AMEND THE MERCHANT MARINE ACT OF 1920

HEARINGS

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE

UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

S. 2422

TO AMEND THE MERCHANT MARINE ACT, 1920, IN ORDER TO PROVIDE THAT THE COASTWISE LAWS SHALL EXTEND TO THE VIRGIN ISLANDS WITH RESPECT TO THE TRANSPORTATION OF CRUDE OIL, RESIDUAL FUEL OIL, AND REFINED PETROLEUM PRODUCTS

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CONTENTS

AMEND THE MERCHANT MARINE ACT OF 1920

WEDNESDAY, FEBRUARY 25, 1976

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

The subcommittee met at 2:10 p.m., in room 5110, Dirksen Senate Office Building, Hon. Russell B. Long (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR LONG

Senator LONG. This meeting will come to order.

This afternoon the Subcommittee on Merchant Marine begins hearings on S. 2422, a bill to extend the coastwise laws of the United States to the Virgin Islands with respect to transportation of crude oil, residual oil and refined petroleum products.

Specifically, the bill would apply to the Virgin Islands petroleum trade the provisions of section 883 of title 46 of the United States Code which limit the transportation by water of merchandise between points in the United States to vessels built in and documented under the laws of the United States. Again, to clarify any questions about this measure, it is limited to crude oil, residual fuel oil, and refined petroleum products. Other merchandise, commodities or passengers are not affected by the legislation.

We will receive testimony this afternoon from Senator J. Bennett Johnston, my colleague from Louisiana, who is the sponsor of S. 2422, and from the Virgin Islands delegate to the Congress, Ron de Lugo, and the Honorable Cyril King, Governor of the Virgin Islands.

Earlier this month, as chairman of the Merchant Marine Subcommittee, I invited the Secretaries of the Departments of Commerce, Interior, and Treasury, and the Administrator of the Federal Energy Administration to testify on this bill. The Administration has asked that the appearance of officials from the executive branch be postponed until a later date. We have accommodated them in that respect.

Although no date for further hearings has been scheduled, the subcommittee will set a time to receive testimony from these officials, and from outside witnesses, who wish to appear.

[The bill and agency comments:]

[S. 2422, 94th Cong., 1st Sess.]

A BILL To amend the Merchant Marine Act, 1920, in order to provide that the coastwise laws shall extend to the Virgin Islands with respect to the transportation of crude oil, residual fuel oil, and refined petroleum products.

Staff member assigned to these hearings: Richard J. Daschbach.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 21 of the Merchant Marine Act, 1920 (46 U.S.C. 877) is amended by inserting before the period at the end thereof a comma and the following: "except that such laws shall extend to the Virgin Islands with respect to the transportation of crude oil, residual fuel oil, and refined petroleum products".

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., March 29, 1976.

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

DEAR MR. CHAIRMAN: This responds to your request for the views of this Department with respect to a bill, S. 2422, "To amend the Merchant Marine Act, 1920, in order to provide that the coastwise laws shall extend to the Virgin Islands with respect to the transportation of crude oil, residual fuel oil, and refined petroleum products."

The Department recommends against enactment of this bill.

The bill would amend the Merchant Marine Act of 1920 so as to require that all shipments of petroleum from the Virgin Islands to the United States mainland be in American ships. The principal effect of this change would be to substitute shipping by American vessels for the substantial volumes of petroleum now carried by foreign vessels. Foreign vessels are considerably less expensive than American and oil transported by American ships costs substantially more than corresponding oil carried by foreign ships.

From the standpoint both of our energy responsibilities and of our stewardship of the Virgin Islands, we believe enactment of the bill would be undesirable. It would raise petroleum costs to American consumers and would injure the economic health and development of the Virgin Islands.

The statutory exception provided in section 21 of the Merchant Marine Act of 1920 excepting the Virgin Islands from the coastwise laws of the United States was a deliberate effort to assist the development of the Virgin Islands economy through encouragement of the international shipping trade. The exception was the result of efforts by this Department and a recognition by the Congress that, while the unique geographic location of the Islands lends itself to shipping, tourism, and other shipping-related enterprise, the limited internal resources of the Islands provide few alternatives for development. Free access to shipping was and is a necessary cornerstone of the Virgin Islands economy. Implicit in this is the need to be able to compete on equal terms with other comparably situated, non-American Caribbean Islands.

The statutory exception was created by the Act of April 16, 1936, (P.L. 74–520, 47 Stat. 1207). Previously, exemptions from the Merchant Marine Act for the Virgin Islands had been provided through periodic Executive orders, pursuant to authority provided in section 21, but the obvious need for maintaining the exemption, coupled with growing doubt over the continued reliability of the Executive order approach gave rise to the statutory provision.

In addition to encouraging shipping the Merchant Marine Act exemption has proven to be helpful, when combined with other inducements, both Federal and local, to encourage industry to locate in the Virgin Islands. This is a vital element in the Islands' economy because it lends stability and diversity to the Islands' business, much of which is tied to tourism and is seasonal and subject to volatile fluctuations.

In November of 1967, the then Secretary of the Interior Stewart Udall announced a plan whereby the Hess Oil Company would build a large refining complex on the Island of St. Croix. The Secretary announced that "the welfare and economic health of the Virgin Islands was a major concern of this Department."

The Hess operation has proven to be a substantial economic asset to the Islands. According to figures provided by Hess, the total amount of payments by the company into the Virgin Islands economy, in the form of wages, expenditures, taxes, royalty payments and other payments, over the ensuing life of the opeation, has totalled $380 million to date. Direct employment, through combined refinery and construction operations has reached as high as 4,525, out of a total Virgin Islands work force of about 40,000, and as of

December, 1975, the number stood at 2,456, the drop reflecting large cutbacks in construction. As of December, 1975 an estimated 300,000 barrels daily of residual fuels alone were shipped by Hess from the Virgin Islands to the United States.

The trade built by Hess has not been at the expsnse of mainland domestic refineries, but rather has come from increased petroleum demand on the East Coast, particularly for residual fuels, and through competing with foreign-based Carbibean refineries serving the same trade. (According to the FEA, between 80% and 90% of the East Coast residual fuel supply over the past decade has come from Caribbean refineries.)

Historically, it should also be noted that American vessels have never had a substantial share of this Caribbean tanker trade.

The price differential between United States' and foreign bottoms, shown on an attached chart, has recently ranged from 25¢ to 65¢ per barrel of oil shipped. Measured against the volume of business, the cost impact for petroleum shipped from the Virgin Islands to the U.S. mainland would be substantial—in the tens of millions of dollars annually—if the Merchant Marine Act exemption were lost and this petroleum were required to ship in American ships.

While refinery shipments from the Virgin Islands enjoy a rate advantage over mainland refineries, they have no shipping advantage over shipments from foreign refineries in the Caribbean, i.e. in the Bahamas (Nepco), Venezuela, Aruba (Exxon), Curacao (Asiatic, a Shell affiliate), Trinidad and others (Texaco), with whom it competes for business. Those foreing refineries also ship in foreign ships.

Notwithstanding the Caribbean refinery advantage in shipping costs, it should be noted that many Caribbean oil companies, including Hess, have suffered reductions in business and income in the last year. Contemporaneously, unemployment in the Virgin Islands is at a level of about 10%.

The potential economic impact of S. 2422 on the volume of Hess business, and consequently on the Virgin Island economy is clearly substantial.

Of equal importance is the potential negative effect the bill would have on other economic development plans for the Islands.

For example, we understand that the Virgin Islands Refinery Corporation is planning to locate a refinery on St. Croix. This refinery would make a substantial additional impetus to the economy, with as many as 3,000 jobs during construction, 500 permanent jobs, and over $8 million in reveneus to the local government in taxes. S. 2422, if passed, could have the effect of a complete reassessment of plans to locate the refinery in the Virgin Islands.

We recognize that S. 2422 would be of benefit to part of the American Merchant Marine, but these benefits are relatively limited and would be obtained on the basis of unjustified increases in consumer costs and injury to the Virgin Islands economy.

It should be kept in mind that refining and other business on the Virgin Islands is American business. Employment is American employment. Moneys generated by the business are generated in the American economy.

We do not intend to say that bolstering the American Merchant Marine is an undesirable purpose, or even a less desirable purpose than nurturing the Virgin Islands economy. We do not believe, however, that it would be fair and wise policy to shift the necessary trade that is already established, and was deliberately and recently fostered in the Virgin Islands, in order to create new and uncertain trade in another sector.

Assuming the Virgin Islands petroleum trade would remain at current levels, projections by the Maritime Administration put the number of jobs that would be created by S. 2422 at about 1400. An estimated 26 vessels would be employed in this trade. Inasmuch as there are about that number of U.S. tankers now out of service, there might be some reactivation of ships but the immmmediate impact of this bill on U.S. shipbuilding would appear to be negligible. The important point, however, is that these projections are based on the assumption that petroleum shipments from the Virgin Islands would not decline. More realistically, we could expect that fewer jobs and fewer ships would be needed because of the liklihood that less petroleum would be shipped. This would result in serious job and investment losses in the Virgin Islands.

Of equal importance to the volume of petroleum shipments from the Virgin Islands to the United States is the recently initiated revision of the Federal Energy Administration's entitlements and import fee program (41 F.R. #32,

Feb. 17, 1976). This effort to readjust the residual fuel market is only recently underway and will take months for the effects to be measured. It is apparent, however, that the FEA could adversely affect the Virgin Islands' economy and we believe that the double impact of reordering of entitlements and loss of the shipping exemption at the same time could have a devastating effect on the Virgin Islands.

The FEA is really the proper source for petroleum market management. While it may be desirable in the long run to increase mainland U.S. refining capacity, management of the market for this purpose, for such projected new facilities as the ECOL refinery in Louisiana, should be achieved by FEA mechanisms and planning.

We should also mention that S. 2422 is not the only attempt to erode and whittle away at necessary and eliberately established supports of the Islands' economy. There is also proposed legislation now pending that would limit export wool quotas (H.R. 8124) for the Virgin Islands wool trade.

For all of the above reasons, we are strongly opposed to the enactment of S. 2422.

Time has not permitted securing advice from the Office of Management and Budget as to the relationship of this report to the program of the President.

Sincerely yours,

JOHN KYL,
Assistant Secretary of the Interior.

Senator LONG. Our first witness today will be Senator Johnston.

STATEMENT OF HON. J. BENNETT JOHNSTON, U.S. SENATOR FROM LOUISIANA

Senator JOHNSTON. Thank you very much. Mr. Chairman.

I have an unusual capacity. I have a great interest in the Virgin Islands, because the Virgin Islands comes under the jurisdiction of my subcommittee, and I want to say at the outset that I do not want to do anything that would hurt the Virgin Islands, their people or their government.

On the other hand, we also are interested in my State of Louisiana, in seamen, and shipbuilders. Today, we face the very curious and unusual situation of an industry with what might be called a subsidy, to wit, the refinery which is located in the Virgin Islands. But that subsidy is being paid for by jobs of American seamen and by jobs of American shipbuilders.

By that, I mean that, due to a special peculiarity in the law, petroleum that is refined in the Virgin Islands is shipped between the mainland United States and the Virgin Islands in non-U.S.-flag carriers. That means U.S. seamen lose their jobs. That means that ships are not being built in the United States.

That means that the percentage of American bottoms keeps going down-down-down. During the 15-year period since December 1975, the American percentage of the total worldwide tankers has shrunk from 10 percent to 5 percent on a vessel basis and from 10 percent to 3 percent on a tonnage basis.

The Nation which once was the world's greatest sea power is now down to less than 10 percent of the total world tanker tonnage, of the total tankers in the world and of the jobs on tankers. What does that mean?

That means we have tremendously high unemployment in our country and in my State, and that we are subsidizing the Hess refinery in the Virgin Islands. I hope they make a good profit, and I hope they do very well, but not at the expense of our people in the United States who need jobs as seamen and as shipbuilders.

Senator LONG. Senator Johnston, is it not true that the wage of seafarers on those ships averages a lot higher than the average wage paid to workers in the Virgin Islands?

Senator JOHNSTON. I think that is correct.

Senator LONG. What is wrong with giving jobs operating those ships to people of the Virgin Islands?

Senator JOHNSTON. I can find plenty of people who could operate those ships, some of them from the Virgin Islands and some of them from my State.

Senator LONG. If the Virgin Islanders would not like the jobs, we have some good seamen who would like them?

Senator JOHNSTON. You bet. Mr. Chairman, as I say, I do not want to run the Hess refinery out of business. To the contrary, I hope they can have a good and viable business. But, first, I do not want to make it so attractive for them that they can move all of our refinery capacity outside the United States and into the islands. It is so attractive right now that Hess has the biggest refinery in the world on the Virgin Islands, with a refining capacity of 700,000 barrels a day. They want to expand that because of this and other advantages they enjoy.

Of course, we are not dealing with the other advantages they have. We are dealing with only this shipping advantage.

Senator LONG. Are you familiar with the other advantages they have?

Senator JOHNSTON. Yes, the largest other advantage enjoyed by Hess is that it receives crude oil entitlements under the Energy Petroleum Allocation Act. Frankly, I think that this and some of the other advantages may be taken away by FEA. That is another story to be told in another arena.

But I do know that the shipping advantage is one advantage that they do not need, because it is paid for with our jobs.

Now, if the U.S. Treasury, if the U.S. Congress, if the President wants to give the Hess Refinery a direct subsidy in dollars paid for by the taxpayers, that ought to be considered and debated. But let us not, by some quirk in the law, have American seamen thrown out of jobs, we deplete the U.S. merchant marine capacity, the tonnage, the jobs, and our ability to run ships.

Mr. Chairman, I think it is a decidedly ill-advised law which discourages the building of ships in the United States and the registration of ships under the American flag. I think there is a great security interest in having our own tanker capacity under our own control, because it is entirely possible that the time can come in this country when we will be cut off from foreingn flags for whatever reason, political or otherwise, in which case we would have to rely on our own flag carriers.

If we pass this bill extending the coastwise laws to the Virgin Islands, which this bill would do, but only to include oil and refined petroleum products, which is all this bill covers, it would result in the immediate employment of 26 U.S. tankers of 30,000 dead-weight-ton size. Each year these 26 vessels would provide employment for approximately 1,400 American merchant seamen; 1,400 good, well-paying jobs.

If the other refining facilities presently planned for the Virgin Islands become a reality, it would mean six additional tankers, and

this added market would give additional jobs. So we could have 1,400 American jobs just with the present refining capacity, and that many more if the additional refining capacity is added to that which we already have.

Another point which I think speaks out very strongly for this bill, Mr. Chairman, is that its enactment will help prevent defaults on government loans to the tanker industry. As of the spring of 1974, our Government was guaranteeing construction loans for 76 tankers pursuant to title XI of the Merchant Marine Act.

A lot of our people in Louisiana, of course, use title XI. I think it is a very good act. But of that 76 which were insured, 12 were in danger of defaulting. The total exposure of the Government on title XI loans was $1.2 billion.

Further, enactment of this legislation would improve our balance of payments by an estimated $150 million through 1980 and would bring in additional tax revenues to the Treasury.

So we have a tremendous interest in this $1.2 billion in loans to 76 tankers, with 12 in danger of defaulting which presents a tremendous exposure to our government. A $150 million favorable balance of payments would be effected by this bill and our government would receive additional tax revenues. Most importantly, 1,400 merchant seamen would be on regular jobs instead of unemployed and our shipyards around the country would build the additional tonnage needed for the Virgin Islands trade rather than having it built in Rotterdam or some other foreign ship building center.

Of equal importance, this legislation will encourage the construction of domestic refinery capacity. Presently about 75 percent of the residual fuel oil supply on the east coast is imported from foreign refineries. In 1975, 26 percent of the residual fuel oil imported to the east coast came from the Virgin Islands where Amerada Hess is located. The Hess Refinery's favorable tax treatment, its favorable tariff treatment and this favorable treatment under the Jones Act saves Hess—I tried to quantify what the dollar value per barrel was. I have not been able to do so yet but it is a tremendous per barrel advantage which they enjoy vis-a-vis domestic refineries.

It is safe to say that it is enough of an advantage that, with the passage of this bill, Hess will still be tremendously advantaged, and, I dare say, even with the change in the FEA rules, Hess will still be advantaged.

Refineries on the gulf coast and elsewhere simply cannot compete with the Hess refinery. They cannot ship their goods, their residual fuel oil, from, say, a New Orleans market to the east coast, because they have to use American bottoms to do so. And yet, Hess can ship directly from the Virgin Islands to New York or Boston, in foreign bottoms, on which, of course, the seamen's wages are very low.

As a result of these advantages, Hess has doubled its share of the market since 1973. And recently, the Virgin Islands Refining Corporation announced plans to construct a 200,000-barrel-per-day refinery.

It just seems to me, Mr. Chairman, that it is very, very clear that this bill ought to be passed: in the interest of the balance of payments; in the interest of the U.S. Treasury, in terms of taxes they are going to collect; in the interest of our involvement under title

XI; in the interest of our refining policy, which is to keep from exporting it outside the continental limits of the United States, but most of all because seamen and shipbuilders ought to be in the United States and not somewhere else around the world.

Thank you very much, Mr. Chairman.

I have a written statement, part of which I have read, and I would like to enter it in the record, if I may.

Senator LONG. Without objection, so ordered.

Senator LONG. Is air transportation between the United States and the Virgin Islands, limited to U.S. carriers?

Senator JOHNSTON. I do not know.

Senator LONG. We have had previous situations parallel to this wiith Alaska and Hawaii. We required that American ships be used in those trades.

Now, I agree with you, it would be a rather sad thing if we were going to have all our refining capacity placed where in a time of emergency it would not be available to the consumers of the United States.

I am not trying to take away what they have. They can keep that, as far as I am concerned. It makes the United States more vulnerable and defeats the idea of having your refineries where the production can be shipped to market in time for an emergency.

Senator JOHNSTON. One thing I would like to add, Mr. Chairman; I pointed out my relationship with the Virgin Islands and with my good friend Ron de Lugo, who is their Delegate, has made it very clear to me, and I think very persuasively so, that being an island economy, the Virgin Islands need some special benefits and some special breaks, and I am aware of that.

I am more than willing, I am anxious, to champion their cause and to give them some special breaks, such as their status as a free port on many items. They ought to be able to attract visitors down there and that sort of thing.

Senator LONG. We just did that last year.

Senator JOHNSTON. Yes. And I am all for those things.

It does not make any sense to have the kind of benefit being considered here today when it is not in the national interest to do so. We can continue some other benefits and I am not trying to take away their benefits, but let us just do not continue this very unwise oversight that results in an unwise and unreasonable benefit, not to the Virgin Islands, but to Hess.

You know, these refieneries employ a few people, but they are very capital intensive. They are not that job intensive.

Again, I am not trying to take away what they have. I just say, let us not make it so juicy that they expand the world's largest refinery on some of the world's smallest islands and make it 200,000 barrels bigger than it already is.

Senator LONG. We did not pass that so-called defense amendment which set up that system for the purpose of shifting all our refinery capacity to the Virgin Islands. That was a quirk in the law.

But now, having brought about one intended result, there is no point in carrying this thing to the point of being ridiculous. It reminds me of the story of a man who was guided by his religion. He thanked the Lord, and everything kept going against him.

His wife ran off with the chauffeur, and then his son got in trouble and had to go to jail. And then, finally, he found himself alone, cold, wet, on a dark night out in a field, hungry, all by himself. And lightning struck and took every last stitch of clothing he had and left him burned.

At that point, he turned his eyes up to heaven and said, "Don't you think this thing is getting just ridiculous?"

And that is about the situation here. There comes a point when it gets ridiculous. Some of these things can be taken to a ridiculous extreme, and I think you have presented your statement very well.

Thank you very much.

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

[The statement follows:]

STATEMENT OF HON. J. BENNETT JOHNSTON, JR., U.S. SENATOR FROM LOUISIANA

Mr. Chairman, thank you for allowing me to appear before your subcommittee today to testify in support of my bill, S. 2422, which will amend the Merchant Marine Act of 1920 to remove an unfair advantage presently enjoyed by certain oil refining facilities located in the Carbibbean area. This legislation will extend the coastwise shipping laws, the Jones Act provisions which require that cargoes transported between United States ports be carried on United States flag ships, to the U.S. Virgin Islands with respect to the transporation of crude oil, residual fuel oil, and refined petroleum products. This legislation will have two major important and positive impacts on the United States economy; first, this legislation will provide more jobs for United States workers, particularly U.S. merchant seamen and U.S. shipbuilders; and second, this legislation will encourage the construction of increased refining capacity in the United States by improving the competitive position of our domestic refineries.

The Merchant Marine Act of 1920, as amended in 1936, provides that the coastwise laws of the United States will not extend to the Virgin Islands until the President shall so extend them by proclamation. At the time of the original enactment of the Virgin Islands exclusion, American shipping trade with the Virgin Islands, which had been recently purchased from Denmark in 1917, was insufficient to justify the application of the coastwise laws to the territory. Today, however, approximately 200 million barrels of crude oil, residual fuel oil and other refined products are shipped yearly between the Virgin Islands and the United States. Because the President has not exercised his power of extension, these commodities are being shipped mainly on foreign tankers rather than on our domestic tankers.

While foreign tankers transport crude oil and refined petroleum products between the U.S. Virgin Islands and the United States, many American tankers and their crews are idle and in danger of financial ruin. According to a September, 1975 study by the Maritime Administration, extending the coastwise laws to the Virgin Islands with respect to crude oil and refined petroleum products will result in the immediate employment of 26 U.S. tankers of the 30,000 CDWT size. Each year these 26 vessles would provide employment for approximately 1400 American merchant seamen. If other refining facilities presently planned for the Virgin Islands become a reality, 6 more U.S. tankers of the 30,000 CDWT size would be required. This added market for domestic tankers should encourage construction of additional tankers in American shipyards, with a resulting increase in jobs for shipbuilders.

This added market for domestic tankers should encourage construction of additional tankers in American shipyards, with a resulting increase in jobs for shipbuilders. Construction of additional American tankers will be of strategic advantage to the United States. During the 15 year period from December 31, 1960 to June 30, 1975, the American percentage of the world-wide tanker fleet has shrunk from 10% to 5% on a vessel basis and from 10% to 3% on a ton-

nage basis.[1] In time of international emergency, a strong and adequate domestic tanker fleet is essential.

In addition to the obvious economic benefits to the domestic tanker industry and its workers, this legislation will help prevent defaults on loans to the tanker industry which are guaranteed by our government. As of the spring of 1974, our government was guaranteeing the construction loans of 76 tankers pursuant to Title XI of the Merchant Marine Act of 1936. Of that number, 12 were in danger of defaulting and the total exposure of our government under this loan program was $1.2 billion.

Further, enactment of this legislation would also improve the balance of payments account by an estimated $150 million through 1980 and would bring additional tax revenues to the United States Treasury.

Of equal importance, this legislation will encourage the construction of domestic refining capacity. Presently, about 75% of the residual fuel oil supply on the East Coast is imported from foreign refineries due to the limited refining capacity of that area and the competitive disadvantage in which the Virgin Islands exemption has placed domestic refineries located in other areas of the United States. In 1975, 26% of the residual fuel oil imported to the East Coast came from the U.S. Virgin Islands where Amerada Hess, one of the largest refineries in the world with a 700,000 barrel per day refining capacity, is located. Due to its location in a U.S. territory lying outside the jurisdiction of the U.S. Customs Service, the Hess refinery participates with domestic refiners in the national crude oil entitlements program, but receives favorable tax and tariff treatment unavailable to domestic refiners. Transporting its refined product on foreign flap ships, with their substantially lower levels of capital investment and operating costs, rather than on our domestic tankers saves Hess an additional 55¢–65¢ per barrel. Thus, domestic refiners in areas of our nation, such as the Gulf Coast, who wish to supply residual fuel oil to the East Coast market, cannot realistically compete with the Hess refinery. As a result, Hess has doubled its share of the residual fuel market since 1973. Such competitive advantages have not gone unnoticed. Recently, the Virgin Islands Refining Corporation announced plans to construct a 200,000 barrel per day refining facility, with plans to expand the facility to a 600,000 barrel per day capacity.

By extending the coastwise laws to the Virgin Islands, one of the major and unintended competitive advantages of the Hess refinery over domestic refineries will be eliminated. Domestic refineries will be in a position to compete realistically with Hess in the domestic market, thus encouraging the construction of increased refininy capacity on the United States mainland.

Mr. Chairman, in conclusion, let me summarize the benefits of this legislation: it will provide needed jobs in our domestic tanker industry; it will improve our balance of payments account and will bring additional tax reveneues into the United States treasury; and it will encourage construction of increased domestic refining capacity which will provide new jobs to American shipbuilders and will improve the strategic strength of the U.S. Above all, this legislation is fair. It removes an undue competitive advantage enjoyed by Virgin Islands refineries which was never intended when the Virgin Islands exemption was created.

Mr. Chairman, I urge this subcommittee to give prompt and favorable consideration to this bill.

Thank you, Mr. Chairman.

Senator LONG. Next we will hear from the Honorable Ron de Lugo, Virgin Islands Delegate to the U.S. Congress.

I want you to know that any difference of opinion we may have on this bill, it does not alter my high regard for you in working for

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[1] As of December 31, 1960, the worldwide tanker fleet numbered 3,366 vessels with a combined dead weight tonnage of 63,747,000. Of this number, the American tanker fleet numbered 338 vessels with a combined tonnage of 6,778,000. As of June 30, 1975, the worldwide tanker fleet number 5,229 vessels with a combined weight tonnage of 283,151,000. Of that number, the American fleet numbered 247 vessels with combined dead-weight tonnage of 9,011,000.

the overall best interest of the economy of the Virgin Islands. I share your purpose, although sometimes we may differ about how it should be done.

STATEMENT OF HON. RON de LUGO, VIRGIN ISLANDS DELEGATE, U.S. CONGRESS

Mr. DE LUGO. Well, Mr. Chairman, I want to note at the outset that both you and Senator Johnston have proven your friendship in the past to the people of the Virgin Islands. Just a few months ago you rendered a tremendous service to the people of the Virgin Islands by getting that Quarterly Payments Bill through that saved many jobs in the Virgin Islands. And shortly prior to that your assistance Mr. Chairman, was essential to the protection of the Virgin Islands watch industry. We appreciate both efforts. Senator Johnston as well has been a good friend of mine and very helpful in many matters in the past. Today I want to ask your help on another concern.

On this one, I suppose, we do differ. My concern is a deep one about the economy of the Virgin Islands, the jobs that are needed by the citizens of the Virgin Islands and the fact that these refineries are in an American territory.

Mr. Chairman, I have a prepared statement and I would like to read it to you at this time to make some of the points that are of deep concern to me and to the people of the Virgin Islands.

Mr. Chairman and honorable members of the Senate Commerce Subcommittee on Merchant Marine: I am grateful for the opportunity to appear here today to express the concerns of the people of the Virgin Islands on S. 2422, a bill which would extend the coastwise laws to the Virgin Islands with respect to the transportation of crude oil, residual fuel oil and refined petroleum products.

I oppose this bill for two main reasons.

First, I am concerned about its potentially devastating impact on an increasingly vital sector of the Virgin Islands economy, the petroleum refining industry. As you are well aware, the Virgin Islands is currently home to the largest oil refinery in North America, with a refining capacity of over 700,000 barrels a day. While the Congress, as well as the executive branch, has repeatedly demonstrated and affirmed the importance of the Amerada Hess Refinery on St. Croix to the energy security and independence of this country, its importance to the present and future economic well-being of the Virgin Islands is even greater. According to figures supplied by the Amerada Hess Corp., the construction and operation of its refinery plant in the Virgin Islands has provided for the playment of approximately $380 million into the local economy over the period 1966 to 1975. For calendar year 1975, these payments totaled some $70 million, a figure roughly equal to 15 percent of our gross territorial product. These payments include $52 million wages earned by Virgin Islands employees of Hess, Hess subsidiaries and Hess contractors; it also includes some $8½ million in taxes, customs duties and royalty payments provided to the Virgin Island Government. A detailed breakdown of these payments are provided in table 1, appended at the end of my statement.

It should also be noted that direct payments to the Virgin Islands Government will increase substantially beginning in 1981, when the considerable tax exemptions granted to Amerada Hess as part of the territory's industrial development program expire. Given a current projected deficit of some $25 million for fiscal year 1977, it is not an overstatement to say that the local government is counting heavily on these anticipated revenues.

In addition to the payment of these substantial sums into the local economy, Amerada Hess also provides significant employment opportunities in the Virgin Islands, which is currently suffering from over 10 percent official unemployment. According to figures supplies by the Amerada Hess Corp., as of December 31, 1975, Hess employed a total of 2,456 workers in the Virgin Islands, including over 1,100 in refinery operations and over 1,300 in construction. While I understand that the total number of workers currently employed has been drastically reduced as a result of layoffs and reduced production, the December 1975 figure represents approximately 6 percent of the entire 40,000-person work force. A breakdown of these figures appears as table 2 at the end of my statement.

Only the Amerada Hess Corp. can detail the precise economic impact of this measure on its refining operations, cost structures and market plans, and I cannot presume to speak for Hess in this regard.

But, in fairness to the Virgin Islands, which has an important stake in this matter, let me only say that this bill will impact Hess to the tune of tens of millions of dollars.

Table 3, which breaks down the average cost per barrel on petroleum products shipped to the United States from St. Croix in American-flag ships and in foreign-flag ships, in recent months, shows that the cost differential could range between 25 cents and 65 cents per barrel.

It remains to be seen whether Amerada Hess would be able to absorb cost increases of this magnitude. According to preliminary figures supplied in its most recent report, Amerada Hess net income declined 36 percent within the last year from $201 million on sales of $3.7 billion in 1975 to $128 million on sales of $3.2 billion in 1975.

Earnings on refining and marketing operations declined even more precipitously during the same period, from $101 million in 1974 to $17 million in 1975—a decrease of 600 percent.

A detailed breakdown of sales, net income and earnings appears as table 4. While these figures may not be complete, they do suggest that there may be another side to widespread reports of governmental advantage in favor of Amerada Hess.

The economic impact of this bill on the plans of the Virgin Islands Refinery Corp. to construct a second oil refinery on St. Croix may be even greater. While VIRCO has invested approximately $20 million to date in the project over the last several years, preliminary to actual construction, I have received indications from the president of the company that enactment of this bill may preclude a profitable operation and may force a reassessment of the decision to locate in the Virgin Islands. It has been estimated that this bill would add $60 to $15 million to the cost of operations for VIRCO, which, as a small, independent company attempting to gain

entry to an established market, could be crucial in terms of its economic survival.

A decision not to locate in the Virgin Islands as a result of this bill would be a devastating blow to the economy of the U.S. Virgin Islands.

During actual construction, VIRCO is expected to employ over 3,000 workers, giving a much-needed lift to our depressed construction industry; once the plant is in full operation, it is estimated that the company will provide some 500 permanent jobs to Virgin Islanders and over $8 million per year to the local government in production taxes alone.

The point I am attempting to make is simply this: The petroleum industry has become an integral part of our local economy, a sector which is currently making significant contributions to the well-being of the Virgin Islands and which is expected to make even greater ones in the future.

To the extent that this bill adversely impacts on this industry, then it impacts on the Virgin Islands economy as well. It is, therefore, essential that this subcommittee, in its wisdom, give due consideration to the economic impact of this bill on the people of the Virgin Islands, who have many of the same problems as those on the mainland.

To the extent that this bill is intended in any way to compensate for certain subsidies enjoyed by Amerada Hes as a result of Federal energy policy, I urge that these matters be considered by themselves and on their merits, not at the expense of one of our fundamental lifelines to economic survival.

This brings me to the second reason why I must oppose this bill.

As an insular territory with virtually no natural resources, the Virgin Islands is uniquely and historically dependent on outside shipping for its vital commerce and, indeed, for its very existence. Congress has recognized this dependence, and, after the acquisition of the territory in 1917 from Denmark, specifically provided that the Virgin Islands be exempt from the coastwise laws of the United States. This exemption has been a critically important factor to the economic success we have enjoyed under the American system, compensating to a small degree the many disadvantages under which we must labor as an isolated island community 1,500 miles from the U.S. mainland.

While I fully recognize that this bill is limited only to the transportation of crude oil, residual fuel oil and refined petroleum products, I must be concerned that this bill not be construed as a precedent for the further eroding of this essential prop to still other sectors of our economy. Such an outcome would have the most serious consequences for our future.

For example, this exemption is the basis of our cruise ship industry, which is served almost entirely by foreign-flag ships. In 1975, foreign-flag cruise boats brought in over 400,000 tourist passengers to the Virgin Islands, representing approximately one-third of our total tourist market. Thus, an extension of the coastwise laws to the cruise boat industry would wreak untold havoc on the entire tourist

sector of our economy, which still represents 55 percent of our total territorial product.

Similarly, it has been estimated in recent studies that an extension of the coastwise laws to general shipping would add an immediate 15 to 20 percent increase in the cost of living in the territory, which is already among the highest in the Nation.

As the members of this subcommittee are no doubt aware, under the law at the present time the President has the authority to extend the coastwise laws to the Virgin Islands across the board by simple proclamation. While the President has never taken this drastic step, you can well imagine the tremendous uncertainty under which our local businesses, as well as the important cruise ship industry, must operate. It is my position that any such decision would be tantamount to a major expression of territorial policy affecting the relationship of the United States and the U.S. Virgin Islands. As such, I believe that any changes in the application of this law is properly and exclusively the responsibility of Congress and not a matter for executive fiat.

Accordingly, whatever the eventual outcome of this particular legislation, it is my intention to suggest to the members of this subcommittee an amendment to the Merchant Marine Act of 1920, which would eliminate the authority of the President to arbitrarily and unilaterally extend the coastwise laws to the Virgin Islands across the board.

I would like to ask that if there are no objections, that the record be left open for the submission of additional information and statements I might have.

And I would like to recognize the presence here today, Mr. Chairman, of a good friend of mine, a Senator in the Virgin Islands Legislature, who has traveled here to be with us. He has asked me to submit his statement. If there are no objections I would like to submit the statement of Senator Alexander Morehead Jr. of St Croix and also submit a statement of Senator Eric E. Dawson, chairman of the legislature's committee on commerce, as well as a cable, which is addressed to the chairman of this subcommittee, by the president of the St. Croix Chamber of Commerce, James Hill, on this matter.

Finally, I have been handed a note stating that the Governor of the Virgin Islands has arrived in the hearing room.

Thank you very much.

Senator LONG. Thank you very much.

Those items will be included in the record.

Thank you for your statement. I think you have made a fine presentation.

Mr. DE LUGO. Thank you very much, Mr. Chairman.

[The tables referred to follow:]

72-058—76——2

TABLE. 1—HESS OIL VIRGIN ISLANDS CORP., SUMMARY OF PAYMENTS MADE INTO THE LOCAL VIRGIN ISLANDS ECONOMY FROM INCEPTION THROUGH DEC. 31, 1975

	1966–71	1972	1973	1974	1975	Total from inception thru Dec. 31, 1975
Virgin Islands payroll and Virgin Islands field expenditures for contractors on the site	$38, 953, 520	$5, 880, 492	$18, 705, 625	$42, 619, 686	$20, 197, 233	$126, 356, 556
Virgin Islands payrolls and Virgin Islands expenditures by Fisher-Hess	19, 182, 800	3, 269, 127	4, 762, 664	6, 200, 170	4, 355, 104	37, 769, 865
Virgin Islands payrolls and Virgin Islands expenditures by St. Croix Petro-Chemical	0	0	0	2, 948, 548	10, 638, 658	13, 587, 206
Hovic payrolls	23, 636, 840	8, 773, 748	10, 174, 071	14, 659, 739	17, 455, 953	74, 700, 351
Virgin Islands vendors	12, 652, 139	3, 805, 818	5, 170, 321	9, 955, 079	8, 529, 169	40, 112, 526
Virgin Islands land	4, 349, 441	125, 000	0	0	750, 014	5, 224, 455
Virgin Islands tax agencies	1, 771, 126	601, 662	815, 659	1, 298, 179	1, 623, 906	6, 110, 532
Virgin Islands corporate income taxes	14, 107, 058	2, 831, 415	17, 701, 502	3, 815, 267	1, 877, 463	40, 332, 705
Royalty payment to Virgin Islands Government	9, 577, 500	2, 745, 000	4, 237, 500	2, 737, 500	2, 737, 500	22, 035, 000
Virgin Islands Customs	3, 261, 381	1, 121, 966	1, 699, 270	3, 700, 032	2, 485, 561	12, 268, 210
Other payments to Virgin Islands governmental agencies:						
Public safety complex	0	0	1, 100, 000	0	0	1, 100, 000
Youth guidance programs	0	0	150, 000	0	0	150, 000
Note forgiveness—good hope school	0	0	202, 000	0	0	202, 000
Total	127, 491, 805	29, 154, 228	64, 718, 612	87, 934, 200	70, 650, 561	379, 949, 406

TABLE 2.—HESS OIL VIRGIN ISLANDS CORP., LEVELS OF THE LABOR FORCE DURING THE 5-YEAR PERIOD JAN. 1, 1971 THROUGH DEC. 31, 1975

Date	Dec. 31, 1971	Dec. 31, 1972	Dec. 31, 1973	Dec. 31, 1974	Dec. 31, 1975
Refinery operations	803	694	880	1, 109	1, 114
Construction	121	1, 048	2, 413	3, 417	1, 342
Total	924	1, 742	3, 293	4, 526	2, 456

TABLE 3.—BASIS 1975 WORLDSCALE AND OLD ATRS RATES—ST. CROIX/NEW YORK; 30–40 MDWT VESSELS

	Dirty									Clean								
	American flag					Foreign flag				American flag					Foreign flag			
		Worldscale equivalent									Worldscale equivalent							
For dates	ATRS	AR 1976	1975	World-scale 1976	Cost per barrel	World-scale 1975	World-scale 1976	Cost per barrel	Per barrel difference	ATRS	AR 1976	1975	World-scale 1976	Cost per barrel	World-scale 1975	World-scale 1976	Cost per barrel	Per barrel difference
May 31	+100		193		$0.69	70		$0.25	$0.44	+85		178		$0.55	92½		$0.28	$0.27
June 30	+100		193		.69	90		.32	.37	+122½		215		.66	115		.35	.31
July 31	+90		183		.65	85		.30	.35	+88½		182		.56	85		.26	.20
August 31	+106		199		.71	70		.25	.46	+85		178		.55	90		.28	.27
September 30	+105		198		.71	85		.30	.41	+70		164		.50	125		.38	.12
October 31	+90		183		.65	80		.29	.36	+70		164		.50	110		.34	.16
November 30	+96		189		.67	74		.26	.41	+82		176		.54	91		.28	.26
December 31	+140		231		.83	90		.32	.51	+147		238		.73	89		.27	.46
January 31	+176	AR148 [1]	266	WS244 [1]	.95	86	WS79 [1]	.31	.64	+180	AR150 [1]	270	WS248 [1]	.83	110	WS101 [1]	.34	.49

[1] Please note:
1. New AR rates in effect Jan. 1, 1976, replace ATRS. Cost per barrel remains the same.
2. 1976 worldscale rates in effect Jan. 1, 1976. Cost per barrel remains the same.

TABLE 4.—AMERADA HESS CORP.

	Sales and operating revenues	Net income	Earnings from refining and marketing
1971	$1,349,219,000	$133,249,000	
1972	1,333,532,000	46,229,000	
1973	1,896,362,000	245,765,000	
1974	3,744,521,000	201,858,000	$101,300,000
1975	3,214,079,000	128,403,000	17,600,000

Senator LONG. Next, we will call Hon. Cyril King, the Governor of the Virgin Islands.

Governor King, we are very pleased to have you here.

Do you have a copy of your statement?

STATEMENT OF HON. CYRIL KING, GOVERNOR OF THE VIRGIN ISLANDS

Governor KING. I have only one copy, Senator. Additional ones are being reproduced, and they should be here momentarily.

Senator LONG. We'll insert your entire statement in the record. One problem I have is that the Senate will be voting at 3 o'clock. I am going to ask you to summarize it, stressing your main points before the rollcall vote starts.

Go right ahead and proceed.

Governor KING. Mr. Chairman, members of this committee, it is my privilege to be here today as Governor of the U.S. Virgin Islands to address you concerning a matter of extreme importance to the future development of the territory.

I am here to state the position of the Government of the Virgin Islands regarding S. 2422 seeking to extend provisions of the Jones Act to the U.S. Virgin Islands.

As you know, this particular bill seeks to amend the Merchant Marine Act of 1920 in order to provide that the coastwise laws of the United States shall extend to the Virgin Islands with respect to the transportation of crude oil, residual fuel oil, and refined petroleum products.

The Government of the Virgin Islands is opposed to S. 2422. It is very important for this subcommittee to appreciate the serious consequences to the territory as a whole if S. 2422 were enacted. I am not in a position, however, to speak or elaborate on the specific financial or other operational effects that the proposed legislation will have on our existing and proposed refineries. There are industry officials and other experts in Washington more familiar with the operation of our petroleum and petrochemical industry and, therefore, better able than I to provide this subcommittee with financial and technical information. Rather, I am here to speak of the adverse effects this legislation will have on the people of the Virgin Islands and on the Government of the Virgin Islands if enacted by Congress.

We believe S. 2422 will seriously and adversely affect the U.S. Virgin Islands' economy in that it will have a substantial negative impact on our petroleum and petrochemical industry, one of the largest employers in the Virgin Islands.

Enactment of this bill will have a significant negative effect on the large petroleum refinery of the Amerada Hess Corp., and it will also adversely affect the imminent establishment of a second refinery, also on the Island of St. Croix, by the Virgin Islands Refinery Corp.

Enactment of S. 2422 could lead to the curtailment, gradual phasing out, or to the immediate closing down of the Amerada Hess operation and to the termination of the plans of the Virgin Islands Refinery Corp., resulting in a loss of revenue to the Treasury of the Government of the U.S. Virgin Islands it can now ill afford; a loss of jobs to the people of the three islands, with all of the disastrous social and economic consequences that that implies in a time of already high unemployment in our islands; and it will negate the Government's efforts to broaden the territory's economic base.

In an effort to move away from an economy so precariously dependent on tourism, the Virgin Islands Government has devised an economic development program that has sought the establishment and perpetuation of industrial operations in the Virgin Islands capable of providing and sustaining much needed large-scale employment.

In our program to develop a wider and more viable economic base for the territory, a very vital element is the continued viability of our existing petroleum and petrochemical operations and the establishment of a second oil refinery and related facilities.

If S. 2422 were enacted, one of the most attractive features of our long-term economic development program, as it pertains to our petroleum and petrochemical industry—the exemption from certain provisions of the Jones Act—would be eliminated and our development program disrupted. It is difficult to develop a credible economic development program if its features do not remain constant.

A key element in attracting the petroleum and petrochemical industry to the Virgin Islands has been our ability, and theirs, to rely on the Jones Act as it presently exists.

Turning to the matter of employment provided by our petroleum and petrochemical industry, at present the Amerada Hess operation in the Virgin Islands employs about 1,200 people, representing approximately 3 percent of the entire labor force in the Virgin Islands and an even greater percentage of the labor force on the Island of St. Croix. The curtailment, or gradual phasing out, or the immediate closing down of this operation at this point will certainly and significantly increase our already high unemployment rate estimated in excess of 10 percent.

Furthermore, in addition to the loss of jobs stemming from a slowdown or elimination of the refinery operation, there will also be a loss of jobs stemming from the reduced need for the goods and services provided to the Amerada Hess operation by the Virgin Islands business community.

Clearly, the direct and indirect effects of the enactment of S. 2422 on the Amerada Hess operation alone will substantially and adversely affect the employment picture in the Virgin Islands.

With regard to our second petroleum installation, the refinery of the Virgin Islands Refinery Corp., when completed, is expected to employ up to 500 workers.

It is anticipated that during the construction phase alone, jobs will be created for an additional 2,000 people.

This planned construction activity will have a significant impact on the currently depressed construction sector of the Virgin Islands, presently suffering an unemployment rate of approximately 23 percent.

The importance of creating new jobs and job opportunities for the people of the Virgin Islands cannot be overemphasized. The right to work belongs to every American, whether he lives on the U.S. mainland or in the U.S. Virgin Islands.

Legislation which adds to our high unemployment rate of 10 percent can only rend the fabric of our political and socioeconomic structure at a time when the Virgin Islands is a bastion of political and social stability in the Caribbean, and an outpost of American democratic government. It concerns us deeply that S. 2422 may alter our situation by forcing our refineries to discontinue operations or possibly relocate to foreign soil, with the resulting loss of jobs to United States citizens and revenue to our United States Territory.

It is very important for this subcommittee to appreciate the serious adverse impact that S.2422 will have on the projected revenues of the U.S. Virgin Islands Government. It comes at a time when the territory can least afford it.

Further reductions are now no longer possible. Our present situation is already so desperate that there are virtually no funds available in our fiscal 1977 budget for capital improvement projects.

Senator LONG. If I might just ask you a question, because I might not be able to hear your entire statement, let me ask you this: In view of the fact that Puerto Rico has a very high amount of—can you tell me why we in Congress should discriminate against Puerto Rico to the benefit of the Virgin Islands?

Why should we discriminate against Hawaii for the benefit of the Virgin Islands or why should we discriminate against Alaska for the benefit of the Virgin Islands?

That's what it amounts to when someone who has got petroleum headed this way can move it between an American position in the Virgin Islands to another American position on the mainland, something that he can't do if he had a refinery in Puerto Rico and couldn't do it if he had it in Alaska or Hawaii, why should we have that type of discrimination against our own States of the Union?

You can't do it if you were refining oil at Baton Rouge or taking it to Florida or somewhere else. Why should we discriminate against Puerto Rico, against all the other States of our Union?

Why should we do that?

Governor KING. The benefits of the Jones Act have been under consideration for these refineries agreeing to establish in the Virgin Islands.

I am sure it has been one of the considerations.

The second thing is that the Virgin Islands have a limited amount of natural resources, and there is need for us to secure some advantage, some consideration in order to be able attract these industries so that they can provide the jobs and the necessary income for the operation of the government of the Virgin Islands, so it can in turn provide the services needed.

Senator LONG. Governor, the advantage you have down there is a poor quirk of fate. I am one of those people who worked to put that import quota system into effect, to try to maintain our capacity to be able to say grace over our own destiny. In the event we have the kind of thing that has transpired since then when America is no longer able to produce its requirements for energy. It was a complete quirk of fate thereafter that that Phillips Refinery went to Puerto Rico or that Hess Refinery went to the Virgin Islands. I recall how that happened, but there is no point in going into the details about that.

But that's not why we did that. It was an act that I helped put on the statute books that put the refinery there. That was a complete accident that various companies twisted arms in that bureaucracy down there to get first one tax allocation approved and then something else.

I am happy to see you have it, but if you can find a way to make your people feel safe and secure, in those beautiful islands, we can work with you and send you all the tourist trade that you can handle.

You have got a natural advantage where the good Lord discriminated in your favor and that ought to bring you all the business you can handle on those islands.

I, for one, and I am sure a majority of us are concerned about this problem, including those people operating the ships and those sailors.

We would all be delighted to work with you to help you lead the way in putting people to work and improve their community and their State, while they are at it.

But now, why don't we work in terms of how the good Lord intended you to have an advantage.

We don't want to take anything away from you, we would also be glad to help you get some other benefits to help you provide for your people and concentrate on developing the natural advantages you have, rather than the advantages you got because of the import quota system.

Governor KING. Within the limits of the capabilities of the Virgin Islands, we have sought to take advantage and to fully explore all the benefits that could be derived from an expanded tourist trade, and we are continuing to do that.

But it has been established beyond question that in the interests of the future and continued development of the islands, it is reasonable to expect that we explore alternatives, that we explore the possibility of some diversitification because tourism by its very nature is a very fickle industry, and it's an industry over which the people of the Virgin Islands have little or not control.

If the economy within the continental limits of the United States were to take a downward dip, then one of the last things people want to spend money for is travel, and this would mean that the Virgin Islands would suffer as a result and we have to find ways and means of seeking to diversify the economy so we could be in a better position to plan ahead in terms of meeting the needs of the people in that Territory.

Senator LONG. I'm one of those that helped to give you a fantastic advantage in assembling watches down there in the Virgin Islands, and I thought if we gave those people money directly, it would do them more good than the money it's costing us to provide them with the advantage in putting those watches together, but I went along with that and supported that, I have helped to pass one bill and then another, to help you with your individual problems and I am not worried about it.

As far as I am concerned, I will help you find other things to provide jobs and help you during the off-tourism season to help you create better facilities for tourists. I would hope that you would concentrate your activities in these areas where we can be helpful to you in a way that, in our judgment, would tend to serve this Nation's needs, and discriminate against no one. We need to concentrate on those magnificent natural advantages you have down there and make the best use of those, rather than situations where through an unintended quirk in the law, we are dislocating our entire refining industry.

All I am suggesting is that in looking to the future, we develop the natural advantages, including those very fine friendly people you have down there, in ways that they use the fine assets, and those beautiful islands in the most beneficial way.

Governor KING. Senator, with your permission, if I could just make one comment about your reference to the watch industry, which I think would serve to make a point.

We appreciate, of course, your assistance in these areas. But I think there is one thing that needs noting here with reference to the watch industry.

Sure, it's of great assistance in providing jobs to the people of the Virgin Island, but as in so many instances, there is a quota.

We are only allowed to ship into the United States x number of units per year. A quota which is established on a year basis. So, even though we do have these benefits to which you refer, and for which we are appreciative, we ought to point out that there is also a restriction.

We are told that we should seek to build the economy to improve our—or to reduce our dependence on the U.S. Government, and when we seek to do this, there are restrictions which are imposed, which limit our potential to expand beyond a certain point.

Senator LONG. Well, any act of Congress can be amended or repealed for that matter. We should and will talk about any suggestion you want to make along that line.

You should be imaginative in thinking of more ways that we can be helpful to you. You could well pick out some areas where it would be worth experimenting with some things that might work very well. If they did well you could continue to use it, and if it didn't work, you could forget about it.

I look forward to working with you and your associates in improving the conditions of the people in the Virgin Islands.

I have got to vote in just a minute. I am going to ask that your statement be put in the record. But I want to invite you to come back and we can discuss this between now and the time this is finally voted on.

Governor KING. Thank you very much, Mr. Chairman. I will be happy to make myself available. I will be here the rest of the week and I would like to do this at your convenience, because I think it's important that we get across to you the irreparable damage and harm that could be done in our territory.

Senator LONG. Thank you very much for a very fine statement, and I look forward to discussing this matter in greater detail with you.

Governor KING. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF HON. CYRIL KING, GOVERNOR OF THE VIRGIN ISLANDS

Mr. Chairman, honorable Senators of the Senate subcommittee and distinguished guests: It is my privilege to be here today as Governor of the United States Virgin Islands to address you concerning a matter of extreme importance to the future development of the territory. I am here to state the position of the Government of the Virgin Islands regarding S. 2422 seeking to extend provisions of the Jones Act to the United States Virgin Islands. As you know, this particular bill seeks to amend the Merchant Marine Act of 1920 in order to provide that the coastwise laws of the United States shall extend to the Virgin Islands with respect to the transportation of crude oil, residual fuel oil, and refined petroleum products.

The Government of the Virgin Islands is opposed to Bill S. 2422. It is very important for this Sub-Committee to appreciate the serious consequences to the territory if bill S. 2422 were enacted. I am not in a position to speak or elaborate on the specific financial or other operational effects that the proposed legislation will have on our existing and proposed refineries. There are industry officials and other experts in Washington more familiar with the operation of our petroleum and petrochemical industry and, therefore, better able than I to provide this Sub-Committee with financial and technical information. Rather, I am here to speak of the adverse effects this legislation will have on the people of the Virgin Islands and on the Government of the Virgin Islands if enacted by Congress.

We believe bill S. 2422 will seriously and adversely affect the U.S. Virgin Islands' economy in that it will have a substantial negative impact on our petroleum and petrochemical industry, one of the largest employers in the Virgin Islands. Enactment of this bill will have a significant negative effect on the large petroleum refinery of the Amerada Hess Corporation, and it will also adversely affect the imminent establishment of a second refinery, also on the Island of St. Croix, by the Virgin Islands Refinery Corporation. Enactment of bill S. 2422 could lead to the curtailment, gradual phasing out, or to the immediate closing down of the Amerada Hess Opeation and to the termination of the plans of the Virgin Islands Refinery Corporation, resulting in a loss of revenue to the Treasury of the Government of the U.S. Virgin Islands it can now ill afford; a loss of jobs to the people of the three islands, with all of the disastrous social and economic consequences that that implies in a time of already high unemployment in our islands; and it will negate the Government's efforts to broaden the territory's economic base.

In an effort to move away from an economy so precariously dependent on tourism, the Virgin Islands Government has devised an economic development program that has sought the establishment and perpetuation of industrial operations in the Virgin Islands capable of providing and sustaining much needed large-scale employment. In our program to develop a wider and more viable economic base for the territory, a very vital element is the continued viability of our existing petroleum and petrochemical operations and the establishment of a second oil refinery and related facilities. If bill S. 2422 were enacted, one of the most attractive features of our long-term economic development program, as it pertains to our petroleum and petrochemical industry—the exemption from certain provisions of the Jones Act—would be eliminated and our development program disrupted. It is difficult to develop a credible economic development program if its features do not remain constant. A key element in attracting the petroleum and petrochemical industry to the Virgin

Islands has been our ability, and theirs, to rely on the Jones Act as it presently exists.

Turning to the matter of employment provided by our petroleum and petrochemical industry, at present the Amerada Hess opeation in the Virgin Islands employs about 1,200 people, representing approximately 3% of the entire labor force in the Virgin Islands and an even greater percentage of the labor force on the Island of St. Croix. The curtialment, or gradual phasing out, or the immeidate closing down of this operation at this point will certainly and significantly increase our already high unemployment rate estimated in excess of 10%. Furthermore, in ddition to the loss of jobs stemming from a slowdown or elimination of the refinery operation, there will also be a loss of jobs stemming from the reduced need for the goods and services provided to the Amerada Hess opertation by the Virgin Islands business community. Clearly, the direct and indirect effects of the enactment of S. 2422 on the Amerada Hess operation alone will substantially and adversely affect the employment picture in the Virgin Islands.

With regard to our second petroleum installation, the refinery of the Virgin Island Refinery Corporation, when completed, is expected to employ up to 500 workers. It is anticipated that during the construction phase alone jobs will be created for an additional 2,000 people. This planned construction activity will have a significant impact on the currently depressed construction sector of the Virgin Islands, presently suffering an unemployment rate of approximately 23%.

The importance of creating new jobs and job opportunities for the people of the Virgin Islands cannot be overemphasized. The right to work belongs to every American, whether he lives on the U.S. Mainland or in the U.S. Virgin Islands. Legislation which adds to our high unemployment rate of 10% can only rend the fabric of our political and socio-economic structure at a time when the Virgin Islands is a bastion of political and social stability in the Caribbean, and an outpost of American democratic government. It concerns us deeply that bill S. 2422 may alter our situation by forcing our refineries to discontinue operations or possibly relocate to foreign soil, with the resulting loss of jobs to United States citizens and to our United States territory.

It is very important for this Sub-Committee to appreciate the serious adverse impact that Bill S. 2422 will have on the projected revenues of the U.S. Virgin Islands Government. It comes at a time when the territory can least afford it.

Further reductions are now no longer possible. Our present situation is already so desperate that there are virtually no funds available in our fiscal 1977 budget for capital improvement projects.

Due to the dearth or paucity of natural resources in our Islands, and like Puerto Rico and other Caribbean islands, we have found it necessary to provide certain tax incentives in order to attract large industries to our shores. In September of 1965, the Government of the Virgin Islands granted tax incentives to a Virgin Islands subsidiary of the Amerada Hess Corporation, pursuant to an industrial development program whose underlying rationale is the grant of partial tax exemption for a fixed period in order to attract industry to the territory. The tax benefits granted to the subsidiary of the Amerada Hess Corporation, when the refinery was first brought to the Virgin Islands, are scheduled to expire in September 1981. After this date a considerable flow of revenue from Amerada Hess will flow into the treasury of the Government of the Virgin Islands. It will be used by the U.S. Virgin Islands Government to provde much-needed and long-postponed hospital facilities, schools, roads, and other important social services the government is committed to providing.

This revenue, which has been long sought after and planned on by the Virgin Islands Government, has already been integrated into the government's overall economic development plans. It will be in addition to that tax revenue presently being paid to the Virgin Islands Government by Amerada Hess. To date, the Amerada Hess Corporation has paid to the Virgin Islands in the form of corporate taxes, royalties, customs duty and other taxes in excess of 80 million dollars. And in 1981, the people of the Virgin Islands will reap the full benefits of this program.

It is very likely that the enactment of bill S–2422 would result in denying the people of the Virgin Islands and their Government of these revenues for which we have worked so hard and waited so long to secure. Disruption, curtailment or cancellation of this revenue flow will certainly create serious fiscal, social, political and economic problems in our islands.

I cannot leave the area of revenues accruing to the Government of the Virgin Islands without mentioning the potential harmful effects that the enactment of bill S–2422 would have on the Government of the Virgin Islands if it were to lead to the cancellation of plans for the construction of a second oil refinery in the Virgin Islands. On January 10, 1973 the Government of the Virgin Islands enacted legislation providing certain tax incentives to the Virgin Islands Refinery Corporation (VIRCO). This landmark legislation was one of the first actions taken by a legislature providing authorization and incentives for the construction of a new refinery on United States soil in recent years. We enacted this legislation for several important reasons, one of which was the creation of jobs and job opportunities for the people of the Virgin Islands; another was the accrual of revenue to the Treasury of the Virgin Islands from the construction and operation of the planned refinery. This revenue has also been made a part of the long term fiscal and economic planning of the Government of the Virgin Islands and it is essential that we receive it.

It has been suggested that Bill S. 2422 should be enacted for two major reasons. The first is that it will mean more jobs for United States citizens. However, this overlooks the fact that the Virgin Islands are a part of the United States and that its citizens indeed are United States citizens. Bill S. 2422 if enacted will lead only to the loss of jobs at one specific American location, where they represent a very large proportion of its total labor force, and to their transfer to another American location. This would be highly unfair, highly unconscionable, and unjust to the people of the Virgin Islands. We too are proud, loyal, and hardworking Americans and should not be treated as second class citizens.

It has also been suggested that the proposed legislation will encourage the construction of more refining capacity in the United States and reduce our dependence on imported oil products. This, however, overlooks the fact that the Jones Act, unamended by Bill S. 2422, presently encourages the construction of refining capacity in the United States and assures the United States of a secure source of refinery capacity. The Virgin Islands, it should go without saying, is a part of the United States of America. A refinery operation located in our islands is not in danger of expropriation, nationalization, or sabotage, or a target for political opportunism and exploitation. Undoubtedly these were important considerations for the Amerada Hess Corporation and for the Virgin Islands Refinery Corporation both of which have chosen to build their refineries in the American Virgin Islands and not on foreign soil.

In conclusion, I would like to respectfully suggest that the members of the Senate Subcommittee seriously reflect on the potential impact that the proposed legislation will have on the people of the Virgin Islands and on the overall development of our economy. I have indicated to you the specific areas in which this legislation will have a substantial negative impact. The Government of the Virgin Islands has taken significant steps to resolve our fiscal and overall economic and social problems through a program stressing diversification of our economy and the broadening of our territory's economic base. It would be tragic to see our past and present efforts nullified.

[Whereupon, at 3:05 p.m., the hearing was adjourned.]

AMEND THE MERCHANT MARINE ACT OF 1920

TUESDAY, MARCH 30, 1976

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

The subcommittee met at 10:05 a.m., pursuant to notice, in room 5110, Dirksen Senate Office Building, Hon. Russell B. Long (chairman of the subcommittee) presiding.

Senator LONG. This morning the Merchant Marine Subcommittee continues its consideration of S. 2422. This legislation extends the coastwise laws of the United States to the Virgin Islands with respect to the transportation of crude oil, residual fuel, and refined petroleum products.

We have a long list of witnesses to testify here today and I have other hearings to attend.

Therefore, I am going to ask the witnesses to follow the procedures that we follow in the Senate Finance Committee and which is spelled out in the Reorganization Act, to submit their statements and take no more than 10 minutes to summarize them.

At that point, if the Senators want to ask some questions, they can and we will go to the next witness.

First, we will call Mr. Howard Casey, Deputy Assistant Secretary for Maritime, the Department of Commerce.

STATEMENT OF HOWARD CASEY, DEPUTY ASSISTANT SECRETARY FOR MARITIME AFFAIRS, DEPARTMENT OF COMMERCE

Mr. CASEY. Good morning, gentlemen.

Senator LONG. Good morning, Mr. Casey.

Mr. CASEY. Mr. Chairman, I am pleased to appear before the subcommittee today to offer the Maritime Administration's views on S. 2422. This measure would amend section 21 of the Merchant Marine Act of 1920 by extending the coastwise laws of the United States to the Virgin Islands with respect to the transportation of crude oil, residual oil, and refined petroleum products. It would require that these commodities moving by water or by land and water between the Virgin Islands and points within the United States and its territories be carried exclusively in vessels which are built and registered in the United States and are owned, operated, and manned by U.S. citizens.

The exclusion of the Virgin Islands from the coastwise laws was meant to be a temporary measure. This is evident from the language of the act as well as its legislative history. It was never contem-

plated that the Virgin Islands would be excluded from the provisions of the Jones Act after U.S. vessels became available for the trade.

We now have adequate U.S.-flag tanker capacity available to serve this trade. In fact, there are now 17 U.S.-flag tankers with nearly 740,000 deadweight tons of capacity laid up, over 250,000 of which could be immediately made available for this trade. However, this number changes from week to week. Laid up tonnage immediately available during the first 2 months of 1976 varied from 274,000 to 520,000 deadweight tons. In addition, ships returning from the transport of grain to the Soviet Union as well as some of those tankers now being constructed will require employment.

The costs associated with the U.S.-flag tankers in this trade cannot be predicted with precision. They depend on the differences between highly variable U.S. and foreign tanker rates and on the system of oil import fees now scheduled for progressive introduction through 1980. This fee system has been challenged in the courts. The outcome of this challenge represents another variable affecting potential costs.

In a recent survey, several U.S.-flag tanker operators indicated that if they were asked to carry oil from the Virgin Islands to the U.S. mainland for a period of at least 6 months, starting immediately, they would charge an average rate of $6 a ton. They also said that in the next few months these rates will decrease, as they are presently affected by the winter demand for oil and the Soviet grain program. It should also be noted that these rates would result in a profit for the operators.

Spot rates on oil carried by foreign-flag tankers from the Virgin Islands to the U.S. mainland average about $2.80 a ton. These rates are severely depressed due to the overtonnaged situation of the foreign tanker fleet, which is expected to persist to some degree at least until 1980. By way of contrast, in July of 1973, Virgin Islands spot rates averaged well over $5 a ton for foreign vessels.

In spite of the current situation—$6 a ton for U.S.-flag vessels in a profitmaking position, and a severely depressed rate of $2.80 a ton for foreign-flag vessels—U.S. vessels continue to be competitive due to the license fee system on oil imports instituted under Presidential Proclamation 4210, issued in 1973. Pursuant to Proclamation 4210 the fee-free quota system is to be phased out by 1980 and a license fee system established, with no limitation on the amount of oil that can be imported into the United States. Under the license fee system, a fee of 21 cents a barrel for crude oil and 63 cents a barrel for finished and unfinished oils is charged on all imports.

The oil import license fee program has a significant impact on the Virgin Islands. Under this licensing system, Mr. Chairman, and members of the subcommittee, the Virgin Islands were originally exempt from fees on crude imports to its refinery, operated by Amerada Hess, because it was outside the customs territory of the United States. However, when refined products were shipped to the U.S. mainland, they were then subject to the higher 63 cents per barrel product fee. It was contended that this placed the Virgin Islands refinery in a noncompetitive position compared to Puerto Rico and other U.S. mainland refineries. In order to rectify this sit-

uation, Proclamation No. 4227 was issued, as amended in part by Proclamation 4341, allowing oil imports from the Virgin Islands to the U.S. mainland to be subject only to the 21 cents per barrel crude oil fees. The proclamation stipulated, however, that the fee equalization applied only if the product was carried on U.S.-flag vessels, as is required for Puerto Rico under the Jones Act. This provision yields a savings of $2.94 a ton in license fees; that is, 63 cents a barrel if foreign-flag vessels are used versus 21 cents a barrel for U.S.-flag vessels, providing savings of 42 cents a barrel or $2.94 a ton. An importer who makes a good-faith attempt to arrange shipment by a U.S. vessel at a reasonable cost and finds no such vessel available is permitted to benefit from the same fee advantage when using a foreign ship.

The Amerada Hess Corp. owns four U.S.-flag tankers totaling nearly 100,000 deadweight tons that are presently laying idle. At the time our testimony was prepared, it was thought that Hess was requesting and receiving certificates of nonavailability of U.S.-flag vessels. We have not been able to verify this fact.

With the current spot charter market rates at $6 a ton for U.S. vessels, $2.80 a ton when using foreign vessels, and the reduced license fee on imports of $2.94 a ton when using U.S.-flag vessels, the net additional cost of shipping on U.S.-flag vessels is 26 cents a ton or approximately 9/100 of a cent per gallon. The license fee reduction would entail a loss in revenue to the Treasury, but this would be offset in part by additional tax revenues generated by the employment of otherwise idle U.S.-flag ships.

In order to calculate the total cost of using U.S.-flag tankers this cost differential must be applied to the total imports from the Virgin Islands. Between January and September of 1975, the contiguous United States imported some 115 million barrels of petroleum products from the Virgin Islands, or about 420,000 barrels a day. Some 75,000 barrels a day are consumed in the Virgin Islands. The production capacity of the area is about 700,000 barrels a day. Using the 420,000 barrels or 60,000 tons a day, the additional annual cost to the consumer attributable to the use of U.S.-flag tankers would be about $5.7 million, that is 60,000 tons per day by 365 days by 26 cents a ton would be about $5.7 million. Considering the fee revenue loss to the Treasury, total cost would be somewhat greater, with the amount depending on the extent of offsetting tax revenues.

The use of U.S.-flag vessels in this fashion reduces foreign dollar earnings and, therefore, contributes to the U.S. balance of payments. The use of U.S.-flag ships would provide a balance of payments contribution of approximately $61.3 million per year; that is, 60,000 tons per day by 365 days by $2.80 per ton which would be $61,320,000.

Of course, these estimates are based on the assumption that all oil movements in the trade are subject to the license fee system. If the license fee were not applied, the additional cost to the consumer would be $70 million a year, that is 60,000 per day times 365 days times $3.20 a ton, the difference between $6 and $2.80, or about $70 million a year. In terms of overall impact, this would be offset to some extent by the generation of additional U.S. tax revenues. Under the Presidential proclamation which instituted the license fee

system, it is to be gradually phased in as it replaces the fee-free quota system. As of May 1, 1976, about 35 percent of the oil imports will be subject to license fees. By May 1, 1980, all oil will be subject to license fees.

Last summer, the presidential authority to impose oil import fees was overturned by court decision. This decision is being appealed, however, and fees are still being collected.

These estimates are based upon the current differential between U.S. and foreign rates. Because of the severe depression in the world tanker market foreign-flag rates are now at an all-time low. At the same time the U.S.-flag rates used are slightly higher than normal because of the winter demand for oil. These two factors, taken together, produce a wide disparity between U.S. and foreign tanker rates. It is expected that this difference will diminish somewhat in the coming months, but that it will continue to be significant until worldwide tanker demand improves. Over the long run, as tanker supply and demand are brought more closely into balance, the difference will decline drastically, and the cost of using U.S.-flag tankers will decrease proportionately.

Should S. 2422 be enacted, it would provide for the employment of approximately 25 U.S.-flag vessels of the 30,000 deadweight-ton size, representing a total of 750,000 deadweight tons in tanker capacity. Presently, the U.S. tanker fleet is faced with a shortage of employment. Approximately 740,000 deadweight tons in tanker capacity are laid up. Some of these vessels are ideally suited for the Virgin Islands oil trade. Some of these vessels are financed under our title XI mortgage guarantee insurance program.

Virtually every coastal nation in the world has cabotage laws in some form to protect national interests. The principle is well established. Jones Act application to the Virgin Islands oil export trade would represent a logical extension of U.S. cabotage that now applies to our coastal and intercoastal trades and to the domestic trades involving Alaska, Puerto Rico, and Hawaii.

As I indicated earlier, the Virgin Islands were originally excluded from our coastwise laws due to the shortage of U.S. vessels. The exclusion was intended to be of a temporary nature. Today adequate U.S. tanker capacity is available to serve the Virgin Islands oil trade. The Maritime Administration feels that the advantages offered by S. 2422 far outweigh its disadvantages and recommends that the proposed legislation be enacted.

Mr. Chairman, this concludes my prepared testimony. I will be happy to answer any questions the committee may have. Thank you.

Senator LONG. Your statement is very clear and self-explanatory.

Senator JOHNSTON. I just think it is a very excellent statement. I think you covered the waterfront very well. I could try to emphasize and reemphasize some of the points you made, but they are so clear and so obvious that I think I would just leave well enough alone, Mr. Chairman.

Mr. CASEY. Thank you, Mr. Chairman.

Senator LONG. Thank you, sir, for a very thoughtful statement.

We will hear from Fred M. Zeder, Director, Office of Territorial Affairs, Department of the Interior.

You have 10 minutes, Mr. Zeder.

STATEMENT OF FRED M. ZEDER, DIRECTOR, OFFICE OF TERRITORIAL AFFAIRS, DEPARTMENT OF THE INTERIOR; ACCOMPANIED BY CHARLES MARKELL, COUNSEL

Mr. ZEDER. Mr. Chairman, I have submitted a longer draft of my report.

Senator LONG. It will appear in the record.

Mr. ZEDER. We are pleased to appear before you and this subcommittee today to express the views of the Department of Intrior on S. 2422 which would extend the coastwise laws of the United States to the U.S. Virgin Islands with respect to the transportation of crude oil, residual fuel oil and refined petroleum products.

I must make it clear that the administration has not at this time cleared our position. However, the Department is strongly opposed to enactment of S. 2422.

The bill would amend the Merchant Marine Act of 1920 to require that all shipments of petroleum from the Virgin Islands to the United States mainland be in American ships. It would raise the cost of petroleum to American consumers and would injure the economic health of the Virgin Islands. The statutory exception to the Jones Act was created in the act of April 6, 1936. In addition to encouraging shipping, the Merchant Marine Act exenption has proved to be helpful when combined with other inducements both Federal and local to encourage industry to locate in the Virgin Islands. This is a vital element in the Islands' economy because it leads to stability and diversification of the Islands' business, much of which is tied to tourism which is seasonal and subject to violent fluctuations.

In November of 1967, the Secretary of the Interior, Stewart Udall, announced a plan whereby the Hess Oil Co. would build a large refinery complex on the Island of St. Croix. The Hess operation has proved to be a substantial economic asset to the Islands. The trade built by Hess has not been at the expense of mainland U.S. refineries, but has come rather from increased demand on the east coast, particularly for residual fuels and through competition with foreign-based Caribbean refineries serving the same trade.

According to the FEA, between 80 and 90 percent of the company's residual fuel supply over the past decade has come from Caribbean refineries. Historically, it should also be noted that American vessels have never had a substantial share of this Caribbean tanker trade.

The price differential between the United States and foreign bottoms shown on the chart attached to our Department's report, has recently ranged from 25 cents to 65 cents per barrel of oil shipped. Measured against the volume of business, the cost impact for petroleum shipped from the Virgin Islands to the U.S. mainland would be substantial, in the tens of millions of dollars annually, if the Merchant Marine Act exemption were lost and this petroleum were required to be shipped in American ships.

While refinery shipments from the Virgin Islands enjoy a rate advantage over mainland refineries, they have no shipping advantage over shipments from foreign refineries in the Caribbean, that is, in the Bahamas (NEPCO), Venezuela, Aruba (Exxon), Curacao

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(Asiatic, a Shell affiliate), Trinidad and others (Texaco), with whom it competes for business. Those foreign refineries also ship in foreign ships.

Notwithstanding the Caribbean refinery advantage in shipping costs, it should be noted that many Caribbean oil companies including Hess have suffered reductions in business and income in the past year. At the same time, unemployment in the Virgin Islands is at a level of 11.7 percent according to January figures from the Virgin Islands Department of Labor.

The potential economic impact of S. 2422 on the volume of Hess business and consequently the Virgin Islands economy is clearly substantial.

Of equal importance is the potential negative effect this bill would have on other economic development plans for the Islands.

For example, we understand that the Virgin Islands Refinery Corp. is planning to locate a refinery on St. Croix. This refinery would make a substantial additional contribution to the economy with as many as 3,000 jobs during construction, 500 permanent jobs, and over $8 million in revenue to the local government in taxes. S. 2422, if passed, could have the effect of precipitating a complete reassessment of the plans to locate the refinery in the Virgin Islands.

Now, we recognize that S. 2422 would be a benefit to part of the American Merchant Marine, but these benefits are relatively limited and would be obtained on the basis of unjustified increases in consumer costs and injury to the Virgin Islands economy.

Now, it should be kept in mind that refining and other businesses in the Virgin Islands is American business, employment in the Islands is American employment, moneys generated in the business are generated in the American economy.

We do not intend to say that bolstering the American Merchant Marine is an undesirable purpose, or even a less desirable purpose than nuturing the Virgin Islands economy. We do not believe, however, that it would be fair and a wise policy to shift the necessary trade that has already been established and was deliberately and recently fostered in the Virgin Islands in order to create a new and uncertain trade in another sector. The important point, however, is that projections favoring use of U.S. vessels are based on the assumptions that petroleum shipments from the Virgin Islands would not decline. More realistically, we could expect that future jobs and future ships would be needed because of the likelihood that less petroleum would be shipped. This would result in serious job and investment losses in the Virgin Islands.

Of equal importance to the volume of petroleum shipments from the Virgin Islands to the United States is the recently initiated revision of the Federal Energy Administrative Entitlement and Import Information. That is 41 F.R. 32, dated February 17, 1976.

Now, this effort to readjust the residual fuel markets is only recently underway and it will take months for the effects to be measured. It is apparent, however, that the action taken yesterday by FEA, could adversely affect the Virgin Islands economy and we believe that the double impact of reordering the entitlements and simultaneous loss of shipping exemptions could have a devastating effect on the Virgin Islands. If economic fairness dictates that enti-

tlements should be reordered, let that be done by the FEA. The FEA is really the proper source for petroleum market management.

For all the above reasons, we were strongly opposed to the enactment of S. 2422.

Senator LONG. How many additional permanent jobs—I am not talking about construction jobs—how many additional permanent jobs can Hess provide if they continue to expand as they are doing now? How many additional permanent jobs do you estimate for Hess?

Mr. ZEDER. If they continue to expand?

Senator LONG. Yes.

Mr. ZEDER. I have Chip Markell with me today. Perhaps he can answer that question.

Mr. MARKELL. Mr. Chairman, the figures we have are figures provided by Hess on past figures of employment. We do not have figures available as to possible expansion. So the figures that we provided in the supplement to our departmental report which has been provided to the committee are based on past history and give an indication of the——

Senator LONG. You can't assure us that Hess will provide one additional job; can you? I am familiar with some of these things. We have a big refinery at Baton Rouge, my home town. We used to have 9,000 employees. They used to push three times as much oil through that refinery as they did with 1,500. I have had people come to me with these good news announcements saying: "We have a $50 million expansion program" I ask how many permanent jobs will there be? And you always find out there will be 200 less. "But think of the jobs we will have building in the next 5 months." Well, that is fine, but when you get through you wind up with less jobs. Now, you wind up with 500 jobs here. Now, this Virgin Islands corporation, if you didn't put those jobs in there, where would they be otherwise?

Mr. ZEDER. Mr. Chairman, the proposed——

Senator LONG. Let me make it easier for you. They would be in the United States, would they not, on the gulf or east coast?

Mr. ZEDER. I don't believe I can speculate on that, Mr. Chairman. I know they would not be in the Virgin Islands.

If you are trying to build the Virgin Islands economy, we should try to find a way to see that about half of the jobs that would be used in repairing the ships and in building the ships that haul cargo to and from the Virgin Islands would be at the Virgin Islands; and if we help build a shipbuilding, outfitting, and repair facility there on the Islands, how many jobs would that provide for the Virgin Islands?

Mr. ZEDER. I don't believe we can speculate on that either, Mr. Chairman.

Senator LONG. You have 500 jobs here now, and we have a shipyard, at Avondale in our area, the payroll is about 5,000

Senator JOHNSTON. At least that.

Senator LONG. I think if you put in a repair yard it wouldn't be at all ambitious to project somewhere between 5 and 10 times the jobs you are talking about here if you just tried to see to it that the Virgin Islands could participate in the repairing, outfitting, and building of the ships to and from the Virgin Islands.

Now, that would be far better for the Virgin Islands than to try to take an advantage, a huge advantage that is involved in all this.

Now, I was told that the history of this Virgin Islands refineries goes back to various favors granted for some on the import quota, which was never intended. For example, I was told, and Mr. Hess was at that hearing when it was agreed under a previous administration, that they would authorize a refinery for Phillips on Puerto Rico. He walked out of that hearing and said, "Now, if Phillips gets set up there then I am going to have a refinery on the Virgin Islands." Do you know anything about that?

Mr. ZEDER. No, sir.

Senator LONG. Do you mind trying to find out?

Mr. ZEDER. Yes, sir, I will.

Senator LONG. Because it turns out, between the two favors granted that the one granted Hess was a great deal greater than the one they granted Phillips.

Now, that is not the kind of thing we had in mind when we passed that oil import quota system. We really had in mind that we would have the refineries and the production in the United States if we could arrange it that way. It is the failure to administer the act the way it was intended that we wind up at the mercy of the Arabs. But this refinery is the supreme example of the favors and advantages that were created and I doubt that it could stand thorough investigation as to the things that put all this upside down economics in place to begin with.

I would appreciate if you could provide for us what you can find out about this matter and, also, perhaps a little bit that hasn't been advertised up to now, such as how that permit came to be granted in the first place.

Mr. ZEDER. Which permit, sir?

Senator LONG. There is some scuttlebutt in the industry about how that Phillips refinery came to be on Puerto Rico and how this one came to be on the Virgin Islands.

Mr. ZEDER. Yes, sir.

Mr. MARKELL. We will be glad to provide that.[1] We have the records.

Senator LONG. There is a great amount of information in press accounts and in newspaper stories; and the various trade publications that I am sure your people know about through your press service.

Mr. MARKELL. Mr. Chairman, the point we want to make is that this trade was legitimately and deliberately fostered in the Virgin Islands because of the need to create new and stable employment in the Virgin Islands. They do compete with other non-American Caribbean island refineries. So, we have an established situation there with established employment and we don't want to do considerable damage to it. Now, that is the point we want to make.

Senator LONG. We will find out in due course if we want to get into how that refinery came to be there. But it would be a very interesting story if you get to the bottom of it. As a member of the Finance Committee, I was in on enactment of the law that permitted that refinery to locate in the Virgin Islands. Now, it was actually

[1] Material not received at time hearings sent to press July 27, 1976.

misadminstration that put that refinery there. I am not complaining about you personally, because it is not you, but your predecessors. But it makes more sense if you want to provide the jobs, to get a shipyard and repair facility, more so than it does to put the American refinery capacity on an island out there. If you had your way, that is where the whole refining industry would be located. How on earth can we compete domestically with that cost advantage? Would you mind explaining this?

Mr. MARKELL. We think this is a problem that the FEA, we think, is equipped to deal with, Mr. Chairman.

Senator LONG. They have made a small move—I would say they made a decent move in that direction; late, but welcome nevertheless.

It would seem to me that your people ought to recognize some of that facts of life yourself in terms of placing our refining capacity. Based on your statement, if you had your way, you would put the whole American refinery industry on the Virgin Islands, wouldn't you?

Mr. ZEDER. Mr. Chairman, if I had my way I would do everything I possibly could to help the economy of the Virgin Islands. And I welcome very much your offer of constructing a ship repair facility there. We will look into that. This would require a tremendous capital improvement program in an island now that is literally broke.

Senator LONG. Well, if a project is developed, a fair approach would be to work it out so they get about 50 percent of the business coming to and going from the Virgin Islands, that in itself would justify a very substantial investment. That would mean a lot more than these 500 jobs. That is the area you ought to be moving if you want to help the economy of the Virgin Islands; not to dislocate the entire American refinery industry over there to those small islands. If it ever came to the point where you had to have the energy, there is no way on God's green earth you could get it here in the United States if you have to anticipate that these industries might be needed to save this Nation in wartime. If that were the case, and you had some refineries knocked out, those refineries in the United States could be repaired and could be put to use to provide the United State with fuel. If our refineries are located on the Virgin Islands, you have the problem of then proceeding to get the fuel from there to the United States which might prove to be a completely insurmountable task.

How would you get the fuel to the United States if a Soviet submarine fleet is out there knocking off all the ships?

Mr. MARKELL. You still have to ship American oil from the gulf coast around the coast of Florida, so you still have to use ships.

Senator LONG. You can put it on barges and move it right up the Mississippi River and you can put it in pipelines. It doesn't take a great deal to convert gas pipelines to oil and push it through the pipelines. You can push it through the exisitng refineries and you can repair the refineries that you have if they get knocked out.

If you are on the Virgin Islands, though, you have the problem of getting the production from the Virgin Islands to the United States and that might just be more than you can handle.

In fact, you still have not suggested how you are going to get the ships in here from there if you have a Soviet fleet of good, modern subs between the two points.

Mr. ZEDER. Mr. Chairman, if I may say so, if we are in that posture, we are going to have a lot more problems that are more serious than that.

Senator LONG. That is just exactly part of the problem. You see you louse up your end of it and the other guy louses up his end of it, and we all suffer in the middle, and that is what we are trying to prevent.

Thank you very much.

Mr. ZEDER. Thank you.

Senator JOHNSTON. A couple questions, Mr. Chairman.

Mr. Zeder, I share with you your desire to help the Virgin Islands. But you said that the refining industry in the Virgin Islands has not increased its share of the market at the expense of American refineries. I think if you looked at the figures you will find that in the last 3 years that Virgin Islands refineries have increased their share of the market from 13 percent to 26 percent, all at the expense of American refineries.

Now, would you argue with those figures?

Mr. ZEDER. No, sir, I would not. However, I would welcome that as an interesting sign of free enterprise and competition. They have done an excellent job.

Senator JOHNSTON. It is enterprise and free enterprise because FEA saw fit to give $2.80 a barrel entitlement to Hess and on top of that you had something in excess of 60 cents a barrel because of this break, because of all the islands that the United States owns or operates or has as territories, this is the only one that has this special break where they don't have to employ American seamen and they don't have to use American bottoms.

This is the only one. Not Puerto Rico. Not Micronesia, not Guam nor the Pacific Territories. This is the only one.

Now, do they need $2.90 plus this 60 cents?

Mr. ZEDER. I know this, Senator, is that they do need all the economic help they can get. I just returned from the islands, I would like to submit some pictures for you to look at at the problems we have with the hospitals, with the schools, the roofs leak, the patients are standing in the halls. Their economy is in terrible shape. If we are looking down the road to a situation where their main source of income and their chances for future revenue which represents the Hess operation are jeopardized, I think that it is my responsibility charged with the duties of my office to be concerned about the Virgin Islands. To be particularly concerned about this situation.

Senator JOHNSTON. The Hess Refinery is not the main source of income in the Islands, is it?

Mr. ZEDER. For the Virgin Islands, it is the main source of revenue. In 1981 when their tax exemptions will expire, that appears at the moment to be the only way that we can see to supply funds on a loan basis to the Virgin Islands that we're right at the final stages of trying to wrap up now. That is the only collateral that they have. And to jeopardize that would be——

Senator JOHNSTON. That is not its biggest source of income such as the tourist trade; is it?

Mr. ZEDER. Yes, sir.

Senator JOHNSTON. How much was the Hess refinery worth to the Virgin Islands' economy last year?

Mr. ZEDER. The refineries last year, sir? They were under a tax exempt posture; and that exemption expires in 1981 sir.

At that time, it is estimated that some $100 million a year could conceivable come to the islands out of taxes from the Hess operation alone.

Senator JOHNSTON. You mean they have been getting all these fabulous benefits, the FEA breaks and all that—and they have not even been paying taxes to the Virgin Islands?

Mr. ZEDER. No, sir, they have been under the incentive program set up to bring industry to the Islands and they have a tax exemption again that expires in 1981.

Senator JOHNSTON. Well, I am surprised they didn't do better than 26 percent of the market. Just to double in 3 years with these kinds of incentives is moving pretty slow, it seems to me.

Mr. ZEDER. We will submit for you the payments in form for the record that Hess has paid to the economy of the islands.

Senator JOHNSTON. You see the trade-off is that you have taken it from somewhere else in the United States. That is clear. You don't have to be an expert to tell that.

But the bad part of the trade-off is that you get these non-American seamen operating these non-American ships that pay taxes to someone else and not to us, and there is your net loss, a net loss of some $61.3 million per year in balance of payments according to the Commerce Department.

It seems to me that is a pretty bad trade-off. I would suggest to you as excellent reading the statement of Mr. Blackwell, Assistant Secretary for Maritime Affairs from the Department of Commerce. I thought it was inarguable logic.

Thank you, Mr. Chairman.

Senator LONG. Yes.

Mr. MARKELL. May I comment on just one point? We have attached to our report a summary of payments made by the Hess Oil Virgin Islands Corp. to the Virgin Islands economy in various forms.

Senator JOHNSTON. Let me ask one more question, if I may, Mr. Chairman. The entitlement was $2.90 a barrel by estimation. Under the new FEA rule, it is $2.30 so you still have a 60 cent a barrel break for the Virgin Islands. It is also estimated that foreign shipping using American bottoms would cost less than 60 cents a barrel. Would you not estimate, therefore, that they ought to be on a competitive basis now if we pass this bill together with the new FEA rule?

Wouldn't we be in a competitive basis then in the Virgin Islands with domestic refiners?

Mr. MARKELL. We are competing with foreign refiners using foreign ships, so if you added on the additional cost of American shipping, it could well be they could not compete. We could not measure these specific impacts because it is speculative.

Senator JOHNSTON. According to our estimates, if I told you they were put on equal basis with domestic refiners, you wouldn't argue with that conclusion, would you?

Mr. MARKELL. I think the FEA would be the proper party to deal with that.

Senator JOHNSTON. I think the FEA meant to do that with its new rulemaking they announced.

Mr. MARKELL. But the FEA ruling has not taken into account impacts of S. 2422 and if it passed, they would have to reconsider their entitlements adjustment.

Senator JOHNSTON. I think they have done precisely that. We have been in contact with them and they can speak for themselves.

Mr. MARKELL. They can speak for themselves, but that is mv understanding in talking with FEA people.

Senator LONG. Let me make a point to you, if we gave to anybody the kind of compelling economic advantages that your Department plus the FEA has given to Mr. Hess on the Virgin Islands, it would dictate that that industry—I don't care whether it is a space shuttle or something to develop atomic science on the South Pole, you would have to locate on the Virgin Islands if you had that much economic advantage cranked into it as you have at that refinery there.

Now, I would just like for your people to submit to this subcommittee a list of studies that you have made of ways that the economic development of those islands might be encouraged with consideration of the skills, the natural advantages, and the cost to the taxpayers of this country, as well as the cost to the economy generally of bringing those things about. You ought to have plenty of that sort of thing in the Department. Do you have it?

Mr. MARKELL. Yes.

Senator LONG. Would that be the kind of thing you might recommend of submit to the Congress that we could do to help bring about this development? As I indicated to you, one of the most logical things I think of is they ought to have a ship repair facility for starters. Perhaps, they ought to build components parts or outfit ships.

If you fixed it up so some of those ships were American, fine.

Mr. ZEDER. Would you suggest we leave out our programs in that presentation for the increased activities and——

Senator LONG. No, by all means, submit them that don't make any sense as well as those that do.[1] I would like to have it both ways.

Mr. ZEDER. We feel it is a very important part of their economy.

Senator LONG. Thank you very much.

[The statement follows:]

STATEMENT OF FRED M. ZEDER, DIRECTOR, OFFICE OF TERRITORIAL AFFAIRS, DEPARTMENT OF THE INTERIOR

Mr. Chairman: We are pleased to appear before you and this distinguished Subcommittee today to express the views of the Department of the Interior on S. 2422 which would extend the coastwise laws of the United States to the U.S. Virgin Islands with respect to the transportation of crude oil, residual fuel oil and refined petroleum products.

I must make it clear that the Administration has not at this time cleared our position. However, the Department is strongly opposed to enactment of S. 2422.

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[1] Material not received at time hearings sent to press.

The bill would amend the Merchant Marine Act of 1920 to require that all shipments of petroleum from the Virgin Islands to the United States mainland be in American ships. The principal effect of this change would be to substitute shipping by American vessels for the substantial volumes of petroleum now carried by foreign vessels. Foreign vessels are considerably less expensive than American vessels. Oil transported by American ships costs substantially more than corresponding oil carried by foreign ships.

From the standpoint both of our energy responsibilities and of our stewardship of the Virgin Islands, we believe enactment of the bill would be undesirable. It would raise petroleum costs to American consumers and would injure the economic health and development of the Virgin Islands.

The statutory exception provided in section 21 of the Merchant Marine Act of 1920 excepting the Virgin Islands from the coastwise laws of the United States was a deliberate effort to assist the development of the Virgin Islands economy through encouragement of the international shipping trade. The exception was the result of efforts by this Department and a recognition by the Congress that, while the unique geographic location of the Islands lends itself to shipping, tourism, and other shipping-related enterprise, the limited internal resources of the Islands provide few alternatives for development. Free access to shipping was and is a necessary cornerstone of the Virgin Islands economy. Implicit in this is the need to be able to compete on equal terms with other comparably situated, non-American Caribbean Islands.

The statutory exception was created by the Act of April 16, 1936, (P.L. 74–520, 47 Stat. 1207). Previously, exemptions from the Merchant Marine Act for the Virgin Islands had been provided through periodic Executive orders, pursuant to authority provided in section 21, but the obvious need for maintaining the exemption, coupled with growing doubt over the continued reliability of the Executive order approach gave rise to the statutory provision.

In addition to encouraging shipping, the Merchant Marine Act, exemption has proven to be helpful, when combined with other inducements, both Federal and local, to encourage industry to locate in the Virgin Islands. This is a vital element in the Islands' economy because it lends stability and diversity to the Islands' business, much of which is tied to tourism and is seasonal and subject to volatile fluctuations.

In November of 1967, the Secretary of the Interior Stewart Udall announced a plan whereby the Hess Oil Company would build a large refining complex on the Island of St. Croix. The Secretary announced that "the welfare and economic health of the Virgin Islands was a major concern of this Department."

The Hess operation has proven to be a substantial economic asset to the Islands. According to figures provided by Hess, the total amount of payments by the company into the Virgin Islands economy, in the form of wages, expenditures, taxes, royalty payments and other payments, over the ensuing life of the operation, has totalled $380 million to date. Direct employment, through combined refinery and construction operations has reached as high as 4,525, out of a total Virgin Islands work force of about 40,000, and as of December, 1957, the number stood at 2,456, the drop reflecting large cutbacks in construction. As of December, 1975, an estimated 300,000 barrels daily of residual fuels alone were shipped by Hess from the Virgin Islands to the United States.

The trade built by Hess has not been at the expense of mainland domestic refineries, but rather has come from increased petroleum demand on the East Coast, particularly for residual fuels, and through competing with foreign-based Caribbean refineries serving the same trade. (According to the FEA, between 80% and 90% of the East Coast residual fuel supply over the past decade has come from Caribbean refineries.)

Historically, it should also be noted that American vessels have never had a substantial share of this Caribbean tanker trade.

The price differential between United States' and foreign bottoms, shown on an attached chart, has recently ranged from 25¢ to 65¢ per barrel of oil shipped. Measured against the volume of business, the cost impact for petroleum shipped from the Virgin Islands to the U.S. mainland would be substantial—in the tens of millions of dollars annually—if the Merchant Marine Act exemption were lost and this petroleum were required to ship in American ships.

While refinery shipments from the Virgin Islands enjoy a rate advantage over mainland refineries, they have no shipping advantage over shipments from foreign refineries in the Caribbean, i.e., in the Bahamas (Nepco), Venezuela, Aruba (Exxon), Curacao (Asiatic, a Shell affiliate), Trinidad and others (Texaco), with whom it competes for business. Those foreign refineries also ship in foreign ships.

Notwithstanding the Caribbean refinery advantage in shipping costs, it should be noted that many Caribbean oil companies, including Hess, have suffered reductions in business and income in the last year. Contemporaneously, unemployment in the Virgin Islands is at a level of about 10%.

The potential economic impact of S. 2422 on the volume of Hess business, and consequently on the Virgin Islands economy, is clearly substantial.

Of equal importance is the potential negative effect the bill would have on other economic development plans for the Islands.

For example, we understand that the Virgin Islands Refinery Corporation is planning to locate a refinery on St. Croix. This refinery would make a substantial additional impetus to the conomy, with as many as 3,000 jobs during construction, 500 permanent jobs, and over $8 million in revenues to the local government in taxes. S. 2422, if passed, could have the effect of a complete reassessment of plans to locate the refinery in the Virgin Islands.

We recognize that S. 2422 would be of benefit to part of the American Merchant Marine, but there benefits are relatively limited and would be obtained on the basis of unjustified increases in consumer costs and injury to the Virgin Islands economy.

It should be kept in mind that refining and other business on the Virgin Islands is American business. Employment is American employment. Monies generated by the business are generated in the American economy.

We do not intend to say that bolstering the American Merchant Marine is an undesirable purpose, or even a less desirable purpose than nurturing the Virgin Islands economy. We do not believe, however, that it would be fair and wise policy to shift the necessary trade that is already established, and was deliberately and recently fostered in the Virgin Islands, in order to create new and uncertain trade in another sector.

Assuming the Virgin Islands petroleum trade would remain at current levels, projections by the Maritime Administration put the number of jobs that would be created by S. 2422 at about 1400. An estimated 26 vessels would be employed in this trade. Inasmuch as there are about that number of U.S. tankers now out of service, there might be some reactivation of ships but the immediate impact of this bill on U.S. shipbuilding would appear to be negligible. The important point, however, is that these projections are based on the assumption that petroleum shipments from the Virgin Islands would not decline. More realistically, we could expect that fewer jobs and fewer ships would be needed because of the likelihood that less petroleum would be shipped. This would result in serious job and investment losses in the Virgin Islands.

Of equal importance to the volume of petroleum shipments from the Virgin Islands to the United States is the recently initiated revision of the Federal Energy Administration's entitlements and import fee program (41 F.R. #32, Feb. 17, 1976). This effort to readjust the residual fuel market is only recently underway and will take months for the effects to be measured. It is apparent, however, that this effort might adversely affect the Virgin Islands' economy and we believe that the double impact of reordering of entitlements and simultaneous loss of the shipping exemption could have a devastating effect on the Virgin Islands. If economic fairness dictates that entitlements should be reordered, let it be done by FEA. The FEA is really the proper source for petroleum market management.

We should also mention that S. 2422 is not the only attempt to erode and whittle away at necessary and deliberately established supports of the Islands' economy. There is also proposed legislation now pending that would limit export wool quotas (H.R. 8124) for the Virgin Islands wool trade.

For all of the above reasons, we are strongly opposed to the enactment of S. 2422.

Senator LONG. Next we will call Mr. Alfred Maskin, American Maritime Association.

STATEMENT OF ALFRED MASKIN, EXECUTIVE DIRECTOR, AMERICAN MARITIME ASSOCIATION

Mr. MASKIN. Mr. Chairman, I have submitted a written statement to the committee which I would like to have included in the record.

Orally, I would like to say that the American Maritime Association supports this legislation.

Briefly, our support of the legislation is based on two propositions —first, that an American-flag merchant fleet, including a tanker fleet, is essential to our national defense and security; and second, that the best way to get a fleet commensurate with our economic and security needs is to provide it with cargoes that are protected from foreign-flag competition.

Now, I don't want to go into detail about these propositions at this time, because I believe their validity has been established at the hearings on the Energy Transportation Security Act of 1974, and the oversight hearings which the House Merchant Marine Committee is now carrrying on.

However, I would say briefly that during the oversight hearings the testimony of the Defense Department and the Maritime Administration both made it plain that we now have a fleet which is only marginally adequate to even limited military needs, primarily in a NATO war, and woefully inadequate to our broader national security requirements.

With respect to the second proposition, that the best way to get the fleet we need is through reserved cargoes, I think all we have to do is to cite two very simple facts.

First is the fact that since we have had the 1936 act, which provided the subsidy program, direct subsidies have sustained about one-third of the merchant marine, while reserved cargoes, either under the Jones Act in the domestic trades or cargo preference laws in our foreign commerce have sustained the other two-thirds of the fleet.

Second, that as a result of providing the fleet with these reserved cargoes, the unsubsidized operators have been able to pump more of their own money into sustaining and revitalizing the fleet than even the subsidized lines.

For example, data which I have compiled and which I would be glad to submit to this committee, shows that during the past 10 years unsubsidized operators—almost entirely because they felt that there was a promise of reserved cargoes that wouldn't be subject to foreign-flag competition—have invested about $2 billion of their own money in building new ships and reconstructing existing ones, compared with less than 1½ billion for the subsidized liner fleet, if we take into consideration their subsidy.

And it would be less than that if we take into consideration the tax advantages which the unsubsidized operators didn't have during most of that time.

In fact, even if we look at only the past 5 or 6 years since the passage of the 1970 act when we gave subsidies to the bulk carriers—even during that period, and based primarily on their expectations that Alaska was going to produce cargoes—operators building with-

out subsidy put more money into building up the fleet than the subsidized operators, including those being subsidized for tankers and bulk carriers.

So, these two facts show you how vitally important reserved cargoes are to the build-up and the maintenance of the American-flag fleet.

And in view of that fact, it really is almost shocking that we have an area right on our own doorstep, the Virgin Islands trade, which is a part of U.S. domestic commerce, and where cargo certainly should be reserved to American-flag ships; and yet foreign-flag ships can operate with impunity within this restricted area, and take the cargoes away from American-flag ships.

So, I certainly hope that this committee will favorably report this bill and correct that situation.

I want to note briefly that there has been some talk here about the costs of the program, and I want to say that even if we take the figures that have been submitted to this committee by Mr. de Lugo, the Virgin Islands delegate, we see that the additional costs of using American-flag ships in this trade would really be miniscule in terms of the cost of the commodity.

I might point out, as we did in our written statement, that, for example, Mr. de Lugo showed in the table which he submitted to this committee on February 25 that the average spot differential in costs arising from the use of American-flag vessels over foreign-flag vessels would have amounted for the 9 months ending January 31, 1976, to 43 cents a barrel for dirty cargo and 22 cents a barrel for clean.

Now, this represents a weighted average on actual shipments reported of about 35 cents a barrel or eight-tenths of 1 cent per gallon.

Even if we take the high-point spot differential of about 60 cents a barrel, this is certainly, in terms of percentages, an infinitesimal part of the $13 or more a barrel that they are paying in New York for residual fuel oil and refined products.

Moreover, I might point out that Mr. de Lugo's tables are based on the use of ships of 30,000 to 40,000 tons in that trade. And certainly larger and much more productive ships can be used and will reduce that cost differential. For example, in the AMA fleet we have 30 tankers now, and half of these are 50,000 tons or better, ranging up to 120,000 tons. They can be used at rates which would cut down this differential.

Finally, I want to make this point, Mr. Chairman, that as I said, we very badly need to build up our fleet for purposes of defense. Now, the Virgin Islands, of course, are a part of our national set-up, they depend upon us for their defense, and I certainly think they should make their contribution to the build-up of the fleet.

Thank you.

Senator LONG. Yes, sir.

Senator JOHNSTON. No. I think he said it very well, Mr. Chairman.

Senator LONG. Thank you very much for your statement.

[The statement follows:]

STATEMENT OF AMERICAN MARITIME ASSOCIATION

Mr. Chairman and Members of the Subcommittee: I am Alfred Maskin, the Executive Director in Washington for the American Maritime Association, which consists of 37 companies operating 104 American-flag merchant ships in the foreign and domestic commerce of the United States.

Of these 104 vessels, 30 are tankers totalling approximately 1.5 million deadweight tons.

Although it is our tankers which would directly benefit from the passage of S. 2422, I am here today in behalf of the entire AMA membership to support this legislation.

Our support for this bill rests on grounds broader than the particular trade immediately affected, and independent of the local circumstances. These grounds relate to the national security.

In the course of hearings conducted in order to explore the condition of the merchant marine halfway through the 10-year program laid down by the act of 1970, the House Merchant Marine and Fisheries Committee has recently heard testimony from the Department of Defense and the Department of Commerce respecting our present security posture.

It is a fair summary of this testimony that: (1) Our dry-cargo freighter fleet is several hundred vessels short of self-sustaining adequacy, and even when augmented from NATO, would be "marginally adequate to meet the military tnd economic support objectives under expected conditions of high shipping attrition" in a European war, for which alone the NATO commitment is valid; it is admitted that it would be frankly preferable to have at least 900 to 1000 ships under American flag. (2) Our dry-bulk fleet is so small as to occasion serious uneasiness in contemplation of a long war. (3) Our tanker fleet designed for foreign operation, which is to say, the subsidized tanker fleet, will amount to about 5 million tons by 1980, a figure that must be reduced 10% as a result of contract cancellations during the last year; yet maintenance of imports at no higher than their present level of 6 to 7 million b/d, which according to all official sources is the lowest quantity essential to maintain the economy during the remainder of the century, would require 36 million tons on present patterns of supply; most authorities consider it unlikely that so rigorous a ceiling can be maintained, and continue to predict minimum imports by 1980 in the range of 10 to 12 million b/d. The lower of these figures would require 61 million tons of shipping.

The investigation of the House Committee was impelled by the realization that the subsidy program of the 1970 act has come to a full stop. The previous cycle of subsidized liner replacements has been substantially completed, with a considerable hiatus before the next round; and new orders for tankers, by far the largest element in recent construction, have dwindled to zero in the last two years—less than zero, in fact, since there have been a number of cancellations of previous firm orders.

The reasons is of course the collapse of the world tanker market, resulting in part from cyclical recession but aggravated and deepened by the immense jump in oil prices. These elements combined to bring about not merely an arrest of the -historical growth pattern of oil consumption in the great industrial economies but an absolute decline of 3 to 5 percentage points. In consequence, at the end of February, 45 million tons of tankers were laid up or had been inactive for periods exceeding two months, 516 vessels; scrappings were running at an annual rate of 10.8 million dwt; well over 50 million tons of vessels under contract for construction had been cancelled since the middle of 1974 or were reported in the process of negotiation for cancellation. Of the total operating fleet, now about 265 million tons, the current estimated surplus is above 100 million tons. It is generally expected that before a new equilibrium of supply and demand is reached, the projected world tanker fleet in existence or under contract for construction at the beginning of the crash will eventually decline by upwards of that amount through cancellations, conversions to other types, and scrappings.

These tendencies have been paralleled in the American subsidy program, which designs to equip operators to compete in the world market. Since subsidy merely equalizes foreign and domestic costs of construction and operation, it is the world market that must provide profitable trading opportunities once

the cost disadvantages have been offset. When foreign operators are undergoing so gigantic a contrtction, it is clear that subsidy cannot produce ships under American flag.

Thus, at the very moment of the downswing which for the time being renders the subsidy mechanism useless, our discrepancy in defense glares out.

The Congress has repeatedly in the last several years weighed and rejected the policy of reliance upon foreign sources for the shipping deemed essential for defense. Such a policy commends itself progressively less persuasively as the political character of the world changes, and these resources grow more concentrated in the hands of interests already shown to be at variance with our own.

Nor can it be overlooked that the web of interlocking cargo preferences that these countries are weaving around their fleets and the oil they control necessarily tends further to diminish the future effectiveness of subsidy as an element in our own defense, since a mechanism designed to meet purely economic competition is not calculated to overcome conditions created by political forces.

The measure that Congress has previously favored for meeting these problems is cargo preference for American vessels. In economic terms, carving out a separate market has counter-cyclical tendencies; on the other hand, it is the one way to set up counter-political forces.

In greater detail, I argued the case for this approach before the House Committee not long ago, and I should be glad to furnish a copy for the record. What I think most significant for present purposes is that the strongest foundation for the American tanker fleet has been provided by the protected domestic trades. Between 1970 when construction subsidy first became available and May 1975 the total fleet delivered and on order under that program amounted to 4.9 million dwt of which, after cancellations of approximately 0.5 million dwt, there remained 3.4 million dwt undelivered as at January 1, 1976). During the same period unsubsidized tankers amounting to 4.8 million dwt were placed (of which 2.3 million dwt are still under construction). The rest of the existing fleet of course came into being without subsidy.

It seems probable that almost all the unsubsidized tonnage during this time frame has been intended for the Alaska trade. I have on previous occasions explained to the Committee that other domestic tanker markets have been declining or are disappearing; the only significant new opportunity, although deferred for several years, has none the less stimulated this substantial program of new construction of nearly 5 million tons persisting in the face of the world depression with substantial new orders in 1974 and 1975, when subsidized new orders, like the whole of the foreign market, came to a stop.

Here then is a proof that cargo preference can provide a reliable foundation even in the volatile tanker area.

It is against this background that our Association approaches the problem of the Virgin Islands. For the time being, efforts to expand cargo preference into our foreign trade have been defeated despite the will and decision of the Congress. But the Virgin Islands are a part of the United States; their defense is a part of national defense; and it is very difficult to see why in principle they should not make their contribution to the national instrument of defense at sea by joining the protective network by which the bare nucleus of that instrument—and it is no more than that—is enabled to live. At the rate of 400,000 b/d, the level of shipments to the mainland reached in the first nine months of 1975 in the steady growth of this trade, that contribution would sustain 700,000 dwt of American shipping per annum. That is about 7½% of the total fleet, and is equivalent to 70% of the tonnage laid up as reported by the Maritime Administration at the beginning of the year.

Based on figures furnished this Committee by Delegate De Lugo in his testimony of Feburary 25, the average spot differential in costs arising from the use of American-flag vessels over foreign would have amounted, for the nine months ending January 31, 1976, to $.43 bbl for dirty cargo and $.22 bbl for clean. This represents a weighted average on actual shipments reported of about $.35 bbl or $0.008 gal.

Even at the high-point spot differential of, say, $.60 bbl, the cost does not seem large in the scale of oil sold at New York at $13 bbl or more, both for residual oil and clean refined products.

Moreover, this differential can almost certainly be hedged by appropriate time charters and the employment of larger vessels than those assumed, which were about 30,000–40,000 dwt whereas ships double that size are efficient for the trade.

I must say that we have given careful consideration to the question whether extension of the coastwise laws to the Virgin Islands might fail to benefit American shipping by any tendency to displace business to other foreign sources in and about the Caribbean. In our opinion, these highly efficient installations will continue to be competitive with all other sources, at the same time that the Virgin Islands will thus make their measurable contribution to national defense.

Otherwise, there will continue the anomaly of a significant exception to historic laws that Congress has thought should even be extended to foreign trade.

With your permission, however, I would prefer to make a separate, brief oral statement; and I would begin by noting that the American Maritime Association represents the operators of 104 American-flag merchant ships in the foreign and domestic commerce of the United States.

Of these 104 vessels, 30 are tankers totalling 1.5 million deadweight tons and constituting over one-third of the independent U.S.-flag tanker fleet—that segment of the fleet which is not owned and operated by the major oil companies.

It is our tankers, of course, which would directly benefit from the passage of S. 2422.

Nevertheless, all of AMA's companies recognize the extreme importance of the Jones Act and other cargo preference measures to the U.S.-flag merchant marine; and I am here today, therefore, in behalf of our entire membership, to support this bill.

Briefly, our support of this legislation is based upon two propositions—first, that a vigorous and viable American-flag merchant fleet, including a tanker fleet, in addition to being a valuable economic asset to the country, is essential to our national defense and security; and second, that such a fleet can best be created and sustained through the provision of cargoes protected from foreign-flag competition—either through the Jones Act in the domestic trades or through the various cargo preference laws in foreign commerce.

I will not go into detail at this time, since I believe that the validity of both of these propositions has been established in the extensive hearings on the Energy Transportation Security Act which were held by both chambers in 1974, and in the oversight hearings on our maritime programs which the House Merchante Marine Committee currently is conducting.

I will say briefly, however, with respect to the first proposition, that the testimony given during the oversight hearings by representatives of both the Defense Department and the Maritime Administration has made it clear that our U.S.-flag merchant fleet, including our tanker fleet, is only marginally adequate to even limited military needs, and woefully inadequate in terms of our broader national security requirements.

With respect to the second proposition, regarding reserved cargoes, I believe that the validity of this proposition easily can be established by noting two facts—

First, that while during most of the period which has elapsed since the maritime subsidy program was established by the Merchant Marine Act of 1936, direct subsidies have sustained about one-third of the U.S.-flag merchant fleet, while reserved cargoes carried under the Jones Act in the domestic trades, or under the cargo preference laws in the foreign trades, have sustained the other two thirds.

(Indeed, I might note parenthetically that these preference cargoes have not only sustained our unsubsidized fleet but to a very substantial degree our subsidized vessels which, by their own admission, would have been hard pressed to survive in many trades without such cargoes.)

Second, that such reserved cargoes have not only enabled us to sustain a fleet in being which otherwise would not have been available for such contingencies as Vietnam, in which unsubsidiized vessels provided the major part of the surge shipping capacity required for our military operations, but have enabled unsubsidized operators to pump more of their own money into rebuild ing and revitalizing our merchant fleet that have the subsidized lines.

Data which I have compiled, in fact—and which I would be glad to submit for the record, if you so desire—show that during the nearly 10 years which elapsed between mid-1966 and the end of 1975, unsubsidized operators invested over $2 million of their own money in building new vessels and reconstructing existing ones, while the investment of the subsidized lines—if we taken into account their subsidy—was about $1.4 billion, in fact less if we consider the tax advantages which were not available to unsubsidized operators during much of this period.

In fact, even if we look at only that period since passage of the Merchant Marine Act of 1970 made direct subsidies available to U.S. tankers and bulk carriers as well as liners, we see that, in terms of their own money, the investment of subsidized operators, including the operators of subsidized tankers and bulk carriers, has amounted to some $658 million, while the investment of unsubsidized operators—based entirely on their expectation of reserved cargoes, principally from Alaska—has been about $724 million for the same period.

We believe that the two facts I have just cited establish conclusively that the reservation of cargoes has been more important in creating and maintaining an American-flag merchant fleet than even the provision of direct subsidies.

In view of this, it is distressing to note that the Jones Act does not apply to a significant sector of our domestic shipping—which our first Congress, as one of its first acts, reserved to U.S. vessels—and that foreign-flag vessels are permitted to operate within our own yard, and to reap the benefits of the Virgin Islands trade.

The enactment of S. 2422 will not, of course, be a panacea for the U.S.-flag tanker fleet; it will not solve all of the problems of the fleet. And if we are to have a fleet more responsive to our economic, defense and security requirements, the need for a broader approach to the problem still will exist.

In this connection, I might observe that we were, of course, extremely disappointed when, after both houses of Congress has passed the Energy Transportation Security Act, the President vetoed it.

After that, as you know, the new tanker construction program ground virtually to a halt and over 1 million tons of the existing fleet—including a number of carriers built with subsidy—found itself in lay-up from which it was rescued only when Russian grain cargoes became available—indicating again, incidentally, that it is cargo, not subsidy, which puts ships to work.

There seems to be little promise that legislation such as the Energy Transportation Security Act will be enacted during the remainder of this Congressional session; and even if an attempt is made to achieve it during the next session, we must remember that the new Congress will not convene until January, and it is most likely that before a bill could be enacted, at least the major part of the winter would be over, and the industry would again be drifting toward the summer doldrums.

The passage of S. 2422—which, as we noted in our written testimony, would provide employment for some 700,000 tons of U.S. tankers, or about 7½% of the total fleet—thus is of critical importance, and we sincerely hope that this Subcommittee favorably will report the bill.

The cost of the program, as we also noted in our written testimony, even accepting the figures submitted to the Subcommittee by Mr. de Lugo, the Virgin Islands delegate, would be miniscule in terms of the cost of the commodity.

Moreover, as we pointed out, it is likely that greater economies could be obtained through the use of larger and more productive vessels than is indicated here. The table which Mr. de Lugo has provided, for example, is based on the use of ships in the 30,000 to 40,000-dwt class, while the tankers in the AMA fleet average about 50,000 tons, and nearly half of the ships in the fleet range from almost 50,000 tons to over 120,000 tons.

In any event the costs of the program—if indeed, there are any at all—would be far outweighed by the many benefits that would derive from the enactment of this legislation.

Senator LONG. Next we will hear from Mr. O. William Moody, administrator, Maritime Trade Department, AFL–CIO.

You will be recognized for 10 minutes, sir.

STATEMENT OF O. WILLIAM MOODY, ADMINISTRATOR, MARITIME TRADES DEPARTMENT, AFL–CIO

Mr. MOODY. Mr. Chairman, I——

Senator LONG. Maybe you can read your statement in less than that.

Mr. MOODY. Yes, sir.

Mr. Chairman, I am appearing as you said as administrator, Maritime Trades Department, and I am also appearing here as Washington representative of the Seafarers International Union, and I want to thank you for giving us the opportunity to express our views on this bill.

With your permission, Mr. Chairman, I will offer the statement for the record and just make a few comments on it. It is a brief statement.

Since the Arab oil boycott and the increase in world oil prices, as you know, the bottom has dropped out of the world tanker market. The result of that is that we now have as of last week 17 tankers laid up and it's run variously from 20-odd to 17, depending on how much grain movement we might have at any one time.

When you get away from that cold statistic we are talking about a good many American seamen laid off, we are talking about shipyard workers who are going to be unemployed because there are no orders for tankers, and there have been some canceled. Seagoing labor and shipyard labor and other labor associated with the industry are feeling the effects of this situation.

Now, this bill, S. 2422 in our opinion would help correct the job situation. I would also provide greater security in time of emergency when we have to rely on getting the oil from the Virgin Island because at least we would have our own ships to depend on.

It would ultimately result in jobs for U.S. shipyards.

We see in the short-term it could mean jobs for 1,400 American seamen and when we say American seamen, we are talking about Virgin Islands seamen. Since we first got into the Puerto Rican trade as the result of operation of American flag ships to Puerto Rico there has been a substantial number of the seamen who operate those ships who are residents of Puerto Rico.

We are convinced that your estimate of half the jobs being available to the Virgin Islanders would be greater than that. When I say we, I am referring to the Seafarers International Union. we have a hiring hall presently in operation on the Virgin Islands and we devote our energies to developing jobs for the Virgin Islands.

To that extent, probably from the job standpoint, we would be more beneficial to the islands than the refineries. But the refinery, of course, would have to remain in operation to keep those jobs flowing.

Mr. Chairman, in my prepared statement, I have referred to the projected rulemaking in FEA. I read one of the newspapers this morning that said that that is no longer projected. It became a matter of reality yesterday.

If I understand the rulemaking on the basis of published reports, there is still some slack in the economic advantage for the increased cost of moving this on an American flagship.

So, we don't—in light of that, we don't think it is likely that there would be any adverse impact on consumers if S. 2422 is enacted and we know positively that it would certainly product major benefits in terms of employment.

In conclusion we strongly support the enactment of this legislation, Mr. Chairman, and we hope it moves along in due course.

Senator LONG. What you are saying here is that there would be at least half of those badly needed jobs would be Virgin Islands jobs, half of that 1,400, isn't that correct?

Mr. MOODY. That is correct.

Senator LONG. And that is more than the whole new refinery would provide on a permanent basis, isn't that correct?

Mr. MOODY. That is correct.

Senator LONG. In addition to that, if I were Governor of the Virgin Islands or was one of the responsible people looking after their interest, I would try to see to it that we get about half that ship repair and outfitting jobs to outfit the ships on the Virgin Islands? If you are not big enough to begin with a dry dock, you can start out doing the ship repair work which can be done without having a dry dock where you just get up on top of the ship and you do the repairs above the hull. I saw a TV ad by EXXON the other day indicating now they can even send a diver down and take the barnacles off the side without ever putting the ship in the dry dock.

If you can do that kind of thing, about the only thing you need the dry dock for is just to put a patch on a hole in the side.

Now, there is great potential, and the Virgin Islands ought to be looking to this potential, to establish a shipbuilding and ship outfitting and repair facility, and that would mean the rule of thumb being if you get in on this shipbuilding in the way you ought to, my impression is that between 5 and 10 jobs, in that ratio about, for every job that there is for manning them.

What is your impression on that?

Mr. MOODY. My impression is when you take into account all the jobs that are generated in manufacturing the materials that go into the ship as well as building the ship, Senator, that the shipbuilding job ratio to seagoing operational jobs are much higher than that.

Senator LONG. More than that?

Mr. MOODY. Yes, sir.

Senator LONG. Where would you put it?

Mr. MOODY. I would put it—well it would be hard to say off the top of my head. I would like to submit some figures on that for the record.[1]

We talk in terms of hundreds of thousands of man-hours when we talk about a shipbuilding program.

Senator LONG. Right, but as I have indicated to you, you don't necessarily have to have a dry dock. If someone wanted to help the Virgin Islands to provide off-season employment for their people or even full-time all year around employment, you say it is safe to think of the Virgin Islands having at least more than half or at least 1,400 badly needed jobs. If you take a 10–1 multiplier, there are another 7,000 jobs that the Virgin Islands ought to be going after. They can do that without dislocating the refinery capacity of the United States.

Mr. MOODY. I believe they could, yes, sir.

Senator LONG. Thank you very much.

Mr. MOODY. Mr. Chairman, I would like to give you a case in point. Right there in the Port of New Orleans, Delta Steamship

[1] Material not received at time hearings sent to press, July 27, 1976.

Company operates its own ship maintenance facility. Our union has a collective bargaining agreement there, and everything short of major repairs is done while those ships are in port by these Louisiana people hired to do that work. The same thing could be taking place in the Virgin Islands.

Senator LONG. Would you mind being a little more explicit? I think that is important and I am not sure I understood. Would you just explain how that works?

Mr. MOODY. The way it works is when the ship comes into port, there is a standby crew of people who are skilled in all the things that go into the kind of maintenance to a ship that can be done without putting it in dry dock.

Senator LONG. Are those individuals of the Seafarers Union or some other people?

Mr. MOODY. Well——

Senator LONG. Is that part of the union there?

Mr. MOODY. That is part of the Seafarers Union, but they are shoreside people, they have all been to sea at one time or another, and they are familiar with these functions. They do painting, electrical repairs, they do welding and things of that kind when the ship comes in. That kind of maintenance work in the last analysis provides employment for Louisiana people, employment for members of our union, and also saves the management considerable money because it reduces their lost time in shipyards and keeps their shipyard repair bills to major items.

Senator LONG. How do those jobs compare in a ratio with the number of jobs aboard the ship itself?

Mr. MOODY. Well, you don't really have that kind of a ratio that we have been talking about cranked into those jobs.

Senator LONG. I know, but how do the numbers compare?

Mr. MOODY. I would say about twice the number of one crew because you see these men are here all the time working on a ship as it comes in.

Senator LONG. So this thing of removing the barnacles from the hull and all that, and repairing the equipment and all that, those positions could all be jobs that the Virgin Islands could hope to get, but they are not going to get them if Mr. Hess has his way, are they, because those jobs will be where you can get them cheaper.

Mr. MOODY. That is right.

Senator JOHNSTON. Mr. Moody, we are talking about 1,400 jobs. What is the average payroll for the 1,400 jobs?

Mr. MOODY. Well, I'll have to do a little arithmetic. I can't do that one in my head.

Senator JOHNSTON. That is all right. Maybe you can supply that for the record.

Mr. MOODY. I would be happy to.[2]

Senator JOHNSTON. What is the average seafarer wage?

Mr. MOODY. Depending on the rating, the average unlicensed seafarer will make $15,000 a year, I would say. The average licensed person, you can ask Mr. Calhoun about this, I understand he will

[2] Material not received at time hearings sent to press, July 27, 1976.

testify later on, I guess that would run $30,000 a year, somewhere in that neighborhood.

Senator LONG. Those are the wages Mr. Hess doesn't want to pay people in the Virgin Islands, I take it, too, right?

Mr. MOODY. We are having some organizational difficulty with him now, trying to get his wages up.

Senator JOHNSTON. Is that $21 million a year then for those jobs or is that $2 million?

Mr. MOODY. $21 million doesn't sound like too much to me, Senator but I would like to run it out to be accurate.

Senator JOHNSTON. Those are just seamen. In addition, you have the barnacle scrapers and the others.

Mr. MOODY. That is right.

Senator JOHNSTON. In terms of economics, I think it is just absolutely unarguable that this bill is in the interests of this country. I think you can also show that Hess can survive with only a 60 cent entitlement because he is only going to have to give up probably 35 cents a barrel to pay these American seamen as opposed to foreign seamen.

Thank you, Mr. Chairman.

Mr. MOODY. I would like to comment, too, that with encouragement of use of American flag ships in this trade, we wouldn't have to wait until 1981 to start realizing taxes out of it because we would generate substantial income taxes from the wages of the seamen and the other people who are employed in this enterprise.

Senator JOHNSTON. Thank you.

Senator LONG. Thank you very much, Mr. Moody.

Mr. MOODY. Thank you very much, Mr. Chairman, and Senator Johnston.

[The statement follows:]

STATEMENT OF O. WILLIAM MOODY, ADMINISTRATOR, MARITIME TRADES DEPARTMENT, AFL–CIO

Mr. Chairman, on behalf of the Maritime Trades Department, AFL-CIO I wish to convey to you our appreciation for the opportunity to express MTD's support for the bill. S. 2422 introduced by Senator Johnston.

As you know, in the aftermath of the 1973 Arab oil embargo with its resultant increases in oil prices, the upward trend that previously had characterized the world oil trade came to an abrupt halt. Worldwide demand for tankers dropped precipitously.

This trend resulted in a drying up of the tanker market with, at one point, over 30 U.S.-flag ships being placed in lay-up. While the number of ships in lay-up as of March 23, 1976 had been reduced to 17 as a result of participation in Russian grain shipments, this is obviously a temporary phenomenon. Also, at least 9 orders for the construction of US.-flag tankers have been cancelled.

As noted in the International Economic Report of the President transmitted to Congress just two weeks ago on March 16, ". . . the independent tanker operators and the *seagoing labor force* are feeling the effect of the depressed world wide tanker market." (Emphasis Supplied)

Enactment of the bill, S. 2422, Mr. Chairman, would have at least a partial salutary effect upon the depressed U.S.-flag tanker market. The bill would remove the present exemption enjoyed by the Virgin Islands to our coastwise laws with respect to the transportation of crude oil, residual fuel oil, and refined petroleum products. The result would be the employment of idle U.S.-flag tanker tonnage, and most important, about 1,400 badly needed jobs for American seamen. Enactment of S. 2422 would also result ultimately in jobs in U.S. shipyards and related industries.

If S. 2422 is enacted, Mr. Chairman, residents of the Virgin Islands can be expected to be primary beneficiaries of its employment benefits. The Seafarers' International Union maintains an office and hiring hall in the Virgin Islands. Based on our experience in the Puerto Rico trade where a substantial percentage of seamen employed are residents of Puerto Rico, we would anticipate that S. 2422 would result in substantial seafaring employment opportunities for Virgin Islanders.

We would like to note that enactment of S. 2422 probably will not result in increased prices for consumers. As you know, the Federal Energy Administration is presently engaged in a rulemaking proceeding the purpose of which is to reduce or eliminate the unfair price advantage enjoyed by the Amerada Hess Company refinery in the Virgin Islands. That price advantage is greater than the increased cost of utilizing U.S.-flag ships for transport of petroleum products from the Virgin Islands to the U.S. mainland. We believe a sound first step in restoring competitive equity would be to end the coastwise laws exception for the Amerada Hess refinery, a competitive advantage which is enjoyed by no other refinery located on U.S. soil. If that step is not taken, FEA will simply be required to compensate in its rulemaking for the continuance of the coastwise laws exception. Thus, it is likely that the impact on consumers will be the same whether or not S. 2422 is enacted. The same cannot be said, however, with respect to employment considerations which clearly favor enactment of S. 2422. Incidentally, even if the FEA rulemaking were not in process or did not have that result, the increased cost to petroleum product consumers would be slight. Moreover, the MTD is unaware of any evidence showing that Amerada Hess has passed on to consumers its savings resulting from the carriage of this trade on foreign-flag vessels.

In conclusion, Mr. Chairman, the Maritime Trades Department strongly supports and urges prompt enactment of S. 2422 providing that the coastwise laws of the United States *shall* extend to the Virgin Islands with respect to the transportation of crude oil, residual fuel oil, and refined petroleum products.

Senator LONG. Now, we will call Dr. Gideon Hadary, president of the Virgin Islands Refinery Corp., St. Croix.

STATEMENT OF DR. GIDEON HADARY, PRESIDENT, VIRGIN ISLANDS REFINERY CORP.; ACCOMPANIED BY ALPHONSO CHRISTIAN II, ATTORNEY, HOGAN & HARTSON, WASHINGTON, D.C.

Dr. HADARY. Thank you, Mr. Chairman. I am Dr. Gideon Hadary, president of the Virgin Islands Refinery Corp.; and I am accompanied here today by Alphonso Christian, II, and we have submitted a written statement for the record. With your permission I would like to read it.

Senator LONG. You have 10 minutes for that purpose, sir.

Dr. HADARY. You have previously asked the Director of the Office of Territorial Affairs of the Department of the Interior certain questions which I feel I am able to provide the answer to you for.

Mr. Chairman, we are strongly opposed to the proposed bill S. 2422 and we urge that this committee and the U.S. Congress not support it.

The reasons are enumerated in my statement which I have given you but I would like to summarize the background of the Virgin Islands Refinery Corp. and to present to you more details on the critical problems which bill S. 2422 raises for us.

Mr. Chairman, we wish for you to know that we are a completely independent company and not affiliated with any major oil company. The majority of our stock is held by private American citizens. In

addition, we have several corporate stockholders and they include among others, Kocolene Oil of Seymour, Ind., a large private, truly independent gasoline distributor in the Middle West.

In early 1973 the Legislature of the U.S. Virgin Islands authorized the Governor of the Virgin Islands to sign an agreement with our company authorizing us to establish and to operate a refinery on the south shore of St. Croix, U.S. Virgin Islands. This is act No. 3359, Ninth Legislature, U.S. Virgin Islands, passed on January 10, 1973. The act provides for construction and operation of an oil refinery. In the preamble to the legislation, it clearly states that the Legislature of the Virgin Islands hereby finds and declares:

> * * * That an energy crisis and clean energy fuel shortage exist throughout the United States, and that it is important to the United States as well as the Virgin Islands that additional refinery capacity for clean energy fuels, as authorized herein, be constructed in the Caribbean and particularly on United States territory; that the Government of the Virgin Islands can be of assistance to the entire United States in meeting the aforesaid requirements, while offering great immediate and long range benefits to the economy and prsoperity of the people of the Virgin Islands by authorizing and facilitating the construction and operation of a new refinery, by the Virgin Islans Refinery Corporation, to be located in St. Croix; * * *.

Mr. Chairman, it is in reliance on this declared policy of the government of the Virgin Islands that we have decided as a business entrerprise to make a major investment in the U.S. Virgin Islands. Our contract with the government of the Virgin Islands requires us to have at least 2,000 private Virgin Islanders who are American citizens as stockholders in our company and we are required to make 20 percent of the stock of our company available to legal residents of the Virgin Islands.

Our agreement with the government of the Virgin Islands provided heavy industry zoning on a 700-acre parcel of land. We have —well, Senator Johnston inquired why wouldn't all the refineries locate on the U.S. Virgin Islands?

The answer is very simple. There is no more land in the Virgin Islands which is available for zoning for heavy industry.

Senator LONG. Couldn't you stack one of them on top of a mountain down there?

Dr. HADARY. No, sir, you cannot. If you had the chore of building a refinery you would be aware, Senator, that you must have flat land and a mountaintop would not quite be suitable, otherwise the island of St. John would be a very suitable place.

The total price that——

Senator LONG. If you would give me the kind of subsidy that you have in this situation, I would build it on a mountain.

Dr. HADARY. Senator, if you permit me to go through, I will point out to you that we do not have any subsidy because what the right hand giveth, the left hand taketh away. We have ad valorem taxes, production taxes, and if I may be permitted to go through the rest of my narrative I would point them out to you.

We have purchased 700 acres of land and we have paid for this land more than the Danish Government got when we bought these islands in 1917.

Senator LONG. How much is that?

Dr. HADARY. Over $10 million we have paid in cash; and we have commitments to pay an additional $10 million.

The Islands were purchased for $25 million.

Senator LONG. Now what does it cost to build a modern refinery, yours for example, aside from the land acquisition cost?

Dr. HADARY. Our total investment in the refinery exclusive of the purchase of the land would run something like $350 million.

Senator LONG. So in relative terms if you are doing the same thing, for example, in Louisiana, and you incurred the same land cost, you could be claiming that "We are paying more than the whole Louisiana Purchase. We are paying more than it cost to buy Louisiana——

Dr. HADARY. There is only one difference, Senator, and that——

Senator LONG. "—more than it cost to buy all of Arkansas, more than it cost to buy all of Missouri, more than it cost to buy Minnesota, more than it cost to buy Nebraska, more than——

Dr. HADARY. Please remember, Senator, this took place in 1917, and dollars have a tendency to shrink over time.

Senator LONG. And the same thing is true of 1917 dollars. I don't see what it has to do with the situation at all.

Dr. HADARY. Senator, we merely want to point out that we spent an awful lot of money to acquire land down there. To date we spent close to $20 million on this project and half of this was for purchase of land with the balance being spent for engineering, commercial and environmental studies, and these environmental studies—which in themselves cost almost $1 million—were necessitated by the U.S. Federal laws and regulations which require an environmental impact statement.

Federal laws and regulations with respect to the environmental control and safeguards of the air and water are fully applicable in the U.S. Virgin Islands.

Three years has elapsed since we submitted our application to the Army Corps of Engineers for our marine platform which we are required to construct, and this permit has not yet been issued.

Furthermore, due to the status of the U.S. Virgin Islands as a Federal territory, certain unique conditions exist which impose hardships on VIRCO which is not applicable to mainland refineries.

For example, there is a U.S. Virgin Islands ad valorem tax on crude oil and import materials such as refining equipment. If our refinery was operational today we would have to pay an ad valorem tax over $5 million a year on the imported crude oil which is not at all reflected in mainland refinery costs. Furthermore, under the withholding tax which is the mirror image of the Internal Revenue Code, we are required to withhold 30 percent on all interest and dividend payments to U.S. lenders or investors.

Senator JOHNSTON. May I interrupt at that point, Mr. Chairman?

Senator LONG. Certainly.

Senator JOHNSTON. I would like to ask, we had testimony earlier about the tax exemption.

Dr. HADARY. Yes, sir.

Senator JOHNSTON. Are you saying you get no tax exemption now?

Dr. HADARY. No, sir, I don't say that. Under the present law we are entitled to have a 65 percent abatement of the tax, of the Federal income tax. However, there are other taxes which are imposed in the Virgin Islands which do not exist on the mainland which we are required to pay.

Senator JOHNSTON. In other words, you have a tax exemption; the ad valorem exemption?

Dr. HADARY. No, no, that is strictly a Virgin Islands tax and it has a 6 percent ad valorem fee which we must pay on imported materials.

We do get an exemption in part and the portion that we have to pay under today's conditions would amount to $5 million over and above any other taxes which we pay.

That means that even though we have a two-thirds abatement of the normal Federal income tax levy, we have on the other side of the ledger the ad valorem tax; we have on the other side of the ledger the withholding tax which is as a result of the Virgin Islands operating under the mirror image of the Federal Tax Code levy.

Senator JOHNSTON. Are you saying you are then paying more taxes because you have located in the Virgin Islands than if you had located in the continental United States.

Dr. HADARY. What I am saying, Senator, is that there is a balance between the things which we get by way of a relief on the Federal income tax, but on the other hand we are paying more local taxes to the local government.

For example, Senator, if——

Senator JOHNSTON. In other words, it's a trade-off. You have no tax advantage by your having located in the Virgin Islands?

Dr. HADARY. On the whole, Senator, we come out about even and it is our view that if this bill is passed—and I would like to recall to your attention that when we signed our agreement with the government of the Virgin Islands, the Jones Act did not apply in the U.S. Virgin Islands. Part of our calculations were the then-existing regulations and law. If now this would be passed, we would be penalized in a manner which we did not previously anticipate. I would like to point out also that among the factors which lead us to reach the decision we did to locate in the Virgin Islands was the declared policy of the U.S. Government encouraging construction of refineries on U.S. soil. Our evaluation concluded that in view of the declared U.S. policy of discouraging export refinery capacity on the whole, there were advantages in locating a refinery on U.S. soil in the Virgin Islands.

Among the major advantages of locating a refinery in St. Croix was the fact that the Jones Act did not apply to the U.S. Virgin Islands. If the Jones Act should apply to the Virgin Islands and we obtain no relief, the economic consequences will make our refinery project in St. Croix unviable.

Mr. Chairman, permit me to enumerate some of the advantages which a refinery in the Caribbean on foreign soil has over a refinery in the U.S. Virgin Islands.

As you may know, Senator, there are many U.S.-owned refineries on non-U.S. soil in the Caribbean. Within a radius of 100 miles

from the site which we acquired on St. Croix, it is possible today to build a refinery where the host non-U.S. island government is willing to provide a tract of land substantially larger than our site, at no cost. The governments of these islands have indicated that there would be no income taxes or any other taxes applicable to a new refinery constructed on their soil in the Caribbean. No environmental restrictions apply, thus the sea may be dredged without permits. A refinery when installed on such islands is not required to comply with any air emission standards. U.S. Export/Import Bank loans are available in the Caribbean on non-U.S. soil, but they are not available in the U.S. Virgin Islands.

Furthermore, the host government of these non-U.S. Caribbean islands are willing to guarantee loans made by European governments for refinery equipment at subsidized interest rates.

The government of the U.S. Virgin Islands is, of course, unable to make such guarantees.

The governments of non-U.S. Caribbean islands are willing to assist refineries located on their islands in negotiating political agreements with oil producing countries for the long-term supply of crude.

Such Caribbean refineries on non-U.S. soil may use foreign-flag ships to import crude oil and to move refined products to the mainland of the United States.

A U.S.-owned refinery built on foreign Caribbean soil may export its refined products throughout the world wherever they find a market. The Virgin Islands Refinery Corporation, on the other hand, is restricted from shipping refined products outside of the United States without permission of the Federal Government.

At the present time there are few U.S. deep water refined product tankers. With the completion of *Loop* and *Sea Dock* in the Gulf, Caribbean refineries on foreign soil will be permitted to move refined products in existing large foreign flag product tankers to the newly constructed deep water ports in the Gulf.

On the other hand, if the Jones Act will apply to the U.S. Virgin Islands, we will not be able to compete, due to the nonexistence of such U.S. flag carriers.

Having made a decision in good faith to build a refinery in the U.S. Virgin Islands and believe that it was and it is the declared policy of the U.S. Government to encourage new grassroots refineries on U.S. soil, the Virgin Islands Refinery Corporation now finds after more than 4 years of hard work and after spending many millions of dollars that they may not have been a valid conclusion.

Federal environmental laws and regulations have delayed our construction for over 3 years. During this waiting time refinery construction costs have increased over one-third. The Army Corps of Engineers and other Federal agencies imposed environmental conditions and restrictions upon VIRCO which increase our costs and detract from the economic competitiveness of our project.

For example, in addition to pollution control equipment we are required by the Federal Fish and Wildlife Service to safeguard a pond on our site in which fish live, and the surrounding mangrove trees in which wild birds nest. This pond and surrounding area

entail the immobilization of 15 acres of land which we acquired at a price of approximately $500,000 and another 4 acres were condemned for a sewage system casement.

Three years after the submission of our application for a submerged lands permit, we do not yet know if or when the final permit will be granted to us by the Federal Government. The costs and risks of proceeding with our project are very high. When we commence operation of our refinery, we will be required to remove sulfur from the crude before we burn the oil to turn the wheels of our generators—an expensive process. To safeguard against air and water pollution, EPA standards require us to invest $15 million in equipment which would not be required if we were operating on foreign soil, or if we were in operation prior to the passage of these regulations.

When we are operational we shall be precluded from exporting refined products to potential customers in the Caribbean or in Latin America without a prior permit from the Federal Government.

During the construction of this grass roots refinery we shall provide substantial employment to U.S. citizens in the U.S. Virgin Islands.

At the peak we estimate that 3,000 persons will be employed, the majority of whom shall be indigenous Virgin Islanders. When onstream, we shall provide some 500 permanent jobs to Virgin Islanders. These jobs pay substantially more than the alternative jobs in the tourist industry on the island and we maintain close and continuing relations with the major U.S. labor unions who are present in the U.S. Virgin Islands and these include the Steelworkers Union, the Seafarers Union of which Mr. Moody was speaking before; and the Teamsters Union. These unions will represent the labor force in dealing with VIRCO management. These unions have expressed to us a keen desire to see our project commence so that jobs may be available to their membership during the current critical period of high unemployment.

We are committed to the people and to the government of the Virgin Islands to employ indigenous Virgin Islanders at all levels of management of our company. For this purpose we have identified individual Virgin Islanders for key managerial positions. We have developed an intensive training program for the U.S. citizens of the Virgin Islands. To the maximum extent possible we draw on local Virgin Island companies for all services which are available in the U.S. Virgin Islands.

Mr. Chairman, distinguished members of the committee, if we are now compelled to use U.S. flag ships to move refined products from the U.S. Virgin Islands to the mainland of the United States, the additional cost, added to all the other disadvantages enumerated above will make our project noncompetitive, by adding over $15 million a year to our operating costs. As you know, it is exceedingly difficult for an independent company to break into the highly competitive petroleum sales market. Without a definite economic incentive we cannot compete with the oil companies who own refineries on non-U.S. soil in the Caribbean and distribute products on the mainland. If coverage of the Jones Act is extended to include petroleum

products shipped from the U.S. Virgin Islands we shall be compelled to seriously reevaluate the wisdom of our decision to build a grassroots refinery on U.S. soil in the Virgin Islands. Unless we are able to obtain compensating advantages, we have already informed the Government of the Virgin Islands that we may be compelled to explore the possibility of moving to non-U.S. soil in the Caribbean.

We entered into a good faith agreement with the people and government of the Virgin Islands. We have invested substantial time, money, and resources in the implementation of that agreement. Hopefully this Committee and the Congress of the United States will not void this agreement by destroying one of its fundamental economic bases. We strongly urge you not to apply the Jones Act to the movement of refined product from our refinery in St. Croix, U.S. Virgin Islands to the mainland.

Thank you.

Senator LONG. Thank you very much. I understand your problem, but I would advise you to consider just reprograming that money and putting it into a shipyard because I think that that would be a good investment, something that would provide a lot more jobs to that island.

It makes all the sense in the world, 10 times as much sense; and if you want to build yourself a refinery in one of these foreign countries, go ahead and do it.

I think you are going to find one problem, that about the time it starts showing a profit they are going to decide that they want to own that refinery themselves and the result is that you will have the kind of experience that Americans are now experiencing in Venezuela and Saudi Arabia. But if you want to take your money over there, that is your privilege.

Dr. HADARY. Senator, we have money invested in the land and in the engineering which is site-specific, and which is not transferrable elsewhere.

I would also point out to you, Senator, that it is the custom in the shipbuilding industry that generally the ship repair and overhaul is done where the ship is built. I do not believe that with the state of technology and the state of economic resources as they are that it would make economic sense to put up a major ship repair yard in the U.S. Virgin Islands.

Senator LONG. Well, if we give them just 10 percent of the economic advantages that a refinery constructed in the U.S. Virgin Islands would get, they wouldn't have any difficulty making a ship repair and ship construction facility a success down there.

If you crank enough economic advantage into something of that sort, you can do almost anything with it. You can make water run uphill if need be, if you have enough economic advantage to make it flow in that direction.

It would seem to me that this is one area you ought to look into, if it's development of the Virgin Islands you have in mind.

Dr. HADARY. What we have in mind, Senator, is paying our stockholders dividends, too. I would like to, on this occasion, Senator, comment that you have made reference to the manner in which companies have come into the Virgin Islands and you have made suggestions about various aspects of the origin. I would like to make it

very clear that we came in in a bona fide manner; we had no privileges; we have no quotas; we have no arrangement with any Secretary of the Interior; or any other Federal official.

We have come into the U.S. Virgin Islands through the front door, through the Governor and the Legislature of the Virgin Islands; and we have had a hard battle to negotiate, and I am somewhat unhappy to be hearing the suggestion that there has been possibly any improper conduct on the part of our company.

Senator LONG. Well, I didn't suggest that there was on the part of your company. What I said was that a lot of politics was involved in what has been done for Hess.

Dr. HADARY. Senator, I heard you talk about U.S. refineries in the Virgin Islands. We happen to be one of those. There are only two. So that the record will be clear, that as chief executive of the Virgin Islands Refinery Corp., I would like to state that we have had an uphill fight from day one.

Senator LONG. Well, I understand all of that.

Do you have any questions?

Senator JOHNSTON. Just one or two questions, Mr. Chairman.

Dr. Hadary, what do you think the privilege of shipping in foreign bottoms is worth per barrel of oil?

Dr. HADARY. Well, looking into the future, and now, it is $0.15 per barrel now.

Senator JOHNSTON. $0.15 per barrel?

Dr. HADARY. Yes; I am not looking at today's differential now. I am trying to get a long range sort of differential on this.

Senator JOHNSTON. All right; Well, with the new FEA rules today, the $2.90 entitlement is reduced to $2.30 which is a 60-cent differential.

Dr. HADARY. Senator, those entitlements have a self-destruct feature as you know. They are valid for 40 months and I don't believe there is any legislative authority at the present time to provide for entitlements after this 40-month period. We do not visualize that the entitlements would affect our project in any way since by the time we are on stream the entitlements under present law will have expired.

Senator JOHNSTON. I see; so you built your refinery based on the fact that there would be no entitlements forthcoming?

Dr. HADARY. Senator, when we started there were none; when we started our project and when we got our basic legislation there were none.

As I visualize the present legislative authority, it calls for these to expire in some 38 months from now and, therefore, by the time we are on stream entitlements as now constituted will no longer exist.

Senator JOHNSTON. The FEA has said that they will probably take steps to encourage new domestic refining capacity.

Dr. HADARY. Sir, they have said that to us innumerable times and our question to them is always, "Please tell us how you go about doing this."

As far as we are concerned, and I want to emphasize that we are on U.S. soil, we have not seen anything to date that the FEA has done which helps us in any way.

Senator JOHNSTON. Mr. Hadary, do you think that—well, you are programed for resid, are you not?

Dr. HADARY. We are programed primarily for an energy type refinery which is heavy emphasis on resid and lighter emphasis on naphtha which is to be used primarily for synthetic natural gas in the energy industry.

Senator JOHNSTON. Do you think there is a shortage of resid capacity and refining capacity in the United States itself?

Dr. HADARY. In the United States, yes, sir. But not in the Caribbean area though, and by that I am referring to refineries owned by U.S. companies and non-U.S. companies on non-U.S. soil.

Senator JOHNSTON. Now, where would you take your market from? In other words, there is not a shortage of resid capacity now.

Dr. HADARY. On the mainland?

Senator JOHNSTON. No, a shortage for areas that are now supplying the United States. So, in other words, you are going to have to take your share of the market from some one.

Dr. HADARY. Not necessarily because you should bear in mind there is a shortage of natural gas, and there is a tendency on the part of the industry now to substitute liquid hydrocarbons for gaseous hydrocarbons as the source for fuel for generating, for turning the wheels of industry.

We look at the increase in the demand in the global sense and of course on the east coast and gulf States for energy in the form of liquid hydrocarbons.

We do not look, therefore, to the fact that we would curtail, or cutback, or compete with an existing market but rather look to an expanded market.

Senator JOHNSTON. You would hope by the time you get onstream that there would, in fact, be a need for additional refining capacity?

Dr. HADARY. Senator, we have ongoing negotiations with major gas transmission and pipeline companies who are in the business of supplying natural gas and we are working out a program for substituting liquid hydrocarbons for gaseous hydrocarbons by the time we are onstream. So our marketing program is aimed at filling the gap for a period of some 20 to 30 years of natural gas supply.

Senator JOHNSTON. Thank you, Mr. Chairman.

Senator LONG. Thank you.

Dr. HADARY. Thank you, Senator.

Senator LONG. Next we will call Mr. Herbert Brand, chairman of the Transportation Institute.

STATEMENT OF HERBERT BRAND, CHAIRMAN OF THE TRANSPORTATION INSTITUTE; ACCOMPANIED BY EMMANUEL ROUVELAS, GENERAL COUNSEL

Mr. BRAND. Thank you, Mr. Chairman.

I might point out that I have asked counsel to the Transportation Institute to accompany me, the distinguished Emmanuel Rouvelas. I will just touch briefly on the statement I have presented in view of all the testimony up to this point.

Mr. BRAND. I think I should point out that the Transportation Institute consists of some 130 American shipping companies engaged

in the foreign commerce of the United States and in inland waters operations. Our function is to serve as an industry promotion and education organization.

I think this legislation is particularly timely, as is the hearing, because of the fact that it has been more than 40 years since the last congressional review of the Virgin Islands exemption from the coastwise laws.

In 1932, the Merchant Marine Committee of the House conducted a hearing to amend the act of 1920, the Jones Act, which was enacted and which changed the exemption from a year-to-year exemption to the present unlimited one which could only be removed by Presidential proclamation.

Much has changed in the years in respect to our national economy and that of the Virgin Islands since that time which makes this legislation particularly timely.

Whereas, the Islands once originated no cargo and were dependent primarily upon bunkering of vessels for their economic survival, this is not the case today.

Bunkering is not a significant economic activity on the Islands and the Islands now originate millions of tons of refined oil shipments to the U.S. mainland.

The Amerada Hess Corp. Refinery on St. Croix is the largest in the world and it is the only refinery on U.S. soil which is permitted to transport its refined product to U.S. destinations on foreign built, foreign flagships. The law, of course, your law, Senator Johnston, would eliminate this anomaly with respect to the Virgin Islands with respect to the Nation's cabotage laws.

I would point out here that what we are concerned with in spite of all the other testimony and the comments with regard to the entitlements that we are dealing with a matter of cabotage and the matter of closing a loophole which has existed long beyond the need for it to have done so.

As Senator Long pointed out, I think during the hearing on this bill, February 25, the present exemption with respect to the application of cabotage for the Virgin Islands stands in sharp contrast to the treatment of air transportation. We have been advised by counsel that there are three different provisions of law which taken together comprehensively state that cargo carried between the United States and the Virgin Islands by air carrier is restricted to U.S. air carriers.

Perhaps of greater importance is the fact that enactment of S. 2422 would have the following benefits and, I think these are the things we should keep in perspective.

First, it would place the Virgin Islands which are part of the United States in a position comparable to that of the several States of the United States, the Commonwealth of Puerto Rico, and Guam.

Second, based upon an estimated 23 million tons of total petroleum movements between the United States and the Virgin Islands, between the period from May 1, 1974 to April 30, 1975, approximately 25 ships of 30,000 deadweight tons each would be required to transport these petroleum products, thereby creating badly needed employment for U.S. tankers and jobs for American seamen.

Third, it would end the anomaly in the coastwise law which may have been justified many years ago, but which has long outlived its reason for existence.

And four, enactment of S. 2422 would reduce the unfair competitive advantage enjoyed by the Amerada Hess Corp. refinery located in the U.S. Virgin Islands.

The last point is perhaps deserving of a wee bit of elaboration. It is generally acknowledged that Hess refinery enjoys unfair competitive advantage over other refineries.

The advantages arise in large part from the treatment of the St. Croix refinery as a U.S. domestic refinery, particularly under the crude oil entitlements program.

The clear objective of the FEA rulemaking is to reduce the unfair advantages enjoyed by Amerada Hess and restore more equitable competition.

Under the circumstances, we believe that it would be irrational at this point, therefore, not to amend the law as proposed in S. 2422. If we do not, it will perpetuate a special advantage to Amerada Hess not enjoyed by any other refinery located on U.S. soil, including refineries in Hawaii, in Guam, Puerto Rico, or any State.

Moreover, permitting this special advantage to continue will simply require the FEA to make perhaps more drastic changes in the entitlements programs to compensate for its continuation. In other words, the Government would be forced to overcompensate in one area of law which is the entitlements, because of a special loophole it created in another area of law, coastwise cabotage.

The proposition is illogical on its face and it it occurred perhaps it would be worthy material for satirists. While enactment of 2422 is by no means a complete solution to the unfair competitive advantages enjoyed by Amerada Hess, it would be a sound start. It would eliminate one special advantage and put that refinery on the same footing with all other refineries on U.S. soil insofar as the coastwise law is concerned.

Recognizing this, we understand that the administration gave some consideration to a Presidential proclamation under the Merchant Marine Act of 1920 as one building block in its solution to the problem, but concluded that the President lacked autority to apply the coastwise laws to the Virgin Islands only with respect to petroleum products shipped. But, of course, S. 2422 is specifically limited to such products.

Accordingly, Mr. Chairman, our institute wishes to express its strong support in behalf of all the member companies for the bill S. 2422. However, we would like to suggest a technical amendment and we are submitting it for the record. It is submitted because we believe an amendment is also required to the 1939 amendments to the Virgin Islands Organic Act.

Consequently, we would suggest that its consideration be undertaken.

We thank you for this opportunity.

I might point out in listening to the testimony that it seems to all boil down to the fact that perhaps there is a half a cent or perhaps up to a cent difference in the cost of using American flagships over

foreign flagships and there is some question about that. It would seem to me that that is not sufficient reason to continue this inequity which has larger implications so long as these kinds of loopholes are available to people seeking to invest capital. I venture to say that people will not look favorably upon investing their money in American flagshipping capability. I think closing this loophole will strengthen the American Merchant Marine as a total capability which would be available to our country in security and in terms of total transportation viability.

Thank you, Mr. Chairman.

Senator JOHNSTON [presiding]. I share your view that we want to promote the maritime functions in the United States, not at the expense of the Virgin Islands, their citizens or their employment, but to subsidize the Virgin Islands at the expense of American jobs, I think, is bad economics and bad policy.

It is in that view that we want to pass this bill.

Thank you very much indeed, Mr. Brand.

Mr. BRAND. Thank you, sir.

Senator JOHNSTON. Our final witness this morning would be Mr. Jesse Calhoon, president of the Marine Engineers Beneficial Association of 17 Battery Place, New York, N.Y., with branch offices in New Orleans, La.

STATEMENT OF JESSE CALHOUN, PRESIDENT, MARINE ENGINEERS BENEFICIAL ASSOCIATION; ACCOMPANIED BY HOWARD MARLOWE

Mr. CALHOON. Thank you, Mr. Chairman. With me is Howard Marlowe, an economist who has worked on some of our testimony. Mr. Chairman, as the hour is getting late, and having listened to the previous testimony, I don't want to take up your time with repetitive testimony and if it is all right with you, I would just summarize our testimony.

Senator JOHNSTON. Yes, and your entire statement will be entered in the record verbatim.

Mr. CALHOON. Mr. Chairman, we are in support of S. 2422 and on page 3 of our testimony you will see one of the companies mentioned frequently is Amerada Hess who owns and controls 46 ships constituting 4.3 million deadweight tons. Only five of these vessels are known to be registered in the United States.

These five vessels are of World War II vintage and to the best of our knowledge Amerada Hess has never built a ship in the United States.

In the past 2 years Hess has closed down its two domestic refineries in the United States and increased output of Virgin Islands trade. Under the entitlement, Hess has been enjoying a windfall of 7 cents to 8 cents per gallon.

Mr. Chairman, in the last chart at the back page of this statement, there is a current listing of the United States market, reflecting the reduction in cost that Amerada Hess is passing on to the American consumer.

Even though they are receiving entitlements of 7 cents or 8 cents a gallon, the cheapest price they offer is 1.9 cents per gallon below

their competitors. So, if they are not taking the whole 7 cents or 8 cents, the consumer only gets 1.9 cents of it.

We have not decided yet, we have not been able to find out yet where the rest of the 7 cents or 8 cents goes.

In some products, it shows that Amerada Hess' prices are higher than the domestically refined product.

Mr. Chairman, this act would increase the American tanker fleet by 15 percent. That would help build the American merchant marine. But just as important, Mr. Chairman, it would help the domestic refiners. This country is certainly facing a crisis in its domestic refineries. When we look at the oil situation in the world, we can see some pitfalls facing this country in the very near future.

One that I have not seen addressed yet is the American refineries and domestic refineries in the United States which were built to refine sweet oil. All the new refineries going up throughout the world practically, are built to refine sour. We see the pitfall when the North Sea oil comes on the English won't change their sour oil to sweet oil refineries. They will be sending the sweet oil to the United States at a sweet oil premium so we will be paying the Persian Gulf price plus a premium for the sweet oil because we will have no domestic refineries, or practically none that can handle the sour oil.

So, it is not just—this bill is just not helping only the American shipper. It equally helps the American domestic refiner.

Mr. Chairman, even a domestic refiner who has to pay the 21 cents a barrel import fee that is eliminated for the refinery in the Virgin Islands. In the previous testimony, we heard about the 15 cents a barrel cost of transportation, and this 21 cents covers that with 6 cents left over.

Thank you.

Senator JOHNSTON. Thank you very much, indeed, Mr. Calhoon. We appreciate your excellent testimony. I agree with every word you said.

Mr. CALHOON. Thank you, sir.

Senator JOHNSTON. Thank you very much.

[The statement follows:]

STATEMENT OF JESSE M. CALHOON, PRESIDENT, NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION

Mr. Chairman, on behalf of the Marine Engineers' Beneficial Association, I would like to thank you and the members of this Subcommittee for providing us with an opportunity to testify in support of S. 2422.

The Jones Act requires the use of American-built, American-owned, and American-manned vessels in the carriage of cargo between coastal, intercoastal, and territorial points in the United States. We believe that it was the intention of Congress to extend the provisions of the Jones Act to the U.S. Virgin Islands at such time as there was enough trade to make U.S. shipping services to those islands feasible.

What was once an exclusion based on the lack of American shipping trade with the Virgin Islands has now become an extensive loophole which is being used to the detriment of U.S. shipping interests and energy policies. Unless that loophole is closed now, it will be widened.

Mr. Chairman, for centuries international law has recognized the sovereign right of nations to reserve coasting trade to themselves. A study conducted in

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1967 by the British Board of Trade showed that 46 out of 76 countries surveyed had cabotage laws.

In the United States the Jones Act was not the first domestic law restricting the use of foreign ships in domestic trade. In 1793, Congress required that all vessels in the domestic coastal trades be U.S. vessels, owned by Americans. By 1893, Congress had put a stop to efforts to evade U.S. laws by using foreign vessels to ship from one U.S. port to another by way of a foreign port.

Every geographical addition to the United States has been accompanied by corresponding extension of our cabotage laws. When we acquired territory on the Pacific Coast, coasting trade restrictions were extended. The acquisition of Alaska and Hawaii, Guam, and Puerto Rico gave rise to similar extensions.

Only once in our history have domestic coasting laws been suspended—during the early part of World War I when U.S. ships were used to transport men and supplies across the Atlantic, and foreign ships took their place in the coasting trades. It was the Jones Act of 1920 which marked the end of that brief suspension.

The Jones Act and its predecessors were designed to encourage and support a strong domestic merchant marine. Since our earliest days, the United States has depended on maritime transportation to move goods and people. American ships have played a vital role in every war in our Nation's history—up to and including Vietnam. They have also played a vital role in peacetime commerce. In 1975, for example, U.S.-flag fleet were responsible for carrying more than $20 billion worth of cargo to and from the United States.

This Subcommittee is well aware of the fact that the U.S.-flag fleet has been declining steadily since World War II. In 1946, our fleet consisted of more than 2300 ships; today, it consists of less than 550.[1]

Of the ships presently in our fleet, more than 40 percent are tankers.[2] About 26 percent of the fleet has been converted or "jumboized". This is a reflection of the fact that more than 30 percent of the fleet is over 25 years of age. In fact, the average age of ships in the U.S.-flag fleet is 17 years.[3] Between 1964 and the end of 1975, the number of licensed shipboard jobs aboard U.S.-flag ships declined by 50 percent from 13,081 to 6,484.[4]

What these statistics reveal is a declining U.S. merchant marine. At the end of 1971, American parent companies owned 706 foreign-flag ships. 508 of these vessels were tankers with a cargo carrying capacity in excess of 48 million tons.[5] The major U.S. oil companies are also the primary owners of these foreign-flag ships which are registered in—and under the control of—such countries as Liberia and Panama.[6]

Not included in this listing of foreign-flag ships owned by U.S. parent companies are those ships which are joint venture owned and long-term chartered. Amerada Hess, a company whose name has been mentioned several times during these hearings, owns or controls 46 vessels with dead-weight capacity of more than 4.3 million tons. Only five of these vessels are known to be registered in the United States.

Mr. Chairman, it is well known that Amerada Hess has been the prime beneficiary of the Jones Act exemption for the Virgin Islands. This company has closed down its two refineries in the continental United States and now relies solely on the largest refinery in the free world—a 730 thousand barrel a day refinery in the Virgin Islands.

For purposes of qualifying for crude oil entitlements, Hess is treated as a domestic refiner. But for purposes of the Jones Act, its refinery is treated as if it were on foreign soil. Hess gets the best of both worlds, and it has used that advantage to selectively undersell its competition.

The value of the entitlements to Hess amount to about $3.07 a barrel—or from 7 to 8 cents per gallon. Not one of Hess's competitors gets as much as 1 cent a gallon advantage from the entitlements program.[7] Leon Hess says that

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[1] See table 1.

[2] See table 2. In this respect, the composition of the U.S. flag fleet is similar to that of the 40 percent tanker composition of the world fleet.

[3] The average fleet age for other major shipping nations is: Greece—14 years; Italy—15 years; Japan—6 years; Liberia—12 years; Norway—8 years; Panama—16 years; United Kingdom—9 years; U.S.S.R.—9 years;

[4] See table 3.

[5] See table 4.

[6] See table 5.

[7] This figure is based on estimates of the Federal Energy Administration (41 F.R. 32, page 7128) and the *Petroleum Intelligence Weekly*, March 22, 1976.

he passes on any advantage he has from the entitlements to his customers in the form of lower prices.[8]

Mr. Chairman, Amerada Hess may charge lower prices for some of its products, but it clearly does not pass on the full saving of 7 to 8 cents per gallon to its customers. A glance at current bulk consumer reseller prices for various products shows that Hess's prices are actually higher than its competitors for lighter oils and no more than 2 cents a gallon lower for residual fuel oil.[9]

This is all-the-more-revealing when it is realized that Hess also gets a financial advantage from the Jones Act exemption. That advantage has been estimated at between 55 and 65 cents per barrel—or *1.3 to 1.5* cents per gallon.[10]

If the Jones Act exemption for the Virgin Islands were ended, it would mean an increase of from 1400 to 3500 jobs for American merchant seamen. This figure would be increased by another 530 to 1300 jobs if the Virgin Islands Refining Corporation goes through with its plans to build a refinery in the Virgin Islands.[11]

Closing the Jones Act loophole will mean much more than jobs for merchant seamen; it will mean jobs and money for the American ship construction industry. Most of all, it will help to revitalize our merchant marine so that we can once again rely on it in times of national emergency.

With only 5 percent of the world tanker fleet and 3 percent of the world tanker tonnage, our merchant marine is presently unable to provide the capacity which we will need in the event of another oil embargo. If the loophole is closed, the size of our tanker fleet will increase by more than 15 percent.

Closing the Jones Act loophole will also help domestic refiners compete with Hess's which now has a corner on the East Coast residual fuel oil market. That, in turn, will encourage domestic refiners to expand their capacity. At the present time, Hess pays little, if any, fee on its residual imports, pays no import fee on the foreign crude oil from which the residual is made, and is able to use foreign-flag ships to transport its products to the continental United States. By comparison, a Gulf Coast refiner must pay a 21 cent per barrel import fee on any foreign crude oil it uses in its refinery, and it must use U.S.-flag ships to transport its refinery product to U.S. markets.

Mr. Chairman, the Jones Act exemption for the Virgin Islands is simply unfair and illogical. It has harmed our merchant marine and undermined domestic oil refiners. And it makes no sense in light of the basic purpose of the Jones Act and nearly 200 years of legislation which has recognized the importance of building and maintaining a strong merchant marine.

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[8] *The Washington Post,* February 29, 1976, page A14.

[9] See table 6.

[10] Petroleum Industry Research Foundation; January 13, 1976.

[11] The number of jobs is dependent on the type of ship used. In this example, the lower figure assumes use of 30,000 DWT ships, and the higher figure represents use of 16,000 DWT ships.

Table 1

NUMBER OF SHIPS IN U.S. FLAG FLEET AS OF SEPTEMBER 30th: SELECTED YEARS

YEAR	NUMBER OF SHIPS
1946	2,332
1950	1,082
1954	1,053
1958	937
1962	885
1966	1,066
1970	770
1975	540

PERCENT DECLINE IN U.S. FLAG FLEET -
9/30/46 to 9/30/75----------76.8%

PERCENT DECLINE IN U.S. FLAG FLEET -
9/30/70 to 9/30/75----------29.9%

Source: Maritime Administration, U.S. Department of Commerce

Table 2

PROFILE OF THE U.S. FLAG FLEET AS OF SEPTEMBER 30, 1975

I. Designation

C-2	C-3	C-4	C-5	C-6	C-7	C-8	C-9	T-1	T-2	T-3	T-5	T-6	T-7	T-8	T-10	Super-tanker	Other(1)	TOTAL(2)
14	48	103	27	25	10	14	7	2	85	2	6	3	1	3	2	87	101	540

II. Type

Freighter	Containerized(3)	Bulk	Tanker	Other	TOTAL
126	121	10	227	56	540

III. Status

Active Cargo-Carrying	Temporarily Inactive(4)	Laid Up	TOTAL
460	48	23	540

IV. Conversions

Converted	Jumboized	TOTAL	% of Total Active Fleet
90	52	142	26.3%

(continued)

Table 2

PROFILE OF THE U.S. FLAG FLEET AS OF SEPTEMBER 30, 1975

(continued)

V. Age

Age in Years:	37	36	35	34	33	32	31	30	29	28	27	26	25	24	23	22	21	20	19	18	17	16	15
# of Ships:	1	0	1	2	9	32	48	53	10	1	2	5	1	2	9	19	19	6	6	9	14	13	20

Age in Years:	14	13	12	11	10	9	8	7	6	5	4	3	2	1	0	TOTAL
# of Ships:	24	22	28	15	12	13	11	18	17	14	15	15	26	17	11	540

Age by Group in Percent:	0-5yrs.	6-10yrs.	11-15yrs.	16-20yrs.	21-25yrs.	26-30yrs.	31-35yrs.	Over 35yrs.	TOTAL
	18.1%	13.2%	20.2%	8.9%	9.3%	13.1%	17.0%	.2%	100%

Source: "Status of U.S. Flag Merchant Fleet as of September 30, 1975" (excluding ships operating exclusively on the inland waterways, Great Lakes, those owned by the Armed Forces, and those of a special character such as tugs, cable ships, trawlers, etc.), Maritime Administration, Office of Subsidy Administration, Division of Trade Studies and Statistics, U.S. Department of Commerce.

Footnotes: (1) Includes primarily those in "Private" category; (2) see exclusionary note above; (3) includes containerships, containerized barges, etc.; (4) those ships with no cargo.

Table 3

MARITIME JOBS

October 1st	Licensed Shipboard Jobs
1964	13,081
1965	13,707
1966	15,224
1967	15,369
1968	14,411
1969	10,711
1970	10,461
1971	8,393
1972	8,255
1973	7,930
1974	7,352
1975	6,484

Source: Maritime Administration, Office of Manpower

Table 4

FOREIGN FLAG REGISTRY OF TANKERS OWNED BY U.S. PARENT COMPANIES

Country of Registry	As of December 31, 1971		As of December 31, 1974	
	Number of Tankers	Percent of Total	Number of Tankers	Percent of Total
Liberia	135	35.4%	240	47.2%
Panama	85	22.3	88	17.3
United Kingdom	73	19.2	74	14.6
Netherlands	17	4.5	14	2.8
Germany (West)	11	2.9	12	2.4
France	9	2.4	11	2.2
Italy	7	1.8	10	2.0
Norway	10	2.6	10	2.0
Belgium	9	2.4	9	1.8
Denmark	6	1.6	8	1.6
Canada	5	1.3	7	1.4
Venezuela	6	1.6	6	1.2
Argentina	-	-	6	1.2
Spain	-	-	5	1.0
Finland	4	1.0	3	.6
Uruguay	2	.5	2	.4
Others	2	.5	3	.6
TOTAL	381		508	

Source: U.S. Maritime Administration, Foreign Flag Merchant Ships Owned by U.S. Parent Companies; 1972, 1975.

Table 5

FOREIGN FLAG TANKERS OWNED BY UNITED STATES PARENT COMPANIES

	As of December 31, 1971		As of December 31, 1974	
Parent Company:	Number of Ships	Deadweight Tons	Number of Ships	Deadweight Tons
Gulf Oil Corporation	29	1,059,619	34	2,062,818
Standard Oil of Indiana	6	455,221	10	1,371,221
Phillips Petroleum	7	344,153	7	344,153
Exxon	146	8,854,403	124	9,292,192
Mobil	22	1,977,398	36	3,682,603
Standard Oil of California	43	3,014,735	41	4,253,334
Texaco	59	3,604,833	66	5,315,488
Getty Oil	12	962,189	11	1,267,095
Atlantic Richfield	4	184,391	3	159,891
Continental Oil	2	175,330	7	868,625
Cities Service	7	368,965	*	*
Barber Oil	4	181,877	4	181,877
D.K. Ludwig	18	2,957,518	27	4,396,185
Gotaas-Larsen Shipping	-	-	18	1,660,010
General American**	13	624,162	15	865,997
American Agencies	6	148,347	6	164,068
Other	3	467,805	99	10,470,175
TOTAL	381	25,380,946	508	46,355,732

* - No Cities Service Tankers listed in 1974. Most of those listed in 1971 have been transferred to International Ocean Transport Co (included in "other").
** - Listed under Marine Transport in 1971.

Source: See Table 4

Table 6

AMERADA HESS ADVANTAGE IN THE SALE OF PETROLEUM PRODUCTS

Petroleum Product	Hess (per bbl.)	Nepco (per bbl.)	Exxon (per bbl.)	Mobil (per bbl.)	Hess Advantage (per gal.)	Harbor
Kerosine	33.10*		32.25*		-.85¢	New York
No. 2 Oil	30.90*			30.55*	-.35¢	New York
No. 4 Oil						
1%	12.59		13.25		1.6¢	Baltimore
.3%	13.40		13.96		1.3¢	New York
No. 6 Oil						
Reg.	10.57	10.55			**	New York
2%	11.02	11.15			.3¢	Albany
1%	11.99	12.25			.6¢	New York
.5%	12.60	13.40			1.9¢	Philadelphi
.3%	13.30	13.60			.7¢	New York
.3%	13.30		13.66		.9¢	New York

* - price is cents per gallon; all other prices are dollars per barrel

** - less than 1/10 of one cent

NOTE: All prices are based on consumer tank car prices published in the March 23, 1976 Journal of Commerce, except No. 2 oil prices which are for consumer barge.

Senator JOHNSTON. That is the conclusion of the hearing this morning.

The committee will be adjourned.

[Whereupon at 11:45 a.m. the committee was adjourned, to reconvene, subject to the call of the Chair.]

72-058 O - 76 - 6

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF ROBERT J. BLACKWELL, ASSISTANT SECRETARY FOR MARITIME AFFAIRS

Mr. Chairman: I am pleased to appear before the Subcommittee today to offer the Maritime Administration's views on S. 2422. This measure would amend section 21 of the Merchant Marine Act of 1920 by extending the coastwise laws of the United States to the Virgin Islands with respect to the transportation of crude oil, residual oil and refined petroleum products. It would require that these commodities moving by water or by land and water between the Virgin Islands and points within the United States and its erritories be carried exclusively in vessels which are built and registered in the United States and are owned, operated and manned by United States citizens.

The exclusion of the Virgin Islands from the coastwise laws was meant to be a temporary measure. This is evident from the language of the Act as well as its legislative history. It was never contemplated that the Virgin Islands would be excluded from the provisions of the Jones Act after U.S. vessels became available for the trade.

We now have adequate U.S.-flag tanker capacity available to serve this trade. In fact, there are now 17 U.S.-flag tankers with nearly 740 thousand deadweight tons of capacity laid up, over 250 thousand of which could be immediately made available for this trade. However, this number changes from week to week. Laid up tonnage immediately available during the first two months of 1976 varied from 274 thousand to 520 thousand deadweight tons. In addition, ships returning from the transport of grain to the Soviet Union as well as some of those tankers now being constructed will require employment.

The costs associated with the use of U.S.-flag tankers in this trade cannot be predicted with precision. They depend on the difference between highly variable U.S. and foreign tanker rates and on the system of oil import fees now scheduled for progressive introduction through 1980. This fee system has been challenged in the courts. The outcome of this challenge represents another variable affecting potential costs.

In a recent survey, several U.S.-flag tanker operators indicated that if they were asked to carry oil from the Virgin Islands to the U.S. mainland for a period of at least six months, starting immediately, they would charge an average rate of $6.00 a ton. They also said that in the next few months these rates will decrease, as they are presently affected by the winter demand for oil and the Soviet grain program. It should also be noted that these rates would result in a profit for the operators.

Spot rates on oil carried by foreign-flag tankers from the Virgin Islands to the U.S. mainland average about $2.80 a ton. These rates are severely depressed due to the over-tonnaged situation of the foreign tanker fleet, which is expected to persist to some degree at least until 1980. By way of contrast, in July of 1973, Virgin Islands spot rates averaged well over $5.00 a ton for foreign vessels.

In spite of the current situation—$6.00 a ton for U.S.-flag vessels in a profit making position, and a severely depressed rate of $2.80 a ton for foreign-flag vessles—U.S. vessels continue to be competitive due to the license fee system on oil imports instituted under Presidential Proclamation 4210, issued in 1973. Pursuant to Proclamation 4210 the fee-free quota system is to be phased out by 1980 and a license fee system established, with no limitation on the amount of oil that can be imported into the United States. Under the license fee system, a fee of $.21 a bbl for crude oil and $.63 a bbl for finished and unfinished oils is charged on all imports.

The oil import license fee program has a significant impact on the Virgin Islands. Under this licensing system, the Virgin Islands were originally exempt from fees on crude imports to its refinery, operated by Amerada Hess, because

it was outside the customs territory of the United States. However, when refined products were shipped to the U.S. mainland, they were then subject to the higher $.63 product fee. It was contended that this placed the Virgin Islands refinery in a non-competitive position compared to Puerto Rico and U.S. mainland refineries. In order to rectify this situation, Proclamation No. 4227 was issued, as amended in part by Proclamation 4341, allowing oil imports from the Virgin Islands to the U.S. mainland to be subject only to the lower $.21 crude oil fees. The proclamation stipulated, however, that the fee equalization applied only if the product was carried on U.S.-flag vessels, as is required for Puerto Rico under the Jones Act. This provision yields savings of $2.94 a ton in license fees. That is, $.63 a barrel if foreign-flag vessels are used versus $.21 for U.S.-flag vessels, providing savings of $.42 a barrel or $2.94 a ton. An importer who makes a good faith attempt to arrange shipment by a U.S. vessel at a reasonable cost and finds no such vessel available is permitted to benefit from the same fee advantage when using a foreign ship.

The Amerada Hess Corporation owns four idle tankers totalling nearly 100 thousand deadweight tons. However, Hess has been requesting, and receiving, certificates of nonavailability of U.S.-flag vessels.

With the current spot charter market rates at $6.00 a ton for U.S. vessels, $2.80 a ton when using foreign vessels, and the reduced license fee on imports of $2.94 a ton when using U.S.-flag vessels, the net additional cost of shipping on U.S.-flag vessels is $.26 a ton or approximately 9 hundredths of a cent per gallon. The license fee reduction would entail a loss in revenue to the Treasury, but this would be offset in part by the additional tax revenues generated by the employment of otherwise idle U.S.-flag ships.

In order to calculate the total cost of using U.S.-flag tankers this cost differential must be applied to the total imports from the Virgin Islands. Between January and September of 1975, the contiguous U.S. imported some 115 million barrels of petroleum products from the Virgin Islands, or about 420 thousand barrels a day. Some 75 thousand barrels a day are consumed in the Virgin Islands. The production capacity of the area is about 700 thousand barrels a day. Using the 420 thousand barrels or 60 thousand tons a day, the additional annual cost to the consumer attributable to the use of U.S.-flag tankers would be about $5.7 million, that is 60,000 × 365 × $.26 = $5,700, 000. Considering the fee revenue loss to the Treasury, total cost would be somewhat greater, with the amount depending on the extent of offsetting tax revenues.

The use of U.S.-flag vessels in this fashion reduces foreign dollar earnings and therefore contributes to the U.S. balance of payments. The use of U.S.-flag ships would provide a balance of payments contribution of apprximately $61.3 million per year, that is, 60,000 x 365 x $2.80 = $61,320,000. Of course, these estimates are based on the assumption that all oil movements in the trade are subject to the license fee system. If the license fee were not applied, the additional cost to the consumer would be $70 million a year, that is 60,000 x 365 x ($6.00—$2.80) = $70,000,000. In terms of overall impact, this would be offset to some extent by the generation of additional U.S. tax revenues. Under the Presidential Proclamation which instituted the license fee system, it is to be gradually phased in as it replaces the fee-free quota system. As of May 1, 1976, 65% of the oil imports will be subject to license fees. By May 1, 1980, all oil will be subject to license fees.

Last summer, the Presidential authority to impose oil import fees was overturned by court decision. This decision is being appealed, however, and fees are still being collected.

These estimates are based upon the current differential between U.S. and foreign rates. Because of the severe depression in the world tanker market foreign-flag rates are now at an all time low. At the same time the U.S.-flag rates used are slightly higher than normal because of the winter demand for oil. These two factors, taken together, produce a wide disparity between U.S. and foreign tanker rates. It is expected that this difference will diminish somewhat in the coming months, but that it will continue to be significant until worldwide tanker demand improves. Over the long run, as tanker supply and demand are brought more closely into balance, the difference will decline drastically, and the cost of using U.S.-flag tankers will decrease proportionately.

Should S. 2422 be enacted it would provide for the employment of approximately 25 U.S.-flag vessels of the 30,000 DWT size, representing a total of

750,000 DWT in tanker capacity. Presently, the U.S. tanker fleet is faced with a shortage of employment. Approximately 740 thousand deadweight tons in tanker capacity are laid up. Most of these vessels are ideally suited for the Virgin Islands oil trade. Some of these vessels are financed under our Title XI Mortgage Guarantee Insurance Program.

Virtually every coastal nation in the world has cabotage laws in some form to protect national interests. The principle is well established. Jones Act application to the Virgin Islands oil export trade would represent a logical extension of U.S. cabotage that now applies to our coastal and intercoastal trades and to domestic trades involving Alaska, Puerto Rico, and Hawaii.

As I indicated earlier, the Virgin Islands were originally excluded from our coastwise laws due to the shortage of U.S. vessels. The exclusion was intended to be of a temporary nature. Today adequate U.S. tanker capacity is available to serve the Virgin Islands oil trade. The Maritime Administration feels that the advantages offered by S. 2422 far outweigh its disadvantages and recommends that the proposed legislation be enacted.

Mr. Chairman, this concludes my prepared testimony. I will be happy to answer any questions the Committee may have. Thank you.

STATEMENT OF RALPH M. PAIEWONSKY, FORMER GOVERNOR OF THE VIRGIN ISLANDS

As a former Governor of the United States Virgin Islands (1961–1969) I wish to state my unequivocal opposition to the passage of the proposed Johnson Amendment to the Jones Act.

Passage of this Amendment would cripple a major industry in St. Croix and deal a devasting blow to the already declining economy of the entire Virgin Islands.

Passage of this Amendment would cause an immediate cutback in Hess Refinery operations in St. Croix. This, in turn, would create throughout the Virgin Islands, sudden and mass unemployment. There would be, as a result, immediate and drastic curtailment of urgently needed revenue, vital to the operation of schools, hospitals and all insular essential services.

And why this sudden and glaring attempt to discriminate against the United States Virgin Islands?

Isn't it unfair to enact a Johnson Bill to prohibit use of foreign flag ships to carry petroleum products from the Virgin Islands to the United States, when it is an accepted practice for oil importers in the United States to use foreign flag ships to bring foreign oil to United States shores?

If all foreign oil imports brought to United States shores were restricted to American flag ships only, then we might try to understand an attempt to make this requirement applicable to the United States Virgin Islands.

On March 21, 1976, the Sunday Edition of The New York Times, Business Section, carried an article about a new oil company, the Energy Corporation of Louisiana, constructing an up to date modern oil refinery in that state with a capacity to process 200,000 barrels of oil a day.

This new oil company has signed a contract with the Royal Dutch Shell group under which foreign crude oil will be carried by foreign flag supertankers to a point just outside the United States territorial waters, some fifty miles beyond the mouth of the Mississippi River. From there, the crude oil will be transferred to smaller foreign ships for the trip up river to the refinery.

In the foreseeable future, oil will be flowing from the Alaskan pipeline project. It is questionable whether there are sufficient American flag tankers to handle this oil.

Lack of American tankers and lack of refining capacity on the West Coast will mean, in the opinion of qualified experts, that a substantial quantity of this Alaskan oil will be moved to foreign refineries and markets, principally Japan, and it will move on foreign flag tankers.

The Johnson Amendment, if adopted, would be most damaging to the declining economy of the Virgin Islands:

1. The island of St. Croix would suffer immeasurably from the disastrous results of unemployment which would occur as a result of the Johnson proposal.

2. When considering the amount of people that would lose jobs in relation to the total population of St. Croix it would be a tremendous economic disaster to that island in particular and to the entire economy of the Virgin Islands which cannot survive only upon the tourist trade. For this reason the Virgin Islands have been actively trying to diversify its economy so as not to be entirely dependent on the tourist trade.

Another important matter that should be considered is the spirit of the Treaty Agreement of Purchase of these islands between Denmark and the United States. This agreement in essence provided that the inhabitants of the Virgin Islands not be placed in a lesser or inferior position than they previously enjoyed under the Danish Administration. The provision of the Johnson Bill, if enacted, would not be in the spirit of this important concept. Although this treaty provision may not be legally binding on the Congress of the United States, the Congress has always acted to provide benefits to improve the plight of the people of the Virgin Islands and, as a matter of fact, have given the island preferential treatment over foreign competitors. Why reverse this policy now?

Senator Long has made certain suggestions about employment in American shipping and ship repairs to replace jobs lost in the Virgin Islands. These are far-fetched ideas that will never materialize and it would be exchanging a shadow for real substance; an idea that we in the Islands cannot accept.

Instead of the Johnson Bill, I propose a more practical and meaningful solution similar in nature to the royalty payments developed during my administration between the Department of Interior, the Virgin Islands Government and the Hess Company in the case of granting Hess the quota on gasoline. At that time, it was estimated the quota for a barrel of gasoline was worth $1.00 per barrel. In securing this quota, Hess agreed to pay the Virgin Islands Treasury 50% or .50¢ per barrel over a period of ten years into a Conservation Fund. Due to the abolition of the quota system this agreement is no longer binding.

I am now recommending a similar proposal with regard to the freight savings of Hess by using foreign flag ships rather than United States flag ships. If the savings is .50¢ a barrel, as I have read in recent publications, or whatever the actual savings is determined to be, then Hess should pay 50% of this savings into the Virgin Islands Treasury to be used for the following specific purposes:

1. An amount of $3,000,000 to be paid into the Conservation Fund;

2. An amount of subsidy equal to one-half the cost per barrel of oil sold by Hess to the Virgin Islands Water and Power Authority which is estimated at $6,500,000. This will enable the price of local potable water to be rolled back to .50¢ per ton or $2.00 per 1,000 gallons and to adjust the cost of power downward accordingly. This would assist all tourist orientated businesses, hotels, guest houses, etc. to operate successfully without having to close their doors due to the excessive cost of water and power or without looking for a government subsidy.

This would remove the hardship from the entire population which has been compelled to pay the higher rates and which is again threatened with additional increased rates or those who cannot afford anymore the use of water at $6.00 per 1,000 gallons and higher power rates as now recommended by the Water and Power Authority.

3. The remaining balance of this fund should be used exclusively over the next ten years for building and developing tourist orientated revenues producing facilities such as safe airports on both St. Thomas and St. Croix, development of port facilities to accommodate cruise ships and other vessels in St. Thomas and St. Croix, dredging of the harbors and channels, the building of water facilities and extension of the water distribution systems in both islands and for roads and highways and other such tourist oriented facilities.

My proposal should apply to all present and future refineries of petroleum products using foreign flag ships.

In closing, let me repeat, The Johnson Amendment, if adopted, would be most damaging to the declining economy of the Virgin Islands in allowing foreign oil companies to continue to ship foreign petroleum products on foreign flag ships to the United States while attempting to deny the same right to the Virgin Islands.

STATEMENT OF CROWN CENTRAL PETROLEUM CORP.

Crown Central Petroleum Corporation (hereinafter "Crown") is an independent refiner/marketer of gasoline and other petroleum products, owning and operating a 100,000 b/d refinery located in Pasadena, Texas, and marketing products throughout the East Coast of the United States.

The United States petroleum industry, including refining and transportation segments thereof, has been engaged for the last 10 years in increasingly greater exportation capacity and the jobs and capital related thereto. Crown believes that this development must be reversed or this country's remaining independent refining and tanker industry and its national security will be severely and premanently damaged and totally unable to expand and grow.

S. 2422 must be viewed not only in the light of the American merchant marine, but also in the light of the programs of the Federal Energy Administration and our national energy policy. The bill would provide that crude oil, residual fuel oil and refined petroleum products moving between the Virgin Islands and other portions of the United States be required to move on American-flag vessels. Of paramount importance is the fact that ending the Virgin Islands exemption and increasing the transport costs of Amerada Hess would eliminate the need for the FEA to grant subsidies to foreign refiners in the Bahamas and other Caribbean areas, which subsidies encourage further exportation of the American refining capacity.

The Committee is aware that the traditional coastwise movement of oil products has virtually dried up. The sole reason for this is the fact that we have exported refinery capacity to the Bahamas, to Curacao, to Trinidad and to Venezuela. This exporation of refining capacity has led to the disincentive on the part of American refiners to construct new refineries in the United States. Crown believes that S. 2422 is an important step in the direction of creating a more viable independent American oil industry. With the trend to foreign refining and transportation in foreign ships slowed, we could begin to work for additional American-flag ships and additional American refineries.

What S. 2422 accomplishes for the independent tanker fleet, S. 1950 would achieve for independent refiners. S. 1950 is a bill which would impose disincentives on the exportation of refining capacity, and indirectly, American ship capacity, through imposition of duties on petroleum products refined outside the customs territory of the United States. This bill would create incentives to construct modern refineries in the United States to supply the products now being supplied by foreign refiners. As such, it would result in the creation of cargo movements in the coastwise trade of the United States to be available for American-flag ships.

S. 2422, like S. 1950, is much needed to stop those who would see this country's independent refining and transportation capacity exported to foreign countries, with the resultant danger to our national security.

For the reasons set forth herein, Crown Central Petroleum Corporation fully supports S. 2422 and urges its passage.

STATEMENT OF ERIC DAWSON

Mr. Chairman and Hon Members of the Senate Commerce Subcommittee on Merchant Marine, The fundamental fact involved in any consideration of extension of the Jones Act to the United States Virgin Islands must be that their citizens are United States citizens and that their unemployed are jobless American citizens in exactly the same legal and practical sense as citizens of Hawaii and Alaska are American citizens.

The United States Virgin Islands is an integral part of the United States.

And furthermore, "off-shore" in this case is in no way whatever synonymous with "foreign".

A second fundamental fact is that the United States Virgin Islands have no "natural resources" in the generally accepted "gross-national-product" sense of that phrase. Outside a well-promoted but nevertheless fickle tourist industry the one and only source of income is processing of products in transit. Thus, any natural or artificial restriction whatever on any island processor becomes a restriction on the circulation of the very lifeblood of our economy.

And a third vitally important fundamental is the fact that United States Virgin Islands processing in transit of petroleum products is the Islands' most important single source of tax revenues.

There is only one refinery of petroleum products in the United States Virgin Islands, the Hess Oil Company. For the past four calendar years that one company alone accounted for 33%, a third, of the Islands' total revenue from corporate income taxes! During the same period that one company alone accounted for almost ten percent of the total tax revenues from all sources paid into the Treasury of the United States Virgin Islands—almost ten percent of the total!

Even in normal times, the potentially disastrous effect of even a fractional reduction in that tax source is readily apparent. But these are not normal times. For the United States Virgin Islands these are difficult times—these islands are still in the throes of a depression resulting primarily from the so-called "recession" throughout the United States.

Virgin Islands unemployment is at an all-time high—having reached, on the Island of St. Croix where the Hess refinery is located, close to a staggering 13%. The average unemployment for all three islands stands now at 11.7% of the total work force, a level so high it's straining our limited social services which are now closer and closer to the breaking point.

In fact, the fiscal plight of the United States Virgin Islands has now reached the point that even though plans are well along to tap deeply every revenue source available, balancing the budget for the upcoming fiscal year can only be accomplished by trimming essential public services in the high-cost and high dollar volume areas of education for young people, health, and public safety. (It may not be a generally recognized fact that the United States Virgin Islands cannot legally borrow money to offset deficits.)

The Islands' fiscal salvation in the fact of the present financial emergency facing the insular treasury has been thought to be an arrangement with the Hess Company for partial prepayment on its future taxes.

At the present time the Hess Company is approaching the expiration of the partial tax exemption it was granted by the Virgin Islands Government as an incentive to locate in the United States Virgin Islands. The Hess exemption expires in 1981, and negotiations are just now about to get under-way to encourage Hess to prepay some of the higher taxes that will come due and payable after 1981.

As a matter of very important fact, the Treasury and Budget Office Officials of the Virgin Islands are counting on such prepayment by Hess to enable the United States Virgin Islands to weather the tremendously stormy financial seas through which the Islands are now trying desperately to navigate safely.

It is obvious that even a minor reduction of the flow of the Hess output, resulting from this new and unheralded attempt to extend the application of the Jones Act to *other* American working men, could only impede the progress toward solution of the fiscal crisis now faced by the United States Virgin Islands.

The United States Virgin Islands wants sincerely to avoid being forced into a position equivalent to "going on relief!" The patriotic citizens of the United States Virgin Islands can put themselves back on the road out of their current financial crisis only if insurmountable road blocks aren't put in their way.

STATEMENT OF ERIC E. DAWSON, STATE SENATOR, CHAIRMAN OF THE VIRGIN ISLANDS LEGISLATIVE COMMITTEE ON COMMERCE

Mr. Chairman and members of the Committee on Finance, I am Senator, Eric E. Dawson, Chairman of the Virgin Islands Legislative Committee on Commerce, and I hereby submit a position paper on S. 2422 now before this august body for consideration. The intent of the measure (S. 2422) is undoubtedly clear, as desired by the sponsor, in seeking to remedy a situation in which certain constituents have appealed for redress.

The U.S. Virgin Islands, as an integral part of the United States and an unincorporated territory, has set out on a course of action during the past fifteen (15) years to develop an economy to support the socioeconomic needs of its infrastructure through the attraction of industries such as Hess Oil and the V.I. Oil Refinery. The goal through the attraction of such industries is to ultimately reduce the territory's financial dependence on the federal treasury

and to some day become a real showcase of a capitalistic-democratic entity in the Latin-American-Caribbean sphere, all to the credit of the great United States of America, especially after having attained its 200th anniversary as a former dependent colony, and now the greatest country on earth.

The issue, Mr. Chairman, of more jobs for Americans is not only laudable, but commendable; but, Virgin Islanders as Americans are also caught up in the same recessive, stagnant, no-growth economic vise as our mainland counterparts. According to the latest unemployment statistics from the Virgin Islands Unemployment Office, total unemployment is 11.7% in a 43,500 man labor force, 12.7% on St. Croix and 10.6% St. Thomas-St. John. Though this might seem to be an insignificant quantum compared with the mainland, it is significant to a community where there are no known minerals and natural resources and whose gross domestic product is dominated by a 60% tourism derivitive. Tourism, as you might know, is a fickle industry and can be interrupted by various and sundry social, economic, political and philosophical external and internal influences. The introduction of the Hess Oil and V.I. Oil Refinery on St. Croix is a part of the long range goal to inculcate stability and bouyancy into our revenue picture now and in the near future.

To the point of the effects of the enactment of S2422, it is felt that it could cost us hundreds of jobs in the U.S. Virgin Islands. The ramifications of S2422 could lead to a possible reduction in the operating capacity of Hess Oil—Virgin Islands due to increased price influence in the utilization of U.S. flag ships and possibly also reduce tax revenues which the Government of the U.S. Virgin Islands now receives from Hess Oil. It can also stagnate the construction of the V.I. Oil Refinery.

The following is a table of "Ratio of Net Tax Payments to Source of Revenues":

RATIO OF NET TAX PAYMENTS TO SOURCE OF REVENUES

	Amount	Hess-Virgin Islands percent
To total tax revenues:		
1972	$74, 501, 819	6.6
1973	73, 056, 608	3.8
1974	83, 329, 732	21.2
1975	85, 426, 399	4.5
To corporate income tax revenues:		
1972	19, 914, 120	24.0
1973	14, 758, 738	19.0
1973	27, 432, 461	64.0
1975	14, 744, 398	25.0
To individual and corporation tax revenues:		
1972	60, 499, 584	8.0
1973	58, 243, 927	5.0
1974	71, 168, 557	25.0
1975	67, 333, 107	5.0

Mr. Chairman, S2422 should be studied much more to verify the socioeconomic impact on the U.S. Virgin Islands. Perhaps a formula to guarantee that a percentage of the oil from the off-shore refineries ought to be fixed rather than the absolute aggregate or total finished products.

I pray that the Committee will study this matter which will grossly affect the U.S. Virgin Islands much closer before moving.

More pointedly, Mr. Chairman, there are fears that if the impact of the Jones Act is extended beyond oil shipments, the Virgin Islands economy would be severely injured. Currently, the cost of food in the Virgin Islands is about 20% higher than on the mainland, and the cost of living overall is estimated at 20% to 25% higher.[1] Shipping of general cargo, including food in American bottoms, to the Virgin Islands will be catastrophic and not in the best interest of our people.

Tourism accounts for 60 percent of our gross domestic product, and 70% of our visitors come by cruise ships on one day stops. These cruise ships are foreign bottoms, and if the cruise business is forced to change to American bottoms, another severe blow will be dealt to the tourist industry. The counter-

[1] "Inflation and Economic Growth in the U.S. Virgin Islands", A Report to the Legislature of the Virgin Islands, Arthur D. Little, Inc., 1974.

productive effects to be realized from such a situation will not be in the best interest of Virgin Islanders.

Mr. Chairman, I thank you and your committee members for the opportunity to present another view to show the counter-productive effects of S2422 and recommend further study of this measure.

STATEMENT OF ALEX MOORHEAD, JR., STATE SENATOR FROM THE VIRGIN ISLANDS

Mr. Chairman and members of the Senate Commerce Subcommittee on Merchant Marine: I am Alex Moorhead, Jr., a member of the Legislature of the Virgin Islands (a unicameral body, composed of fifteen members). The Virgin Islands are divided into two legislative districts, namely the district of St. Croix and the district of St. Thomas-St. John. I am one of seven members of the Legislature of the Virgin Islands who represent the district of St. Croix.

I am grateful for this opportunity to insert in the records of this distinguished panel my position on Senate Bill No. 2422, which would extend the coastwise laws to the U.S. Virgin Islands with respect to the transportation of crude oil, residual fuel oil and refined petroleum products. This bill has been proposed by the Honorable J. Bennett Johnston in the expressed interest of providing more jobs for U.S. workers, a boost for the U.S. flag tanker fleet and of encouraging the construction of more refining capacity in the United States. These are what he termed the major and compelling reasons for the adoption of S.2422 by the Congress, in his statement on the introduction of this bill late last year.

I believe that this bill is well intended and, were the facts limited to those outlined by the Honorable Senator Johnston, I too would be an enthusiastic supporter of this bill. Allow me to bring to your attention certain facts which I believe this Committee and the Congress as a whole should consider as it takes a position on this bill.

It has been stated that the bill will encourage the construction of more refining capacity in the United States and reduce our dependence on imported petroleum products and on offshore refineries. The implication of this statement is that the U.S. Virgin Islands are outside, or foreign to, the United States. This implication troubles me, for while it is true that the U.S. Virgin Islands are over one thousand miles off the U.S. mainland, we certainly are not foreign to the United States. The U.S. Virgin Islands are and have been a part of the United States since 1917, when the were purchased from Denmark because of their strategic location for military purposes. The residents of the U.S. Virgin Islands are U.S. citizens, and I might add that Virgin Islanders have served this nation with distinction in all the foreign wars and conflicts that it has fought. Our cemeteries too contain U.S. war dead and, as more recent evidence of national loyalty, our cemeteries contain the corpses of 11 of our native sons who gave their lives for this country—our country—in the Vietnam conflict.

With all due respect, therefore, I reject the implication that the U.S. Virgin Islands are foreign to the United States and that any industrial installation in the U.S. Virgin islands, or any other type of installation for that matter, is in a nationally insecure position.

It is true that shipments from the U.S. Virgin Islands to the U.S. mainland are classified as imports into the United States. This is solely in recognition of the fact that federal statutes place the U.S. Virgin Islands outside the U.S. Customs zone; i.e., for purposes of U.S. Customs only, the U.S. Virgin Islands are considered foreign and therefore any foreign product entering the United States through the U.S. Virgin Islands is assessed U.S. import duty not when it enters a U.S. Virgin Islands port but when it enters a subsequent port in one of the several states. I must emphasize that this legal technicality does not negate the fact that U.S. Virgin Islands are U.S. soil and its residents are and have long been loyal U.S. citizens.

It is true, gentlemen, that in the U.S. Virgin Islands, on the island of St. Croix, there exists one of the largest, if not the largest, oil refinery on U.S. soil. Its present capacity has been stated as being about 650,000 barrels per day. Its shipments of petroleum products (i.e., fuel oil, LPG, gasoline, jet fuel, kerosene, naphthas, etc.) to the mainland have averaged 118 million barrels annually over the last six years (see Table 1). It is also true that this volume

of petroleum products has moved to the mainland largely if not entirely on foreign flag tankers. This has been legally possible because of an exemption that the U.S. Virgin Islands have enjoyed from the Jones Act provisions which require the carriage of cargoes between U.S. ports to be on U.S. flagships.

The U.S. Virgin Islands have never been subject to the Jones Act. The islands were acquired after enactment of the Jones Act and, in 1920, when the Congress passed the Merchant Marine Act extending the coastwise laws to trade involving the territories, it authorized the President of the United States to postpone this extension if deemed necessary to ensure adequate shipping service. This he did by annual proclamation until 1936, when the Congress, at the request of the U.S. Virgin Islands, amended the Merchant Marine Act of 1920 to provide that the coastwise laws shall not apply to the U.S. Virgin Islands until the President of the United States by proclamation determines otherwise. Such a proclamation has never been made.

Gentlemen, I am well aware that the exemption from the Jones Act enjoyed by the U.S. Virgin Islands is a special privilege. I must hasten to add that there is very substantial justification for continuation of this privilege. This exemption is no frill or luxury in our sphere of economic existence in the U.S. Virgin Islands. It is a vital and integral part of our efforts and our programs for the development of the economy of our islands and to raise the standard of living of the residents of our island community.

For several years, the economy of the U.S. Virgin Islands was a one-industry economy, that industry being tourism. This tied the welfare of the entire community to a single industry which is very sensitive to mainland economic and business cycles and other external developments. In an effort to broaden the base of our economy and to develop a larger variety of job opportunities for our residents, we attempted to attract light and some heavy manufacturing industries. The difficulty in attracting these industries is that we must compete with other islands of the Caribbean region for these industries, including Puerto Rico, and many of these islands offer a potential investor many more advantages than we do.

A recent study of the competitive position of the U.S. Virgin Islands disclosed that "there are no major operating advantages for industrial businesses in the Virgin Islands." Land is limited and "substantially more expensive than in other areas. Goods and services needed to operate a business cost more than on the mainland and in most other areas of the Caribbean." Essential services such as "water, electricity and construction are substantially higher in cost in the Virgin Islands than elsewhere. Wage rates are higher in the Virgin Islands than in other Caribbean areas and although wage rates are lower in the Virgin Islands than on the mainland, the low productivity of the Virgin Islands labor force makes actual labor cost per production unit higher than on the mainland."

When our competitive position was compared specifically with Puerto Rico, our nearest and perhaps strongest competitor for new industries in the Caribbean area, it was revealed that "Puerto Rico has important advantages over the Virgin Islands as a industrial site. Puerto Rico is more developed than the Virgin Islands. Puerto Rico offers more liberal investment incentives. Puerto Rico has lower wage rates, and Puerto Rico has more sophisticated communication and distribution systems."

Gentlemen, the only advantage which the Virgin Islands can offer investors (in juxtaposition to the previously mentioned list of disadvantages) over other Caribbean islands including Puerto Rico is the opportunity to operate under the U.S. flag while using foreign flag vessels to transport finished products to markets on the mainland. As you know, the benefit to an investor of the availability of foreign flag shipping is a lower shipping cost. This, gentlement, is the only real economic advantage that we have as we compete with other islands in the Caribbean (i.e., Barbados, British Virgin Islands, Haiti, Jamaica, Puerto Rico, St. Lucia, St. Maarten, Trinidad and Tobago) for new industries with which to promote our socio-economic development.

It is true that Senator Johnstone's bill does not propose that our exemption from the Jones Act be totally eliminated. It proposes such an elimination only with respect to petroleum and petroleum products. It has been intimated in some quarters that because of the substantial benefits that the present U.S. Virgin Islands refinery receives from the entitlements program it can readily accommodate the added cost of U.S. flag vessels for shipment of products to the mainland without any severely adverse financial impact. This is an sssue

which the Hess Oil officials can no doubt address better than I. I am skeptical of the validity of the suggestion.

I would like to bring to your attention the fact that the Hess Oil refinery operated far below capacity for much of last year and up until last month it was still doing so (see attached newspaper clippings). In response to inquiries, Hess Oil officials have maintained that they have been forced to reduce production because they have been caught in a price squeeze. This suggests that now may not be the time to impose higher costs on that refinery by removing the option of foreign flag tankers for the shipment of products to the mainland.

There is yet another indication that all may not be well at the Hess Oil refinery. The annual growth of petroleum product shipments by that refinery to the mainland peaked at 36% in 1972 and has dropped steadily since that point. It fell to 7% in 1973, 1% in 1974, and was anticipated to enter a negative growth phase in 1975 (see Table 2).

Gentlemen, I appeal to you to study the potential impact of S. 2422 carefully and thoroughly. I am very fearful that it will have a regressive effect on our industrial development program. I fear that it will aggravate the already depressed operation of the Hess Oil refinery and eventually result in increased unemployment. Unemployment is already too high in the Virgin Islands. In an effort to promote an increase in employment, the Virgin Islands Government has executed contractual agreements with the Virgin Islands Refinery Corporation (VIRCO) which will hopefully result in that corporation's constructing a 200,000 BPCD refinery next to the Hess Oil refinery and therein provide hundreds of jobs. I fear that the elimination of the Virgin Islands' exemption from the Jones Act, with respect to the traffic of petroleum products, will put VIRCO's development financing in serious jeopardy.

One of Senator Johnston's interests in proposing S.2422 is that of providing more jobs for U.S. workers and a boost for the U.S. flag tanker fleet. This is a commendable goal and one which I support provided it does not entail loss of jobs for Virgin Islanders. I urge you distinguished gentlement to be ever mindful that those who may lose employment in the Virgin Islands by an adverse decision on this legislation are also U.S. workers, though they may be fifteen hundred miles away. I appeal to you to study this measure impartially and to forego any action that will hinder us in the U.S. Virgin Islands in our effort to raise the standard of living for our residents. This, gentlemen, is my humble and earnest appeal.

TABLE 1.—*Hess Refinery Petroleum Product Shipments to U.S. Mainland (fuel oil, LPG, gasoline, jet fuel, kerosene, naphthas, etc.)*

[In millions of barrels]

1975	[1] 143.6
1974	143. 3
1973	133. 0
1972	124. 7
1971	91. 6
1970	70. 3

[1] Estimate based on shipments January through November.

Source: U.S. Department of Commerce.

TABLE 2.—*Annual increase in petroleum product shipments to U.S. mainland (Hess Refinery)*

	Percent
1975 (−2.7 million barrels) [1]	−2
1974 (13.3 million barrels)	1
1973 (8.3 million barrels)	7
1972 (33.1 million barrels)	36
1971 (21.3 million barrels)	30

[1] Estimate based on shipments January through November.

[From the Daily News, Apr. 10, 1975]

HESS OFFICIALS TELL SENATORS OF LOSSES

Hess Oil officials told the Senate Labor Committee Tuesday that the St. Croix facility is suffering operating losses brought on mainly by the $1-per-barrel oil tariff.

Vice-president Robert Wright and attorney Everett Birch appeared before the committee representing Hess and subsidiary firm Fischer-Hess.

The panel heard testimony that if President Ford's plan to raise the tariff $2 is implemented it will mean serious cash flow problems for the operation.

Wright said that the refinery is currently running at 70 percent of its 650,000 barrels-per-day capacity because of the tax, the high price of crude oil and U.S. petroleum product prices.

Reporting on the session, Committee Chairman Claude Molloy said, "The picture does not look good for this industry as a major employer on St. Croix."

The Hess executive said that while the operation has no labor problems it does "have some problems that may lead to a reduction of the labor force before the end of the year."

Presently, he reported, Hess employes 1,146 persons at the refinery and 240 at Fischer-Hess, which is building the company's new petrochemical plant.

The Fischer-Hess work is to be completed in October or November following which about 50 of the employees will be kept on to operate the plant.

Wright reported that Hess' total investment in St. Croix is approximately $650 million and the facility's replacement cost would be $1.5 billion today.

He further stated that Hess has poured $350 million into the Virgin Islands' economy since it began its operations in St. Croix.

The Labor Committee has been engaged in an investigation of labor practices among large industrial employers on St. Croix especially in related to the hiring of aliens.

They were told Tuesday that, of Hess' 1,146 employees, 65 are bonded aliens, and, of these, 46 are Barbadian. Asked why so many are bonded aliens, Wright responded that this is "privileged information."

[From AVIS, Apr. 11, 1975]

HESS LABOR FORCE FACING CUTBACK

Officials from Hess Oil Virgin Islands Corporation and a wholly-owned subcontractor, Fisher-Hess, testified before the Standing Committee on Labor and Veterans Affairs this week that there are "no labor problems" as such in the large St. Croix industry "but we do have some problems that may lead to a reduction in the labor force before the end of the year," according to a report made on the floor of the Legislature Wednesday by Senator Claude A. Molloy.

The chairman of the Labor Committee, in his report on an on-going investigation of labor practices in large tax-exempt industries in St. Croix directed by the President of the Eleventh Legislature in February, stated that Hess officials said they had a total of 1,146 employees at the present time, plus 240 others in Fisher-Hess. But the work of Fisher-Hess is almost completed, and when the new petrochemical plant on which they are now working goes on-stream in October or November, only 50 employees will be transferred over to work there.

The parent plant, Hess, is caught in the squeeze of the current oil crisis and is able presently to operate at only 70 percent of capacity, the Labor Committee was told by senior vice president Robert F. Wright and attorney Everett Birch. Of the 1,146 employees, 65 are bonded aliens, 46 of whom come from Barbados, Molloy reported the officials as saying.

"Hess has a total investment in the Virgin Islands of more than $650 million in plant alone, which would cost more than $1.5 billion to replace today," Molloy said. "They say they have contributed more than $350 million to the Virgin Islands economy since the inception of the St. Croix operation. But they also say they are experiencing operational losses.

One of the problems cited was the $1 per barrel tax on crude oil under the recent program initiated by President Ford, and if the additional $2 proposed

is implemented, Hess officials say they will have a serious cash flow problem, Molloy reported. As far as the company is concerned their three major problems are tariff, the price of foreign crude and the "captive" United States market for gas and petroleum. But company officials said Hess would continue its investment in St. Croix.

"This picture does not look good for this industry as a major employer in St. Croix," Senator Molloy commented. "However, the committee intends to continue its investigation in St. Croix as there are several questions still unanswered. The committee expects to complete its report on the special investigation authorized by the Legislature very shortly."

To date, the Labor Committee's investigation has included Litwan Construction Company, Fluor, Hess and Fisher-Hess.

[From the STX-Mirror, Apr. 29, 1975]

SAYS HESS WILL CLOSE ST. CROIX OPERATIONS IF OIL FEES ARE BOOSTED

If President Ford increases oil import tariffs from one dollar to three dollars as he has threatened to do to deal with the energy crisis in the United States, there is no way that the Hess Oil Refinery in St. Croix would be able to stay in business, Hawk Wright, the company's chief executive officer on St. Croix, told members of the Legislature's Labor Committee at a recent meeting.

Wright said that production at the St. Croix plant had been reduced from 650,000 to 460,000 barrels a day, and on the basis of the present one dollar per barrel fee Hess is experiencing a cash flow drain of more than twelve million dollars a month.

Atty. Everett Birch, who represents Hess, said the "same applies in Puerto Rico, except in Puerto Rico, they pay the tax when the barrel of crude oil enters Puerto Rico. We pay the tariff or the tax or the fee, whatever you want to call it, when the product goes into the United States."

Birch said that for some strange reason, known only to the Federal government, "a barrel of product produced in Trinidad, Italy, the Bahamas, any place other than the two U.S. areas, (Puerto Rico and the Virgin Islands) does not pay the tax. . . . The Virgin Islands doesn't benefit by one penny out of that tax, because that's paid into the Federal treasury. So, we are at a dollar a barrel competitive disadvantage, now, coupled with the fact that we run exclusively on foreign crude.

"You have two competitive disadvantages, which is the simple and plain reason why we have got the plant operating far below its present capacity. You don't put in this kind of investment not to run it full out and maximize your making money and producing products, but you can't compete on the basis of paying a dollar more than a foreign refiner will pay into the United States. . . ."

Birch added that the Federal Energy Commission has said that the refineries of Puerto Rico and the Virgin Islands are captive domestic refineries with the consequence that one hundred per cent of our products must go into the United States. "So you can't even fish around on the foreign market and sell oil on which you don't have to pay the dollar tax."

Wright stressed that if the tariff is increased there is no way we can stay in business.

"That's no exaggeration. We can't pass that type of expenditure of cost on the customers. We are sitting here paying twelve dollars per barrel for crude oil. Every barrel we run is a foreign type crude oil. We are competing in a market in the United States with refiners from the major oil corporations that are using domestic crude that cost five dollars a barrel. Just that differential in crude cost alone puts us in an uncompetitive position; add to that three dollars a barrel tariff for $55,000,000 a month, we are not that good. We will be out of business within six months. I don't think I am exaggerating."

Birch said it does go to the question of future plans and will affect the proposed second refinery. "As long as this tariff is in the picture you would have to be foolish to think that you could compete with major oil companies with a disability of one, two, three dollars a barrel in production. Now, why the Federal Government worked out a scheme where its "two foreign" areas of influence pay this tax and a truly foreign country does not pay it is beyond my

comprehension. Literally you could ship in from anyplace other than Puerto Rico or the Virgin Islands and not pay this tariff on goods that are processed from foreign crude oil. It has nothing to do with domestic crude oil."

Asked is there any possibility of Hess returning to full production, Birch said:

"First, will be the tariff. Secondly, would be what happens to the price of foreign crude; and, thirdly, what the market could absorb in the United States. Gasoline and your petroleum market is very weak today. There was a shortage a year ago, now, there's a surplus. And many of your refineries, both in the United States and abroad are operating at fifty, sixty per cent of capacity. I think the most serious threat today is this tariff, as to how you could possibly compete with a company that is not paying the tariff, especially if it goes to three dollars a barrel. You have forty-two gallons in a barrel; so it's roughly seven, eight cents a gallon. Nobody is that good to run a plant with that."

[From the STX-Mirror, Jan. 4, 1976]

HESS OIL CO. BEGINS A MASSIVE CUTBACK

The Virgin Islands received an economic jolt Friday as a New Year's gift, when the week-old anticipated layoffs at the Hess Oil Refinery on St. Croix's south shore began.

It is understood that this first phase of the layoffs will affect some 150 employees, mostly refinery operators the majority of whom will be from the maintenance department. Already a great number of personnel from the shutdown west refinery have been shifted into various other departments.

One source disclosed that the affected employees were given the word Friday.

Several weeks ago. Hess completely shut down its west refinery cutting back its daily production to less than half. Since then there has been an air of uncertainty hanging over the sprawling industrial complex, as the employees just waited for the axe to fall.

At that same time Senior Vice President Hank Wright told the "Mirror" that although production was indeed cutback, he did not anticipate at that time any immediate layoffs, but added that if the market situation remained as poorly as it was, the company would be forced to cut back on personnel.

Unconfirmed reports repealed that if the market situation still presists, still more layoffs could be expected. However efforts to contact local officials at Hess Friday proved futile as most of the management team were involved in a series of meetings deliberating the planned layoffs.

In the last two weeks between the Litwin Construction Company and the Fluor Construction company bothmon St. Croix close to 1000 people have been laid off. In the case of Litwin, theirs is a planned layoff as they are phasing out their contractual obligations with Hess while Fluor is just about ready to hand over the Petro-chemical plant they were building for a company owned jointly by Hess and Hercules Petroleum.

STATEMENT OF THE LABOR-MANAGEMENT MARITIME COMMITTEE

The Labor-Management Maritime Committee, composed of major steamship lines and maritime unions, appreciates the opportunity to present this statement on S. 2422 which would extend to the Virgin Islands the coastwise laws of the United States with respect to the transportation of crude oil, residual fuel oil and refined petroleum products. We support this proposed legislation.

Before the United States acquired the Virgin Islands from Denmark in 1917, foreign flag vessels operating between the United States and the Virgin Islands were obviously considered engaged in foreign commerce. After the United States acquired the Virgin Islands, foreign carriers were permitted to continue in the Virgin Islands trade until June 5, 1920, when the Merchant Marine Act (Jones Act) of 1920 was enacted. Section 21 of this Act extended the application of the coastwise laws to trade involving the island territories and possessions after February 1, 1922. The coastwise laws prohibit foreign built or registered ships from engaging in direct trade between U.S. ports.

The President of the United States, however, was authorized to postpone the date of Section 21's applicability where deemed necessary to ensure adequate shipping service. He did so with respect to the Virgin Islands by annual proclamation, which permitted foreign flag vessels to continue to operate in the virgin Islands trade. In 1936, because doubts were raised in the Virgin Islands that the President would continue to re-issue the annual proclamations of exemption for the Virgin Islands, the Congress of the United States was urged to exempt specifically the Virgin Islands trade from the restrictions against foreign vessel service. After much consideration, Congress, in 1936, amended Section 21 of the 1920 Act to provide that the coastwise law shall not apply to the Virgin Islands until the President, by proclamation, determines otherwise. Such a proclamation was never issued.

In 1942 President Roosevelt, by Executive Order, ordered that all of the navigation and vessel inspection laws of the United States be made applicable to the Virgin Islands. However, the coastwise laws of the United States were excepted. There have been no changes in this provision since 1942.

The continuation of the status quo since these earlier actions were taken has perpetuated the preponderant inadequacy of U.S. flag service to the Virgin Islands and, conversely, it has progressively advanced the cause of foreign shipping in what should be considered, de facto as well as de jure, the domestic commerce of the United States. Nor will this situation change until modified by Presidential or Congressional action.

We, therefore, support S. 2422 as a step in the right direction toward eventual ending this outgrown exemption. Since crude oil, residual fuel oil and refined petroleum products constitute the major commerce now moving between the Virgin Islands and the United States, S. 2422 will considerably meet that objective. We favor bringing all domestic commerce between the U.S. and the Virgin Islands under the Jones Act.

Senator J. Bennett Johnston has specified that the legislation set forth in S. 2422 will (1) provide job opportunities, (2) stimulate the creation of urgently needed refinery capacity, and (3) enhance U.S. energy objectives. Such a three-fold result would most certainly justify the legislative proposal he advances.

Over the years, opportunities for ending the Jones Act exemption for the Virgin Islands have passed without any Presidential Proclamation to bring it to an end. This has operated to the detriment of U.S. flag shipping and foreign flag operations have taken full advantage of this loophole in the Jones Act.

We, therefore, believe Congressional action is now warranted and that such action is timely.

We support the enactment of S. 2422 to bring the Virgin Islands within the coastwise laws of the United States with respect to the transportation of crude oil, residual fuel oil and refined petroleum products in U.S. flag shipping between the Virgin Islands and domestic ports of the United States.

We respectfully request that this statement be made a part of the official record of the hearings on S. 2422.

SHIPBUILDERS COUNCIL OF AMERICA,
Washington, D.C., February 13, 1976.

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

DEAR MR. CHAIRMAN: Shipbuilders and shiprepairers in all sections of the country strongly support Senate Bill 2422, sponsored by Senator J. Bennett Johnston, Jr., to amend the Merchant Marine Act, 1920, with respect to the Virgin Islands.

As you know, the Virgin Islands, since their acquisition from Denmark, have not been brought within the purview of the coastwise laws of the United States. Section 877, Title 46 USC, reads, in part, as follows:

> "That the coastwise laws of the United States shall not extend to the Virgin Islands of the United States until the President of the United

States shall, by proclamation, declare that such coastwise laws shall extend to the Virgin Islands and fix a date for the going into effect of same."

This clause was reiterated in Section 1405(c), Title 48 USC, which authorizes the Legislative Assembly of the Virgin Islands to enact navigation laws, but also gives the President the power to make the coastwise laws of the United States applicable as he may find and declare to be necessary in the public interest. By Presidential Proclamation (Executive Order 9170, May 21, 1942), the President ordered all of the navigation and vessel inspection laws to be applicable to the Virgin Islands except "the coastwise laws of the United States."

In all probability, the absence of adequate American-flag shipping service to the Virgin Islands originally accounted for this action, but implicit in the language, quoted above, is the eventuality of a Presidential proclamation to conform the Virgin Islands to the coastwise laws of the United States in the same manner as all other state, territories and possessions.

Shipping services by American-flag, American-built ships now appear to be adequate, and there is no longer any justification for giving an advantage to the Virgin Islands which the balance of the Republic does not enjoy. Moreover, as Senator Johnston has suggested, enactment of the pending legislation will (1) provide job opportunities for seagoing and shipyard labor, (2) stimulate the creation of urgently needed refinery capacity, and (3) enhance U.S. energy objectives.

Repeated opportunities for the issuance of a Presidential Proclamation having passed without action on the part of The White House, we most earnestly hope that your Committee will promptly approve S–2422, to bring the Virgin Islands within the purview of the coastwise laws of the United States and requiring the use of American-flag, American-built vessels in trades between the Virgin Islands and continental U.S. ports involving the transportation of crude oil, residual fuel oil, and refined petroleum products as well as any other products.

We further request that this letter, on behalf of our membership, be included as a part of the record of your Subcommittee's hearings on February 25, 1976 in connection with this legislation.

With warm personal regards always, I am

Cordially,

EDWIN M. HOOD,
President.

AMERICANS FOR PROJECT INDEPENDENCE, INC.,
Norfolk, Va., February 20, 1976.

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

DEAR SENATOR LONG: This association was organized a couple of years ago, and our objective is to exert every effort to further the basic objective of Project Independence. This association consists of leaders in business, labor and public service fields in Tidwater Virginia.

We endorse Bill S. 2422 that was introduced by Senator Johnston. We take this action because we see no reason why the Virgin Islands should be exempt from the so-called "Jones Act" All other non-contiguous states such as; Hawaii and Alaska, are not extended any special exemption and; therefore, there is no justification for giving the Virgin Islands any special benefit.

Based on the volume of refined products produced in the Virgin Islands and shipped to the U.S.A. mainland, the use of twenty-six new U.S. flag convenient size tankers would be required. This would very dramatically benefit those American workers who are manning American flag ships. Merchant marine seamen have experienced serious hardship due to unemployment over the past several years, and this added employment would be a great boost to their moral and would strengthen our national security by having these additional vessels flying American flags.

Since many of our members are also members of organized labor associations, we are naturally interested in any action such as the one covered by S.

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2422 that would not only benefit our merchant marine fleet, but also, at the same time, strengthen our national security.

At a time when the OPEC nations are entering into new joint ventures with the major international oil companies, the Seven Sisters, in the ownership and operation of a rapidly increasing tanker fleet flying foreign flags and under the control of foreign governments, we feel that it is imperative that every possible action be taken to the end that our sadly reduced merchant marine fleet be increased in every possible manner. If an oil embargo should again be applied tankers transporting OPEC oil to our country are under the control of OPEC to our nation by the OPEC countries under conditions wherein most of the nations, which will mean they will be diverted in mid ocean, then our nation will indeed be in dire peril. The main reason the oil embargo, a couple of years ago, did not bring our nation to its knees was the fact that the oil en route on the ocean was not controlled by tankers flying the OPEC country flags.

Respectfully yours,

RICHARD COUNSELMAN,
President.

CHRISTIANSTED, ST. CROIX, U.S. VIRGIN ISLANDS, *March 1, 1976.*

Senator J. RUSSELL JOHNSTON,
Chairman of Merchant Marine Division,
Senate Office Building,
Washington, D.C.

DEAR SENATOR JOHNSTON: This letter is submitted in support of the proposed bill to extend the Jones Act to shipments of U.S. Virgin Islands petroleum products.

Governor King and others have testified in opposition. Their testimony is that the bill would harm Hess Oil Corporation. They proceed on the assumption that what is good for Hess is good for the Virgin Islands. They point with alarm to present widespread Virgin Islands unemployment as the reason for their concern and their fears that removal of the exemption may decrease employment at Hess.

Reflection demonstrates that the basic assumption for this opposition is wrong. Passage of the bill will establish a new industry at the expense of foreign shipping. The new U.S. flag shipping industry will need to employ hundreds of people, not only to man U.S. flag ships but also to support the fleet which will have to maintain Virgin Islands facilities for supplies, repairs, etc.

Thus the Bill offers immediate and expanded prospects of employment opportunities not now open to Virgin Islanders. The fact that the proposed bill may hurt the chances for the Virgin Islands Refinery Corporation building a second refinery on St. Croix is also cited as a reason for opposition. This argument is a straw man. The chances are remote that the second refinery ever will obtain the financing and sources of raw materials essential to that project. Moreover, like most Virgin Islanders, I am cynical that the highly automated refinery industry offers many job opportunities to local people. The industry seems to prefer down islanders with previous training in Trinidad, Aruba, or elsewhere. In any event, it is foolish to weigh remote future chances of employment with the Virgin Islands Refinery Corporation against immediate prospects for jobs in the new shipping industry.

There are equities in the bill for those who pay taxes in the United States. Over 70% of the income of the Virgin Islands Government comes directly or indirectly from the United States Government. The U.S. permits the Virgin Islands Government to keep all locally raised Federal income taxes. The Virgin Islands Government in turn permits Hess Oil to keep 80% of such income taxes, over 70% of which are contributed by U.S. taxpayers. On top of this, Hess would like to keep the advantages of extra profits offered by the Jones Act exemption. This is understandable and expected.

But for Hess, the Jones Act exemption must be only the icing on the cake. The Jones Act exemption has always been at risk since the President of the United States has the privilege of removing it by executive order. Certainly Hess knew when it chose the Virgin Islands that the President of the United

States is not immune from proper pressures by U.S. shipping and labor interests for equal treatment of all territories under the U.S. flag. The exemptions from U.S. income taxes will keep Hess working hard to maximize profits, at least until the exemptions expire in 1980. Where is Hess going to take the present plant and operate it free from the tremendous advantages offered by the 80% U.S. income tax exemptions? The money saved by this tax exemption is quite different under U.S. law from exemptions offered U.S. enterprises by foreign governments, where the savings are taxed when the money is eventually brought back to the U.S. Hess will keep its tax savings forever.

I wish Hess Oil well and am sure that even without the Jones Act exemptions, it will continue to operate profitably in the future as it has in the past as a good citizen of the Virgin Islands. I cannot, however, join Governor King and the others in their assumption that what is good for Hess is necessarily good for the Virgin Islands.

Very truly yours,

WILLIAM T. HOLMES.

SUN OIL CO.,
St. Davids, Pa., March 24, 1976.

Hon. RUSSELL B. LONG,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LONG: Reference is made to S.2442—a bill to amend the coastwise shipping laws to encompass the Virgin Islands with respect to the transportation of petroleum and its products.

While S.2422 is addressed solely to the question of U.S. versus foreign-flag vessels in transporting petroleum products from the Virgin Islands to the mainland U.S., the treatment accorded the Virgin Islands refinery by the Federal Energy Administration with respect to entitlements, price controls, etc. adds another element to the problem of establishing competitive position by fiat. Under the two-tiered pricing system for domestic crude oil, FEA treats the Virgin Islands complex as a domestic refinery. The combination of entitlements for low-cost domestic "old oil" and the use of foreign flag vessels has resulted in a discernible competitive advantage to the Virgin Islands refiner.

Given this situation, Sun Company wishes to propose the following alternatives for your consideration:

1. If the Virgin Islands refinery is to be treated as a domestic refinery with respect to regulations promulgated by the Federal Energy Administration, it should not remain exempt from the coastwise provisions of the Merchant Marine Act of 1920.

2. If the Virgin Islands refinery is to be treated as a nearby Caribbean non-U.S. refinery outside FEA regulations, then it should remain exempt from the Jones Act provisions.

This approach could place the Virgin Islands refiner on the same basis as those in Puerto Rico on the one hand or equate him to non-U.S. Caribbean refiners on the other. Either way, the resultant competitive imbalance would be less than the existing arrangements.

Sincerely yours,

JOHN LEE OLSEN,
Vice President.

AMERICAN INSTITUTE OF MERCHANT SHIPPING,
Washington, D.C., March 30, 1976.

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

DEAR MR. CHAIRMAN: The purpose of this letter is to indicate the support of the American Institute of Merchant Shipping (AIMS) for legislation to extend the provisions of our coastwise trading laws to the Virgin Islands. AIMS is the national trade association of the U.S.-flag steamship industry. Our 34 member companies and their 340 U.S.-flag ships represent about 70% of that industry.

S. 2422, a bill presently pending before your Subcommittee, would amend the so-called Jones Act provision in the 1920 Merchant Marine Act to eliminate the exemption as it applies to the transportation of crude oil, residual fuel oil and refined petroleum products. Legislation is needed to close the long-standing, harmful loophole in our coastwise trading laws represented by the Virgin Islands exemption, and we urge that S. 2422 be amended to include all seaborne trade between the Virgin Islands and other U.S. ports. I think it is worth noting that virtually all commercial nations, either by statute or by public policy, restrict participation in their coastwise trades to vessels documented under their own flag.

This proposed legislation would provide a much-needed boost to U.S.-flag shipping, particularly the tanker industry which has been badly buffeted of late because of depressed conditions in the world market. It would generate, according to a 1975 Maritime Administration study, new jobs for about 1,400 American merchant seamen, a group that is bearing a disproportionate share of our current national unemployment burden. Additionally, this bill would shortly lead to a requirement for new ships to be built and older ones to be repaired in American yards, thus benefiting the shipbuilding industry, their work force, and the thousands of business entities around the nation that supply the yards.

There are virtually no disadvantages that would flow from enactment of legislation to apply the Jones Act to the Virgin Islands. The possible minimal adverse cost impact would be more than offset by the additional revenues to be generated by the shipping, shipyard, and employment activities mentioned above.

The preamble to the 1970 Merchant Marine Act declares it to be the policy of the United States to foster the development and encourage the maintenance of an American-flag fleet sufficient to meet the requirements of national defense and the needs of our foreign and domestic waterborne commerce. S. 2422, with the amendment we have urged, represents a major, desirable step toward the attainment of that goal, and we urge that it be promptly enacted into law.

We ask that this letter be made part of the hearing record on S. 2422 and thank you for considering our views.

Sincerely,

ALBERT E. MAY,
Vice President.

THE AMERICAN WATERWAYS OPERATORS, INC.,
Arlington, Va., April 13, 1976

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

DEAR MR. CHAIRMAN: The American Waterways Operators, Inc., appreciates this opportunity to express our views of S. 2422.

This bill would amend the Merchant Marine Act of 1920 in order to provide that the Coastwise Laws be extended to the U.S. Virgin Islands, with respect to the transportation of crude oil, residual oil, and refined petroleum products.

I am certain that I do not need to spell out the entire history of the present Virgin Islands Legislative exemption. However, it is rooted in a policy established over fifty years ago, shortly after our purchase of the Virgin Islands, when there was little trade incentive for American flag vessels to call in the Islands and the exemption was inserted in law to provide easier transportation of cargoes to and from the Virgin Islands.

1976 presents an entirely different picture. There is presently on the Island of St. Croix the largest petroleum refinery in the United States. It is allowed to transport its petroleum products to other U.S. ports in non-U.S. flag bottoms. We see as a matter of simple justice to the rest of the United States the need for Congress to eliminate this exemption and allow all areas of this land to compete under the same set of rules.

I am privileged to inform you that at a recent meeting of our Association's Board of Directors the question of legislative support for S.2422 was brought before our Board and that they voted to support this legislation in keeping

with our Association's long standing policy in favor of strengthening our cabotage laws. We believe S.2422 is a further step in that process and urge favorable reaction by your subcommittee, the full Commerce Committee, the Senate and the Congress.

Cordially yours,

JAMES R. SMITH,
President.

[Telegram]

ST. CROIX CHAMBER OF COMMERCE,
February 24, 1976.

DEAR SENATOR LONG: The St. Croix Chamber of Commerce of the United States Virgin Islands hereby submits testimony opposing the passage of bill S. 2422 for the record of the hearings currently being conducted by your subcommittee.

The Chamber strongly opposes the provisions of bill S. 2422 that extends the Jones act to include all petroleum and petroleum products shipped into the United States mainland from the Virgin Islands.

The Chamber is convinced that passage of bill S. 2422 would have a devastating effect on an already depressed local economy that is experiencing an unemployment rate of 10 percent or greater at this point in time.

Historically, the Virgin Islands have been exempt from the provisions of the Jones act. This exemption provided the Virgin Islands Government with a means of attracting desperately needed industry to our shores and contributed substantially to the development of oil refining as a major industry in the territory.

The chamber maintains that passage of bill S. 2422 would restrict the operations of the existing refinery (Hess Oil Virgin Islands Corporation) and delay or restrict the development of the second refinery (Virgin Islands Refinery Corporation) at a time when employment and government revenues are at an all time low.

The net result would be to deny the people of an isolated territory the right of gainful employment by reducing the incentives necessary for the industrial development of the Virgin Islands.

The St. Croix Chamber urges that an economic impact study be conducted to determine the total adverse effect of bill S. 2422 on the Virgin Islands economy.

The St. Croix Chamber of Commerce is confident that the results of this study would more than substantiate the testimony presented and would prompt your subcommittee to consider preventing the passage of bill S. 2422.

Respectfully submitted,

JAMES L. HILL,
President.

SUBSIDIZED AND UNSUBSIDIZED U.S. SHIPBUILDING PROGRAMS
JULY 1, 1966–DECEMBER 1, 1975

SUMMARY

During the 5½-year period from July 1, 1966, through December 31, 1971, U.S. ship operators, building vessels in American yards without construction-differential subsidy, invested $1.329 billion of their own money in new tonnage and the reconstruction and moernization of existing ships.

During the same period, the total cost of subsidized vessels completed or contracted for was $1.532 billion. When one considers, however, that CDS on these vessels averaged 50%, it can be seen that the total private investment of subsidized operators amounted to about $766 million—and, in fact, was less than that if one takes into account the tax deferment benefit which was not available to unsubsidized operators during most of that time.

Moreover, during the period from January 1, 1972 through December 1, 1975—when virtually all the awards were made for subsidized tanker and bulk carrier construction under the Merchant Marine Act of 1970—unsubsidized operators completed new construction at a cost of $723.6 million plus reconstruction of $10 million, for a total of $733.6 million.

Subsidized construction during this period, including the construction of tankers and OBOs built with subsidy under the 1970 Act, as well as subsidized

liners, amounted to $600.7 million after CDS, plus $57 million for conversions, for a total of $657.7 million.

Thus, during the period of nearly a decade which elapsed between mid-1966 and the end of 1975, the total private investment in unsubsidized ships was over $2 billion, while the private investment in subsidized vessels was approximately $1.4 billion.

The individual building projects leading to the above conclusions follow:

UNSUBSIDIZED SHIP CONSTRUCTION AND CONVERSIONS COMPLETED JAN. 1, 1972–DEC. 1, 1975

Company	Vessel	Date	Type	Deadweight tons	Cost [1]
		New Construction			
Marine Leasing	Sealift Indian Ocean	Aug. 29, 1975	T	25,000	$16.0
Undisclosed	Great Land	Aug. 27, 1975	RoRo	14,180	25.0
Marine Leasing	Sealift Antarctic	Aug. 1, 1975	T	25,000	16.0
Do	Sealift Arctic	May 21, 1975	T	25,000	16.0
Do	Sealift China Sea	May 19, 1975	T	25,000	16.0
American SS	Sam Laud	Apr. 29, 1975	O	23,300	12.0
Marine Leasing	Sealift Caribbean	Feb. 10, 1975	T	25,000	16.0
Do	Sealift Arabian	Feb. 6, 1975	T	25,000	16.0
Undisclosed	Puerto Rico	Jan. 16, 1975	RoRo	14,180	24.0
Marine Leasing	Sealift Mediterranean	Nov. 7, 1974	T	25,000	16.0
Kinsman Marine	Wolverine	Oct. 15, 1974	O	19,000	16.7
Seabulk	Seabulk Challenger	Sept. 30, 1974	TB	35,000	14.5
Marine Leasing	Sealift Atlantic	Aug. 26, 1974	T	25,000	16.0
ARCO	Arco Fairbank	Aug. 21, 1974	T	120,000	30.0
Marine Leasing	Sealift Pacific	Aug. 14, 1974	T	25,000	16.0
Cleveland Tankers	Saturn	Aug. 5, 1974	T	7,200	5.0
American SS	H. Lee White	May 31, 1974	O	28,100	13.0
Undisclosed	El Taino	May 29, 1974	RoRo	14,180	24.0
Atlantic Richfield	Arco Juneau	May 9, 1974	T	120,000	30.0
Interseas Corp	Overseas Juneau	Dec. 27, 1973	T	120,000	30.0
Litton	Presque Isle	Dec. 13, 1973	TB	53,000	7.0
M'time Properties	Matsonia	Dec. 11, 1973	RoRo	14,180	19.0
Kinsman Marine	Paul Thayer	Nov. 15, 1973	O	19,000	11.7
Franklin SS	Charles E. Wilson	Sept. 12, 1973	O	27,500	12.6
Bankers Trust	Sugar Islander	Aug. 24, 1973	B	28,000	15.0
M'time Properties	Lurline	do	RoRo	14,180	19.0
Edison SS	Roger M. Keys	Aug. 22, 1973	O	26,000	13.0
Global Marine	Glomar Explorer	July 28, 1973	DS	23,000	50.0
Kinsman Marine	William R. Roesch	July 6, 1973	O	19,000	11.7
Standard Oil Co	Chevron Hawaii	June 28, 1973	T	69,800	18.0
Atlantic Richfield	Arco Anchorage	June 5, 1973	T	120,000	30.0
Ecological Shiping	Notre Dame Victory	May 18, 1973	T	80,000	18.0
TTT, Inc	Fortaleza	Dec. 28, 1972	RoRo	14,180	23.2
Standard Oil Co	Chevron Mississippi	Oct. 5, 1972	T	69,800	18.0
Mobile Oil Corp	Mobile Arctic	Aug. 17, 1972	T	126,000	NA
Hendy International	Chevron California	July 27, 1972	T	69,800	18.0
U.S. Steel	Roger Blough	June 15, 1972	B	39,000	18.0
Hendy International	Arco Sag River	May 15, 1972	T	69,800	16.0
Falcon Tanker	Falcon Princess	May 4, 1972	T	30,223	9.6
Bethlehem Steel	Stewart J. Cort	Apr. 1, 1972	O	53,000	18.0
Falcon Tankers	Falcon Countess	Jan. 13, 1972	T	30,223	9.6
Total				1,735,826	723.6
		Conversions			
Texaco, Inc	Texaco California	Feb. 13, 1973	T	42,000	5.0
Do	Texaco New York	May 17, 1972	T	42,000	5.0
Sabine Towing	Colorado	Feb. 12, 1972	T	NA	NA
Total				84,000	10.0
Grand total				1,819,826	733.6

[1] In millions.

SUBSIDIZED SHIP CONSTRUCTION AND CONVERSIONS COMPLETED JAN. 1, 1972–DEC. 1, 1975

Company	Vessel	Date	Type	Deadweight tons	Cost[1]	CDS percent	Private cost
		New Construction					
Boston VLCC II	Massachusetts	Oct. 9, 1975	T	265,000	$70.0	43	$39.9
Aeron Marine	Golden Monarch	June 25, 1975	T	89,700	27.9	43	15.903
Margate Shipping	Chelsea	Feb. 28, 1975	T	38,300	18.2	43	10.374
Central Gulf	Green Island	Feb. 25, 1975	L	39,000	27.4	43	15.618
Tyler Tanker	Williamsburg	Dec. 31, 1974	T	225,000	57.3	43	32.661
Aeron Marine	Golden Endeavor	Dec. 12, 1974	T	89,700	27.9	43	15.903
Central Gulf	Green Harbour	Dec. 10, 1974	L	39,000	27.3	43	15.561
Prudential Lines	Lash Pacifico	Oct. 11, 1974	L	29,000	19.0	50	9.5
Do	Lash Atlantico	do	L	29,000	19.0	50	9.5
Aeron Marine	Golden Dolphin	Oct. 10, 1974	T	89,700	27.8	43	15.846
Waterman	Sam Houston	Sept. 25, 1974	L	39,100	27.0	44.2	15.066
Central Gulf	Green Valley	Sept. 6, 1974	L	39,000	27.5	44.2	15.345
Margate Shipping	Cherry Valley	July 10, 1974	T	38,300	18.2	43	10.374
Waterman	Stonewall Jackson	June 25, 1974	LASH	39,100	27.9	44.2	15.5682
Do	Robert E. Lee	do	LASH	39,100	27.9	44.2	15.5682
Pacific Far East	Sea Land Producer	Apr. 19, 1974	C	22,400	25.3	46.5	13.5355
Aries Marine	Ultrasea	Mar. 19, 1974	OBO	80,500	30.1	45	16.555
American President	President Johnson	Jan. 4, 1974	C	20,200	23.2	46.4	12.4352
Langfitt Shipping	Brooklyn	Dec. 31, 1973	T	225,000	57.3	43	32.661
Margate Shipping	Coronado	Dec. 28, 1973	T	38,300	18.2	43	10.374
Farrell Lines	Austral Entente	Dec. 20, 1973	C	18,700	21.0	50	10.5
American President	President Pierce	Nov. 30, 1973	C	20,200	21.9	50	10.95
Delta Steamship	Delta Sud	Nov. 29, 1973	L	39,100	28.5	44.2	15.903
Pacific Far East	Sea Land Consumer	Nov. 20, 1973	C	22,400	25.2	26.5	18.522
Delta Steamship	Delta Norte	Sept. 12, 1973	L	39,100	28.5	44.2	15.903
Aries Marine	Ultramar	Aug. 8, 1973	OBO	80,500	30.1	45	16.555
Delta Steamship	Delta Mar	July 11, 1973	L	39,100	28.5	44	15.96
American Export	Export Patriot	July 2, 1973	C	32,300	17.0	41.6	9.928
Farrell Lines	Austral Endurance	May 31, 1973	C–6	18,700	21.0	50	10.5
American President	President Madison	Apr. 12, 1973	C	20,200	21.9	50	10.95
Pacific Far East	Philippine Bear	Mar. 19, 1973	L	29,000	21.4	50	10.7
Lykes Brothers	Tillie Lykes	Mar. 16, 1973	S	17,000	32.6	55	14.67
Farrell Lines	Austral Ensign	Feb. 27, 1973	C	19,750	21.0	55	9.45
American President	President Jefferson	Feb. 16, 1973	C	20,200	21.9	50	10.95
American Export	Export Leader	Jan. 22, 1973	C	32,200	17.0	41.6	9.928
Farrell Lines	Austral Envoy	Sept. 29, 1972	C	19,750	20.9	50	10.45
Lykes Brothers	Almeria Lykes	Sept. 26, 1972	S	27,000	32.6	55	14.67
American Export	Export Freedom	Aug. 7, 1972	C	32,300	17.0	41.6	9.928
Lykes Brothers	Dr. Lykes	June 21, 1972	S	27,000	32.6	55	14.67
Pacific Far East	China Bear	May 26, 1972	L	29,000	21.4	50	10.7
Do	Japan Bear	Mar. 3, 1972	L	29,000	21.3	50	10.65
Totals				2,135,000	1,129.1		600.6851
		Conversions					
Waterman	Nathanael Green	July 30, 1975	F	13,766	0.8	24.75	0.602
American President	President Taft	May 25, 1973	C	15,000	.8	40.3	.4776
Do	President Van Buren	May 4, 1973	C	15,000	.8	40.3	.4776
Lykes Brothers	Ashley Lykes	Mar. 31, 1973	C5	10,644	3.5	43	1.995
American President	President Grant	Mar. 26, 1973	C	15,000	.7	40.3	.4179
Do	President Harrison	Feb. 16, 1973	C	12,830	6.5	41.5	3.8025
Lykes Brothers	Majorie Lykes	Feb. 9, 1973	C5	10,644	3.5	43	1.995
American President	President Monroe	Nov. 28, 1972	C	12,830	6.5	41.5	3.8025
Lykes Brothers	Brinton Lykes	Oct. 13, 1972	C5	10,644	3.5	43	1.995
American President	President Fillmore	Oct. 10, 1972	C	12,650	6.8	41.5	3.978
Do	President Polk	Sept. 22, 1972	C	12,830	6.5	41.5	3.8025
American Mail	Oregon Mail	Sept. 15, 1972	C	15,600	9.5	41.5	5.5575
American President	President McKinley	Sept. 8, 1972	C	12,650	6.7	41.5	3.9195
Lykes Brothers	Leslie Lykes	Aug. 11, 1972	C5	10,644	3.4	45.4	1.8564
American President	President Taft	July 11, 1972	C	12,830	6.5	41.5	3.8025
Lykes Brothers	James Lykes	May 26, 1972	C5	10,644	3.4	45.4	1.8564
American President	President Grant	Apr. 24, 1972	C	12,650	6.7	41.5	3.5919
Lykes Brothers	John Lykes	Apr. 5, 1972	C5	10,644	3.4	45.4	1.8564
American Mail	Philippine Mail	Mar. 24, 1972	C	15,600	8.7	38.6	5.3418
American President	President Van Buren	Feb. 25, 1972	C	12,830	6.5	41.5	3.8025
Lykes Brothers	Jean Lykes	Feb. 1, 1972	C5	10,644	3.4	45.4	1.8564
Total				753,148	102.6		57.1145
Grand total				2,889,048	1,231.7		657.7996

[1] In millions.

SUMMARY—JULY 1, 1966–DEC. 31, 1971

	New ships	Conversions	Cost (in millions)
AMA:			
Current	6	0	$230.8
Completed	9	54	416.7
Total	15	54	647.5
Non-AMA; nonproprietary:			
Current	14	1	176.9
Completed	19	12	355.0
Total	33	13	531.9
Non-AMA; proprietary:			
Current	6	2	136.0
Completed	4	10	90.0
Total	10	12	226.0
Subsidized:			
Current	24	14	644.5
Completed	52	18	888.0
Total	76	32	1,532.5

AMA SHIP CONSTRUCTION AND CONVERSION UNDER CONTRACT—JAN. 1, 1972

New Construction

Company	No.	Deadweight tons	Type	Cost (in millions)
Hase Shipping	1	230,000	Tanker	$57.5
Interseas Tankers	1	120,000	do	32.0
Langfitt Shipping	1	230,000	do	57.5
Waterman	3	117,300	LASH	83.8
Total	6			230.8

Conversions

None

AMA SHIPS COMPLETED

Company	Name	Deadweight tons	Type	Cost (in millions)
July 1–Dec. 31, 1971				
None				
July 1, 1970–June 30, 1971				
Hudson Waterways	Transidaho	15,316	Containership conversion	$2.8
Intercontinental Bulktank	Overseas Alaska	61,700	Tanker (new)	15.2
Ocean Transport	Overseas Aleutian	39,838	Tanker conversion	NA
Overseas Bulktank	Overseas Arctic	61,700	Tanker (new)	15.3
Total				33.2

AMA SHIPS COMPLETED—Continued

Company	Name	Deadweight tons	Type	Cost (in millions)
July 1, 1969–June 30, 1970				
Hudson Waterways	Transchamplain	16,500	Tanker conversion	$7.0
Do	Seatrain Delaware	10,453	do	2.0
Do	Transindiana	14,458	C-4 conversion	5.0
Do	Transoregon	15,250	C-4 to Cn	2.8
Do	Transhawaii	15,231	do	2.8
Penn Tanker Co	Penn Champion	37,250	Tanker (new)	11.8
Sea-Land Service	Chicago	17,000	C-4 conversion	9.5
Do	Tampa	13,381	T to Cn	10.0
Do	Anchorage	12,066	do	10.0
Do	Seattle	8,989	do	10.0
Do	St. Louis	17,412	C-4 to Cn	9.5
Do	Baltimore	10,002	T to Cn	10.0
Watermann SS Corp	Robert E. Lee	15,600	C-4 conversion	2.6
Do	Stonewall Jackson	15,557	do	2.6
Total				95.6
July 1, 1968–June 30, 1969				
Hudson Waterways	Transcolorado	11,475	C-4 conversion	$6.3
Do	Transcolumbia	11,475	do	6.3
Do	Transoneida	9,539	Tanker conversion	7.0
Do	Transontario	10,485	do	7.0
Ocean Tankership	Overseas Vivian	37,250	Tanker (new)	11.0
Overseas Bulktank	Overseas Audrey	37,250	do	11.0
Sea-Land Service	Boston	9,317	C-4 conversion	6.0
Do	Mobile	9,401	do	5.4
Do	Brooklyn	9,700	do	5.5
Do	Galveston	9,356	do	9.5
Do	New Orleans	9,700	do	5.5
Do	Philadelphia	9,357	do	5.4
Wabash Transport	Ogden Wabash	37,250	Tanker (new)	11.0
Willamette Transport	Ogden Willamette	37,250	do	11.0
Total				107.9
July 1, 1967–June 30, 1968				
Albany River Transport	Albany	15,000	C-4 conversion	$2.2
Hudson Waterways	Seatrain Washington	15,510	Tanker conversion	5.6
Do	Transerie	19,643	do	2.5
Do	Seatrain Ohio	15,150	do	5.9
Intercontinental Bulktank	Overseas Alice	37,250	Tanker (new)	11.0
James River Transport	James	15,000	C-4 conversion	2.2
Mohawk, Inc	Mohawk	15,000	do	2.2
Sea-Land Service	Houston	13,050	Tanker conversion	6.5
Do	Jacksonville	13,050	do	6.5
Do	Marine Baltimore	15,000	C-4 conversion	6.5
Do	Marine Charleston	15,000	do	6.5
Do	Portland	9,702	do	6.5
Do	Newark	9,344	do	6.5
Do	Panama	15,000	do	11.0
Do	Trenton	15,000	do	11.0
South Atlantic and Caribbean	MV Sacal Barincano	1,500	Roll-on (new)	3.6
Total				96.2
July 1, 1966–June 30, 1967				
Hudson Waterways	Seatrain Puerto Rico	17,200	Tanker	$5.6
Do	Transhuron	19,643	Tanker conversion	2.8
Do	Seatrain Carolina	17,200	do	5.6
Do	Seatrain Florida	17,200	do	5.5
Do	Seatrain Maryland	17,200	do	5.5
Do	Seatrain Maine	15,150	do	6.1
Do	Transuperior	19,643	do	2.8
Do	Seatrain Delaware	10,453	do	2.5
Do	Seatrain San Juan	10,453	do	3.5
Total				39.9

Note.—In addition to the vessels listed above, conversion work was done during this period by Seatrain Lines, Inc., on the Seatrains Savannah, Texas, New Jersey, Georgia, and Louisiana, at a total cost of approximately $6 million. This raises the total number of vessels to 14 and the total cost to $45.8 million.

RECAP

Period	New Ships	Conversions	Cost (in millions)
July 1, 1966 to June 30, 1967		14	$45.9
July 1, 1967 to June 30, 1968	2	15	96.2
July 1, 1968 to June 30, 1969	4	10	107.9
July 1, 1969 to June 30, 1970	1	13	95.6
July 1, 1970 to June 30, 1971	2	2	33.2
July 1, 1971 to Dec. 31, 1971			
Current	6		230.8
Total	15	54	647.5

NON-AMA NONSUBSIDIZED, NONPROPRIETARY SHIP CONSTRUCTION AND CONVERSION UNDER CONTRACT—JANUARY 1, 1972

Company	No.	Deadweight tons	Type	Cost (in millions)
New construction				
Aries Marine	[1] 2	161,000	OBO	$60.2
Central Gulf	[2] 1	39,000	LASH	27.5
Edison SS	1	NA	Other	NA
Falcon Tankers	2	60,445	Tanker	19.2
Franklin SS	1	NA	Bulk	NA
Global Marine	1	NA	Other	NA
Hendy International	1	69,800	Tanker	16.0
Do	1	69,800	do	18.0
Do	2	139,600	do	36.0
Kinsman	2	NA	Other	NA
Total				176.9
Conversions				
Sabine	1	na	T-conversion	NA

[1] CDS-45.0 pct.
[2] CDS-44.2 pct.

SHIPS COMPLETED

Company	Name	Deadweight tons	Type	Cost (in millions)
July 1, 1971–Dec. 31, 1971				
Falcon Tankers	Falcon Duchess	30,222	Tanker (new)	$9.6
Hendy International	Arco Prudhoe Bay	69,800	do	16.0
Do	Puerto Rican	34,400	Chemical Carrier	15.0
Do	Sansinena II	69,800	Tanker (new)	16.0
Mathiesen	Sohio Resolute	80,000	do	18.0
Total				74.6
July 1, 1970–June 30, 1971				
American Trading and Production.	P. W. Thirtle	57,000	T conversion	12.0
Falcon Tankers	Falcon Lady	45,333	Tanker	14.4
Keystone	Edgar M. Queeny	36,900	Chemical Carrier	15.2
Marine Transport	Marine Chemist	23,000	do	10.0
Mathiesen	Sohio Intrepid	80,000	Tanker	18.0
Matson	Hawaiian Progress	34,000	Container	20.0
Do	Kopaa	24,000	Bulk conversion	3.0
Total				111.6

SHIPS COMPLETED—Continued

Company	Name	Deadweight tons	Type	Cost (in millions)
July 1, 1969–June 30, 1970				
American Trading and Production.	Texas Trader	27,400	T conversion	5.0
Eagle Terminal Tanker	Eagle Charger	37,250	Tanker (new)	11.0
Keystone Shipping	Golden Gate	61,700	do	15.2
Do	Monmouth	NA	T conversion	NA
Marine Navigation Co	Marine DuVal	NA	do	18.7
Mathiesen	Joseph D. Potts	80,000	Tanker (new)	18.0
Matson Navigation	Hawaiian Enterprise	34,000	Cn (new)	20.0
Total				87.9
July 1, 1968–June 30, 1969				
Eagle Terminal Tankers	Eagle Leader	37,250	Tanker	11.0
Keystone Shipping	Spirit of Liberty	37,250	do	11.0
Marine Transport	Marine Eagle	NA	C-4 conversion	9.0
Total				31.0
July 1, 1967–June 30, 1968				
American Trading	American Trader	NA	Tanker conversion	2.5
Sabine Towing & Transport	Trinity	NA	do	2.5
Do	Brazos	NA	do	2.5
Transamerican Trailer	Ponce DeLeon	13,100	Roll-on	20.0
Trinidad Corp	Fort Worth	NA	Tanker conversion	2.5
Total				30.0
July 1, 1966–June 30, 1967				
Keystone Shipping	Valley Forge	36,000	Tanker	11.0
Marine Navigation	Marine Floridian	24,300	Tanker conversion	6.5
Matson Navigation	Hawaiian Princess	5,000	Containership	2.4
Total				19.9

RECAP

Period	New ships	Conversions	Cost (in millions)
July 1, 1966 to June 30, 1967	1	2	$19.9
July 1, 1967 to June 30, 1968	1	4	30.0
July 1, 1968 to June 30, 1969	2	1	31.0
July 1, 1969 to June 30, 1970	4	3	87.9
July 1, 1970 to June 30, 1971	6	2	111.6
July 1, 1971 to Dec. 31, 1974	5		74.6
Current	14	1	176.9
Total	33	13	531.9

NON-AMA, NONSUBSIDIZED, PROPRIETARY[1] SHIP CONSTRUCTION AND CONVERSION UNDER CONTRACT—JANUARY 1, 1972

Company	No.	Deadweight tons	Type	Cost (in millions)
New construction				
Atlantic Richfield	3	360,000	Tanker	$90.0
Bethlehem Steel	1	53,000	Other	18.0
Mobil Oil	1	126,000	Tanker	NA
U.S. Steel	1	39,000	Bulk	18.0
Total	6			126.0
Conversions				
Texaco	2	84,000	T-conversion	10.0
Total	2			10.0

[1] Including Great Lakes.

SHIPS COMPLETED

Company	Name	Deadweight tons	Type	Cost (in millions)
July 1, 1971–Dec. 31, 1971				
American Oil	Amoco Delaware	NA	T-conversion	NA
Total				
July 1, 1970–June 30, 1971				
Cities Service	Bradford Island	NA	T-conversion	$5.0
Total				5.0
July 1, 1969–June 30, 1970				
Humble Oil	Manhattan	115,000	T-conversion	NA
Do	Esso San Francisco	75,600	Tanker (new)	16.6
Do	Baton Rouge	75,600	do	16.7
Do	Esso Philadelphia	75,600	do	16.7
Sun Oil Co	America Sun	80,000	do	18.0
Total				68.0
July 1, 1968–June 30, 1969				
Tidewater Oil	Louisianan Getty	23,900	Tanker conversion	NA
Union Carbide	Clendenin	NA	C-4 conversion	$5.7
Total				$5.7
July 1, 1967–June 30, 1968				
Tidewater Oil	Wilmington Getty	16,000	Tanker conversion	2.5
U.S. Steel	Myron C. Taylor	12,000	Bulk Carrier	1.8
Total				4.3

NON-AMA, NONSUBSIDIZED, PROPRIETARY [1] SHIP CONSTRUCTION AND CONVERSION UNDER CONTRACT—JANUARY 1, 1972—Continued

Company	No.	Deadweight tons	Type	Cost (in millions)
July 1, 1966–June 30, 1967				
Inte-lake SS Co	Frank Purnell	15,865	Bulk Carrier	2.5
Medusa Portland Cement	Medusa Challenger	NA	do	1.5
U.S. Steel	George Sloan	15,865	do	3.0
Total				7.0

RECAP

Period	New ships	Conversions	Cost (in millions)
July 1, 1966 to June 30, 1967		3	$7.0
July 1, 1967 to June 30, 1968		2	4.3
July 1, 1968 to June 30, 1969		2	5.7
July 1, 1969 to June 30, 1970	4	1	68.0
July 1, 1970 to June 30, 1971		1	5.0
July 1, 1971 to Dec. 31, 1971		1	NA
Current	6	2	136.0
Total	10	12	226.0

SUBSIDIZED LINES—SHIP CONSTRUCTION AND CONVERSION UNDER CONTRACT—JANUARY 1, 1972

Company	No.	Deadweight tons	Type	Cost (in millions)	CDS (percent)
New construction					
AEIL	3	NA	Container	$51.0	41.6
APL	3	60,600	C-6	65.8	50.0
Do	1	20,200	do	23.2	46.4
Delta	3	117,300	LASH	85.6	44.2
Farrell	4	79,000	C-6	83.9	50.0
Lykes	3	81,000	Sea-Barge	97.9	55.0
PFEL	2	44,800	Container	50.5	46.5
Do	3	87,000	LASH	64.1	50.0
Prudential-Grace	2	58,000	do	38.0	50.0
Total	24			560.0	
Conversions					
AML	1	15,600	Container	8.7	38.6
Do	1	15,600	do	9.5	41.5
APL	5	64,150	do	32.5	41.5
Do	3	37,950	do	20.2	41.5
Lykes	4	42,576	C-5 conversion	13.6	45.4
Total	14			84.5	

SHIPS COMPLETED

Company	Name	Deadweight tons	Type	Cost (in millions)	CDS (percent)
July 1, 1971–Dec. 31, 1971					
AML	Washington Mail	15,600	Cn-conversion	$8.4	36.0
Do	Japan Mail	15,600	do	8.4	36.0
Lykes	Thompson Lykes	12,772	C–5 conversion	3.4	45.4
Do	Nancy Lykes	10,644	do	3.4	45.4
Do	Solon Turman	10,644	do	3.4	45.4
PFEL	Thomas E. Cuffe	18,850	LASH	21.3	50.0
Do	Golden Bear	18,850	do	21.3	50.0
Do	Pacific Bear	29,000	do	21.3	50.0
Total				90.9	
July 1, 1970–June 30, 1971					
Lykes	Zoella Lykes	10,948	C–5 conversion	$3.4	45.4
Do	Joseph Lykes	10,948	do	3.4	45.4
Prudential-Grace	Lash Italia	18,850	LASH	21.3	50.0
Do	Lash Turkiye	25,133	do	28.4	50.0
Do	Lash Espana	16,755	do	18.9	50.0
U.S Lines	American Apollo	18,790	Container	17.6	44.8
Do	American Aquarius	18,790	do	17.6	44.8
Do	American Leader	15,600	Cn-conversion	8.5	50.0
Do	American Ace	15,600	do	8.5	50.0
Do	American Argosy	15,600	do	8.1	50.0
Do	American Alliance	15,600	do	8.3	50.0
Do	American Archer	15,600	do	8.5	50.0
Do	American Legend	15,600	do	8.5	50.0
Do	American Legacy	15,600	do	8.5	50.0
Do	American Accord	15,600	do	8.3	50.0
Total				177.6	
July 1, 1969–June 30, 1970					
American Mail	Hong Kong Mail	21,590	C–5	15.7	54.7
Do	American Mail	21,460	do	16.8	55.0
Moore-McCormack	Mormacsky	16,380	do	15.9	49.6
Do	Mormacstar	16,380	do	15.9	49.6
Do	Mormacsun	16,383	do	15.9	49.6
States SS Co	Wyoming	14,300	C–4	14.5	54.1
Do	Michigan	14,300	do	14.5	54.1
Total				109.2	
July 1, 1968–June 30, 1969					
American Export	C.V. Sea Witch	15,200	C–5	$13.5	54.2
Do	C.V. Lightning	15,200	do	13.5	54.2
Do	C.V. Stag Hound	15,200	do	13.4	54.2
American Mail	Alaskan Mail	21,590	do	16.4	54.7
Do	Indian Mail	21,590	do	16.4	54.7
Do	Korean Mail	21,590	do	16.4	54.7
Delta Lines	Delta Paraguay	10,350	C–3	10.5	53.3
Do	Delta Uruguay	10,350	do	10.5	53.3
Do	Delta Mexico	10,350	do	10.5	53.3
Moore-McCormack	Mormacsea	16,380	C–5	15.9	49.6
Pacific Far East	Guam Bear	NA	C–4 conversion	4.0	
Do	Hawaii Bear	NA	do	4.0	
States SS Co	Colorado	14,300	C–4	14.7	54.1
Do	Montana	14,300	do	14.7	54.1
Do	Idaho	14,300	do	15.0	54.1
U.S. Lines	American Legion	17,000	C–7	17.7	52.8
Do	American Liberty	17,000	do	17.7	52.8
Do	American Lynx	17,000	do	17.7	52.8
Do	American Lark	17,000	do	17.7	52.8
Do	American Astronaut	17,000	do	15.8	51.1
Total				276.0	

Company	Name	Deadweight tons	Type	Cost (in millions)	CDS (percent)
July 1, 1967–June 30, 1968					
American President	President Van Buren	10,830	C-4	$13.7	54.0
Do	President Taft	10,830	do	13.7	54.0
Do	President McKinley	10,830	do	13.7	54.0
Do	President Fillmore	10,830	do	13.2	52.6
Delta Lines	Delta Argentina	10,350	C-3	10.5	53.3
Do	Delta Brasil	10,350	do	10.5	53.3
Grace Lines	Santa Barbara	13,811	C-4	13.0	52.5
Do	Santa Isabel	13,811	do	13.0	52.5
Lykes Brothers	Velma Lykes	14,000	do	10.5	53.9
Do	Letitia Lykes	14,000	do	10.1	49.8
Do	Genevieve Lykes	14,000	do	10.3	55.0
U.S. Lines	American Lancer	17,000	C-7	17.7	52.8
Total				149.9	
July 1, 1966–June 30, 1967					
American Export	Container Forwarder	16,530	C-5 conversion	$3.8	33.3
Grace Lines	Santa Cruz	13,806	C-4	12.9	52.5
Do	Santa Clara	13,811	do	13.0	52.5
Do	Santa Elena	13,811	do	13.0	52.5
Lykes Brothers	Stella Lykes	14,000	do	10.3	55.0
Do	Mason Lykes	14,000	do	10.4	55.0
Do	Howell Lykes	14,000	do	10.5	53.9
Do	Dolly Turman	14,000	do	10.5	53.9
Total				84.4	

RECAP

Period	New ships	Conversions	Cost (in millions)
July 1, 1966 to June 30, 1967	7	1	$84.4
July 1, 1967 to June 30, 1968	12		149.9
July 1, 1968 to June 30, 1969	18	2	276.0
July 1, 1969 to June 30, 1970	7		109.2
July 1, 1970 to June 30, 1971	5	10	177.6
July 1, 1971 to Dec. 31, 1971	3	5	90.9
Current	24	14	644.5
Total	76	32	1,532.5