG. Thank you, Mr. Chairman.

Mr. CLARK. Our next witness is H. Clayton Cook, Jr., Esq., General Counsel, Maritime Administration, Department of Commerce.

We are very happy to have you with us this morning. Proceed as you wish.

STATEMENT OF H. CLAYTON COOK, JR., ESQ., GENERAL COUNSEL, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. Cook. Mr. Chairman, it is a pleasure to be with you this morning.

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before your subcommittee to testify with respect to H.R. 7395 and the Senate-passed bill S. 902. These are identical bills and would amend the definition of "noncontiguous trade" in section 607 of the Merchant Marine Act, 1936.

Section 607 provides that any citizen of the United States who owns or leases vessels which were built in the United States, which are documented under the laws of the United States, and which are operated in the foreign or domestic commerce of the United States, may enter into an agreement with the Secretary of Commerce to create a capital

construction fund for the purpose of setting aside moneys for the construction or reconstruction of vessels to be operated in the U.S. foreign, Great Lakes, or noncontiguous domestic trade or in the fisheries. The fundholder may make deposits into the fund which for a given year will not exceed the total of:

(1) income from the operation of vessels included in the agreement;

(2) tax depreciation of such vessels;

(3) net proceeds from the sale or other disposition of such vessels, or from insurance or indemnity for the loss of or damage to such vessels; and

(4) receipts from the investment or reinvestment of moneys held in the fund;

and which are otherwise consistent with the construction program agreed upon with the Secretary of Commerce.

Taxable income is reduced and otherwise taxable gains are not taken into account in computing the taxable income of the fundholder in the year of deposit. However, the fundholder's tax basis for vessels constructed or reconstructed with moneys withdrawn from the fund is proportionately reduced, with the effect of increasing the vessel owner's taxable income over the life of the vessel, so that the Government will in effect recover its taxes over the vessel's depreciable life.

A fund may be established, and qualified withdrawals from a fund may be made for the:

(1) acquisition, construction, or reconstruction of vessels built in the United States, for documentation under the laws of the United States, and which the person maintaining the fund agrees with the Secretary of Commerce will be operated in the U.S. foreign, Great Lakes, or noncontiguous domestic trade, or in the fisheries of the United States;

(2) the acquisition, construction or reconstruction of barges and containers which are part of the complement of such vessels; and

(3) the payment of the principal on indebtedness incurred in connection with the acquisition, construction, or reconstruction of such vessels or of barges and containers which are part of the complement of such vessels.

If deposits of income or gain are withdrawn from the fund for any other purpose, they constitute nonqualified withdrawals and become immediately subject to taxation in the year of withdrawal with interest from the year of deposit to the year of withdrawal.

Section 607(k) (8) defines "noncontiguous trade" as follows:

"The term 'noncontiguous trade' means (i) trade between the contiguous forty-eight States on the one hand and Alaska, Hawaii, Puerto Rico and the insular territories and possessions of the United States on the other hand, and (ii) trade between Alaska, Hawaii, and Puerto Rico and such territories and possessions and (iii) trade between the islands of Hawaii."

This definition does not expressly include trade between one point in Alaska and another point in Alaska, or trade between one point in Puerto Rico and another point in Puerto Rico, or trade between one point in an insular territory or possession and another point in the same insular territory or possession.

Under this definition it is not entirely clear whether a vessel built with a capital construction fund and which, for example, carries cargo between Seattle and several ports in Alaska, may carry cargo picked up at one such Alaska port for delivery to another such Alaska port. For efficient vessel operation and to meet the needs of Alaska, it is necessary that vessels be able to do so. Otherwise the vessel operator must make a choice between accepting the benefits of a capital construction fund on the one hand and having an efficient vessel operation and serving the needs of Alaska on the other hand.

These bills would clarify the definition of noncontiguous trade for capital construction fund withdrawal purposes so as to expressly include trade from any point in Alaska, Hawaii, Puerto Rico and the insular territories and possessions to any other point in Alaska, Hawaii, Puerto Rico, and such territories and possessions. As a consequence, fund moneys could then be used with respect to vessels to be employed in trade between all points in our outlying States, territories, and possessions without any imposition of penalty.

Under present law, vessels may be constructed for the Hawaiian interisland trade with capital construction fund moneys, but vessels can not be similarly constructed for trade between the islands of Alaska, or the Alaskan mainland and Alaskan Islands, or for interisland trade in the Virgin Islands. These bills would correct this inequity. They would also allow construction of vessels for trading between points on the same body of land in these outlying States and territories. Because our outlying States and territories rely to a great extent on water transportation, we recommend enactment of these bills. Their passage should encourage the construction of modern vessels to serve the needs of the noncontiguous States and territories of this country.

There was no definition of noncontiguous trade in the Merchant Marine Act of 1970 as it passed the House. The definition was inserted by the Senate. Senate Report No. 93-273, accompanying S. 902, indicates that the Senate Commerce Committee considers S. 902 to be a clarifying amendment, and also indicates that it is intended to apply to all deposits made in capital construction funds since the Merchant Marine Act of 1970 was enacted. If the bills are enacted, we will apply the definition they contain to all such deposits.

This concludes my statement, Mr. Chairman. I will now be happy to answer any questions that you or members of the subcommittee may have.

Mr. CLARK. Mr. Cook, I have some questions for you. Provide the answers for the record at your convenience later on. In this way it will save us some time.

Mr. COOK. Fine.

Mr. CLARK. What do you consider to be the primary need for this legislation?

[The information follows:]

PRIMARY NEED FOR LEGISLATION

The primary need for this legislation is to ensure that the scattered coastal communities of Alaska, Puerto Rico, and the insular territories and possessions of the United States do not lose the vital local services of vessels trading primarily with the 48 contiguous states. Failure to amend the definition of non-

contiguous trade will ultimately result in the inefficient termination of such local services as present fleets are replaced with vessels constructed with section 607 funds.

Mr. CLARK. Do you feel that the proposed amendment to section 607(k) (8) is in keeping with the rationale of the Merchant Marine Act of 1970?

[The information follows:]

VIEW OF AMENDMENT

By promoting efficiency in the noncontiguous domestic trade, the proposed amendment would strengthen our merchant fleet and is therefore in keeping with the rationale of the Merchant Marine Act of 1970.

Mr. CLARK. Who would be the primary beneficiaries of this legislation?

[The information follows:]

PRIMARY BENEFICIARIES

The primary beneficiaries of the proposed amendment would be the inhabitants of the scattered coastal communities for whom the incidental local service provided by vessels trading primarily with the contiguous 48 states is a vital necessity.

Mr. CLARK. Do you feel that the proposed legislation would result in a significant expansion of the capital construction fund program?

[The information follows:]

EFFECT ON CAPITAL CONSTRUCTION FUND PROGRAM

The proposed legislation would not significantly expand the Capital Construction Fund Program, as present fleets providing the incidental local service will in any event be replaced for the most part by vessels constructed with section 607 funds. The alternative that is faced is whether or not such local service will be provided by such vessels.

Mr. CLARK. Do you see any disadvantages associated with the proposed legislation?

[The information follows:]

DISADVANTAGES ASSOCIATED WITH PROPOSED LEGISLATION

None.

Mr. CLARK. The House is already in session and we want to get on the floor as soon as possible because there will be a rollcall or quorum call shortly.

For the convenience of the members and in the interests of time I will not belabor the point any more. As I said, you can answer the questions later.

Mr. COOK. Fine, Mr. Chairman. I would be delighted to.

Mr. CLARK. Thank you very much for coming up this morning. I am glad that you favor the bill.

Mr. COOK. It has been a pleasure to be here.

Mr. CLARK. The next witness is Sidney D. Campbell, chairman of the board of Foss Launch & Tug Co., Seattle, Wash.

It is a pleasure to have you with us this morning.

STATEMENT OF SIDNEY D. CAMPBELL, CHAIRMAN OF THE BOARD,
FOSS LAUNCH & TUG CO., SEATTLE, WASH., REPRESENTED BY
GEORGE F. GALLAND, AND WILLIAM KARAS, OF GALLAND,
KHARASCH, CALKINS & BROWN, WASHINGTON, D.C.

Mr. CAMPBELL. Thank you, sir.

Mr. CLARK. You have a lovely city; I have been there a couple of times.

Mr. CAMPBELL. Don't tell too many of the easterners about it, though.

Mr. CLARK. Proceed as you wish.

Mr. CAMPBELL. Thank you.

In the interests of time, Mr. Chairman, I will eliminate certain parts of the statement I was going to present, and I would like that it be made a part of the record.

Mr. CLARK. If there is no objection, it is so ordered.

[The statement follows:]

STATEMENT OF S. D. CAMPBELL, CHAIRMAN OF THE BOARD, FOSS LAUNCH & TUG CO.

Mr. Chairman and members of the Subcommittee, my name is S. D. Campbell. I am Chairman of the Board of Directors of Foss Launch & Tug Co., headquartered in Seattle, Washington. I welcome the opportunity to appear before the Subcommittee to urge favorable consideration of H.R. 7395.

My testimony today reflects the views of my own company, Foss Launch & Tug Co. (Foss), as well as the views of two trade associations, American Waterways Operators, Inc. (AWO) and the Northwest Towboat Association (NTA). AWO represents operators of tugboats, towboats, and barges on the navigable waters of the United States, i.e., all inland waterways and coastal waters of the U.S. and on seagoing routes. NTA is an association of over 95% of the tug and barge industry operating in and about Puget Sound and Alaska. Foss is a member of both trade associations and I am a director of the AWO. I have been authorized by the AWO and the NTA to speak on their behalf.

Section 607 of the Merchant Marine Act, 1936, was substantially amended by the Merchant Marine Act of 1970 (P.L. 91-469) to provide for the establishment of tax-deferred funds to aid in the construction of U.S.-flag, U.S.-built vessels and related equipment. The purpose of this tax aid is to serve the nation's interest in the revitalization of the U.S. foreign and domestic shipping industry, as well as the U.S. shipbuilding industry.

These tax-deferred funds, known as Capital Construction Funds (CCFs), are established pursuant to agreement between the Secretary of Commerce and American vessel operators. CCF funds are composed of all or part of the operator's taxable income attributable to the operation of U.S.-flag, U.S.-built vessels; tax depreciation from the vessels; the proceeds from the sale or other disposition of these vessels; and the income from the investment of the assets already in the fund. Federal taxation of these funds is deferred so long as the money remains in the fund or is withdrawn for qualified purposes. Once a vessel is built with the CCF money, the taxable basis of such vessel is reduced by an amount equal to the untaxed income which is withdrawn from the fund for such construction. Thus, an operator eventually pays federal income tax because of this reduction in the depreciable basis of the CCF-built vessels.

Only "qualified vessels" may be built with withdrawals from the Capital Construction Fund. "Qualified" vessels are defined in Section 607(k)(2) as U.S.-built, U.S.-flag vessels "which the person maintaining the fund agrees with the Secretary of Commerce will be operated in the United States foreign, Great Lakes, or noncontiguous domestic trade or in the fisheries of the United States." Thus, the domestic operation of vessels built with Capital Construction Funds is limited to *noncontiguous* domestic trades.

Section 607(k)(8) presently defines "noncontiguous trade" as:

"(i) trade between the contiguous forty-eight States on the one hand and Alaska, Hawaii, Puerto Rico and the insular territories and possessions of the United States on the other hand, and

"(ii) trade between Alaska, Hawaii, and Puerto Rico and such territories and possessions and

"(iii) trade between the islands of Hawaii."

Under this definition, the term "noncontiguous trade" is unclear regarding the status of ocean shipping wholly within Alaska, Puerto Rico, or the insular territories and possessions of the United States.

H.R. 7395 would amend the definition of "noncontiguous trade" in §607(k) (8) to expressly include waterborne trade wholly within the State of Alaska, as well as trade wholly within Hawaii, Puerto Rico, or any of the insular territories and possessions of the United States. The effect of the bill in Alaska would be to allow vessels built under the Capital Construction Fund provision of the Merchant Marine Act, 1936, to operate in the intra-Alaska trade. Since § 607 (k) (8) explicitly includes the intrastate trade between the Islands of Hawaii in "noncontiguous trade," enactment of H.R. 7395 would provide similar treatment for Alaska as is presently provided for Hawaii.

Foss, as well as other operators in the Alaska trade, have entered into Capital Construction Fund Agreements for the construction of qualified vessels. Foss, for instance, serves the offshore domestic trade between Alaska and the contiguous 48 states. Vessels built with Capital Construction Funds can legally operate in this trade. However, in the course of voyage between, say, Seattle and Alaska, Foss vessels pick up and deliver relatively small amounts of cargo between Alaskan ports. In 1972, for example, Foss Launch & Tug Co. and its affiliate, Foss Alaska Line, moved 106,000 tons of cargo in interstate service between Seattle and eight ports in Southeastern Alaska, while 7,500 tons moved in intrastate service between these ports. On the Western Alaskan routes of both Foss companies, 8,800 tons of cargo were carried in interstate service in 1972, while only 74 tons were carried in intrastate service.

Under present law, it is questionable whether vessels which perform this incidental service between Alaskan ports may be considered "qualified" and may be built with Capital Construction Funds. If this intrastate movement is not considered to be "noncontiguous trade," a carrier could not in good faith contract with the Secretary of Commerce for the construction of vessels which would regularly be used in such trade, albeit incidentally. Moreover, substantial penalties could result from the use of CCF-built vessels in a non-qualified trade. H.R. 7395 would cure this defect and allow CCF-built vessels to engage in this intra-Alaska trade.

Although this intra-Alaska traffic is minor in volume compared with the major interstate trade, it is important to shippers and carriers in Alaska because of Alaska's almost singular reliance on water transportation. There are 6,640 miles of general coastline in Alaska and 33,904 miles of coastline if all of its islands are included. There are many more islands in the State of Alaska than in any other state. Water transport is thus the only economically and physically feasible method of moving goods to and from much of Alaska.

The enactment of H.R. 7395 would allow an Alaskan operator to deploy its vessels in the most efficient manner and to operate them as it has in the past: carrying intrastate Alaskan cargoes incidentally to the carriage of interstate cargoes. Without the benefit of this legislation, carriers such as Foss would be forced to abandon their intrastate service when vessels built with Capital Construction Funds perform the interstate voyage to Alaska. The abandonment of this service falls particularly hard on the small scattered communities which dot the huge Alaskan coastal areas since privately-owned service operating on a scheduled basis solely between ports in Alaska is virtually non-existent. These areas will experience an increasing reduction in intrastate service as the fleets of Alaskan operators are replaced with CCF-built vessels, if this remedial legislation is not enacted. Moreover, if Foss abandons intrastate service—as it must under present law—the consequent loss of revenue may very well mean higher interstate rates.

When the 91st Congress enacted Section 607, it was apparently recognized that Hawaii's dependence on ocean shipping, even for intrastate movement, dictated that Hawaiian carriers, shippers, and consumers should benefit from the construction of water transport equipment with Capital Construction Funds. The conditions which impelled Congress to extend the benefits of the Act to the inter-island Hawaiian trade are equally present in the case of Alaska and the insular territories, which are just as heavily dependent on water transportation as is Hawaii. The legislative history of the Merchant Marine Act of

1970 (P.L. 91-469) sheds no light on the omission of the intra-Alaska trade as opposed to the inclusion of the inter-island Hawaiian trade. The failure to include Alaska and the other offshore territories and possessions may well have been a legislative oversight which should be corrected by the enactment of H.R. 7395. This amendment would assure Alaskan citizens the same treatment that the Act confers upon Hawaiian citizens. The benefits of the Act, in terms of better, more efficient, and more modern water transportation service in intrastate trade should accrue not only to Hawaii but to Alaska as well. At the same time, Puerto Rico and the other insular territories and possessions of the United States should be accorded the same treatment.

The general policy behind the Merchant Marine Act of 1970 (of which the Capital Construction Fund provision is an integral part) was to strengthen the domestic and foreign fleets of the American Merchant Marine. I believe that it would be anomalous and self-defeating to strengthen the Alaskan interstate fleets with new CCF-built vessels, as contemplated by the Act, while at the same time denying the carriers the opportunity to use these new vessels in a historic pattern of trade.

For these reasons, the American Waterways Operators, the Northwest Towboat Association, and Foss Launch & Tug Co. support H.R. 7395, amending § 607(k) (8) to include trade within the noncontiguous states and possessions of the United States.

Mr. CAMPBELL. Mr. Chairman and members of the subcommittee, my name is S. D. Campbell. I am chairman of the board of directors of Foss Launch & Tug Co., headquartered in Seattle, Wash. I welcome the opportunity to appear before the subcommittee to urge favorable consideration of H.R. 7395.

My testimony today reflects the views of my own company, Foss Launch & Tug Co. (Foss), as well as the views of two trade associations, American Waterways Operators, Inc. (AWO) and the Northwest Towboat Association (NTA). AWO represents operators of tugboats, towboats, and barges on the navigable waters of the United States, that is, all inland waterways and coastal waters of the United States and on seagoing routes. NTA is an association of over 95 percent of the tug and barge industry operating in and about Puget Sound and Alaska. Foss is a member of both trade associations and I am director of the AWO. I have been authorized by the AWO and the NTA to speak on their behalf.

Section 607 of the Merchant Marine Act, 1936, was substantially amended by the Merchant Marine Act of 1970 (Public Law 91-469) to provide for the establishment of tax-deferred funds to aid in the construction of U.S.-flag, U.S.-built vessels and related equipment. The purpose of this tax aid is to serve the Nation's interest in the revitalization of the U.S. foreign and domestic shipping industry, as well as the U.S. shipbuilding industry.

I will skip a few paragraphs now referred to in previous testimony. Foss, as well as other operators in the Alaska trade, have entered into capital construction fund agreements for the construction of qualified vessels. Foss, for instance, serves the offshore domestic trade between Alaska and the contiguous 48 States. Vessels built with capital construction funds can legally operate in this trade. However, in the course of voyage between, say, Seattle and Alaska, Foss vessels pick up and deliver relatively small amounts of cargo between Alaskan ports. In 1972, for example, Foss Launch & Tug Co. and its affiliate Foss Alaska Line, moved 106,000 tons of cargo in interstate service between Seattle and 8 ports in Southeastern Alaska, while 5,700 tons moved in intrastate service between these ports. On the Western

Alaskan routes of both Foss companies, 8,800 tons of cargo were carried in interstate service in 1972, while only 74 tons were carried in intrastate service.

Under present law, it is questionable whether vessels which perform this incidental service between Alaskan ports may be considered "qualified" and may be built with capital construction funds. If this intrastate movement is not considered to be "noncontiguous trade," a carrier could not in good faith contract with the Secretary of Commerce for the construction of vessels which would regularly be used in such trade, albeit incidentally. Moreover, substantial penalties could result from the use of CCF-built vessels in a nonqualified trade. H.R. 7395 would cure this defect and allow CCF-built vessels to engage in this intra-Alaska trade.

Although this intra-Alaska traffic is minor in volume compared with the major interstate trade, it is important to shippers and carriers in Alaska because of Alaska's almost singular reliance on water transportation. There are 6,640 miles of general coastline in Alaska and 33,904 miles of coastline if all of its islands are included. There are many more islands in the State of Alaska than in any other State. Water transport is thus the only economically and physically feasible method of moving goods to and from much of Alaska.

Let me point out in southeastern Alaska we serve 8 small ports with a total population of less than 40,000 people, Juneau being the largest city of some 16,000 people.

In westward Alaska over these many, many square miles, we serve 13 rather small ports, you might call them villages, and Nome being the largest, of less than 3,000 people, down to the smallest Eskimo villages of 50 people.

The enactment of H.R. 7395 would allow an Alaskan operator to deploy its vessels in the most efficient manner and to operate them as it has in the past: carrying intrastate Alaskan cargoes incidentally to the carriage of interstate cargoes. Without the benefit of this legislation, carriers such as Foss would be forced to abandon their intrastate service when vessels built with capital construction funds perform the interstate voyage to Alaska. The abandonment of this service falls particularly hard on the small scattered communities which dot the huge Alaskan coastal areas since privately owned service operating on a scheduled basis solely between ports in Alaska is virtually nonexistent.

I might mention the Alaska State Ferry Service is the only vehicle that operates between these little ports, and they discourage the carrying of cargo catering primarily and solely in these parts to the passenger trade.

Thank you, Mr. Chairman.

Mr. CLARK. Thank you very much. We appreciate your fine statement.

On page 7 you say,

I believe that it would be anomalous and self-defeating to strengthen the Alaskan interstate fleets with new CCF-built vessels, as contemplated by the act, while at the same time denying the carriers the opportunity to use these new vessels in a historic pattern of trade.

I want you to know that I agree with you 100 percent.

Mr. CAMPBELL. Thank you, sir.

Mr. CLARK. I do have some questions but in the interest of time I would like to present them to you and you can answer them for the record.

Mr. CAMPBELL. I will be pleased to do so.

Mr. CLARK. We do appreciate your coming this morning and giving us this fine statement.

Mr. CAMPBELL. Thank you, sir.

Mr. GALLAND. How will these questions be presented?

I am George Galland, Mr. Campbell's counsel. How will the questions be presented; in writing to Mr. Campbell?

Mr. CLARK. Yes, in writing.

Mr. GALLAND. Thank you, sir.

[The questions follow:]

1. Would you furnish for the record the names of the members of the Northwest Towboat Association and the total number of tugs and barges operated by these companies?

2. Do you have any idea how many operators in Alaska trade have entered into capital construction fund agreements?

3. What penalties would result in the use of capital construction fund-built vessels in a nonqualified trade?

[The information was not received at time of printing.]

Mr. CLARK. Are there any other witnesses?

If not, the hearing is adjourned, and the subcommittee is now going to go into markup session.

[Whereupon, at 10:25 a.m., the subcommittee proceeded into markup session.]

MERCHANT MARINE MISCELLANEOUS

Transfer of NS Savannah

TUESDAY, SEPTEMBER 11, 1973

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE
OF THE COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1334, Longworth Office Building, Hon. Frank M. Clark, presiding.

Mr. CLARK. The subcommittee will please come to order.

This morning we open hearings on H.R. 9450, a bill to authorize the Secretary of Commerce to transfer the NS *Savannah* to the city of Savannah, Ga.

This bill was introduced by my colleague and good friend, Bo Ginn. We are pleased to have Mr. Ginn with us this morning, and I understand that he would like to say a few words concerning his legislation.

Let the bill and departmental reports be made a part of the record.
[The material follows:]

[H.R. 9450, 93d Cong., 1st sess.]

A BILL To authorize the Secretary of Commerce to transfer the N.S. *Savannah* to the city of Savannah, Georgia

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding the provisions of section 510(j) of the Merchant Marine Act, 1936 (46 U.S.C. 1160(j)), the Secretary of Commerce is authorized, within one year after enactment of this Act, to transfer to the city of Savannah, Georgia, the N.S. *Savannah*, without monetary consideration, to be used as a museum ship and for other public purposes, but not for transportation, together with such of her fixtures, tackle, apparel, furnishings, and equipment as the Secretary of Commerce, in his discretion, determines.

Sec. 2. In connection with the transfer of the vessel authorized by section 1 of this Act, the Secretary of Commerce is authorized to pay the reasonable cost of towing the vessel to a site selected by the city of Savannah.

U.S. ATOMIC ENERGY COMMISSION,
Washington, D.C., September 11, 1973.

HON. LEONOR K. SULLIVAN,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives.

DEAR MRS. SULLIVAN: Thank you for the opportunity to comment on H.R. 9450 which is a bill to authorize the Secretary of Commerce to transfer the N.S. *Savannah* to the city of Savannah, Georgia.

Since the AEC no longer has a direct programmatic interest in the N.S. *Savannah*, we would have no objection to its transfer as proposed in the bill. However, we defer on the bill's merits with respect to the transfer to the views of other interested agencies, in particular, the Maritime Administration.

Since it is unclear from the bill whether, upon its transfer, the N.S. *Savannah* would still be a "utilization facility" as that phrase is defined in Section 11 c. of the Atomic Energy Act of 1954, as amended, or whether any residual radioactivity would require materials licensing, the AEC recommends that a third section be added to the bill as follows:

"Sec. 3. Nothing in this Act shall relieve any person, as defined in Section 11 of the Atomic Energy Act of 1954, as amended, from the requirements of the Atomic Energy Act of 1954, as amended, or from rules, regulations, or orders promulgated or issued pursuant thereto."

The Office of Management and Budget has advised us that there is no objection to the presentation of this report from the standpoint of the Administrative program.

Sincerely,

DIXY LEE RAY, *Chairman.*

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., October 3, 1973.

HON. LEONOR K. SULLIVAN,
*Chairman, Committee on Merchant Marine and Fisheries,
U.S. House of Representatives, Washington, D.C.*

DEAR MADAM CHAIRMAN: This is in further reply to your request for the views of this Department with respect to H.R. 9450, a bill—

To authorize the Secretary of Commerce to transfer the N.S. *Savannah* to the city of Savannah, Georgia.

The bill would authorize the Secretary of Commerce to transfer the N.S. SAVANNAH to the city of Savannah, Georgia, without monetary consideration, within one year after enactment of the bill, to be used as a museum ship and for other public purposes, but not for transportation, together with such of her fixtures, tackle, apparel, furnishings and equipment as the Secretary of Commerce, in his discretion, determines. The bill would further authorize the Secretary of Commerce, in connection with such transfer, to pay the reasonable cost of towing the vessel to a site selected by the city of Savannah.

We recommend enactment of the bill.

The N.S. SAVANNAH was built pursuant to section 716 of the Merchant Marine Act, 1936, to demonstrate the peaceful uses of atomic energy. This section was added to the Merchant Marine Act, 1936, by Public Law 848, 84th Congress, approved July 30, 1956. It was recognized when the section was enacted that the vessel would not be commercially viable.

The contract to build the ship (except the reactor) was awarded to New York Shipbuilding on November 16, 1957. The Atomic Energy Commission awarded the contract to build the reactor to Babcock and Wilcox Co. on April 3, 1957. The keel of the ship was laid on May 22, 1958, and the ship was launched on July 21, 1959. Fuel was loaded in November 1961, and the reactor went critical on December 21, 1961. Sea trials were made in March and April 1962. The Maritime Administration accepted the ship on May 1, 1962, and turned it over to States Marine Lines, as general agent, for further familiarization tests and for operation.

In 1962 and 1963, the N.S. SAVANNAH visited eleven domestic ports, beginning with a visit to the city of Savannah. During the initial domestic voyage, she visited Atlantic and Gulf ports, transited the Panama Canal, and called at Hawaiian and U.S. West Coast ports. After returning to her servicing facility at Galveston in 1963, labor troubles caused by pay differentials between the engine and deck departments culminated in a strike that required the Government to enter into an agreement with a new general agent having contracts with different maritime unions. This required training a new crew complement while the ship remained immobilized for a year.

When the N.S. SAVANNAH resumed operation in May 1964, she was operated by American Export Lines. The vessel made a second voyage to a series of domestic ports and then made her maiden Atlantic crossing, the first of five demonstration voyages between foreign and domestic ports. When the N.S. SAVANNAH returned to her servicing facility in Galveston, Texas, on March 10, 1965, she had visited a total of 55 ports, been viewed by 1,500,000 people, and had traveled the equivalent of nearly four trips around the world.

The N.S. SAVANNAH, her two years of demonstration operation, established an internationally accepted pattern of marine operations for atomic commer-

cial ships. The ship carried cargo and passengers in domestic and foreign waters, and in addition to impressions made on ship visitors, influenced the acceptance of atomic energy for peaceful purposes by millions of people who saw, heard, and read about the N.S. SAVANNAH in newspaper, magazine, television and radio accounts of port visits.

With the completion of the demonstration phase of the N.S. SAVANNAH program, the experimental commercial phase was initiated. This was conducted under a bareboat charter of the vessel to First Atomic Ship Transport, Inc. (FAST), a wholly-owned subsidiary of American Export Lines. A bareboat charter is basically a standard document used by the Maritime Administration to permit ship operators to operate Government-owned vessels in a manner virtually identical to the way they would operate privately-owned vessels. The vessel was operated in this manner from August 1965 until July 1970, when it was placed in layup because most of what could be learned from operation of the vessel had been learned.

During five years of experimental commercial operations as a cargo liner the SAVANNAH accomplished the following:

(1) It demonstrated that a nuclear merchant ship can operate safely and reliably in a regularly scheduled commercial service. The SAVANNAH served as the fourth ship in a group regularly scheduled on Trade Route 10 between east coast ports and the Mediterranean.

(2) It developed the framework for acceptance and entry and opened new ports to any future nuclear merchant ships. Fifteen domestic ports and 37 foreign ports in 20 nations have permitted entry of the N.S. SAVANNAH for routine cargo discharge and pickup.

(3) It demonstrated a favorable reaction on the part of shippers toward using nuclear marine transportation.

(4) It produced a reservoir of marine personnel trained and licensed to manage and operate a seagoing nuclear power plant.

(5) It added to the prestige of the United States through demonstration of an advanced type ship and ship propulsion.

(6) It demonstrated to the world the sincerity of United States efforts to use nuclear power for peaceful purposes.

(7) It kept nuclear maritime regulatory problems before the regulatory bodies and industry, thus stimulating efforts to establish optimum requirements that will be applicable to any future nuclear merchant ships.

(8) It provided extended operational history on which insurance companies may base premiums for insuring future commercial nuclear ships.

(9) It traveled 332,405 miles on its first core, after which 4 of 32 fuel elements were replaced and the remaining 28 relocated in the core matrix. After this "shuffle" refueling, the ship sailed an additional 122,270 miles on seven voyages to the Mediterranean and one voyage to the Far East. It is estimated that sufficient reactivity is still available in the shuffled core to allow about 50,000 additional miles of operation. Thus, total mileage for Core I and shuffled Core IA at end of this operating period was 454,675 miles.

(10) It demonstrated high reactor plant availability. The reactor has been critical, generating heat for 34,140 hours during the period of experimental commercial operation, or 81.9 percent of the time, exclusive of the refueling outage. Average utilization of the reactor power was 40.8 percent over the five year period. Unscheduled shutdowns accounted for 1,708 hours, or 4.1 percent of the five year period. During 853 sea days only six scrams and three other unscheduled shutdowns have occurred and reactor availability at sea was 99.88 percent.

(11) It made 27 transoceanic voyages, seven to north Europe, 17 to Mediterranean ports, and three to the Far East, operating routinely as a breakbulk cargo ship in liner service on designated trade routes.

(12) It has undergone the first successful nuclear merchant ship refueling.

(13) It reduced the annual inspection outage time from 30 days in the second year to 12 days in the third and 13½ days in the fifth period. Inspection was accomplished in the fourth period during the refueling outage.

(14) In over 450,000 miles of operation, without any air pollution, it used up only 163 pounds of enriched uranium fuel. By comparison, a conventionally powered ship traveling the same distance would require 28,800,000 gallons of fuel oil, and would have released some 340 tons of sulphur-bearing pollutants while in port only.

The experimental commercial operation of the N.S. SAVANNAH was completed on July 25, 1970. Prior to withdrawal from active service, the Maritime

Administration issued a request for proposals for the long-term operation of the N.S. SAVANNAH. The request stated that the Government was interested in proposals to utilize the vessel most effectively for the remainder of its useful life. The request stated further that the Government proposed to accomplish this objective on the basis of either a long-term charter at \$1.00 per year or through transfer of title. No responsive proposals for continued operation of the N.S. SAVANNAH were received either from Government or industry.

We think the transfer of the vessel to the city of Savannah, as provided in the bill, for use as a museum ship would provide for an appropriate commemoration of the accomplishments of the vessel.

We have been advised by the Office of Management and Budget that there would be no objection to the submission of our report to the Congress from the standpoint of the Administration's program.

Sincerely,

KARL E. BAKKE,
General Counsel.

DEPARTMENT OF THE NAVY,
OFFICE OF LEGISLATIVE AFFAIRS,
Washington, D.C., September 10, 1973.

HON. LEONOR K. SULLIVAN,
*Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington, D.C.*

DEAR MADAM CHAIRMAN: Your request for comment on H.R. 9450, a bill "To authorize the Secretary of Commerce to transfer the N.S. Savannah to the city of Savannah, Georgia," has been assigned to this Department by the Secretary of Defense for the preparation of a report expressing the views of the Department of Defense.

This bill would authorize the Secretary of Commerce to transfer to the city of Savannah, Georgia the N.S. Savannah to be used as a museum ship and for other public purposes.

The Department of the Navy, on behalf of the Department of Defense, defers to the views of other interested departments and agencies of the federal government as to the enactment of H.R. 9450.

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

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report on H.R. 9450 for the consideration of the Committee.

For the Secretary of the Navy.

Sincerely yours,

E. H. WILLETT,
Captain, U.S. Navy, Deputy Chief.

OFFICE OF THE SECRETARY OF TRANSPORTATION,
Washington, D.C., September 19, 1973.

HON. LEONOR K. SULLIVAN,
*Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington, D.C.*

DEAR MADAM CHAIRMAN: Reference is made to your request for the comments of the Department of Transportation concerning H.R. 9450, a bill "To authorize the Secretary of Commerce to transfer the N.S. Savannah to the city of Savannah, Georgia."

The N.S. Savannah is a nuclear ship presently owned by the Department of Commerce. Its official Coast Guard document number is 287392. The vessel was built in Camden, New Jersey in 1962. It measures 15,585 gross tons and 8,498 net tons. The vessel is not presently in use, and, therefore, does not possess a current Coast Guard certificate.

Within this Department, the Coast Guard has responsibility for vessel documentation, maritime safety, and marine environmental protection. The bill would restrict the use of the nuclear vessel Savannah to areas other than transportation. Should the vessel be permanently moored, no Coast Guard inspection or certification would be required. We understand that the vessel's nuclear core has been removed. There remain, however, some nuclear-related safety con-

siderations which are primarily the responsibility of the Atomic Energy Commission to whom we defer. Finally, we note that if the vessel's sanitary system remains in use, and it discharges wastes into the navigable waters of the United States, the regulations established for marine sanitation devices under the Federal Water Pollution Control Act (33 U.S.C. 1322) would be applicable to the vessel.

Enactment of H.R. 9450 combined with the permanent mooring of the N.S. Savannah would take the vessel out of the Coast Guard's maritime safety jurisdiction. Accordingly, the Department of Transportation defers to the comments of the Department of Commerce as to the advisability of transferring the ship to municipal ownership through the enactment of H.R. 9450.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the submission of this report to the Committee.

Sincerely,

J. THOMAS TIDD,
Acting General Counsel.

Mr. CLARK. If you are ready, Mr. Ginn.

STATEMENT OF THE HONORABLE BO GINN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. GINN. Mr. Chairman, first may I express my sincere appreciation for the promptness with which you have favorably responded to my request to have a hearing on this legislation, H.R. 9450, which would transfer the title of the NS *Savannah* to the city of Savannah, Ga.

I would like to give you a brief outline of the facts involving this legislation, and then yield to the other witnesses who can provide detailed information on all aspects of this matter.

As you know, the NS *Savannah* was constructed at the direction of the Congress under a proposal by the late President Dwight D. Eisenhower. It was created to demonstrate the peaceful uses of nuclear energy.

From its inception, the ship has played a very special role in the life of its namesake city. Savannah was chosen as the port of call for the ship on its maiden voyage in 1962, and from that day forward the ship has occupied a special place in the hearts of the citizens of the Savannah area. It has been an object of great pride that this magnificent vessel has carried the name of the beautiful and growing port city of Savannah around the globe on its mission of peace and progress. Partly as a result of the lessons learned by the construction and operation of the NS *Savannah*, we will soon be considering new legislation to stimulate construction of nuclear-powered commercial ships.

The NS *Savannah* demonstrated that nuclear energy has an application for commercial shipping. Now its job is done, and it has been retired.

My bill provides a way for the ship to begin a new chapter in its story of service to the public and to our Nation's future. It provides simply that the title of the ship be transferred to the city of Savannah. The legislation was drafted in cooperation with the Maritime Administration, and was introduced at the request of the city of Savannah.

The city is at this time conducting a very careful study of the financial requirements involved in giving the NS *Savannah* the kind

of home it deserves. I am confident that the city will not assume the responsibility of taking title to this ship without being perfectly sure that its arrangement will serve the public interest and will preserve the majesty and dignity of this remarkable vessel.

Passage of this bill would, in my opinion, provide the best possible use for the ship under the mandate Congress issued at the time the ship was ordered to be built.

In addition, this type of title transfer has considerable precedent. As you know, the Navy now has the authority under public law to place retired vessels at the disposal of namesake cities and States.

At this time, the NS *Savannah* lies idle at its temporary berth in the city of Savannah. It is locked away from public view even though it was built by public funds. And it is costing the taxpayers thousands of dollars in fees for maintenance and other costs.

The city of Savannah is hard at work in the final stages of its study of the feasibility of acquiring the ship. Its proposal for the vessel would, in my opinion, put the ship to its highest and best public use. The Maritime Administration agrees.

In light of these facts and information, I believe that this is non-controversial legislation. It is important that we act quickly on this bill in order to insure that taxpayers be relieved of the financial burden it presents, and to put the ship back into public use, and I would most respectfully, Mr. Chairman, ask that this subcommittee give very careful consideration to the NS *Savannah* legislation known as H.R. 9450.

Thank you very much, sir.

Mr. CLARK. Thank you very much, and thank you for introducing this legislation.

Any questions?

All right, thank you very much. I do appreciate that.

The next witness is the Honorable Howard F. Casey, Deputy Assistant Secretary for Maritime Affairs, Maritime Administration.

Nice to have you back.

STATEMENT OF HON. HOWARD F. CASEY, DEPUTY ASSISTANT SECRETARY FOR MARITIME AFFAIRS, MARITIME ADMINISTRATION

Mr. CASEY. Thank you.

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before your subcommittee to testify with respect to H.R. 9450.

The bill would authorize the Secretary of Commerce to transfer the NS *Savannah* to the city of Savannah, Ga., without monetary consideration, within 1 year after enactment of the bill, to be used as a museum ship, and for other public purposes, but not for transportation, together with such of her fixtures, tackle, apparel, furnishings, and equipment as the Secretary of Commerce, in his discretion, determines. The bill would further authorize the Secretary of Commerce, in connection with such transfer, to pay the reasonable cost of towing the vessel to a site selected by the city of Savannah.

We recommend enactment of the bill.

The NS *Savannah* was built pursuant to section 716 of the Merchant Marine Act, 1936, to demonstrate the peaceful uses of atomic energy. This section was added to the Merchant Marine Act, 1936, by Public Law 848, 84th Congress, approved July 30, 1956.

It was recognized when the section was enacted that the vessel would not be commercially viable.

The contract to build the ship—except for the reactor—was awarded to New York Shipbuilding on November 16, 1957. The Atomic Energy Commission awarded the contract to build the reactor to Babcock & Wilcox Co., on April 3, 1957.

The keel of the ship was laid on May 22, 1958, and the ship was launched on July 21, 1958. Fuel was loaded in November 1961, and the reactor went critical on December 21, 1961. Sea trials were made in March and April 1962.

The Maritime Administration accepted the ship on May 1, 1962, and turned it over to States Marine Lines, as general agent, for further familiarization tests and operation.

In 1962 and 1963, the NS *Savannah* visited 11 domestic ports, beginning with a visit to the city of Savannah. During the initial domestic voyage, she visited Atlantic and Gulf ports, transited the Panama Canal, and called at Hawaiian and U.S. west coast ports.

After returning to her servicing facility at Galveston in 1963, labor troubles caused by pay differentials between the engine and deck departments culminated in a strike that required the Government to enter into an agreement with a new general agent having contracts with different maritime unions. This required training a new crew complement while the ship remained immobilized for a year.

When the NS *Savannah* resumed operation in May 1964, she was operated by American Export Lines. The vessel made a second voyage to a series of domestic ports, and then made her maiden Atlantic crossing, the first of five demonstration voyages between foreign and domestic ports.

When the NS *Savannah* returned to her servicing facility in Galveston, Tex., on March 10, 1965, she had visited a total of 55 ports, been viewed by 1,500,000 people and had traveled the equivalent of nearly four trips around the world.

The NS *Savannah* in her 2 years of demonstration operation, established an internationally accepted pattern of marine operation for atomic commercial ships. The ship carried cargo and passengers in domestic and foreign waters, and in addition to impressions made on ship visitors, influenced the acceptance of atomic energy for peaceful purposes by millions of people who saw, heard, and read about the NS *Savannah* in newspaper, magazine, television, and radio accounts of port visits.

With the completion of the demonstration phase of the NS *Savannah* program, the experimental commercial phase was initiated. This was conducted under a bareboat charter of the vessel to First Atomic Ship Transport, Inc. (FAST), a wholly owned subsidiary of American Export Lines.

A bareboat charter is basically a standard document used by the Maritime Administration to permit ship operators to operate Government-owned vessels in a manner virtually identical to the way

they would operate privately-owned vessels. The vessel was operated in this manner from August 1965 until July 1970, when it was placed in lay-up because most of what could be learned from operation of the vessel had been learned.

During 5 years of experimental commercial operations as a cargo liner the *Savannah* accomplished the following:

1. It demonstrated that a nuclear merchant ship can operate safely and reliably in a regularly scheduled commercial service. The *Savannah* served as the fourth ship in a group regularly scheduled on trade route 10 between east coast ports and the Mediterranean.

2. It developed the framework for acceptance and entry, and opened new ports to any future nuclear merchant ships. Fifteen domestic ports and 37 foreign ports in 20 nations have permitted entry of the NS *Savannah* for routine cargo discharge and pickup.

3. It demonstrated a favorable reaction on the part of shippers toward using nuclear marine transportation.

4. It produced a reservoir of marine personnel trained and licensed to manage and operate a seagoing nuclear powerplant.

5. It added to the prestige of the United States through demonstration of an advanced type ship and ship propulsion.

6. It demonstrated to the world the sincerity of the U.S. efforts to use nuclear power for peaceful purposes.

7. It kept nuclear maritime regulatory problems before the regulatory bodies and industry, thus stimulating efforts to establish optimum requirements that will be applicable to any future nuclear merchant ships.

8. It provided extended operational history on which insurance companies may base premiums for insuring future commercial nuclear ships.

9. It traveled 332,405 miles on its first core, after which 4 of 32 fuel elements were replaced, and the remaining 28 relocated in the core matrix. After this "shuffle" refueling, the ship sailed an additional 122,270 miles on 7 sea voyages to the Mediterranean, and 1 voyage to the Far East. It is estimated that sufficient reactivity is still available in the shuffled core to allow about 50,000 additional miles of operation. Thus, total mileage for core I shuffled core 1A at end of this operating period was 454,675 miles.

10. It demonstrated high reactor plant availability. The reactor has been critical, generating heat for 34,140 hours during the period of experimental commercial operation, or 81.9 percent of the time, exclusive of the refueling outage. Average utilization of the reactor power was 40.8 percent over the 5-year period. Unscheduled shutdowns accounted for 1,708 hours, or 4.1 percent of the 5-year period. During 853 sea days only 6 scrams and 3 other unscheduled shutdowns have occurred and reactor availability at sea was 99.88 percent.

11. It made 27 transoceanic voyages, 7 to north Europe, 17 to Mediterranean ports, and 3 to the Far East, operating routinely as a break-bulk cargo ship in liner service on designated trade routes.

12. It has undergone the first successful nuclear merchant ship refueling.

13. It reduced the annual inspection outage time from 30 days in the second year to 12 days in the third and 13½ days in the fifth

period. Inspection was accomplished in the fourth period during the refueling outage.

14. In over 450,000 miles of operation, without any air pollution, it used up only 163 pounds of enriched uranium fuel. By comparison, a conventionally powered ship traveling the same distance would require 28,800,000 gallons of fuel oil, and would have released some 340 tons of sulfur-bearing pollutants while in port only.

The experimental commercial operation of the *NS Savannah* was completed on July 25, 1970.

Prior to withdrawal from active service, the Maritime Administration issued a request for proposals for the long-term operation of the *NS Savannah*. The request stated that the Government was interested in proposals to utilize the vessel most effectively for the remainder of its useful life.

The proposal stated further that the Government proposed to accomplish this objective on the basis of either a long-term charter at \$1 per year, or through transfer of title. No responsive proposals for continued operation of the *NS Savannah* were received either from Government or industry.

We think the transfer of the vessel to the city of Savannah, as provided in the bill, for use as a museum ship, would provide for an appropriate commemoration of the accomplishments of the vessel.

Thank you, Mr. Chairman. That completes my prepared statement.

Mr. CLARK. Thank you very much.

I do not know about the other members, but I think that this would be a time everyone should not only read it, but should keep your statement, because I think it is excellent, and gives a complete history of that great ship.

I have a few questions, but in the interest of time, I am going to submit them to you for the record, and you can answer them at that time.

I would like to say I agree with your final paragraph, where you say that "the transfer of the vessel to the city of Savannah, as provided in the bill, for use as a museum ship, would provide for an appropriate commemoration of the accomplishments of the vessel."

[The questions referred to follow:]

QUESTIONS ASKED BY MR. CLARK AND ANSWERS SUPPLIED

Question 1: Am I to understand that the United States Government has no further use for the N.S. SAVANNAH, and therefore favors the legislation before us this morning?

Yes.

Question 2: How much does it cost the Federal Government to maintain the N.S. SAVANNAH in its present lay-up status?

Approximately \$185,000 per year.

Question 3: What do you estimate would be the reasonable cost of towing the vessel to a site selected by the City of Savannah? Is it your understanding that this site is located within the City of Savannah?

The site is located in the City of Savannah. The distance is about $\frac{1}{2}$ mile. We estimate the cost of towing would be \$1,200 to \$1,500.

Question 4: Other than the towing expense, would the Federal Government incur any expenses with respect to the vessel after it had been transferred to the City of Savannah?

In accomplishing the final turn-over of the vessel to the city, we will incur expenses estimated at approximately \$12,000. This includes the towing expense

and other costs such as shipment of miscellaneous equipment presently on board the vessel, conduct of a final inventory of government owned property, and so forth.

Question 5: I understand that there were a number of proposals for the use of the N.S. SAVANNAH. Am I correct in assuming that you consider the proposal provided by the bill to be the best?

The Maritime Administration issued a request for proposals for the long-term operation of the N.S. SAVANNAH on the basis of either a long-term charter at \$1.00 a year or through transfer of title. The proposal provided by the bill is the best proposal and is the only one that is responsive to our request.

Question 6: If the bill before us this morning is unsuccessful, what will the Government do with the N.S. SAVANNAH?

We would place the vessel in the Reserve Fleet until a decision is made on its final disposition.

Mr. CLARK. Are there any questions?

Mr. DOWNING. Yes; the *Savannah* did not only a job of opening the ports of the world up to nuclear propulsion, but served a useful purpose, and was retired here, over the objection of this committee, as you may recall, and what did the *Savannah* cost?

Mr. CASEY. Total construction cost?

Mr. DOWNING. Total construction cost.

Mr. CASEY. \$47,660,000, approximately, is what is carried on the books, including all the change orders.

Mr. DOWNING. At any time during her career did she ever have a profit?

Mr. CASEY. No, sir. She had losses during the 5 years of operation and was averaging, toward the end—at least the last 3 years—about 3½ million in terms of loss and fee to the agent.

Mr. DOWNING. How much does it cost to keep her as she is now?

Mr. CASEY. About \$185,000 a year, sir.

Mr. DOWNING. What happened to the additional nuclear rods that were built for her?

Mr. CASEY. We still have a second core. As I indicated in my statement, the initial core was reshuffled, and four new elements were put into the core, and the other 32 were reshuffled, but there is another core that is available for future use, and will probably be turned back to the Atomic Energy Commission.

Mr. DOWNING. You have no use for it at the present time?

Mr. CASEY. No, sir.

Mr. DOWNING. For this additional core?

Mr. CASEY. That is right. There is no further use.

Mr. DOWNING. Thank you very much for your statement.

Mr. GROVER. Mr. Chairman, I note in the letter from the Atomic Energy Commission that they recommend that the bill be amended to have a continuing oversight jurisdiction under the Atomic Energy Act.

Do I understand, Mr. Casey, that there is some residual radioactivity in the ship?

Mr. CASEY. There is still some radioactivity in the ship, yes, sir. It is within the containment system, but it does require continual surveillance.

Mr. GROVER. Now, at whose cost will this surveillance be?

Mr. CASEY. Under this proposed bill this would be a responsibility of the city of Savannah.

Mr. GROVER. Then who would actually accomplish the surveillance? Will they have to hire an atomic energy engineer—some one with a background in that, or would they go to the Federal Government, and retain them for advice or direction, or what?

Mr. CASEY. To the best of my knowledge, Congressman, this would be done by the city of Savannah, and not by any Government employee or Government representative.

Mr. GROVER. But it would be with Atomic Energy Commission oversight?

Mr. CASEY. As I understand it, we would have our license canceled by the Atomic Energy Commission, and the city of Savannah would apply to the State of Georgia which does have licensing and permit authority. It is one of the States of the Union that does, or can issue a license or a permit for this type of installation.

Mr. GROVER. We have assurances that the level of radioactivity and detection built into the ship now is such that the public, when it is open to use, will not be in danger?

Mr. CASEY. Yes, sir.

Mr. GROVER. You do give that assurance?

Mr. CASEY. Well, personally, I believe that the Atomic Energy Commission has so certified, but I am not positive of it. Of course there have been no accidents since the ship was built.

Mr. GROVER. Mr. Chairman, I think it would be in the best interest, if we want the bill passed, to have counsel get that assurance from the Atomic Energy Commission that the ship is secure, and that there will be no danger to the public when it is turned over.

Mr. CLARK. I think we will write to the Commission.

Mr. GROVER. One last question.

What would be the cost of the towing?

Mr. CASEY. The proposed site is about one-half mile from its present location, and we estimate the towing bill would be somewhere around \$1,500.

Mr. GROVER. I have no further questions.

Mr. CLARK. Mr. Ginn?

Mr. GINN. Thank you.

I just want to compliment Mr. Casey on his excellent statement. I certainly agree with the statement. His statement is one all of us interested in shipping, and particularly in the *NS Savannah*, should keep, because he did a thorough job of covering the details and history of the ship.

We very much appreciate Mr. Casey's fine statement. Thank you, sir.

Mr. STUDDS. I have no questions.

I commend the city of Savannah, and Congressman Ginn, for their imagination.

Mr. CLARK. Thank you very much for coming up and spending this time.

Mr. Ginn, would you please introduce the next speaker?

Mr. GINN. Thank you, Mr. Chairman and members of the sub-committee.

It is my great pleasure today to present to you one of the most popular mayors in the long and illustrious history of the city of Savannah. We affectionately refer to the mayor as the Socrates of Georgia politics, since he is of Greek descent.

He is very popular with his constituents because he is truly one of them, and is very dedicated to the city of Savannah, which we know as the the mother city of Georgia.

If you have not visited the beautiful city of Savannah, I know the distinguished mayor will invite you today, and if you will avail yourself of his invitation, I can promise you a very warm and friendly welcome that you will not forget in many years.

Without further ado, and in the interest of time, may I proudly present to the committee the distinguished mayor of the oldest city in our great State, the city of Savannah, mayor John Rousakis.

Mr. CLARK. Nice to have you here, mayor.

STATEMENT OF JOHN P. ROUSAKIS, MAYOR, CITY OF SAVANNAH, GA.

Mr. ROUSAKIS. Thank you, Mr. Chairman.

After that introduction, I think I will just submit my testimony, especially with that Socrates of Georgia politics.

I note that two of my Athenian committeemen are absent from the committee, Mr. Kyros and Mr. Sarbanes.

Mr. Chairman, gentlemen of the committee, I am John P. Rousakis, the mayor of the city of Savannah, Ga., appearing before this honorable body in behalf of a bill introduced in the 93d Congress by the Honorable Ronald (Bo) Ginn, Representative of the First District of Georgia, to authorize conveyance of the nuclear ship *NS Savannah* to the city of Savannah.

I appreciate this opportunity to be heard.

The city of Savannah has a maritime history dating back to its founding, as the first community in the Colony of Georgia, on February 13, 1733. On that date, Gen. James Edward Oglethorpe, an Englishman, and a band of settlers sailed 18 miles up what is now the Savannah River to establish our city in the New World, thus completing a voyage across the Atlantic Ocean.

In the days, months, and years that followed, Savannah grew to become the largest seaport on the South Atlantic Coast, a hub of commerce and industry. And over these years, our city has developed a heritage and tradition closely linked with the sea.

The *NS Savannah*, first atomic powered merchant vessel to sail the seven seas, is the 22d of 23 ships that have been named for my city.

Since the *NS Savannah* was launched in 1959, and subsequently commissioned and placed into operation as a prototype vessel, the U.S. Navy has signally honored our city by naming one of its new super service ships, the U.S.S. *Savannah* AOR-4, commissioned December 5, 1970, for the mother city of Georgia. That was the third Navy ship in this century to be named for Savannah.

One, a submarine tender, served with distinction in the First World War. The other, a 10,000 ton light cruiser, earned battle colors—as well as battle scars—in the Atlantic and the Mediterranean, during World War II.

So, you can understand that we are proud of our maritime heritage which has been underscored since 1779 by ships bearing our city's name.

Now, why are we so interested in having the deactivated NS *Savannah* berthed permanently on our waterfront?

What is so special about this ship compared with the other ships that have borne our city's name?

I will answer that question by pointing out that this ship, the NS *Savannah*, like 1 of her 21 namesake predecessors, holds a unique place in maritime history; not just the maritime history of our city, but of this great Nation and the world.

The particular namesake predecessor to which I have referred was the famed SS *Savannah*, the first trans-Atlantic steamer, which revolutionized world commerce.

That little 350-foot full-rigged wooden ship, with a 90-horsepower engine, not only was the first steampowered vessel to sail the Atlantic, it was the first to cross any ocean at a time when sailpower was predominant and the steam vessels were used only along rivers and smaller waterways.

The bold pioneer spirit which so typifies America prompted the Savannah Steamship Co. and Capt. Moses Rogers to build the SS *Savannah* and to go into this ocean-crossing venture, an event which brought President James Monroe to our city to attend presailing festivities.

On May 22, 1819, the Steamer *Savannah* set sail from our city for Liverpool, England, and arrived there 23 days later.

The ship then visited Stockholm, then St. Petersburg—now Leningrad—then Copenhagen, and finally Arendal, Norway.

Before returning to Savannah in December of that year, the ship and Captain Rogers had been honored by the Kings of those countries and by the Czar of Russia. Indeed, history had been made.

You know the rest of the story.

You know that steampower, once proved as a force adaptable to ocean voyages, revolutionized water commerce. The sailing ships began to disappear, and the steamships began to replace them.

I need not go into an extensive review of the history of shipping after that memorable voyage.

I would like to point out, however, that May 22, the day on which the *Savannah* began her voyage to Liverpool, is now, by Act of Congress, National Maritime Day, and it is celebrated annually in the United States.

So what does the Steamer *Savannah* have in common with the nuclear ship of the same name?

Simply this—both vessels were prototypes and catalysts in a revolutionary movement in commerce. Just as the Steamer *Savannah*, which was small and unable to carry a profitable payload, proved to the world that a new form of energy could be used to send ships on long voyages, so did the nuclear ship *Savannah*.

The smallness, the unprofitable factors of a ship that size, caused the NS *Savannah* to be retired from the merchant fleet. But not before she had proved a point. And, consequently, in years to come, there will be larger and more profitable nuclear ships ultimately replacing the steam and motor vessels now sailing the seven seas.

We want to preserve the NS *Savannah* in our city because she is a history-making unique merchant ship. That's one of the reasons.

The fact that she bears the name of our city is another.

The fact that during her active career, Savannah was her officially registered home port is another.

The fact that she came to Savannah on August 22, 1962, to begin her maiden voyage is yet another.

All of those reasons are important, not only to the pride of the citizens of Savannah, but to the role that Savannah plays in maritime history.

Yet, I wish to cite another very important reason why we want to preserve this ship, and it relates to peace and the preservation of humanity.

Our intention is to make the NS *Savannah* the focal point of the Eisenhower Peace Center, named for the great President of the United States, who, after successfully leading this Nation through its worst war, wanted America to prove to the world that atomic energy could be used for peaceful purposes and not just to destroy the human race.

President Eisenhower's dedication to the peaceful application of the atom is what prompted him to bring the Federal Government into the field of nuclear propulsion of merchant ships. He had the *Savannah* built for the very purpose that it was used.

His lovely wife, while she was First Lady, christened the ship. And when the ship was brought to Savannah more than a year ago, Mrs. Eisenhower attended ceremonies in the Savannah Civic Center launching the idea of the Eisenhower Peace Center.

We in Savannah, therefore, intend to make the nuclear ship more than just a permanently moored vessel for tourists to see. We intend to make it the vital part of the Eisenhower Peace Center, an institution that will have real meaning in this Nation's efforts to encourage the entire world to beat its swords into plowshares.

The nuclear ship *Savannah* has never fired a shot. Like the medical ship HOPE, she has been a symbol of peace. She has taken her mission of peace around the world.

She has visited ports, even in Japan, the country where the most devastating effects of nuclear energy were demonstrated. She has real meaning, and we in Savannah want to underscore that meaning.

We are not unprepared to complete this mission. We are not waiting for the Congress to act, to give us the ship, before we make a move toward using her for the purposes as stated by me previously.

Already the city of Savannah has invested more than \$34,000 in a feasibility study on the proposed Eisenhower Peace Center.

The study has revealed that the project is both economically and technically feasible. It has developed two theme elements of atoms for peace and a "maritime showcase," which will emphasize not only the peaceful use of nuclear energy but the importance of the maritime industry to the world.

We are prepared to move forward with the project. Site selection, preparation of the ship and the site of the Peace Center, and financing of the project are matters to which we need to address ourselves immediately. Some preliminary moves toward these matters have already been made, but we cannot wholeheartedly commit ourselves to the project unless and until we are assured that the ship will be ours.

Financing, particularly, is a major obstacle. Will we float bonds?

Will we seek underwriting by private enterprise?

Will we set up the Peace Center on a pay-as-you-go basis?

These are questions that we have to consider, but we need to know, finally and conclusively, whether the ship will be conveyed to the city of Savannah by the Federal Government.

That is the purpose of my appearance today before this subcommittee.

I am asking, on behalf of the citizens of Savannah, that you report this bill out favorably.

My plea, I feel, has public support beyond the city limits of Savannah. The citizens of this Nation are on the side of peace. They are on the side of the peacemaking efforts that the United States has exerted around the world.

What more tangible symbol of these efforts would be more appropriate than the Eisenhower Peace Center?

Again, let me express my appreciation for this opportunity to appear before your committee.

Mr. CLARK. Thank you very much, Mr. Mayor.

That was an excellent statement, and I now know why Mr. Ginn said those lovely words about you.

I have one question, and I have a few others which I will submit for the record for you to answer.

If the proposed legislation is enacted, will the city of Savannah definitely accept the NS *Savannah*?

Mr. ROUSAKIS. Mr. Chairman, we have moved ahead to this point now without having the bill passed in conducting the feasibility study and all the preparations up to the point of passage.

We could not spend the several thousand dollars necessary to acquire the site, nor could we call for a bond referendum or issue bonds until we knew conclusively the ship would be ours.

So, we are at the point now where we can make our next move with passage of the bill.

Mr. CLARK. Thank you.

Mr. DOWNING. Mayor, I would like to compliment you and the city, particularly, and your able Representative, Mr. Bo Ginn, my colleague here on the committee, for your efforts in trying to obtain the *Savannah*.

Now that she has no further use from a maritime standpoint, I think the city of Savannah is entitled to her. Some day I hope to come down there and see it in its place in the Eisenhower Peace Center.

So I congratulate you, and I think you made a very fine statement in your address.

Mr. MOSHER. Mr. Chairman, last summer, I had the privilege of being in Savannah, which is a beautiful city, by the way. It is a fascinating community, and it certainly must be a privilege to be a leader in that community.

I was taken on a visit to the ship. I went through the ship, and I must say I came away with a lot of enthusiasm for this concept of the Eisenhower Peace Center and for this use of the *Savannah*.

I came away very much sold, and I just happened to be with a couple of people of the opposite parties of Mr. Ginn, our colleague. They were enthusiastic about it and they anticipated that he would be introducing this legislation. And I told him that I certainly would like to be helpful, and that still is my point of view.

I hope that we can get congressional approval for this project.

Mr. Chairman, I suppose the feasibility study will become part of our committee records.

Can that be submitted?

Mr. ROUSAKIS. I think we have adequate copies of the feasibility report to present to the committee.

Mr. MOSHER. And does that, in some detail, explain how the project will be financed as far as local financing is concerned?

Mr. ROUSAKIS. It goes into full detail once the ship is operational and once it is set up as the focal point of the Eisenhower Peace Center.

It also gives directions on the site location for the ship, the primary financing getting from the point where the ship is now into making it into the attraction that we want is the next step that we have to take.

The consultant, who is present by the way, has indicated anywhere from \$600,000 to \$800,000 it would take to get into making the ship operational as the focal point of the center.

So this is the next move that we are prepared to get into.

Mr. MOSHER. One of the staff members asked what is the time-frame once you have got the go-ahead sign from the Congress.

When would this concept come into being?

Mr. ROUSAKIS. You mean the financial move?

Mr. MOSHER. I guess what we are talking about, when would the ship be open to the public on the terms that you speak, be available?

Is that a matter of months or years or what?

Mr. ROUSAKIS. No.

I think it is a matter of months.

Mr. Levy—if I could, this is the consultant, Mr. Albert Levy, who conducted the feasibility study for us.

Mr. LEVY. Six to eight months.

We have a 6-month schedule within which both the sites and the ship can be prepared in order to complete the center.

Six to eight months.

Mr. ROUSAKIS. If I may add another comment here, our action once the bill authorizing the transfer passes, we will make our move financially within 60 days of that passage.

Mr. MOSHER. When the ship becomes open to the public, will it be open on a pay basis of some sort?

Mr. ROUSAKIS. In the feasibility report that is a recommendation.

Mr. MOSHER. That is the way I remember it, and the revenues will be used for what, the maintenance of the ship?

Mr. ROUSAKIS. The operation of the facility, maintenance, and the projection is that, I believe, 280,000 visitors a year will come into the center, and that there will be an overage in the cost, I mean, in the revenues that we could amortize the early capital investment, putting it into operation.

Mr. MOSHER. One other question, Mr. Chairman.

I notice in the letter from the Atomic Energy Commission, that they recommend a third section be added to the bill.

What is your opinion of that proposal?

Mr. GINN. If the gentleman will yield, may I say to my distinguished colleague that that proposed amendment is certainly acceptable.

The State of Georgia is in agreement with the Atomic Energy Commission, and we absolutely have no objection to that.

Mr. MOSHER. I have no further questions, Mr. Chairman.

Anything further I can do to be helpful, I would like to do.

Mr. GINN. One other brief comment. I was hoping our colleague Mr. Downing would be able to stay to hear this.

He pointed out in one of his questions, he asked the question, did the nuclear ship *NS Savannah* ever make a profit.

I might add, as a matter of fact, neither have I, as a Member of Congress. We are proud of the *NS Savannah*, and I personally want to thank Mayor Rousakis for coming all the way to Washington to give us such an excellent statement. It is one of the finest statements I have heard before the committee since my arrival in Congress. As the bill states, the sole intent of my legislative proposal is to make it possible for the Federal Government to transfer the title of the ship to Savannah.

From that point on, and at that point, I do believe we will be successful, thanks to the enthusiastic support of the members of this subcommittee and committee.

From that point on the future of the *NS Savannah*, of course, lies in the hands of the capable mayor, and the city officials, and the citizens of Savannah.

I do not personally think that the ship could be in better hands than in those of the two gentlemen that you heard here today.

I want to thank the committee for the courtesy you have extended us today, and urge that you join with me in seeing this through Congress.

Thank you very much.

Mr. CLARK. Thank you very much, and thank you, Mayor, for coming.

The meeting is now adjourned.

[Whereupon, at 10:45 a.m., the subcommittee was adjourned.]

MERCHANT MARINE MISCELLANEOUS

Sale of SS Independence

THURSDAY, SEPTEMBER 20, 1973

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, D.C.

The Subcommittee on Merchant Marine met pursuant to call, at 10:05 a.m., in room 1334, Longworth Office Building, the Honorable Frank M. Clark (chairman of the subcommittee) presiding.

Mr. CLARK. Good morning. The meeting will please come to order.

This morning the Subcommittee on Merchant Marine opens hearings on H.R. 8586, a bill to authorize the foreign sale of the passenger vessel ship *Independence*.

[H.R. 8586, together with departmental reports, follows:]

[H.R. 8586, 93d Cong., 1st sess.]

A BILL To authorize the foreign sale of the passenger vessel steamship *Independence*.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding any other provision of law or of prior contract with the United States, the laid-up passenger vessel steamship *Independence* may be sold and transferred to foreign ownership, registry, and flag, with the prior approval of the Secretary of Commerce. Such approval shall require (1) approval of the purchaser; (2) payment of existing debt and private obligations related to the vessel; (3) approval of the price, including terms of payment, for the sale of the vessel; (4) the seller to enter into an agreement with the Secretary whereby an amount equal to the net proceeds received from such sale in excess of existing obligations and expenses incident to the sale shall within a reasonable period be deposited in its capital construction fund; and (5) the purchaser to enter into an agreement with the Secretary, binding upon such purchaser and any later owner of the vessel and running with title to the vessel, that (a) the vessel will not carry passengers or cargo in competition, as determined by the Secretary, with any United States-flag passenger vessel for a period of two years from the date the transferred vessel goes into operation; (b) the vessel will be made available to the United States in time of emergency and just compensation for title or use, as the case may be, shall be paid in accordance with section 902 of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1242); (c) the purchaser will comply with such further conditions as the Secretary may impose as authorized by sections 9, 37, and 41 of the Shipping Act, 1916, as amended (46 U.S.C. 808, 835, and 839); and (d) the purchaser will furnish a surety bond in an amount and with a surety satisfactory to the Secretary to secure performance of the foregoing agreements.

In addition to any other provision such agreement may contain for enforcement of (4) and (5) above, the agreement therein required may be specifically enforced by decree for specific performance or injunction in any district court

of the United States. In the agreement with the Secretary, the purchaser shall irrevocably appoint a corporate agent within the United States for service of process upon such purchaser in any action to enforce the agreement.

DEPARTMENT OF THE NAVY,
OFFICE OF LEGISLATIVE AFFAIRS,
Washington, D.C., September 20, 1973.

HON. LEONOR K. SULLIVAN,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives,
Washington, D.C.

DEAR MADAM CHAIRMAN: Your request for comment on H.R. 8586, a bill "To authorize the foreign sale of the passenger vessel steamship Independence," has been assigned to this Department by the Secretary of Defense for the preparation of a report expressing the views of the Department of Defense.

Section 503 of the Merchant Marine Act, 1936 (46 U.S.C. 1153) generally provides that a vessel built with the aid of construction-differential subsidy must remain documented under the laws of the United States for 25 years. The SS INDEPENDENCE, now in lay-up, is subject to this provision of law.

H.R. 8586 would permit the SS INDEPENDENCE to be sold to foreign ownership, subject to prior approval of the Secretary of Commerce. Approval by the Secretary of Commerce would require: approval of the purchaser, payment of existing indebtedness related to the vessel, and approval of the price and terms of sale. Such approval would also require that the seller deposit the net proceeds of the sale in its capital construction fund, that purchaser agree the vessel will not compete with a United States-flag vessel for two years, and that the purchaser agree the vessel will be made available to the United States in time of emergency.

The Department of the Navy, on behalf of the Department of Defense, interposes no objection to the enactment of H.R. 8586.

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

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report on H.R. 8586 for the consideration of the Committee.

For the Secretary of the Navy.

Sincerely yours,

E. H. WILLETT,
Captain, U.S. Navy, Deputy Chief.

OFFICE OF THE SECRETARY OF TRANSPORTATION,
Washington, D.C., September 19, 1973.

HON. LEONOR K. SULLIVAN,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives,
Washington, D.C.

DEAR MADAM CHAIRMAN: Reference is made to your request for the views of the Department of Transportation concerning H.R. 8586, a bill

"To authorize the foreign sale of the passenger vessel steamship Independence."

The bill would make possible the sale of the laid-up passenger vessel Independence to foreign ownership, registry, and flag notwithstanding any other provision of law or prior contract with the United States. The sale would require the prior approval of the Secretary of Commerce.

While the Coast Guard has responsibilities in the areas of marine inspection, vessel documentation, and maritime safety, the bill has no direct impact on this Department. The Department of Commerce is, however, directly concerned with the legal restrictions on the foreign sale of United States vessels. Accordingly, we defer to the Comments of the Department of Commerce on the merits of this proposed legislation.

The Office of Management and Budget has advised that, from the standpoint of the Administration's program, there is no objection to the submission of this report to the Committee.

Sincerely,

J. THOMAS TIDD,
Acting General Counsel.

Mr. CLARK. During the last session of the Congress, this committee held comprehensive hearings on the plight of the U.S.-flag passenger fleet. These hearings proved conclusively that the advent of jet aircraft signaled the death knell of point-to-point passenger vessel service. These hearings further brought out that the laid-up American passenger vessels were a serious financial drain on the owning companies to the point where continued cargo operations of some was in doubt. Therefore, this committee fostered legislation that would permit the sale foreign of our laid-up passenger vessels. This legislation was enacted as Public Law 92-296.

As you know, the SS *Independence* was specifically excluded from Public Law 92-296, as one witness insisted that he was prepared to operate the vessel under the U.S. flag. It would now appear that despite the best efforts of American Export Lines this is not possible, and the bill before us this morning would authorize the SS *Independence* to be disposed of generally as provided for the other laid-up U.S. flag passenger vessels.

This morning we will hear from the Maritime Administration and American Export Lines. The first witness is the Honorable Robert J. Blackwell, Assistant Secretary of Commerce for Maritime Affairs.

We are very happy to have you with us this morning. I know you are a very busy man, but this is a good bill. You may proceed.

STATEMENT OF THE HONORABLE ROBERT J. BLACKWELL, ASSISTANT SECRETARY OF COMMERCE FOR MARITIME AFFAIRS, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. BLACKWELL. Good morning, Mr. Chairman.

Thank you very much.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to testify before your subcommittee with respect to H.R. 8586. This bill would authorize the Secretary of Commerce to consent to the transfer of the *Independence* to foreign ownership and registry. The bill is identical to section 1 of Public Law 92-296, which authorized the Secretary of Commerce to consent to the transfer to foreign ownership and registry of the SS *Santa Rosa*, *Santa Paula*, *Brasil*, *Argentina* and *Constitution* except that:

(1) This bill would authorize the transfer of the *Independence*, and

(2) It would require that an amount equal to the net proceeds of sale in excess of existing obligations and expenses incident to the sale be deposited in the owner's capital construction fund within a reasonable period of time. Public Law 92-296 provides that the owner shall enter into an agreement with the Secretary whereby this amount of proceeds shall within a reasonable period of time not to exceed 12 months of receipt be committed and thereafter be used as equity capital for the construction of new vessels which the Secretary determines are built to effectuate the purposes and policy of the Merchant Marine Act, 1936, as amended.

The bill would permit more flexibility in the use of net proceeds of sale than Public Law 92-296. A capital construction fund can be created for the following purposes:

(1) The acquisition, construction, or reconstruction of vessels built in the United States, for documentation under the laws of the United

States, and for operation in the U.S. foreign trade, Great Lakes, or noncontiguous domestic trade, or in the fisheries of the United States;

(2) The acquisition, construction, or reconstruction of barges and containers which are part of the complement of such vessels; and

(3) The payment of the principal on indebtedness incurred in connection with the acquisition, construction, or reconstruction of such vessels or of barges and containers which are part of the complement of such vessels.

Deposits cannot be withdrawn from the fund for any purpose without the Secretary's consent, and if income or gain is withdrawn with the Secretary's consent for any other purpose, they immediately become subject to taxation in the year of withdrawal with interest from the year of deposit to the year of withdrawal.

Since American Export Lines has not yet elected to execute a capital construction fund agreement and an operator cannot have both a capital construction fund and a capital reserve fund, it is recommended that the bill be amended to provide that the net proceeds be deposited in the owner's capital reserve fund unless the owner elects to create a capital construction fund. A capital reserve fund can be used only for the same purposes as a capital construction fund except that vessels built with the fund can be used only on the essential trade routes.

As the chairman noted, the *Independence* was included in H.R. 10577, 92d Congress, which would have authorized the transfer to foreign ownership and registry of all of the laid-up passenger vessels, and which was favorably reported by your committee. The *Independence*, however, was excluded from the clean bill, H.R. 11589, 92d Congress, which was enacted as Public Law 92-296, because a company called Wall Street Cruises, Inc., stated to your committee that it had an outstanding option to purchase the vessel and expressed confidence that it could operate the vessel, if not at a profit, at least without loss. On March 16, 1973, however, it was announced that Wall Street Cruises, Inc., had abandoned its plans to purchase and operate the vessel.

We recommend enactment of the bill for the same reasons that we recommended enactment of Public Law 92-296, namely that the vessel cannot be operated under the American flag without incurring heavy losses and that the financial burden of continuing to keep the vessel in layup interferes with carrying out the program under the Merchant Marine Act of 1970.

The *Independence* was delivered by the shipbuilder in 1951 and will not reach the end of its statutory life until 1976. The vessel, which has a passenger capacity of 1,088, has been in layup since November 1968.

The original cost of the vessel was \$26.4 million, and of that amount the Government's share was \$11.8 million. The vessel was reconstructed in 1959 at a cost of \$3.6 million, and of this the Government's share was \$1.8 million. The vessel was completely refurbished in early 1968, both inside and out, including new decor for all cabins, with the galley and dining rooms being reoutfitted. This was done without construction-differential subsidy, at a cost to the owner of about \$3.5 million. In the fall of 1968, private toilet facilities were added to the tourist class accommodations at a cost of \$469,000.

The total operating subsidy paid for operation of the vessel from 1951 to 1968 was \$74 million. For the 8 years 1961 through 1968, both ships of that company, the *Constitution* and *Independence*, together

lost \$11.6 million after subsidy. Losses on the *Independence* continued even after the complete refurbishing of the vessel. During these 8 years the utilization of the *Constitution* and *Independence* varied from 84 percent to 64 percent when they were operated on their trade route, and on cruises from 1962 through 1968 utilization of the vessels varied from 62.2 percent to 45.4 percent.

In checking the data, Mr. Chairman, it seemed in each succeeding year, both on regular runs and cruises, the utilization of the ship kept going down the last 3 or 4 years.

Annual layup costs for the *Independence*, including debt service of \$357,057, are currently about \$700,000.

Several factors have led to the decline in passenger ship traffic, not only on American-flag vessels but also on foreign-flag vessels. As the chairman indicated in his opening statement, chief among these factors is airline competition. Lower fares combined with high frequency of point-to-point service to major foreign cities and greatly reduced travel time have rapidly expanded air travel for all income classes at the expense of both United States and foreign-flag steamship service.

The transition from sea to air transportation in the trans-Atlantic service has been phenomenal over the past decade. In 1962 there were some 3.2 million passengers traveling by sea and air between the United States and Europe. Approximately 22 percent or 722,000 passengers went by sea, of which American-flag ships carried 170,000 or about 24 percent of the total. By 1972, the number of trans-Atlantic passengers had dramatically increased to over 10.5 million, but only 178,000 or 1.7 percent traveled by sea, with less than 1,000 going on U.S.-flag passenger ships.

The trend in ocean transportation is away from point-to-point transportation and toward cruising. The number of passengers leaving American ports on cruises, particularly from Florida, rose from 280,000 in 1962 to 600,000 in 1970, and is still increasing. The average occupancy on cruise ships is approximately 70 percent during the cruising season and 30 percent during the off-season months. Operating costs have risen so fast in recent years that many European ship-owners have initiated cost reduction actions. Holland-America, for example, announced a plan in 1971 to dismiss 831 Dutch crewmen on three cruise ships and to replace them with Indonesians whose base salary was \$60 per month, per man.

It is very difficult to compete with that type of competitor.

American passenger vessels, designed originally for point-to-point transportation, could not compete effectively in the cruise trade. They are arranged with large numbers of three- and four-passenger staterooms and have limited deck space for recreational activities. Ships designed specifically for the cruise trade have a preponderance of single and double occupancy staterooms conforming to the size of individual parties traditionally traveling on cruises, with large deck areas for recreational purposes, features that are not available to the *Independence*.

The Maritime Administration has consistently approached the administration of the operating-differential subsidy contracts as they relate to passenger ships in a manner that would provide the greatest flexibility within the law for the operation of these ships. The service descriptions contained in the contracts generally reflect those routes

and areas which the owners of the ships desired to serve, and in fact constitute the routes and services for which most of the ships were originally built. Numerous amendments have been made to the contracts over the years to include, within the service descriptions, other ports and areas which the owners believed would assist them in attracting more passengers. The minimum sailings required and the maximum sailings permitted were established with the view of assuring full annual employment of each vessel as well as allowing the operator flexibility in scheduling the vessels. However, when passenger ship operators were unable to meet minimum annual sailing requirements due to reasons we believe beyond their control, the Maritime Administration authorized the number of sailings actually made as the minimum required annual sailings for that year only. Changes in sailing requirements were also authorized by the Maritime Administration to reflect changes in passenger traffic.

Prior to September 1962, American Export Lines, United States Lines, and American President Lines had been authorized to bill monthly, instead of quarterly, for wage subsidy on their passenger vessels. In each instance permission was granted on the basis that (1) the individual companies demonstrated the need for working cash, and (2) the passenger vessel operating expenses were so much higher than cargo ship expenses that there was a valid reason for making subsidy payments more frequently than every 3 months.

Pursuant to Public Law 87-243, the procedure for payment of ODS was changed in September 1962 to increase the initial wage subsidy billings from 75 percent to 90 percent and to raise billings for audited expenses from 90 percent to 95 percent. Concurrently the authorization for monthly billings was canceled. However, it was understood that if any operator demonstrated the need for monthly billings, consideration would be given to reinstating them.

Subsequently, in 1970, this form of assistance was universally applied to passenger vessels when the Maritime Administration revised the method for payment of operating differential subsidy for this category of vessels from a quarterly again to a monthly basis. Again, the change was made on the basis of a dire need by the companies for working capital in view of the higher operating expenses of U.S. passenger vessels.

The Maritime Administration supported the cruise legislation enacted in 1961 which permitted subsidized passenger ships to cruise up to one-third of the year and every effort was made to implement its provisions promptly. The Maritime Administration also supported the 1968 liberalized-cruise legislation, which permitted cruising for up to two-thirds of the year. In 1970, MarAd supported further amendments to the law eliminating the requirement for reduction of operating differential subsidy and the partial payback of construction differential subsidy when passenger ships are operated in the domestic trades. Here again, the appropriate contracts were amended where so requested by the operators to implement the new legislation promptly. On June 30, 1972, Public Law 92-323 was enacted permitting cruising year round and also permitting the carriage of cargo on cruise voyages under certain conditions.

Despite these efforts the laid up passenger ships could not be operated profitably.

Moreover, there is no national defense need for the *Independence*. Under Secretary of the Navy, John W. Warner, has said:

While American-flag passenger vessels could be used during certain contingencies, their retention for this purpose during peacetime cannot be economically justified because of their high cost. It is the view of this Department that more responsive and effective administrative passenger lift can be provided by other Department of Defense airlift/sealift programs than by reliance upon United States commercial passenger ships.

As a matter of experience, the *Independence* cannot be maintained in operation under the American-flag and we therefore recommend its transfer to foreign ownership and registry.

Thank you, Mr. Chairman.

Mr. CLARK. Thank you very much, Mr. Blackwell.

Well, you have made a very excellent statement as far as I am concerned.

I have a few questions that I would like to ask.

On page 2 of your statement you recommend that the bill be amended to provide that the net proceeds be deposited in the owner's capital reserve fund unless the owner elects to create a capital construction fund.

Would you recommend that the words "capital reserve fund" be inserted before the word "capital" on line 4 of page 2 of H.R. 8586?

If not, what would be your suggestion?

Mr. BLACKWELL. I certainly recommend that the language of the bill be changed as indicated in your question, Mr. Chairman. I think it would comport precisely with the suggestion that I have made in my opening statement.

Mr. CLARK. How is it that the American Export Lines can have either a capital reserve fund or a capital construction fund?

Will you explain in some detail?

Mr. BLACKWELL. Yes.

Prior to the Merchant Marine Act of 1970, the only people entitled to have a reserve fund were subsidized operators. AEL, since it originally went on subsidy, did, in fact, have a capital reserve fund.

The Merchant Marine Act of 1970, as you know, Mr. Chairman, authorizes the use of such a fund by a number of other elements in the Maritime industry, and an opportunity was provided to the subsidized lines either to maintain their capital reserve funds or switch over to a capital construction fund.

For reasons of their own, AEL has elected to maintain its capital reserve fund.

We find no fault with that and our amendment was offered simply to avoid a technicality, because they do not have a capital construction fund, but do, in fact, have a capital reserve fund which, in effect, are about the same thing with minor deviations.

Mr. CLARK. Public Law 92-2969 generally requires that the net proceeds from the sale of the specified passenger liners must be used for the construction of new vessels.

H.R. 8586 would generally require that the net proceeds from the sale of the *Independence* be placed in the capital construction fund.

Do you believe that these funds will be used for the construction of new U.S.-flag vessels?

Would your answer be the same if these funds were placed in the company's capital reserve fund?

Mr. BLACKWELL. I would like to answer the second part of the question first, if I may.

I do not think it matters whether the funds are placed in the capital construction fund or in the capital reserve fund.

It would be my belief, based on what I perceive to be the needs of the company, that there are very good prospects that this money will actually go into shipbuilding in the future.

We know that this company does still operate some World War II vintage ships that have to be replaced. We also know that AEL has a replacement obligation under its current subsidy contract to replace a portion of its fleet.

In addition to that, as you know, this company recently suffered a catastrophic accident with one of its vessels that collided with a tanker in the Narrows of New York. That ship, the *Sea Witch*, was a total loss to the company, and I believe that AEL is going to have to find additional capacity to replace that ship. So I think the prospects of this money ending up as an equity portion for a new ship are indeed very good.

Mr. CLARK. Would you please explain what you mean by your statement on page 3 to the effect that the *Independence* cannot be operated under the American flag without incurring heavy losses and that the financial burden continues to keep the vessel in layup and interferes with carrying out the program under the Merchant Marine Act of 1970.

Mr. BLACKWELL. Yes, sir.

I think perhaps the best explanation for the statement is to be found in the operating history of our U.S. passenger carriers.

We have had over 10 ships in the last decade suffer very, very substantial losses for the reasons that you indicated and the reasons that I indicated in my opening statement. These ships are simply not competitive in point-to-point transportation. In fact, there hardly exists today any point-to-point trans-Atlantic passenger service. There are some lines that still offer a selected number of voyages during the summer high season months, but it really cannot be called transportation service as we knew it 10 years ago.

Every one of the lines, including this company, has lost very substantial sums of money. Every line has lost substantial sums of money, despite the fact that the Government has made very substantial operating differential subsidy payments.

I do not think that the Government should take a defensive position about the fact that these ships are leaving our services.

By and large, over the years since 1955, our records indicate that for construction subsidy and operating subsidy the Maritime Administration has put over \$1 billion into our U.S. passenger fleet, and despite that infusion of very significant Federal assistance, the ships have simply not been able to be competitive and have continually and almost without exception operated at a loss.

Now, the *Independence* is in layup. It has a mortgage payment roughly of \$375,000 a year. There are other expenses attendant to keeping that ship in layup. We estimate that it costs the company \$700,000 per year.

I think that American Export Lines is not the healthiest company in the world. I think the new management that has come into the com-

pany in the last 2 years or so has made very substantial improvements in the operating efficiency of the company and restructuring their services. However, these two ships in layup are still a very substantial drain on the company. They are nonproductive, and moneys that could be use to upgrade the cargo fleet are being dissipated in keeping these passenger ships simply in a dead state. I think that with the facts in front of use and the improbability of these ships ever going back to U.S.-flag operations at a profitable level, it simply makes good sense to relieve this company of this burden, allow them to sell the ships abroad, take the net proceeds and put them in an appropriate fund and get some new ships built for the U.S. Merchant Marine.

Mr. CLARK. I agree with you 100 percent.

Public Law 92-296 permitted the *Santa Rosa*, *Santa Paula*, *Brasil*, *Argentina*, and the *Constitution* to be sold foreign.

When were they sold and for what price?

Perhaps you do not have that information with you.

Mr. BLACKWELL. I have some notes here and I think if you will give me a minute I can reconstruct these.

Let me see, the *Argentina* was sold on August 14, 1972, for almost \$10 million. The precise amount is \$9,892,789.71. The *Brasil* was sold 17 days later on August 21 for roughly \$10,990,000.

Both these ships were sold to Holland-American Line. The outstanding mortgages under title XI on the ships were almost \$6 million, so the company made the difference between that amount plus some expenses incidental to the sale, and the sales price.

The subsequent history is very interesting, Mr. Chairman. There was some criticism of the sale of these ships to Holland-American Line. Since then, I have indicated, Holland-American has put Indonesian crewmembers on the ships. The best information I have is that even with Indonesian crewmembers, Holland-American is losing money on the two ships and I also understand that those two ships are up for sale.

This economic phenomena that impacting the passenger ship business is not solely at U.S. passenger ships. It is impacting adversely as well on foreign-flag shipping.

The *United States* was sold to the U.S. Government on February 5, 1973, for roughly \$12 million. The outstanding mortgage on that ship was \$4,636,000, and of course, the United States Lines recouped the net less some expenses incidental to sale.

The *Santa Paula* was sold to a Greek company called Ocean Sun Lines Special Shipping Co. It was sold on November 22, 1972, for \$4,090,000. The title XI mortgage on that ship was \$3.2 million.

We still have two ships in layup, the *Santa Rosa* and the *Constitution*, which is a sister ship of the *Independence*, and of course, the *Independence*.

Mr. CLARK. Thank you.

Mr. Downing?

Mr. DOWNING. Thank you, Mr. Chairman.

Mr. Secretary, you have given us an excellent statement.

Did I understand you to say that American Export has another ship in layup?

Mr. BLACKWELL. Yes, sir. It has two ships. One is in Jacksonville, which is the *Constitution*, and one is in Baltimore, which is the

Independence. Both ships have been in layup quite a long time. Both ships are imposing considerable expense on the company.

MR. DOWNING. Did we not permit the sale of the *Constitution* last year?

MR. BLACKWELL. Yes, we did. The ship is not in particularly good shape. I think the company has tried to market the ship, to sell it abroad. It has been have a very difficult time.

MR. DOWNING. What is the expected fair market value of the *Independence*?

MR. BLACKWELL. I would have to make a judgment because it is very difficult to determine whether there is a market for this ship. We would assume that the ship would sell for about \$3 million. That is a guess, Mr. Downing.

The mortgage on the ship is \$1,066,000. We hold that mortgage, which would give them a net of roughly \$2 million less expenses incidental to sale.

I understand that the company has already paid most of the severance pay that occurs when you lay one of these ships up.

As I say, Mr. Downing, that is a guess. We made an assumption that there was a buyer at that price.

The scrap value of the ship today, again guessing, would be about \$1.8 million. We sold two considerably smaller ships about 8 or 10 months ago that had formerly plied in the Pacific trades, the *Cleveland* and *Wilson*, for about \$1.4 million for scrap in Taiwan, and if these ships were sold for scrap abroad I think they would probably bring in about \$1.8 million.

I think, then, that the \$3 million figure that I give you is appropriate for the *Independence*, which is in relatively good shape. I think the company has to be complimented on the way they have kept that ship up.

The *Constitution* is simply in not that good shape. I think that the company had to make the choice of how much it was going to spend on what really amounts to a dead operation, and chose to maintain one ship.

MR. DOWNING. I would like to have your judgment on this.

Why is it that this country cannot operate a passenger ship service?

I was down in the Bahamas several years ago and watched foreign-flag ships just coming in that day with full loads of American passengers, and it is hard to understand why we cannot compete.

What is the real reason we cannot compete in the passenger trade?

MR. BLACKWELL. I do not think there is a simple explanation for it. I think it is very complex. I will give you the benefit of my views, both as an official and my personal views.

First of all, as I indicated in the opening statement, most of the U.S. passenger fleet, indeed every ship that we have, has been built for so-called point-to-point transportation, designed to move people from one place to another as transportation, and not essentially as recreation.

The cruise business, as you know, does not sell transportation. They sell recreation, and the cruise ships are configured with this in mind. If you look at the cruise clientele, it is usually a husband and wife. They simply do not take the kiddies along as they did 10 years ago when they would go to Europe on a family vacation. The rooms on

our ships, however, are rather large in terms of the numbers of people that they can accommodate.

Also, our ships do not have as much appeal in terms of recreation for passengers as the ships built in Europe or operated by Europeans which are specifically designed with outside swimming pools, recreation areas, places where you can shoot skeet, play golf on deck.

Our ships are simply not designed that way. I remember Senator Hollings asking me in the Senate about the *United States*, which could never be a cruise ship. It had no outdoor swimming pool. The inside pool was postage stamp size. It was more of a gimmick than a recreational facility.

The ships are also extremely expensive to operate. The crew on the *Independence* is roughly 550, and our base wages are very high.

We have a series of complicated work rules imposed by the unions and accepted by management in terms of overtime and penalty time, and how much time a worker could utilize in this particular function, and that function.

Now, it is a fact that the subsidy program, which is designed to place the U.S. operator on a parity does pick up those costs, but to a large extent, I believe that the work rules impacted on the efficiency of the American crews.

We are not a service oriented people. The service at a so-called good Washington Restaurant is not the kind of service you get in Paris, and not the kind of service you get in London. We just do not deliver that kind of service, and it is apparently repugnant to the way our people think and behave.

You do get that kind of service on a number of the very fine passenger vessels that are plying today, the *France* and the *QII* and others.

I think we have, more or less, a systematic problem of large crews, burdensome work rules, and complexity of operation which made it very difficult, in my opinion, for a company to exercise significant cost control over the various costs, particularly the costs in the catering department.

I remember when the bill to sell the ships foreign was first proposed 3 years ago, it had not reached legislative bill form yet, and we tried at the Maritime Administration to come up with the answers to the type of questions that you raise. We went to the carriers, some of the major ones whose names I would rather not mention here, and we asked what does it cost you to feed today? How much is a meal?

Well, they did not know the purchasing for feeding on these ships, the food, the liquor, the bedding, the laundry. They never exercised the kind of cost control which is absolutely necessary. They had literally run away pyramiding overtime on these ships.

I worked on these ships, I worked as a purser on the *United States* and the *America*, and I worked very hard. I made more in overtime during the summer than my base pay, without exception, trip after trip. If I worked on Saturdays, I did not get straight pay. I got time and a half or double time. If I worked on Sundays or holidays, I got triple time, and they had to pay me penalty payments.

You had this pyramiding on the ships, because, after all, Mr. Downing, if a waiter puts in for 20 hours overtime, that waiter obviously has to have supervision. His boss has to put in for 24 hours of overtime,

and the assistant steward has to put in for 28 hours of overtime. When you get up to the chief steward, he is putting in for 40 hours of overtime because he runs the whole operation. Thus you have the pyramid of overtime.

The other thing was very intense competition. The trades became confronted with an over-capacity situation. I think this is coming again. I do not believe that the cruise business, particularly out of Florida, is as lucrative as it was a year ago. You see, the number is still coming up, but if you look at the capacity going in there, you see that the lines are now offering all kinds of gratuities to the passengers, bonus gimmicks on tickets, free passage, things that characterized the business in the Atlantic a few years ago. The passenger figures are simply not there. These people are not getting the utilization. I do not say you have a rate war, but you have erosion of prices even now in the cruise business.

Mr. DOWNING. That is a pretty good explanation.

If ship configuration was a major item, I wonder why some enterprising operator would not build a ship specifically designed for this trade, to get a part of this cruise business?

Mr. BLACKWELL. Well, let us take a look at that.

First of all, in order to do that you have to raise some venture capital. You have to put somebody's money in there. The government would probably pick up a portion of the tab, but there would still be a very, very significant investment in the passenger ship. You are dealing with a very high initial cost.

Secondly, you are dealing with a labor intensive enterprise. You are putting a lot of people on that ship, a lot of people that make a lot of money. In addition, you are not dealing with a single union. Some of these passenger ships have 12, 13, and 14 unions on them. All have different termination dates in their collective bargaining agreements.

Now, that company is exposed to a strike 13 different times a year, and that is only for the people that sail the ship. If the longshoremen go out at a particular port, or have a work stoppage, that is an additional one.

I think our labor unions have changed. They have become very enlightened and very responsible over the last 3 years, but still, when you are putting many millions of dollars into a venture where you have to put a lot of people on the ship, pay high wages, and are subject at any time to the whim and caprice of some labor union that might act irresponsibly, your total investment is really threatened. This is not the kind of venture people would ordinarily put their money into.

In addition to that, you get no protection. I do not think all businessmen look for a monopoly, but if you go into the cruise trade you design your ship, and look at the passenger figure, look at the potential market and say, boy, I can capture that. I am going to build a ship, pour out \$30 million or \$40 million.

It takes 3 or 4 years to get started, however, and before you go in there or even after you go in there, that competition you have looked at has been totally changed because anybody can go into the cruise business at any given point in time. You really do not know what that competition is in advance.

You have no idea what the competitive situation will be. There is no protection to the man who invests his capital. That is one of the things that impacts.

It is not like our domestic trade where, to some extent, at least, the foreigners are excluded, and it is not like domestic service trade where you get an ICC certificate for public convenience and necessity, and before you get any new competition, that guy has to come in and prove that it is needed.

The international passenger ship business is essentially up for grabs, and it is not a very conducive climate for people to put money in.

Mr. DOWNING. One of the plans submitted for the use of the SS *United States* was a proposal to reduce the number of staterooms by half, make the ship a car ship, in other words, you drive your car on the boat and drive it off in Europe, and to make her more luxurious and one of the key parts of the plan was that the hotel service personnel on the ship would be foreign, presumably Indonesians.

Do you believe the unions would go along with this?

Mr. BLACKWELL. I do not know.

In my view, and in my understanding of that proposal, if that venture went forward, it would still preserve about 300 fairly high paying jobs for U.S. seamen. It would be the mates, the engineers, the captain, the deck force, the unlicensed in the engineroom, and I think some pursers and the radio people, and some others.

Mr. DOWNING. That is very sizeable.

Mr. BLACKWELL. That is like 10 cargo ships at the least.

The people who would suffer in terms of being displaced are people with nonmaritime skills who are really the hotel types.

I think that while there might be some local problems within the unions, it seems to me a fairly good deal.

Now, whether we would endorse it or not I do not know.

I think the numbers come down significantly in terms of operating costs; you get within the ballpark in terms of an efficient operation.

My concern is with the level of the crew. If you are carrying a great number of passengers, and you have an alien crew, those alien crew members, regardless of their function on the ship, still have responsibilities in emergencies in terms of lifeboat drills and fire. Frankly, I would not endorse a proposal for alien crews on American ships unless there was some standard that these people were at least capable of reading safety instructions and capable of operating intelligently and effectively in case of an emergency.

Mr. DOWNING. This plan proposes an American crew to command the ship, but the hotel type would be foreign.

Mr. BLACKWELL. But hotel types on passenger ships still have lifeboat stations and responsibilities for safety.

Mr. DOWNING. When will you make a decision about the *United States*?

Mr. BLACKWELL. We are going to meet on this morning, if you let me get out of here early enough. I do not know whether a decision will be forthcoming today.

Mr. DOWNING. Thank you.

Mr. CLARK. Mr. Lott?

Mr. LOTT. Thank you, Mr. Chairman.

Mr. Secretary, I want to thank you for a fine presentation.

I have two very short questions.

You said this company has two vessels laid up. How many other vessels are laid up?

Mr. BLACKWELL. One, the *Santa Rosa*.

Mr. LOTT. Have there been any particular problems with the transfers that have taken place? You mentioned dates and the money they got.

Mr. BLACKWELL. No, as far as the *Argentina* and the *Brasil* are concerned, the net proceeds for that sale is just about to trigger a contract for three tankers. They are taking the net proceeds of that sale and perhaps within 10 days or so we will contract with Moore-McCormick to build 3 tankers which will at least recreate, if you will, somewhat near 80 jobs for seamen.

Mr. LOTT. You point out that the vessel will not carry passengers or cargo in competition with any U.S.-flag vessels for 2 years when the vessel goes to operation.

Have there been any problems with that?

Will there be any difficulty in avoiding that?

Mr. BLACKWELL. We have not had a problem with it. We have imposed this requirement on all our transfers. In fact, Mr. Lott, before this Public Law 92-296 was enacted into law, we have had authority to transfer foreign ships that are over 25 years of age, and even in those instances, we impose by administrative fiat, if you will, this 2-year trade restriction during which they could not compete with U.S.-flag competitors.

Now, the fact is, we only have two passenger ships left in the Pacific and two ships that are combination passenger and cargo ships.

One of the issues that you have is precisely what is competition, and we have been able to resolve this quite successfully and we found that the purchasers of these ships have been very responsible in reacting to the demands that we make upon them, not only in terms of complying with the law, but in terms of interpreting what is competition.

Mr. LOTT. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Mr. CLARK. Mr. Stubblefield?

Mr. STUBBLEFIELD. No questions.

I would just like to tell the Secretary that I appreciate his statement.

Mr. CLARK. Mr. Murphy?

Mr. MURPHY. I have a question about the reserve funds and the construction fund if they sell the ship. The question is, does the money go for the construction of other ships?

Mr. BLACKWELL. It can. They are permitted and authorized either to use the money for new ships or to pay off mortgages of existing ships.

Mr. MURPHY. I think the intent of the legislation on other ships was to take the funds derived to build new ships whether they be passenger ships or otherwise.

Mr. BLACKWELL. Right. That is absolutely true, Congressman Murphy.

One of the problems that you have here is of imposing a specific, more mandatory building obligation for this company when you really do not know what net they are going to get out of it. Really, if they come up with \$600,000 to \$700,000 net out of this sale, to impose a building requirement on that amount of money does not make a lot of sense.

Mr. MURPHY. I thought you just said that they would net only \$2 million.

Mr. BLACKWELL. Under my prices, yes. I do not know whether they can get that.

Mr. MURPHY. Will they get at least \$1.8 million for the scrapping?

Mr. BLACKWELL. They would get more in my opinion if they scrapped it abroad.

Mr. MURPHY. But that money is not earmarked?

Mr. BLACKWELL. That is not specifically earmarked for construction, but I have had discussions with the president of this company, not particularly about this problem, but I know of his desire to expand his fleet, to upgrade his existing ships. As I mentioned, they still operate a number of World War II vintage ships and they have to replace the *Sea Witch* which was obviously a calamity to the company.

I would think that the chances, the probabilities of this money finding its way into a shipbuilding program are excellent, if this legislation does not impose that burden upon them, and I think it is wise not to do so.

Mr. MURPHY. This company is one of the largest economic entities in my district.

Mr. BLACKWELL. I recognize that.

Of course, their operations are not strictly ship operations. They operate ocean terminals both in the United States and abroad.

The capital construction funds can be used incidentally to purchase containers and other things that go on ships.

Mr. MURPHY. I noticed that in your statement.

Thank you.

Mr. CLARK. Thank you very much, Bob, and now you can go back and make the sale.

We appreciate your coming here.

Our next witness is Nicholas D. Pasco, Senior Vice President of American Export Lines, Inc.

Mr. Pasco, we are very glad to have you with us this morning.

I think you can give us the story.

STATEMENT OF NICHOLAS D. PASCO, SENIOR VICE PRESIDENT, AMERICAN EXPORT LINES, INC.

Mr. PASCO. Thank you, Mr. Chairman.

Mr. Chairman, I have a brief statement here which will not take too long to read, and with your indulgence I would like to read it in its entirety and I would like to first of all, express our appreciation to you and to the committee for the opportunity to come before you on this subject, which is of vital importance to my company.

My name is Nicholas D. Pasco. I am senior vice president of American Export Lines, Inc., the owner of the SS *Independence*. The purpose of my testimony is to urge this committee's support for the passage of H.R. 8586 which would permit the passenger vessel, the SS *Independence* to be sold and transferred to foreign ownership and registry subject to the prior approval of the Secretary of Commerce. Such approval would also require:

- (1) Approval of the purchaser by the Secretary.

(2) The discharge of all existing indebtedness on the vessel or related to the vessel.

(3) Approval of the selling price and the terms of sale.

(4) Agreement of AEL to deposit the net proceeds of the sale in its capital reserve fund.

On that particular point, we completely agree with the suggestion made by Mr. Blackwell that in our particular case we have a capital reserve fund, and not a capital construction fund and in that sense, the bill that was introduced does not cover our situation completely, and we would go along with the recommendation that the language be changed to the effect that it would be capital reserve fund or capital construction fund.

It is possible that by the time we succeed to sell this vessel we may have opted to go for a capital construction fund.

That is a possibility.

(5) Agreement of the purchaser not to use the vessel in competition with U.S.-flag passenger or cargo vessels for a period of 2 years from date of its reinstated operation and the agreement of the purchaser to make the vessel available to the United States in time of emergency.

H.R. 8586 actually merely cures a recognized deficiency in Public Law 92-296 which was enacted during the last session of Congress. That act permitted all of the American-flag passenger vessels operating from the east coast of the United States to be sold and transferred foreign with the exception of the SS *United States* and SS *Independence*. That legislation made special provision for the purchase of the SS *United States* by the Government which has since been accomplished. The *Independence* was excepted from Public Law 92-296 solely because it was assured that there was an American purchaser for the vessel. The reasons for excepting the *Independence* from H.R. 11589, which was enacted as Public Law 92-296, are set forth in a letter, dated November 8, 1971, from AEL's counsel to the then chairman of this committee, the Honorable Edward A. Garmatz.

[The letter referred to above follows:]

KURRUS AND JACOB,
ATTORNEYS AT LAW,
Washington, D.C., November 8, 1971.

Re H.R. 11589

HON. EDWARD A. GARMATZ,
Chairman, House Merchant Marine and Fisheries Committee,
Longworth House Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: We are, of course, pleased that the House Merchant Marine and Fisheries Committee has again reported a bill (H.R. 11589) that would authorize the sale of five American-flag passenger vessels that have operated from New York. In contrast to the previous passenger ship bill (H.R. 10577), the SS's INDEPENDENCE and UNITED STATES are excepted from the provisions of the proposed legislation that would authorize their foreign sale. As stated in the Committee Report, I informed you on behalf of American Export Isbrandtsen Lines, Inc. (AEIL) that AEIL was agreeable to the INDEPENDENCE being excepted from the bill provided that the legislation authorizing the sale of the other passenger vessels, with the exception also of the SS UNITED STATES, was passed during the current legislative session. It is the purpose of this letter to emphasize that the operation of the SS INDEPENDENCE under the American flag by Wall Street Cruises, Inc. is completely dependent upon the enactment, during this legislative session, of H.R. 11589.

The exception of the SS INDEPENDENCE from H.R. 11589 is premised upon what we understand to be an agreement between the maritime unions involved

and Moore-McCormack Lines, whereunder Moore-McCormack contractually agreed to provide the necessary capital for Wall Street Cruises, Inc. to purchase the SS INDEPENDENCE. Wall Street Cruises in turn has an option to purchase the SS INDEPENDENCE from AEIL. We do not understand that Wall Street Cruises independently has sufficient resources to purchase the SS INDEPENDENCE without relying upon the agreement with Moore-McCormack, which agreement would not, of course, be valid unless H.R. 11589 is enacted before the end of the current legislative session.

If H.R. 11589 should not be enacted during the current legislative session, there would be no basis for excluding the INDEPENDENCE from any future legislation authorizing the sale foreign of the American-flag passenger ships and it would be unfair to have this implication remain in the record. In this respect, the SS INDEPENDENCE is certainly in no different position, as the hearings before your Committee evidence, from any of the other passenger ships involved in the legislation.

I would like to request that this letter be made a part of the record before your Committee on H.R. 11589.

Sincerely yours,

RICHARD W. KURRUS,
Attorney for American Export Isbrandtsen Lines, Inc.

Mr. PASCO. In summary, at the time that H.R. 11589 was being considered, it was assumed that Wall Street Cruises, Inc., would be able to exercise an option which it held to purchase the *Independence* for American-flag cruise operation. There was no other reason to except the *Independence* from that previous legislation because it was certainly in no way in a different position from any of the other passenger ships involved in the legislation.

The SS *Independence* has been laid up since November 30, 1968, a period of almost 5 years. In all that time, the only offer of any substance we received for the vessel was the one from Wall Street Cruises. There were numerous inquiries and proposals from other U.S. sources, but they were all invariably predicated on AEL receiving nothing significant in the way of a down payment, and in addition, we usually were asked to provide the working capital to reactivate and operate the ship without any real financial commitment on the part of the prospective buyer.

Finally, in a letter dated March 12, 1973, we were advised by Mr. Maurice Matalon, President of Wall Street Cruises, that his company was no longer interested in the purchase of the SS *Independence* at the present time or in the future. After having held the vessel available for sale to Wall Street Cruises for over 2 years and after having made many concessions in order to make it possible for the ship to sail under the American flag, we now have no prospect of finding an American buyer. After almost 5 years of effort, it is obvious that there is no market for the SS *Independence* under the American flag.

[The letter from Wall Street Cruises, Inc., dated March 12, 1973, follows:]

WALL STREET CRUISES, INC.
New York, N.Y. March 12, 1973.

Re: Sale Agreement SS *Independence*

MR. MICHAEL J. ESPOSITO

Executive Vice President, American Export Lines, Inc.

DEAR MR. ESPOSITO: Following our letter of March 5, 1973, we hereby give you notice that we are terminating the above sale agreement and that we are no longer interested in the purchase of the ship at present or in the future.

Sincerely yours,

MAURICE MATALON,
President.

Mr. Pasco. Since the SS *Independence* was inactivated in late 1968, AEL has incurred an average annual loss of \$300,000, or a total of approximately \$1,500,000 for the 5 years. In addition to the above cash outlays, there has been an additional cash outflow for 5 years of \$1,770,000 representing principal payments on the mortgage. Sizeable as this loss has been, it has been a great deal less than would have been experienced if the vessel had continued to be operated, as reflected by the financial results for the years 1967 and 1968 wherein we experienced a loss of \$1,500,000 and \$3,100,000, respectively, for this particular ship.

The SS *Independence* was delivered in January of 1951, and there are just over 2 years of statutory life remaining for this ship, at which time she will become eligible for foreign sale without legislation. However, to require AEL to wait this additional period and incur more losses after 5 years of fruitless effort to sell the vessel in the American market would be wasteful and would serve no good purpose to anybody. On the other hand, unless we find a buyer soon, the physical condition of the ship will deteriorate to the point where we shall have no alternative but to sell the vessel for scrap. In view of the flexibility accorded to other American passenger ship operators in legislation enacted last year, and in deference to the fact that AEL voluntarily agreed to exclude the SS *Independence* from last year's legislation in consideration of what was felt to be a genuine offer from an American to buy the ship for U.S.-flag operation, we respectfully suggest it would be patently unfair to require us to continue to retain this vessel with no hope of sale in the American market, thus causing us to incur further substantial and damaging losses.

At the present time, we do not have any actual offers in hand for foreign sale, but we are in negotiation with several parties and are optimistic that we can finalize a transaction once the necessary legislation is enacted. Such legislation would also enhance our ability to sell the SS *Constitution* which is also in layup status and already eligible for foreign sale, because much of the interest we are receiving from foreign sources is on the basis of a package proposal to acquire both vessels. Actually, of the two vessels, the greatest interest is in the SS *Independence* because of her more recent refurbishing and decoration.

We deplore the disappearance of the American-flag passenger ship service from the oceans and we hope that one day it will be reinstated. To try to do this job with vessels like the SS *Independence* which were designed for traffic conditions that existed 25 years ago, would be a waste of taxpayers' money and a financial drain on our company. Everybody would lose. If there is a future for the American-flag passenger ship, it can only be on the basis of new vessels designed to meet contemporary market and competitive conditions. Such a program cannot be accomplished with the SS *Independence*, and to deny AEL the opportunity to sell this vessel in the world market would be inequitable and unfair and an unwarranted penalty on the company.

That concludes my statement, Mr. Chairman, and I will be happy to answer any questions.

Mr. CLARK. Thank you very much, Mr. Pasco.

If this legislation is enacted and the *Independence* sold, is it the intent of American Export Lines to invest the net sale proceeds in U.S.-flag tonnage?

Mr. Pasco. It is definitely our intent.

As Mr. Blackwell pointed out, we are still operating three World War II built vessels. We must replace those vessels in the near future.

We have a deficiency in our reserve fund for construction purposes. I cannot conceive where else this money would go if we succeed in selling this vessel, and assuming we net some substantial proceeds out of the sale of the ship.

I cannot conceive where else this money could go except into construction activities and if my understanding of the capital reserve fund is correct, we really cannot expend any of those funds without the approval of the Secretary of Commerce and the Assistant Secretary of Commerce.

There is that condition as well.

In our particular situation it is obvious to us that we have nowhere else to go with such proceeds if we get them.

Mr. CLARK. Why has not American Export Lines entered into a capital construction fund agreement?

Mr. PASCO. Well, this is an optional thing.

The construction fund came into being with the 1970 Merchant Marine Act, and quite frankly, the matter is under consideration by our company right now.

We just have had other fish to fry in the meantime and it is something that we are going to deal with and it is quite possible we will.

We certainly have no objection to it, in principle.

Mr. CLARK. On page 5 of your statement, you say that to deny AEL the opportunity to sell this vessel in the world market would be inequitable and unfair and an unwarranted penalty on the company.

Mr. PASCO, I want you to know I am in complete agreement with you on this.

Mr. PASCO. Thank you very much.

Mr. CLARK. Mr. Downing?

Mr. DOWNING. Thank you, Mr. Chairman.

Thank you, Mr. Pasco, for an excellent statement.

Do you have a potential customer for the *Independence*?

Mr. PASCO. We hope we do. We have some negotiations going on.

Of course, I am not at liberty to disclose who they are. We really do not know what price we can get for these ships either, both of them, but we are constantly in the market.

I think the main point for this committee to contemplate is that the vessels have been available for sale American for 5 years, come November, and we are just at a dead end on that basis.

Mr. DOWNING. Thank you very much.

Mr. CLARK. Mr. Lott?

Mr. LOTT. Mr. Pasco, good to see you again.

I wish to thank you for your statement.

Thank you, Mr. Chairman.

Mr. CLARK. Mr. Stubblefield?

Mr. STUBBLEFIELD. No questions.

Mr. CLARK. Thank you very much, Mr. Pasco, and I think you have given us a very good report along with Mr. Blackwell and I hope that we will continue on with this bill and get it passed to the satisfaction of everyone.

Thank you very much again.

The meeting is adjourned.

[Whereupon, at 11:12 a.m., the subcommittee adjourned subject to the call of the Chair.]

