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**MARITIME AUTHORIZATION—1979;
TITLE XI OVERSIGHT**

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HEARINGS
BEFORE THE
COMMITTEE ON MERCHANT MARINE
OF THE
COMMITTEE ON
MERCHANT MARINE AND FISHERIES
HOUSE OF REPRESENTATIVES
NINETY-FIFTH CONGRESS

SECOND SESSION
ON
MARITIME AUTHORIZATION—1979
H.R. 10729

A BILL TO AUTHORIZE APPROPRIATIONS FOR THE FISCAL
YEAR 1979 FOR CERTAIN MARITIME PROGRAMS OF THE
DEPARTMENT OF COMMERCE, AND FOR OTHER PURPOSES

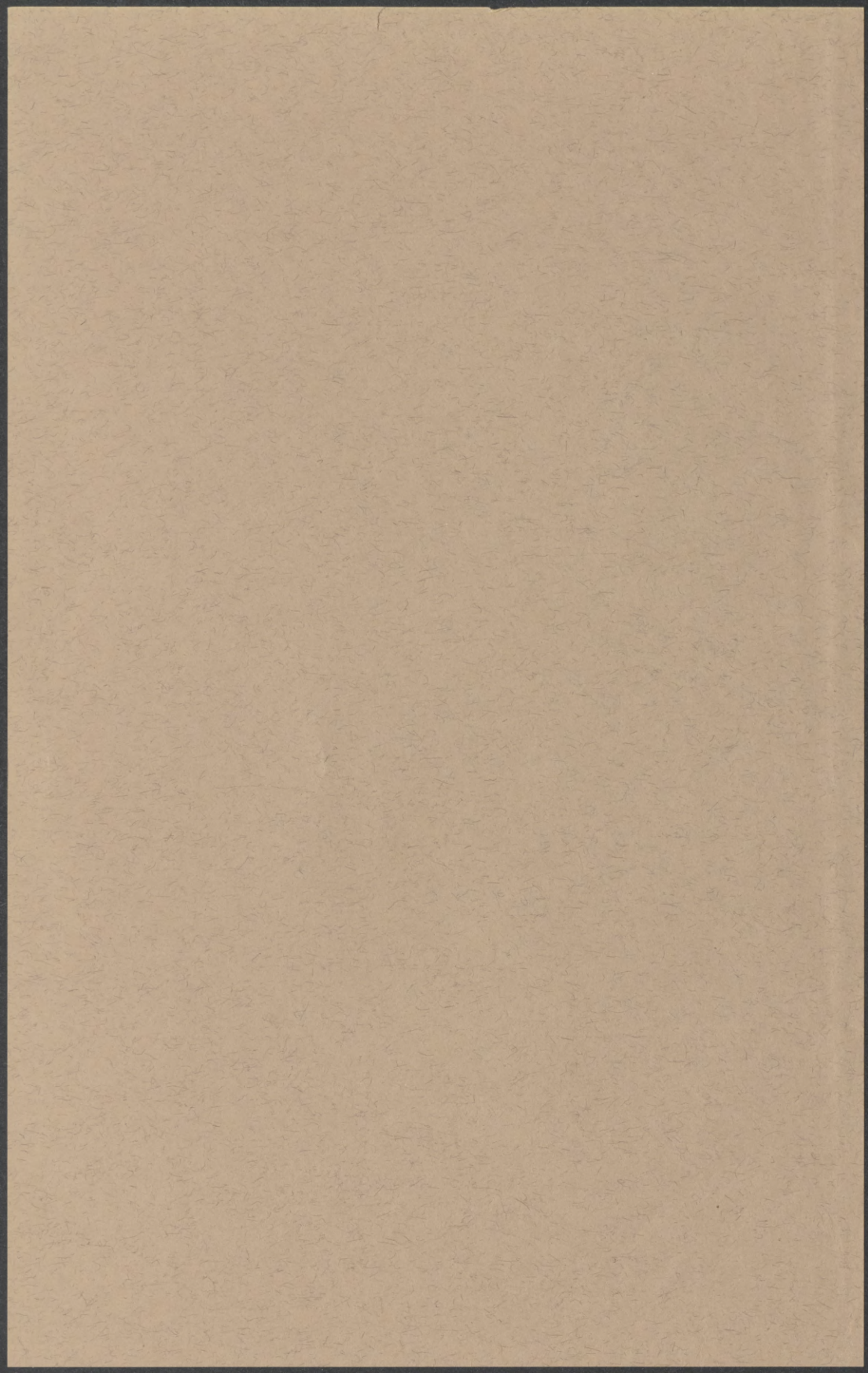
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FEBRUARY 7, 9, 23, 1978
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TITLE XI OVERSIGHT
TO EXAMINE THE TITLE XI GUARANTEE PROGRAM ADMIN-
ISTERED BY THE MARITIME ADMINISTRATION OF THE
DEPARTMENT OF COMMERCE

—
MAY 4, 1978
—

Serial No. 95-37
—

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



MARITIME AUTHORIZATION—1979; TITLE XI OVERSIGHT

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WASHINGTON : 1978

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MARITIME AUTHORIZATION—1979

TUESDAY, FEBRUARY 7, 1978

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

The subcommittee met, pursuant to notice, at 10:27 a.m., in room 1334, Longworth House Office Building, Hon. John M. Murphy [chairman] presiding.

Present: Representatives Murphy, Biaggi, Metcalfe, Mikulski, and McCloskey.

Staff present: Carl L. Perian, chief of staff; Ernest J. Corrado, chief counsel; Len Sutter, counsel; Peter N. Kyros, counsel; W. Patrick Morris, chief minority counsel; Jack E. Sands, deputy minority counsel; Ronald K. Losch, minority counsel; and Elizabeth Coker, subcommittee clerk.

The CHAIRMAN. The committee will come to order.

This morning the subcommittee commences hearings on H.R. 10729, a bill to authorize appropriations for the fiscal year 1979 for certain maritime programs of the Department of Commerce and for other purposes.

The bill would authorize appropriations in the total amount of \$494,628,000; a decrease of about \$59 million from the amount authorized last year.

Very briefly, section 2(1) of the bill would authorize \$157 million for construction differential subsidy. This is \$22 million more than was authorized last year. The requested amount, together with carry-forward funds of \$122 million would provide a construction program level of \$279 million for the construction of two container-ships for American President lines; two rollon/rolloff ships for American Export Lines, and two LNG vessels for El Paso Gas.

Section 2(2) would authorize \$262,800,000 for operating differential subsidy. This is \$109,309,000 less than was authorized last years. This requested amount would provide for the subsidized operation of 173 liner vessels, 21 bulk vessels, and participation in the Russian grain trade by about 10 U.S.-flag vessels.

Section 2(3) would authorize \$17.5 million for the research and development activities of the Maritime Administration. This is about \$3.2 million less than the amount authorized for fiscal year 1978.

Section 2(4) of the bill pertains to maritime education and training expenses, and section 2(5) pertains to operating expenses. In

this regard, the members will note that the format of the bill is slightly different from previous years. This change has been made to accommodate the requirement of Public Law 95-173 (the MarAd authorization bill for fiscal year 1978)—that henceforth the annual authorization bill will cover “expenses necessary for extension and correspondence courses authorized under section 216(c) of this act,” and “other operations and training expenses related to the development of waterborne transportation systems, the use of waterborne transportation systems, or general administration.”

Section 2(4) of the bill would authorize \$22,483,000 for maritime education and training expenses. Of this amount: (a) \$15,359,000 would be for the continued operation of the Federal Maritime Academy at Kings Point, N.Y.—an increase of \$703,000 over the amount authorized last year; (b) \$5,220,000 would be for financial assistance to the six State marine schools—a decrease of \$750,000 over the amount authorized last year; and (c) \$1,904,000 would be for supplementary training courses for which we have authorization authority, for the first time this year.

Section 2(5) of the bill would authorize \$34,845,000 for operating expenses. Of this amount: (a) \$5,516,000 would be for the continued maintenance of the National Defense Reserve Fleet—an increase of \$379,000 over the amount authorized last year; and (b) \$29,329,000 would be for other operating expenses of the Maritime Administration for which we have authorization authority, for the first time this year.

[The bill follows:]

[H.R. 10729, 95th Cong., 2d sess.]

A BILL To authorize appropriations for the fiscal year 1979 for certain maritime programs of the Department of Commerce, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the “Maritime Appropriation Authorization Act for Fiscal Year 1979”.

SEC. 2. Funds are authorized to be appropriated without fiscal year limitation as the appropriation Act may provide for the use of the Department of Commerce, for the fiscal year 1979, as follows:

(1) For acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, not to exceed \$157,000,000;

(2) For payment of obligations incurred for operating-differential subsidy, not to exceed \$262,800,000;

(3) For expenses necessary for research and development activities, not to exceed \$17,500,000;

(4) For maritime education and training expenses, not to exceed \$22,483,000, including not to exceed \$15,359,000 for maritime training at the Merchant Marine Academy at Kings Point, New York, \$5,220,000 for financial assistance to State marine schools, and \$1,904,000 for supplementary training courses authorized under section 216(c) of the Merchant Marine Act, 1936; and

(5) For operating expenses, not to exceed \$34,845,000, including not to exceed \$5,516,000 for reserve fleet expenses, and \$29,329,000 for other operating expenses.

SEC. 3. There are authorized to be appropriated for the fiscal year 1979, in addition to the amounts authorized by section 2 of this Act, such additional supplemental amounts for the activities for which appropriations are authorized under section 2 of this Act, as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law, and for increased costs for public utilities, food service, and other expenses of the Merchant Marine Academy at Kings Point, New York.

Mr. CHAIRMAN. The subcommittee intends to make careful inquiry with respect to each of these elements, and to this end I have scheduled another day of hearings on Thursday of this week.

To assist you in your consideration of this very vital legislation, in addition to the usual material in your folders, you will find a copy of the Federal budget for the Maritime Administration, and a copy of my memorandum of February 3 giving a brief analysis of proposed funds for the Maritime Administration for fiscal year 1979.

Our first witness this morning is the head of the Maritime Administration, Hon. Robert J. Blackwell, Assistant Secretary of Commerce for Maritime Affairs.

Mr. Blackwell, it is a pleasure to have you here, and you may proceed.

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

Mr. BLACKWELL. Thank you, Mr. Chairman, members of the committee.

I welcome this opportunity to present the Maritime Administration request for appropriations authority for fiscal year 1979. Before I address the detail of that request, I would like to summarize quickly the state of the maritime program.

As of January 1, 1978, the privately owned deep draft fleet of the U.S. merchant marine totaled 744 ships, comprising 20.4 million deadweight tons.

To my knowledge, Mr. Chairman, that is the highest carrying capacity for the privately owned sector of the U.S. fleet ever achieved for this country.

The CHAIRMAN. Peacetime, or wartime?

Mr. BLACKWELL. Peacetime.

The total deadweight tonnage had increased by 1.7 million over the level of January 1, 1977, while the number of ships had decreased by four, reflecting the larger size of the additions and the small size of the old ships that left the fleet, primarily for scrapping.

Almost all of the net gain in tonnage was realized in the oceangoing component of the fleet, which increased from 16 million deadweight tons and 577 ships at the start of 1977 to 17.5 million deadweight tons and 578 ships in January of 1978. This 1978 oceangoing ship total was well below the 1970 total of 825, but the deadweight tonnage had increased markedly from the 1970 level of 14.9 million. The increase in tonnage is attributable to the growth of tanker tonnage and the decrease in numbers primarily to the post-Vietnam shrinkage of the general cargo fleet.

The subsidized liner fleet, while falling from 215 ships in 1970 to 166 at the end of 1977, increased marginally in deadweight tonnage. Further, as progressively more modern intermodal vessels were brought into the subsidized fleet, its delivery capability increased significantly and, despite inflation, the operating subsidy cost per unit of carrying capacity offered in subsidized service has

declined by more than ten percent since 1970. The U.S.-flag share of liner cargoes in U.S. foreign trade has increased from slightly over 20 percent in 1970 to more than 30 percent today.

The oceangoing tanker fleet, while declining in numbers, had increased in deadweight tonnage from 7.4 million in 1970 to 12 million at the end of last year. And I am happy to report that the number of U.S.-flag tankers in layup, which exceeded 40 in 1975, and numbered 20 in mid-1977, is now down to 2, both of which have good prospects for early employment.

With the decline in the number of ships, seagoing employment has decreased from approximately 70,000 in 1970 to a current level of about 46,000, counting active seafarers afloat and ashore. Seagoing employment has increased perceptibly during the past year. In a related development, afloat employment prospects for graduates of the Federal and State maritime academies have improved significantly, and we foresee continued improvement.

Shipyards employment increased from a total of 60,000 production workers in the major private yards (yards with facilities to build ships at least 475 by 60 feet) as of 1970 to about 100,000 late last year. However, there will be a sharp drop in shipbuilding employment within the next 2 years as current orderbooks are completed.

This near term employment falloff cannot be offset by anticipated Navy and private orders, and the outlook for significant recovery is questionable while the current worldwide shipbuilding depression continues. However, the flow of orders under the U.S. maritime program has increased since the contracting drought of 1975 and 1976, and the U.S. industry is not faced with the drastic retrenchment prospects that confront some foreign shipbuilding centers during this period of depression. I have reference particularly to Japan and Western Europe.

In summary, the U.S.-flag merchant fleet is continuing to grow in size and efficiency under our maritime program, and, while shipbuilding prospects are discouraging, our shipyard prospect is more stable than the world prospect in this difficult time. I consider the 1979 request for maritime appropriations authority to be consistent with the situation just described.

The 1979 request is the first to include all Maritime Administration activities funded by appropriations, including internal operations and the provision of extension and correspondence courses that were previously excluded from authorization requests. This change complies with section 6 of the Maritime Appropriation Authorization Act for fiscal year 1978. The authorization requests for operations and training activities have been combined under two categories—maritime education and training expenses and Maritime Administration operating expenses.

The Maritime Administration request for 1979 appropriations authority totals \$494,628,000. The requests by activity are: \$157 million for ship construction; \$262,800,000 for operating differential subsidies; \$17,500,000 for research and development activities; and \$22,483,000 for maritime education and training expenses.

This includes \$15,359,000 for maritime training at the U.S. Merchant Marine Academy at Kings Point, N.Y., \$5,220,000 for as-

sistance to State marine schools, and \$1,904,000 for supplementary training authorized under section 216(c) of the Merchant Marine Act, 1936; and,

For Maritime Administration operating expenses, \$34,845,000. This amount will provide \$5,516,000 for the national defense reserve fleet, and \$29,329,000 for operating expenses related to the development and use of waterborne transportation systems and to general administration.

I shall now discuss briefly the authorization request for each activity.

The level of construction differential subsidy, or CDS, funds required for 1979 activity is \$279 million. New appropriation authority totaling \$157 million is requested. The balance of the 1979 funds, \$122 million, will be obtained through a proposed 1978 deferral. This excess in 1978 availability is attributable to: First, the reduction of two ships from a construction contract with Waterman Steamship Corp.; and, second, a major recovery of funds associated with prior years contracts. This is particularly the cancellation of a three ship orders for the Berger interests, and some \$16 million that was deferred as a result of the Todd cancellations.

As I have indicated, market demand for shipbuilding has made a limited recovery from the 1975-76 slump. From June 1976 through September 1977, orders were placed for a total of 13 new ships under six CDS contracts. The proposed 1978 and 1979 programs will support seven contracts for a total of 13 ships.

One anticipated 1978 CDS contract is for three LNG ships associated with the Pacific Indonesia project. This project recently received conditional approval in the Department of Energy, and final approval is expected this spring. The construction contract award is expected shortly after final approval. An anticipated 1979 contract for the construction of two LNG ships is associated with the El Paso II project to import gas from Algeria to the Texas gulf coast. Review of this project is in its final stages in the Department of Energy, and is expected to be completed in 1979.

Two contracts have already been awarded in 1978—an Avondale shipyard contract with Waterman Steamship Corp. for two barge carriers, and a Seatrain shipyard contract with Cumberland Shipping Co., Inc., for one roll-on/roll-off, or RO/RO ship.

Other construction contracts expected in 1978 include the contract for three LNG ships and a contract for one barge carrier. The 1979 program will provide CDS funding for three construction contracts for a total of six ships. These include two containerships, two RO/RO ships, and the two LNG ships.

The 1978 and 1979 CDS programs include \$6 million in each year to improve the pollution abatement features on tankers. This reconstruction conforms with the proposed Coast Guard regulations which were recommended in the President's March 18, 1977 address to the Congress.

The appropriation authority requested for 1979 operating differential subsidies is \$262,800,000. This entails a decrease of \$109,309,000 from the 1978 authority, and a decrease of \$89,200,000 from the 1978 appropriation. The difference between the 1978 authority and the 1978 appropriation resulted from Appropriation Committee

action to acknowledge declines in the level of 1977 program activity.

The total level for 1979 operating differential subsidies activity is \$336,526,000. A projected carryover of 1978 funds will provide \$73,726,000 to support this level of ODS activity. The 1978 carry-over results from declines below originally anticipated levels in both 1977 and 1978 requirements.

The subsidized liner fleet has been restored from 166 ships at the end of 1977 to 172 ships currently. Four more ships are expected within months when final action is completed on an application by Waterman Steamship Corp. This contract will bolster U.S.-flag presence in the United States to Western Europe trades. Two other ships will be removed from subsidy during 1978. Those are the passenger vessels *Mariposa* and *Monterey*.

No other changes are expected in the size of the subsidized liner fleet until 1979 when American Export Lines will replace two older freighters with one new containership.

With the accession of progressively more high technology ships, and with a decline in the difference between United States and foreign costs for maintenance and repair, and hull and machinery insurance, it has become possible to make certain reductions in operating subsidies. Seven subsidized operators have agreed to such reductions. Three of these agreed in 1975, and 1976 to the elimination of subsidy for maintenance and repair, and hull and machinery insurance. These are Moore-McCormack Lines, Delta Lines, and Farrell.

This past December, four other operators also agreed to reduction from full subsidy. These are APL and Prudential, on long-term contracts, and Lykes and States Steamship Co. on 1-year contracts. The total estimated subsidy savings associated with these reductions is approximately \$9 million in calendar year 1978.

The 1978 and 1979 subsidized bulk fleet engaged in worldwide trade consists of 21 ships. A total of \$22,435,000 in 1978, and \$24,214,000 in 1979 will provide for the operation of these ships.

The Department of Agriculture projects Soviet grain purchases of 15 million metric tons this year. So far they have purchased 8.4 million metric tons.

However, current U.S.-flag ship availability is expected to support the carriage of only 3 percent of this total, or approximately 500,000 tons a year in 1978 and 1979. Most of the ships which participated in the U.S.-U.S.S.R. grain trade from 1973 to 1977 have moved to the domestic trade, particularly the Alaskan oil trade, and the strategic petroleum reserve program will provide a significant additional market for U.S.-flag tankers. Accordingly, a minimum level of \$5 million in each year has been provided for the U.S.-U.S.S.R. ODS grain trade.

The 1979 appropriation authority requested for research and development activities is \$17,500,000. This involves a decrease of \$825,000 from 1978 authority. Reductions will be made primarily in the advanced ship operations and maritime research programs. Increased emphasis will be placed on advanced ship machinery projects and the advanced maritime technology program.

Support of satellite related fleet services activity will be terminated in 1978. Through this program the Maritime Administration

has provided a total of \$9,779,000 toward research which resulted in the development of *Marisat*—a commercial maritime satellite communication system. Since the communications and maritime industries have assumed responsibility for these services, the Maritime Administration will not be funding these activities after 1978.

The Maritime Administration and the Department of Energy are continuing their cooperative effort in the area of ocean thermal energy conversion, or OTEC. The Maritime Administration's funding for this effort will be limited to elements related to maritime transportation.

The appropriations authorizations requested for 1979 maritime education and training expenses total \$22,483,000, which is \$1,857,000 above the 1978 level. These authorizations cover the U.S. Merchant Marine Academy, the State marine schools, and extension and correspondence courses.

Also, \$15,359,000 is requested for maritime training at the U.S. Merchant Marine Academy, \$703,000 above the 1978 level. Increased funds in 1979 will provide for the development and implementation of a basic automated data processing capability at the Academy. The Academy modernization program will be continued, with primary emphasis in 1979 on the renovation of the main academic and administrative buildings, Fulton Hall and Wiley Hall.

And \$5,220,000 is requested for the six State marine schools, which are located in California, Maine, Massachusetts, Michigan, New York, and Texas. The requested amount is \$750,000 below the 1978 authority for this item, but equal to the 1978 appropriation, which did not include the State school allowance increases or the scholarship improvement funding provided for in the authorization. \$1,904,000 is requested for extension and correspondence courses authorized under section 216(c) of the Merchant Marine Act. This is the first time appropriation authority has been requested for this activity.

Actually, Mr. Chairman, that statement could be a little misleading, because we do not in fact presently conduct correspondence courses. That was a fairly significant activity during and immediately after World War II, but the correspondence courses have been concluded. Those hands-on supplementary training courses—and we do teach a variety of them—are called extension and correspondence courses simply for the purposes of the Authorization Act.

The request for 1979 authority is made in accordance with the Maritime Appropriation Authorization Act for fiscal year 1978.

The Maritime Administration provides classroom training to all eligible applicants at regional training centers. This training includes courses in the use of shipboard collision avoidance radar, gyro compass operation and maintenance, use of the Loran-C navigation system, the operation of diesel propulsion systems, and field exercise training in shipboard firefighting.

The 1979 request provides for resources to establish a firefighting school on the west coast. This will complete the establishment of the firefighting school system which was begun in 1978. The 1979 request also provides for a modest expansion of the radar training program in response to the President's message on pollution of the

oceans by oil, which committed the U.S. Coast Guard to require demonstrations of proficiency in radar skills through the use of simulators.

The appropriations authorizations requested for 1979 Maritime Administration operating expenses total \$34,845,000 to cover national defense reserve fleet costs, expenses related to the development and use of waterborne transportation systems and the costs of general administration, again in accordance with the Maritime Authorization Act for fiscal year 1978.

Also, \$5,516,000 is requested for national defense reserve fleet activities. This entails an increase of \$379,000 over 1978 authority for this item. The Ready Reserve fleet, or RRF program, which was begun in 1977, will be slightly expanded in 1979. This program involves a joint effort by the Maritime Administration and the Navy. The RRF program objective is to have ships with 340,000 measurement tons of cargo lift capability upgraded by 1981 to permit their contingency activation within 5 to 10 days. By the end of 1979, 19 ships will have been placed in the Ready Reserve fleet.

Also, \$29,329,000 in 1979 appropriation authority is requested for operating expenses related to the development and use of waterborne transportation systems and for general administration expenses. These activities provide support to all of the Maritime Administration programs that I have discussed, including those for ship construction, ship operations and operating differential subsidies, and research and development. The support program encompasses personnel costs, executive direction and administrative support. The primary and unifying objective of these support activities is to improve operations and increase the productivity of the U.S. merchant marine in both foreign and domestic trades.

Mr. Chairman, this concludes my prepared statement. I am ready to address any questions the committee may have.

The CHAIRMAN. Thank you, Mr. Blackwell, for a very comprehensive statement. We have a number of questions, and I am sure that the members present are going to want to question you, so we will proceed under the 5-minute rule.

On page 3 you state:

In summary, the U.S.-flag merchant fleet is continuing to grow in size and efficiency under our maritime program, and, while shipbuilding prospects are discouraging, our shipyard prospect is more stable than the world prospect in this difficult time.

In this regard, what is your assessment of the current financial condition and future prospects of the 10 subsidized U.S.-flag liner operators?

Mr. BLACKWELL. Of the 10 companies, Mr. Chairman, 7 I consider to be in sound financial condition; 3 are in a financial condition that is of concern. In that category we have Pacific Far East Lines, which just a number of days ago, entered into a chapter 11 bankruptcy situation in the district court in California.

We also have Prudential, that certain has not got an enviable financial position, as well as State. Prudential is currently negotiating a sale of a major portion of its assets, that is, its entire South American service, plus one Lash ship, to Delta Steamship Co.,

which is a strong U.S.-flag operator, also supported by an extremely strong parent.

States Steamship Co., which operates off the west coast, has not had a very good operating situation for several years. They have operated a fleet of a limited number of RO/RO's, and some old mariners. Most of the RO/RO's that States has chartered are being returned to them. They will soon be operating a four-ship RO/RO service from both the Northwest and California, and those are very fine ships.

If they can significantly increase their marketing capability, and the competitive environment in the Pacific can be settled down somewhat, we are rather sanguine about the long-term prospects of States.

But we do have those 3 companies out of the 10 that are in some type of financial difficulty.

The CHAIRMAN. What about Export?

Mr. BLACKWELL. We consider Export to be in very good shape. It is a fact that Export Industries, their parent, is in bankruptcy in New York, in a chapter 11 position, but the company, Export Lines, as an operating component, we think is a very viable, efficient company. They had profits in 1976. We expect them to have a good year this year. They are building ships, they will be replacing some of their older ships. That company, incidentally, as you probably read in the paper, has been purchased, although the sale has not been finally consummated, by Farrell Lines, which is also a company that has been quite healthy, operating, not only to Australia, but to Africa.

The CHAIRMAN. What is your assessment of the current financial condition, and future prospects of the 11 subsidized U.S.-flag bulk carrier operators?

Mr. BLACKWELL. Those 10 or 11 companies operate, as I mentioned in my statement, 21 vessels. Last year they operated an additional vessel, for which subsidy was terminated, and the vessel went into the Alaskan trade.

Those companies are either operating marginally, or poorly. In my view, our financial information indicates that they are operating at marginal losses. There is nothing to be optimistic about, except for the fact that most of the orders for those bulk carriers were placed when the market was high. They were delivered when the market was low, and have been operating probably in the lowest market that has ever prevailed in our foreign trade in the bulk area. I am talking about oil. Most of them are oil tankers. There are only two ships in that 21 ship fleet carrying dry cargo. Those companies are having some difficulty. We hope that the market firms—we do not believe it can go any lower—and that those ships will operate profitably.

The CHAIRMAN. What is your assessment of the current financial condition, and future prospects of nonsubsidized operators operating foreign commerce in the United States?

Mr. BLACKWELL. Well, we only have three major nonsubsidized companies operating in the foreign trade, that is Sealand, U.S. Lines, and Central Gulf. While we do not get the type of reports from them that obviously we would get from subsidized operators,

and it is very difficult, particularly, to find SeaLand's earnings, because their earnings and their expenses and their revenues are incorporated in the R. J. Reynolds statement, we are left to believe that all those companies are operating profitably, with a reasonably good return on investment. We know from recent proposals to purchase U.S. Lines, that if it were not for the longshoremen strike several months ago, U.S. Lines would have likely come in in 1977 with the highest earnings in its history.

The CHAIRMAN. Mr. Metcalfe.

Mr. METCALFE. Thank you, Mr. Chairman.

I would like to ask Mr. Blackwell a few questions.

You have given us a very detailed statement, on which I want to express my compliments, but I need some clarification on some other questions.

You have been very brief with respect to subsidized bulk vessel operations. Please furnish particulars with respect to the 21 bulk vessels to be subsidized in fiscal year 1979. Would you do that?

Mr. BLACKWELL. I would be happy to do that. I assume you want that for the record.

Mr. METCALFE. Yes, we do want all of this for the record.

Mr. BLACKWELL. We will be glad to do that.

[The following was received for the record:]

BULK-CARGO VESSEL SUBSIDIZATION

Although the Merchant Marine Act of 1970 extended ODS coverage to the bulk-cargo vessel operators, active participation did not begin until many years later. In response to this extension, plans were drawn up by several companies, bids were initiated and construction schedules were set into motion. With industry participation, final guidelines and regulations for this segment of the industry were issued in 1975. Thus, only a small amount of data reflecting actual operating experience is available for analysis.

Data for 1977 are not yet available. For the 8 subsidized bulk carriers fully operational in 1976, the net operating result after subsidy was a loss of \$600,000. The total amount of subsidy paid to these operators was \$11.2 million. Details for 1976 are shown on the attached table.

SUBSIDIZED BULK OPERATORS PROFIT/LOSS IN 1976 [STATED IN MILLION DOLLARS]

Company ^{1,2}	Profit (loss) before subsidy	Subsidy	Profit (loss) after subsidy
A.....	(0.7)	0.9	0.2
B.....	(.3)	.3	.....
C.....	(1.1)	.8	(.3)
D.....	(1.9)	1.9	.....
E.....	(1.0)	.8	(.2)
F.....	(3.0)	4.0	1.0
G.....	(1.5)	1.7	.2
H.....	(2.3)	.8	(1.5)

¹ The confidential nature of this information precludes the use of actual company names.

² Financial information for 3 other bulk operators not submitted because they were not in full operation in 1976.

Mr. METCALFE. Can you give us now, or furnish us later, what percentage of our energy inputs do these 21 vessels currently transport?

Mr. BLACKWELL. About 1 percent.

Mr. METCALFE. Overall, do you believe that the subsidized bulk vessel program is progressing in a satisfactory manner?

Mr. BLACKWELL. I think that the portion of the bulk program that deals with liquid bulk is, sir. We have built under the program

some 31 tankers, in sizes from 35,000 to almost 400,000 tons, and it is a fairly significant amount of shipbuilding. I think the program could be characterized in that respect as reasonably successful.

With respect to dry bulk ships—that is, the ships that carry dry commodities, as distinguished from liquid—I would have to say that the program has been a conspicuous failure.

Mr. METCALFE. With respect to the Soviet grain trade, what has been the percentage participation by U.S.-flag vessels?

Mr. BLACKWELL. About 24 percent, and it is declining, as we are carrying less and less of the monthly offerings. It was as high as 30 last year, and one year 47 percent. But on an average now it is 24 percent.

Mr. METCALFE. How is it that the United States can currently carry only about 3 percent, and there are still two tankers in layup?

Mr. BLACKWELL. The two tankers in layup are very large ships. They are both in the supertanker category, above 200,000 tons. The largest ship that the Soviets would consider engaging in the grain trade is in the 80,000-ton range, but most of them are between 30,000 and 60,000. The reason that we will get, and we will be lucky to get, 3 percent of the Soviet grain movement, is that our carriers have more lucrative employment elsewhere. The Soviet grain rates are structured on a more or less break-even basis. They are not designed to return the operator a profit. They are essentially designed to keep those ships operating, and keep them from going into layup.

The rates in the strategic petroleum reserve trade, and the rates in the Alaskan trade, are all higher than the rates that they could achieve in the Soviet trade, so they prefer not to engage in moving the grain cargo.

Mr. METCALFE. With respect to applications for operating differential subsidy, how many applications are currently on file with the Maritime Administration, and also, how many of these are for liner operations, and how many are bulk vessel operations?

Mr. BLACKWELL. We have between 50 and 60 applications, many of them dormant. We have about 10 or 11 applications for liners and bulk ships that we consider to be active. Some of those liner applications are in fact applications for companies that are seeking to renew their current 20-year subsidy contracts.

I will be very happy to give you a fuller response in the record.
[The following was received for the record:]

ODS CONTRACTS AND TYPES OF VESSEL

On January 1, 1978, a total of 12 active and nine inactive applications for ODS were on file with MarAd. Of the active applications, nine involve a total of 110 liner ships and three involve a total of 11 bulk carrier ships. Five of the applications and 82 of the liner ships are covered by existing ODS contracts. Ten of the applications are currently undergoing hearings by the Administrative Law Judge or the Maritime Subsidy Board. Additional information from the applicants will be required before the other applications are processed.

One of the purposes of the hearings now in progress is to determine whether the award of CDS would further the policy and intent of the Merchant Marine Act of 1936, as amended. It is not possible, prior to the completion of these hearings, to state which of the applications would fulfill this requirement. The total subsidy cost, in 1979 dollars, if all of the active applications were to be approved, would be approximately \$188 million (\$175 million for 110 liners and \$13 million for 11 bulk carriers).

Mr. METCALFE. We would appreciate it.

How many of these applications for ODS are currently being processed by the Maritime Administration?

Mr. BLACKWELL. About 10.

The CHAIRMAN. The time of the gentleman has expired. Mr. McCloskey.

Mr. McCLOSKEY. Thank you, Mr. Chairman.

Mr. Blackwell, what will Russian grain carriage cost the American taxpayers this year?

Mr. BLACKWELL. \$5 million.

Congressman McCloskey, if we are able to achieve a 3-percent carriage—in other words, if we can carry 500,000—

Mr. McCLOSKEY. What was the cost to the taxpayers last year?

Mr. BLACKWELL. It was about \$32 million.

Mr. McCLOSKEY. You negotiated the rates for the service, did you not?

Mr. BLACKWELL. Yes; I did.

Mr. McCLOSKEY. Why did you negotiate the rates on a break-even base rather than a profitmaking base on U.S. bulk carriers?

Mr. BLACKWELL. Because in 1972, under that administration, we were instructed by the White House, as well as by the Secretary of Commerce, to establish a rate and level of participation in the trade that would, one, not allow the carriers a windfall; and two, that would be just enough to keep them from going into layup.

Mr. McCLOSKEY. It was never contemplated—you were never instructed to negotiate rates which would cost subsidy, where you?

Mr. BLACKWELL. Oh, yes, sir. It was always assumed there would be a subsidy.

Mr. McCLOSKEY. Why? Wasn't that on the basis that U.S. ships would have the right to carry a third of the grain and the Russian ships would have the right to carry a third of the grain, and a third would be available for—

Mr. BLACKWELL. That's right.

Mr. McCLOSKEY. In fact, it was a cargo-preference policy?

Mr. BLACKWELL. No question about it.

Mr. McCLOSKEY. Yet you say you were instructed to negotiate a cargo preference policy that would require an operating subsidy for these U.S. ships, were those your instructions?

Mr. BLACKWELL. No—well, we recognized it—

Mr. McCLOSKEY. Let me make sure what your instructions were.

Mr. BLACKWELL. Our instructions were to establish a rate level both through subsidy and a rate which would return to the operator about a break-even position.

Mr. McCLOSKEY. What was your instruction as to subsidy? Was there a limitation on the subsidy that you were negotiating to those rates?

Mr. BLACKWELL. We put out rules in the Federal Register which indicated what the Federal subsidy program would be. In fact, there was a recoupment of the rate to the Government if the rate exceeded a certain level.

Mr. McCLOSKEY. But you're not answering my question, Mr. Blackwell. What were your instructions? Were you instructed in 1972 to negotiate an agreement which would require a subsidy?

Mr. BLACKWELL. No; not to require a subsidy, no. But it was contemplated a subsidy would be paid. There was no other——

Mr. McCLOSKEY. What was in your instructions as to the amount of that subsidy?

Mr. BLACKWELL. There was no instructions at all, except as I have indicated.

Mr. McCLOSKEY. I recall in 1972 your testimony before this committee, in which you thought you had negotiated a very advantageous rate that would not require subsidy.

Mr. BLACKWELL. I would like to see that testimony, sir.

Mr. McCLOSKEY. Did you tell us in 1972, when you negotiated this rate, that it was going to require an operating subsidy for these bulk carriers?

Mr. BLACKWELL. Yes, because we put an appropriation request in for it, obviously.

Mr. McCLOSKEY. Can you furnish this committee with copies of your instructions in that connection?

Mr. BLACKWELL. Yes; and would you furnish me with my statement that you just alluded to?

[The following material was submitted for the record:]

Memorandum for: Robert J. Blackwell, Assistant Secretary, Maritime.
Subject: Subsidy for American vessels in U.S.-U.S.S.R. agricultural trade.

In devising the appropriate subsidy to be paid to U.S. bulk cargo vessels to be engaged in the carriage of grain between the United States and the Soviet Union under the Maritime Agreement, it is important to be sure that the subsidy is practical and will permit participation by American vessels. It is equally important that the subsidy be kept to the minimum amount necessary. As you know, our purpose has been to devise a subsidy which is basically on a break-even basis.

The vessel operators will naturally seek to obtain as high a subsidy as possible, but we should keep in mind that this is in itself a new type of subsidy and the American taxpayer should not be required to bear any more burden than is absolutely necessary.

The recent increase in world shipping rates for the route and cargo involved presents an opportunity to reduce the subsidy which will have to be paid and we should be sure that this is done. As the ship operators will be the ones negotiating for the freight rates we should give them an incentive to negotiate for as high a rate as possible but be sure that a major portion of any increase in freight rates accrues to the benefit of the taxpayer.

PETER G. PETERSON,
Secretary of Commerce.

Memorandum for: Assistant Secretary for Maritime Affairs.
From: Secretary of Commerce.
Subject: Payment of bulk subsidies on short-term basis.

I have received your memorandum of October 17, 1972, and your explanation of the bulk carrier operating-differential subsidy procedures which the Maritime Subsidy Board believes feasible for the payment of subsidy to United States-flag bulk cargo vessels engaged in trade under the recently executed maritime agreement between the United States and the Union of Soviet Socialist Republics.

In reviewing your memorandum I have carefully considered the provisions of the Merchant Marine Act, 1936, as amended, and given particular attention to the language of sections 601(a), 603(b) and 211(b) of the Act, including the direction of section 601 that the Secretary of Commerce is to consider the application of any citizen * * * for financial aid in the operation of a vessel or vessels, which are to be used in an "essential service" and the meaning of the term "essential service," which is described in section 211(b) as including the bulk cargo carrying services that should, for promotion, development, ex-

pansion, and maintenance of the foreign commerce of the United States and for the national defense or other national requirements be provided by United States-flag vessels * * *.

It is my understanding that the application of the proposed subsidy method will be limited to the carriage of bulk cargoes in the trade under the recently executed maritime agreement between the United States and the Union of Soviet Socialist Republics, and that some modification of present subsidy procedures will be necessary if existing U.S.-flag bulk cargo carrying vessels are to participate in this trade. With these limitations in mind, and taking into account the highly important "national requirements" and considerations associated with this U.S.-flag vessel service, and particularly its effect upon relations between the United States and the Soviet Union, I agree with the conclusions which you have reached and concur in the actions now proposed by the Maritime Subsidy Board.

PETER G. PETERSON.

Mr. McCLOSKEY. Yes; I would be glad to. I'm trying to recall it. I remember you were very proud of that negotiation, and I understood it was going to result in profits to the operators rather than a subsidy.

Mr. BLACKWELL. You were wrong, sir.

Mr. McCLOSKEY. All right. I'll be glad to correct that if I am.

The Pacific Far East Lines recently filed for bankruptcy after receiving a last-minute \$1 million loan from the Maritime Administration. Would you explain why you made that loan just before they went into bankruptcy, and whether you were advised of their intention to file for chapter 11 bankruptcy at the time you made the loan?

Mr. BLACKWELL. No; we made the loan which is basically—

Mr. McCLOSKEY. Do you understand my question? I'll ask the reporter to repeat the question, Mr. Blackwell. I think if I can ask a specific question and you can give me a specific answer, we will take far less of the rest of the committee's time.

[The pending question was read by the reporter.]

Mr. BLACKWELL. Can I strike that answer and answer the second part, and then the first part?

Mr. McCLOSKEY. Certainly.

Mr. BLACKWELL. The answer is, I did not know at the time we made the loan that they were going into chapter 11. I thought it was a possibility, but I did not know, and I had not discussed it with them.

The reason why we made the loan and what the loan constitutes is a payment on the vessel that was due. I believe the total payment was \$1,300,000-and-something that was due on the mortgage of the vessel. PFEL paid the interest. We paid the principal. We advanced the principal, and we have done this on a number of occasions.

The reason why we advanced the money was because the company was cash short at the time, and we thought they could buy some time at no risk to the U.S. Government. Because in return for that advance of principal to the bank, we took back a mortgage on a vessel in the amount of the loan that we advanced to PFEL.

We think the Government's security position is totally protected by that. The vessel is worth much more than the loan value of the ship.

The CHAIRMAN. The gentleman's time is up. Mr. Biaggi.

Mr. BIAGGI. Thank you very much.

You requested \$262,800,000 operating differential subsidies and informed us this amount, together with \$73,726,000 carryover funds, will provide a program level of \$336,526,000.

With respect to these carryover funds of \$73 million in both fiscal year of 1977 and 1978, the amount appropriated was less than the amount this committee authorized for ODS. Why?

Mr. BLACKWELL. Because subsequent to this committee's determinations and our hearing here, the Appropriations Committee, based on different and later data, cut our budget by some \$37 million—\$20 million in 1978 and \$17 million in 1977. So there is a discrepancy between the authorization and the appropriation process.

The reason for that shortfall was that in 1977 the cargo business, the liner-cargo business, declined rather precipitously, reducing the ship-years of subsidy below the level that we had anticipated. As this downturn in cargo persisted, it was fairly apparent from the record that we would not be able to make the programmed ship-years that we had contemplated. This information was available to the Appropriations Committee, and they reduced our budget.

Mr. BIAGGI. If you have \$73 million left over, there must be slip-page somewhere. If it's going to be a continuing problem, just how do you explain that?

Mr. BLACKWELL. I don't think it will be a continuing problem, Congressman Biaggi. As I indicated, we did have that \$73 million, and we calculated about 15 idle ship-years for that period of time and for the subsequent period of time.

Actually, the number came out in the mid-30 range, simply as a result of a falloff of a substantial amount of tonnage. In addition to that, certain trades developed significant amounts of cargo. For instance, the trades to the Middle East. And what some of our subsidized operators did was to charter their vessels to nonsubsidized companies, so that left us with a substantial amount of unused ODS money.

Mr. BIAGGI. You budgeted \$37.7 million for 20 shipyears of subsidized operations for American President Lines in fiscal 1979, and only \$31 million for 22 shipyears by American Export Line.

How do you give one operator more than the other?

Mr. BLACKWELL. The concept of the ODS system is parity in operating costs between the subsidized operator and his foreign-flag counterparts. As a matter of fact, there is a difference among subsidy rates for different operators determined by the difference between the operating costs of each company and its foreign competition.

There would, in fact, be a difference between the U.S. operating costs of AEL and APL. They have different unions, different requirements, different provisions in their contracts. They also have different trade routes, some longer and some shorter.

But the critical factor is they operate against different types of competition. Generally speaking, the U.S. liner operators in the Pacific are all operating against competitors with much lower costs, and in the Pacific trades, particularly against APL, you have Fesco Lines in there which has a notoriously low cost of operation.

You also have the Japanese and some others, Liberians, and Greeks; in the Atlantic you tend to have competitors with higher

cost structures, so the subsidies are different. You have the Germans, the United Kingdom, the Norwegians, and the French, and generally speaking, they have higher operating costs. So the fact is that you don't provide the subsidy on the basis of an amount per ship. It is on the basis of those particular conditions that exist in the trade that would allow the U.S. operator to achieve parity.

Mr. BIAGGI. Thank you.

The CHAIRMAN. Ms. Mikulski.

Ms. MIKULSKI. Mr. Blackwell, I am very much interested in the shipbuilding industry and the impact that CDS has had on it.

I have a rather complicated question that I would prefer you answer for the record in writing.

One of the things I'm trying to get a picture of is, what have we spent our money on? When you try to go through the reports for the past 8 years, it is very, very, difficult to picture this. So let me tell you what I need to know, and then I would like for you to submit it to us for the record.

I would like to have a complete list of vessels constructed, reconstructed, or converted, with the aid of CDS since the Merchant Marine Act of 1970, and then for each vessel I want to know whether it was brandnew construction, reconstruction, or conversion; the date of the contract, the owner, the type of ship, the vessel, the size of the ship, the total cost, the CDS rate, the CDS dollars, when it was delivered, and whether there was a replacement obligation, and whether there were any other government aids.

[The following material was submitted for the record:]

SHIPBUILDING CONTRACTS UNDER TITLE V MERCHANT MARINE ACT OF 1970

(\$ dollar amounts in millions)

NEW CONSTRUCTION

Date	Operator/shipyard	Number of vessels	Type/deadweight tons	Total cost ¹	MarAd share ¹	CDS rate (percent)	Delivery (first ship)	Other assistance ²
May 19, 1971	Delta Steamship Lines/Avondale Shipyards	3	LASH 39,100	\$85.6	\$37.8	44.2	July 1973	ODS (RO), FSFF
June 4, 1971	Waterman Steamship Corp./Avondale Shipyards	3	do	83.8	37.1	44.2	June 1974	ODS (RO), FSFF
June 29, 1971	Central Gulf Lines/Avondale Shipyards	1	do	27.5	12.2	44.2	September 1974	FSFF
June 30, 1971	Aries Marine Shipping Co./National Steel & Shipbuilding	2	OBO 80,500	60.1	27.1	45.0	August 1973	ODS, FSFF
Jan. 4, 1972	Margate Shipping Co./National Steel & Shipbuilding	2	Tanker 33,300	54.7	23.6	43.0	December 1973	ODS, FSFF
Mar. 16, 1972	Central Gulf Steamship Co./Avondale Shipyards	3	LASH 39,100	54.7	23.5	43.0	December 1974	ODS, FSFF
June 30, 1972	States Steamship Co./Avondale Shipyards	3	RO/RO 18,000	114.1	49.5	42.93	April 1976	ODS (RO), FSFF, TI
Do	Aeron Marine Shipping Co./Iron Works	3	Tanker 87,000	83.6	36.0	42.94	October 1974	ODS, FSFF
Do	Sea Service Tankers, Inc./Todd Shipyards—San Pedro	3	Tanker 35,000	79.5	34.1	42.93	April 1976	ODS, FSFF
Do	Seatrains Lines/Seatrains Shipbuilding	3	Tanker 225,000	171.9	74.0	42.97	December 1973	FSFF, TI
Do	Boston VLCC Tankers, Inc., II, VI, and IV/Bethlehem Steel—Sparrows Point, Md.	3	Tanker 265,000	213.7	92.1	42.99	October 1975	FSFF
Sept. 29, 1972	Cryogenic Energy Transport, Liquegas Transport, LNG Transport/General Dynamics—Quincy	3	LNG 525,000 M ³ 64,000	268.7	63.8	23.70	June 1977	FSFF
Sept. 30, 1972	El Paso Natural Gas Co./Newport News Shipbuilding & Drydock Co.	3	do	297.7	76.3	25.74	do	FSFF
Dec. 21, 1972	States Steamship Co./Bath Iron Works	1	RO/RO 18,000	35.3	14.3	40.23	do	ODS (RO), FSFF, TI
June 26, 1973	Third Group, Inc./National Steel & Shipbuilding	4	Tanker 89,700	112.8	41.3	36.47	February 1976	ODS, FSFF
June 28, 1973	Gulf Oil Corp./Bethlehem Steel—Sparrows Point, Md.	2	Tanker 285,000	162.9	66.9	40.93	April 1977	FSFF
June 28, 1975	El Paso Natural Gas Co./Avondale Shipyards	3	LNG 64,000 M ³ 125,000 M ³	309.1	51.1	16.50	do	FSFF
June 29, 1973	Seatrains Lines, Inc./Seatrains Shipbuilding Corp.	1	Tanker 225,000	70.6	28.9	40.83	do	FSFF, TI
Oct. 5, 1973	Moore-McCormack Bulk Transport/National Steel & Shipbuilding	3	Tanker 38,300	65.1	23.0	35.18	December 1975	ODS, FSFF
Dec. 18, 1973	Chestnut Shipping Co./National Steel & Shipbuilding	1	Tanker 89,700	65.1	22.0	33.38	December 1976	ODS, FSFF
June 29, 1974	Shell Oil Co./Newport News Shipbuilding & Drydock (owned by VLCC I)	2	Tanker 350,770	138.7	54.1	38.75	do	FSFF
Do	Zapala Ocean Carriers, Inc./Newport News Shipbuilding & Drydock Co.	1	do	138.6	53.0	38.75	do	FSFF
Do	Shell Oil Co./Newport News Shipbuilding & Drydock (owned by VLCC II)	1	do	138.2	53.6	38.75	do	FSFF
June 11, 1976	Farrell Lines, Inc./Bethlehem Steel/Sparrows Point	2	Container/united cargo	156.7	77.8	49.64	do	ODS (RO), FSFF
Sept. 23, 1976	Coordinated Caribbean Transport/Manhattan Barge 1 (Subsidiary of Seatrain Shipbuilding)	2	Articulated Tug-barge (Artubarg) 5,083	28.7	16.2	38.05	do	FSFF
Oct. 29, 1976	Coordinated Caribbean Transport/Marinette Marine	2	Tugs	13.7	do	do	do	do
Jan. 28, 1977	American Export Lines/Bath Iron Works	2	Containerships 16,300	86.4	43.0	49.64	do	ODS (RO), FSFF, TI
May 6, 1977	American Heavy Lift Shipping Co./Peterson Builders Inc.	2	RO/RO heavy lift 2,953	33.6	14.1	42.15	do	FSFF
	American Atlantic Shipping/Equitable Shipyards	3	Breakbulk 2,220	28.7	13.9	48.52	do	FSFF

SHIPBUILDING CONTRACTS UNDER TITLE V MERCHANT MARINE ACT OF 1970—Continued

[Dollar amounts in millions]

NEW CONSTRUCTION

Date	Operator/shipyard	Number of vessels	Type/deadweight tons	Total cost ¹	MarAd share ¹	CDS rate (percent)	Delivery (first ship)	Other assistance ²
July 27, 1977	Lachmar Inc./General Dynamics	2	LNG 125,000 M ³ 64,000	310.0	79.0	25.48	---	FSFF
Nov. 22, 1977	Waterman Steamship Corp./Avondale Shipyards	2	LASH 41,500	139.5	65.7	47.08	---	ODS (RO), FSFF, TI
Nov. 30, 1977	Cumbarand Shipping Co., Inc./Seatrain Shipbuilding	1	RO/RO 4,700	12.7	5.2	41.34	---	FSFF
CONVERSIONS AND RECONSTRUCTION								
Mar. 29, 1971	American President Lines/Todd Shipyards Corp.	5	Conversion to full container.	32.5	13.5	41.05	---	ODS, FSFF
June 29, 1971	do	3	do	20.2	8.4	41.05	---	ODS, FSFF
Oct. 1, 1971	American Mail Line/Todd Shipyards Corp.	1	Conversion to container	9.5	3.9	41.05	---	ODS, FSFF
Apr. 14, 1972	Lykes Bros Steamship Co./Todd Shipyards/Galveston	4	Conversion to partial container.	14.0	6.0	42.97	---	ODS, FSFF
Dec. 22, 1972	American President Lines/Triple A Machine Shop	3	Reconstruction	2.3	9	40.03	---	ODS, FSFF
Sept. 30, 1974	Moore McCormack Lines/Todd Shipyards-Galveston	2	do	20.8	7.2	34.75	---	ODS, FSFF
Oct. 11, 1974	Prudential Lines, Inc./Avondale Shipyards	2	do	8	3	32.50	---	ODS, FSFF
June 30, 1975	Waterman Steamship Corp./Norfolk Shipbuilding & Drydock	2	do	1.6	4	24.57	---	ODS, FSFF
Do	Farrell Lines, Inc./Avondale Shipyards	2	Conversion to container	40.3	14.9	36.73	---	ODS, FSFF
Sept. 24, 1975	Moore-McCormack Lines/Maryland Shipbuilding & Drydock	2	Reconstruction	4	1	32.49	---	ODS
Oct. 21, 1975	American President Lines/West Winds	2	do	4.3	1.4	32.07	---	ODS
Apr. 20, 1976	American President Lines/Triple A Machine	1	Conversion to partial container.	1.2	3	34.59	---	ODS
Jan. 17, 1977	do	4	Reconstruction	3.1	1.3	40.53	---	ODS, FSFF
Sept. 30, 1977	Pacific Far East Line/Bethlehem Steel/San Francisco	4	LASH to container conversions.	20.4	8.7	42.64	---	ODS, FSFF

¹ Excludes escalation, changes, engineering and outfitting.² ODS—Constructed by operating-differential subsidy operators. RO—Constructed as a replacement obligation under an ODS contract. FSFF—Financing guaranteed under the Federal Ship Financing Fund. TI—Trade-in of obsolete vessel(s) credited toward construction.³ Each Articulated Tug-barge (Artohar) unit consists of 1 tug being built by Marinette Marine and 1 barge being built by Manhattan Barge I. Total contract price is \$42.5. Total CDS \$16.2 or 38.05 pct.

Ms. MIKULSKI. Now, second, I am concerned about the thought that runs through your statement, that "Even though our shipbuilding is better off than the world, we are still not very well off."

I am interested in the areas where we could begin ship construction that would both provide jobs and insure national security.

I understand that in July of 1976 the Maritime Administration held a major conference on dry bulk ship construction. I would like to know from you, No. 1, were the recommendations of that conference we should be doing more in the dry bulk area, and No. 2, I am concerned that we haven't heard from the administration on this, and I wonder why.

My continuing concern, as both a Member of Congress and of this committee, is that there is always some anonymous bureaucrat over at OMB who defines the world in much more narrow terms that perhaps I and others envision.

Therefore, I would like to know what are the recommendations from that dry bulk conference and, can we expect a bill? Or is this rather a problem where we are now having Government by OMB rather than Government by visible executive and legislative branch?

Mr. BLACKWELL. Congresswoman Mikulski, I have never missed an opportunity to criticize OMB, but I'm afraid this time it is not their fault.

The conference we held at Hyannis I think was a very good one, and the recommendations that came out of that conference have been published in the report of the Maritime Administration. I would be very happy to furnish you and other Members of the committee that report.

There were a series of recommendations, many of which we thought were very worthwhile. We took those recommendations and, working with our own staff a good many months ago, we drafted a legislative package that we thought would lead to a reasonable amount of bulk shipping being built in the United States—dry bulk shipping.

The nature of that business is quite distinct from liner business or even the tanker business, so it really deserves and requires a very special type of legislative framework. We think we did that. And just as we were about to have that finished, the question of cargo-preference legislation came up. We thought that with that controversy it would be unwise to pursue it, and it simply stayed on the shelf for quite a while.

After the cargo-preference controversy died away, we thought it also would be wise not to move precipitously with any piece of legislation that might be considered of major benefit to the maritime industry.

What we did in the mean time was to—

Ms. MIKULSKI. Do you want to say that again? You said it would be unwise to move with legislation that might benefit a sinking maritime industry?

Mr. BLACKWELL. Yes, I do, ma'am.

Ms. MIKULSKI. Who made that decision, Mr. Blackwell?

Mr. BLACKWELL. I did.

Ms. MIKULSKI. Why?

Mr. BLACKWELL. Because I thought the environment, the atmosphere, that the debate was conducted with did a great deal of damage to the industry and to the industry's image. Consequently, I didn't think it was wise to pursue something on the heels of the cargo-preference defeat that was of demonstrable benefit to the maritime industry.

What we did in the mean time was to evaluate the legislation. We wanted to make sure that we had a good piece of legislation, and I have gone over it personally. We have really just resubmitted that through the clearing process in the Administration.

The CHAIRMAN. That's all the time.

Mr. McCLOSKEY. I would be glad to give you a minute.

Ms. MIKULSKI. So now you have this legislation that is going through the clearing process. When can we expect some kind of action?

Mr. BLACKWELL. It's in the Department of Commerce organization for clearing. It has left the Maritime Administration. I just can't say whether or when it will be cleared, but I personally would hope we could do something soon.

Ms. MIKULSKI. I would hope we could move expeditiously on that. I will not be blackmailed by the potential rancor of another debate to slow up the possibility of employing Americans in real jobs which mean something to the national security and employment picture of this country. One debate was one thing, but I would much rather having people building ships than building model airplanes someplace.

The CHAIRMAN. Mr. McCloskey.

Mr. McCLOSKEY. I want to share the gentlelady's comments. I am shocked at the statement that just because one bill was lost that the administration would hold up other recommendations if they felt they were proper.

I remember the last time you were before this committee, Mr. Blackwell. I pointed out section 212(g) of the 1936 act and its requirement that the Secretary of Commerce and the Maritime Administration submit legislative recommendations to the Congress from time to time. You stated at that time that it was your understanding—and you later wrote to me—that in regard to regulatory matters you felt it was not your proper position to do that.

I am impelled to agree. But on legislation that would promote the prosperity of the U.S. Merchant Marine, I still think that responsibility exists, don't you agree?

Mr. BLACKWELL. I agree.

Mr. McCLOSKEY. Let me go back to this Pacific Far East Lines question.

What was the date that you finalized your loan to Pacific Far East Lines and what was the date that they filed for chapter 11 bankruptcy?

Mr. BLACKWELL. I don't know exactly the date of the loan. It was over a month ago, I believe. I believe they filed for Chapter 11 on the 31st of January. I would say the loan was at least a month before that, maybe 2 months.

Do you know?

The CHAIRMAN. You can furnish those dates for the record.
[The following information was received for the record:]

FILING FOR BANKRUPTCY

The loan was made on December 9, 1977. The filing for chapter II occurred on January 31, 1978.

Mr. McCLOSKEY. Did they advise you before they filed a chapter 11? As the recipient of an operating subsidy, aren't they required to give the Maritime Administration some notice before they file bankruptcy?

Mr. BLACKWELL. No, they are not required to give us notice before they file. I was advised there would be a board of directors meeting, last Tuesday, I believe it was, in San Francisco, and that the company's plan at the time was that it could, through a voluntary arrangement with unsecured creditors, operate on a cash basis.

I indicated that was certainly a very preferable thing for the company and for its creditors, secured and unsecured.

Mr. McCLOSKEY. Does the Maritime Administration have any steps it can take to assist a subsidized line or company to avoid bankruptcy?

Mr. BLACKWELL. We have a provision of the act which allows us, in certain cases, rather broad powers in terms of protecting the Government's security interest in the vessel. That could possibly be used. But we are constrained by the statute in terms of what our authorities are and what are responsibilities are, as well as by the contract that we have between the Maritime Administration and the applicant.

Mr. McCLOSKEY. What was the vessel on which you took back a security interest to secure the one million dollar loan?

Mr. BLACKWELL. It would be the *Atlantic Bear*.

Mr. McCLOSKEY. Who owns the *Atlantic Bear* today?

Mr. BLACKWELL. It is owned by PFE.

Mr. McCLOSKEY. PFE?

Mr. BLACKWELL. Pacific Far East Lines.

Mr. McCLOSKEY. Soon after changing its management, Pacific Far East lines sold several of its vessels to Farrell Lines at a substantial profit.

What happens to that money?

Mr. BLACKWELL. The profit they gleaned from that sale went largely—first of all, it paid off some outstanding debt on the vessels. Second, it went in to pay bills. It paid unsecured creditors. Third, there was an amount of money, as I understand it, to create a fund for the conversion of the LASH vessels to container ships.

Mr. McCLOSKEY. Mr. Blackwell, when a company sells its ships and makes a substantial profit, borrows more money from the Maritime Administration and then goes into bankruptcy, that doesn't sit too well with me.

What, in your judgment, looking back, could the Maritime Administration have done to avoid sinking another million dollars into a company that was in the process, as you say, of possible bankruptcy?

Mr. BLACKWELL. I don't know what this Maritime Administration could have done. I know prior Maritime Administrations probably

should not have forced the company to build a vessel that wasn't suited for that trade, in my opinion.

Mr. McCLOSKEY. Thank you.

The CHAIRMAN. Mr. Blackwell, what is your assessment of the current financial condition and future prospects of the 13 major commercial shipyards?

Mr. BLACKWELL. Of those 13 yards, Mr. Chairman, only one is an independent; that is Todd Shipyards. They just received a very substantial frigate order from the Navy which should give them a great deal of work. The contracts almost are in the billions of dollars for both their Seattle facility as well as their Long Beach facility.

The other 12 yards are parts of conglomerates and we are not able to make a judgment. They don't file their financial statements with us, and we are not able to glean from the statements of the parent companies what the financial condition of the yards are.

As far as maritime work is concerned, I would not think the yards are in a particularly good financial position, because a significant amount of the shipbuilding order book that was placed in these yards was placed when market rates were going up, when we had a relatively stable inflation rate in the United States of about 5.3 percent.

The yards accepted tremendous numbers of contracts at fixed prices. Once those contracts were concluded, it seems that inflation just was running rampant and our economy was overheated, as you remember. It was impossible to get supplies in many instances. And instead of inflation rates of 5.3 percent, the yards were confronted with inflation rates of 12, 13, and 14 percent, and some items almost tripled and quadrupled.

I believe many of the yards sustained losses on those vessels which they really have never been able to recoup. We took that into consideration shortly thereafter by changing our contracting system from a fixed-cost basis to a fixed-cost-plus-escalation basis. However, the number of contracts awarded under that have been relatively limited, so the yards have never been able to even get a return on the investment for all those losses.

So I would assume the financial situation of most of the shipyards is very shaky.

The CHAIRMAN. I understand the \$279 million construction differential subsidy program for fiscal 1979 will be generally allocated as follows: \$80 million for two container ships, \$88 million for two RO/RO's, \$102 million for two LNG ships, \$6 million for pollution abatement features, and \$3 million for engineering change.

With respect to the six new vessels to be constructed, what are the expected CDS rates?

Mr. BLACKWELL. I would think on the RO/RO's and the container ships we should be able to negotiate rates between 47 and 50 percent—closer to the 47-percent side. For the LNG's, I should think we should be able to determine a CDS rate at 28 percent or below.

The CHAIRMAN. Would you comment further on the \$6 million earmarked for pollution-abatement features?

Mr. BLACKWELL. Yes. As you know, pursuant to the President's message to Congress, and certain actions taken by the Coast Guard,

and through the rulemaking technique, there is likely to be a requirement in this next year, whether it comes from IMCO or comes from unilateral action of the United States, to enhance the anti-pollution features not only of existing tonnage but on new building.

We have a number of tankers in our yards which would be considered to be new buildings within the purview of those rules. Consequently, we think it would be wise to set aside this money to assist in the redesign and reconstruction of some of these tankers to fit whatever pollution requirements are decided. I am particularly thinking about retrofitting, in terms of segregated ballast.

The CHAIRMAN. Would that funding be sufficient for that?

Mr. BLACKWELL. No; it wouldn't. We were thinking here through the CDS program of simply doing the vessels that are in the yards awaiting completion. It would be relatively easier and much cheaper to do it on those vessels.

As far as a program for retrofitting the entire fleet, that is something we have to come to when it's presented as a problem.

The CHAIRMAN. Mr. Metcalfe.

Mr. METCALFE. Thank you, Mr. Chairman. My time had expired and I had a couple more questions that I would like to ask Mr. Blackwell.

We were discussing at that particular time the applications. Now, what would be the annual ODS cost if the Maritime Administration was in a position to approve all such applications you believed would further the declaration of policies set forth in the Merchant Marine Act of 1936?

Mr. BLACKWELL. Well, very recently we did just a rough calculation, Congressman Metcalfe, as to what it would cost if every liner application that we considered active were in fact granted. I'm not saying that every one of these is a real application. But we concluded it would be about \$190 million a year additional to the cost of the program now.

Also, as far as the bulkers are concerned, we think that would run about \$14 million a year.

Mr. METCALFE. Finally, I understand the objectives of the research and development program is to develop methods, equipment, and systems to make the U.S. shipbuilding and ship operation industries more efficient, competitive, and productive.

Would you care to elaborate and expound on that position?

Mr. BLACKWELL. Yes. That program, Congressman, applies not only to ship operations but to the shipyards as well.

We think the money has been spent rather wisely and there are certain results that we can demonstrate. For instance, we have developed a highly skewed propeller which is on a number of our vessels now. It has been demonstrated that the addition of this type of propeller reduces very significantly the vibration which is the cause of a lot of maintenance work on vessels.

In addition to that, our efforts have developed a marine gas turbine in the United States, which is a fairly efficient and effective way of propelling vessels, particularly inasmuch as you don't need an engineroom on these vessels, because it operates very much like an airplane. On the same general concept we have worked with GE on a co-share program for gas turbines and that have gone into four

of six vessels that are now either operating or being built to serve the trade on the west coast.

In addition, we have introduced the Autokon system for designing vessels and building vessels. Not too many years ago the U.S. shipbuilding industry was really characterized largely by kind of a handmade labor effort. The Europeans were a way ahead of us in terms of computer technology. We have adopted some of those systems here. Through our auspices, we have introduced this automated building system to about five U.S. shipyards and it has been really quite successful.

As I mentioned in my statement, we have put money into marine communications, with satellites, and that has proven successful enough that we can now withdraw from the program and leave it to the commercial segment.

We have also developed some extremely unique welding techniques through which a welder can strap a handy size machine welding pack to his back and can get into small spaces instead of carting a huge welding machine around the vessel. We have also worked in the area of cable work. The Coast Guard has approved our proposals and now we have cable installation techniques that are very efficient and can save a good deal of time.

Those are just some of the elements in the program.

Mr. METCALFE. Thank you very much, Mr. Chairman.

The CHAIRMAN. Mr. McCloskey.

Mr. McCLOSKEY. Thank you, Mr. Chairman.

Mr. Blackwell, how many seamen are presently supported by operating differential subsidy funds for fiscal year 1978?

Mr. BLACKWELL. I don't know the number, offhand. I would guess about 16,000.

Mr. McCLOSKEY. What is the percentage of the total operating differential subsidy package that is represented by seamen's wages or benefits?

Mr. BLACKWELL. I think it's about 83 percent now.

Mr. McCLOSKEY. And what is the average Federal cost per seaman on a subsidized liner?

Mr. BLACKWELL. I think we have gone through this exercise before, Congressman, and I think it comes into the low 20,000.

Mr. McCLOSKEY. Why is it, in your opinion, that 3 of our 10 subsidized liner companies are in financial difficulty but the unsubsidized liner companies are in good financial condition? Could you comment on that point?

Mr. BLACKWELL. Yes. I think the reason—

The CHAIRMAN. Would the gentleman yield?

Mr. McCLOSKEY. I'm speaking about the three unsubsidized liner companies that are in good financial condition, while the 10 subsidized liner companies are generally not. Why is that?

Mr. BLACKWELL. I think all three companies, first of all, have been characterized by extremely good management. Second of all, they have good equipment. They have a type of steamship service where there really needs to be less dependence on subsidy than on the traditional break bulk services.

Sea-Land is an exclusive container operator to a large extent, as far as its commercial trades are concerned. United States Lines is

also a complete container operator, and Central Gulf, while it doesn't have container ships, has intermodal ships and has good management.

Mr. McCLOSKEY. Obviously, the unsubsidized carriers have good management, and I take it your suggestion is that perhaps bad management has been a part of the problem with the subsidized liners.

Is there something about subsidy that leads to bad management, in your judgment?

Mr. BLACKWELL. I would think, from a personal point of view—and obviously, this is a subjective question with a subjective answer. I would think, if I were the recipient of funds from some source, a governmental source, I would probably work harder if I wasn't the recipient of those funds.

Mr. McCLOSKEY. Mr. Blackwell, I am disturbed about the provision in title 18 of our criminal code that prevents lobbying with appropriated moneys.

In the recent cargo preference fight, I note that in the contributions to the campaign to promote cargo preference we have \$50,000 from the Transportation Institute, \$100,000 from the Joint Maritime Congress. Those moneys essentially come, 83 percent, out of the Treasury, which subsidizes these costs as an additional operating subsidy for U.S. carriers; does it not?

Mr. BLACKWELL. No, it doesn't. Let's not give a negative or pregnant figure here. I don't think the figure is 83 percent.

Mr. McCLOSKEY. I thought that was your percent.

Mr. BLACKWELL. You have to remember there are contributions to those funds from nonsubsidized operators. As far as the Transportation Institute is concerned, most of their contributions would be from the nonsubsidized segment of the fleet, not the subsidized.

Nevertheless—

Mr. McCLOSKEY. Let me get back to this point.

There is no inhibition at the present time, is there, against the union negotiating with the subsidized management to increase its wage package? Whatever increase it negotiates will be picked up as part of the operating differential subsidy, isn't that correct?

Mr. BLACKWELL. That's essentially correct, except for the limitation that the index system imposes on the system. Yes, you're right.

Mr. McCLOSKEY. But if the unions then negotiate as part of the wage package that the company support something like the Transportation Institute, and the Transportation Institute's funds are then used to promote lobbying activity, in effect, that Federal money is going directly into that lobbying activity, is it not?

Mr. BLACKWELL. If those funds can be traced that way. I'm not sure, Congressman McCloskey, what other resources the TI and this other group you mentioned have. I'm not sure that their exclusive source of funds is this vehicle.

I do know—in fact, I have a copy of a memorandum of understanding, for instance, between Waterman Steamship Co. and the SIU. There is a provision in here—may I read it?

Mr. McCLOSKEY. Certainly.

Mr. BLACKWELL. It's paragraph 4. Transportation Institute:

Each company, commencing with the execution date of this memorandum of understanding and agreement, shall pay to the Transportation Institute a

management trust fee, the sum equal to \$1 per man per day for each day the employee covered by the collective bargaining agreement or any supplements or addenda thereto between the union and company was employed by such company. Payments shall be made monthly and shall be accompanied by a report in such form as the trustees of the plan may determine.

This trust is established to research issues and problems affecting the American maritime industry, to publish the results thereof, together with appropriate recommendations, and to engage in all other similar and comparable activities which the trustees may determine from time to time in accordance with the provisions of this agreement.

Now, the fact of the matter is those payments by this company would, in fact, be picked up through the ODS wage system.

Mr. McCLOSKEY. A dollar per man per day?

Mr. BLACKWELL. Yes. I'm not saying—

The CHAIRMAN. Your time has expired.

Mr. Biaggi.

Mr. BIAGGI. Mr. Secretary, on page 8 you indicated that you saved \$9 million in 1978 in ODS, and that seven operators agreed to that.

One, what was your authority for reducing certain elements of operating differential subsidy?

Mr. BLACKWELL. 603.B of the act sets forth the items that we can pay, the four basic items we can pay operating differential subsidy on. And then there's a provision that says "unless a lesser amount can be agreed upon." It is that provision that we rely on for authority to negotiate with the operators a lesser amount of subsidy.

Mr. BIAGGI. Then did that reduction have any adverse effect on those operators that agreed to it?

Mr. BLACKWELL. We don't think so. We have negotiated five long-term contracts for a period of 17 to 20 years, and we have not had any great amount of concern expressed by those operators.

During the negotiating process obviously there are complaints, but I think that is natural. For instance, H. & M. and M. & R. which is one comparative cost that we can subsidize, only accounts for 4.8 percent of the total subsidy bill.

Under changing operations, the subsidy for that item becomes almost an insignificant portion of the total cost of the company. Consequently, we don't think it would have a substantial impact on any of the companies.

Now, we didn't undertake this approach lightly, Congressman Biaggi. I personally was involved in it from the beginning. Before we made the first decision to try to negotiate reduced levels of subsidy, I inspected the amount of paperwork that both the Government and the subsidized operator had to go through to process these payments. I was absolutely appalled by what we found—a tremendous amount of paperwork and processing time. I think the elimination, where it's appropriate, of these rather negligible items of subsidy not only makes the carrier a little more self-sustaining, but absolutely removes certain administrative, management, cost burdens from the operator as well as the government.

Mr. BIAGGI. So you're saying, by reducing the subsidies in those areas that you designated, that you, in fact, did the companies a good turn?

Mr. BLACKWELL. Some of them don't agree with that.

Mr. BIAGGI. I'm sure.

What are the financial conditions of those seven companies now?

Mr. BLACKWELL. The five companies that we executed the long-term contracts with, I think—well, they're all really in quite good shape. One of them, Prudential, has had some financial difficulty, but as I mentioned earlier, I think in response to a question from the chair, that company is selling a substantial portion of its assets in South American service, plus another ship, to a very healthy subsidized company.

There are two companies who have complained perhaps more than the rest—Lykes Brothers and States. We have only executed interim 1-year contracts with those operators, and will be going through the negotiating process this year. You know, we will certainly listen to their problems.

Mr. BIAGGI. You subsidized 173 ships to the tune of \$275 million. What percentage of the total operating cost does that \$275 million represent?

Mr. BLACKWELL. It just would be a little less than 16 percent. When we get the current figures for this year, it may turn out to be lower. Because what has happened is that fuel, as an operating cost, has simply taken off in terms of its cost, and now it has become the most significant single operating cost, higher than wages. That is not a subsidized expense. Consequently, when we look at this last year's financial history, I think we will see the operating costs represented by subsidy are probably down to less than 10 percent of all operating costs.

Mr. BIAGGI. Because you have excluded the costs of the fuel?

Mr. BLACKWELL. We didn't exclude it. The statute does.

Mr. BIAGGI. Thank you.

The CHAIRMAN. Mr. Blackwell, as you know, the Federal budget provides that the subsidized ship construction program enables U.S. shipyards to construct ships for U.S. citizens at prices which are comparable to the prices which would be paid for the same construction in a foreign shipyard.

In view of the current status of the world's shipbuilding industry, in your opinion, does the current statutory maximum of 50 percent CDS enable U.S. yards to construct ships at prices which are comparable to the prices which would be paid for the same construction in a foreign yard?

Mr. BLACKWELL. I would answer that Yes; with all the vessels we are capable of building here. But the question of whether the 50 percent is adequate for dry bulk carriers, is very "iffy." It depends on how competitive the U.S. price is. In other words, how much of the profit would a U.S. yard be willing to shave; it depends on whether the Japanese, for instance, were going to adjust for the strength of the yen as against the dollar.

We are looking at the possibility of building some dry bulk ships. It really looks quite good. The question of whether we can meet the 50 percent rate is really quite "iffy."

The CHAIRMAN. The exchange rate will have an effect on it?

Mr. BLACKWELL. If it were a perfect world, Mr. Chairman, the exchange rate, yes, would have put us more than in the ballpark. But the Japanese have the propensity to make certain types of ad-

justments that more than cover up for the adjustment in the currencies. We don't get that adjustment in the prices. They are willing to sell their ships really quite cheap.

The CHAIRMAN. How much does subsidized ship construction assist in the maintenance of the shipbuilding industrial base in America?

Mr. BLACKWELL. I think it is rather substantial. As I have testified, and as the reports we have submitted to the committee indicate, the shipyard mobilization base is just about barely adequate. We think the subsidized contribution over the last several years has been very significant.

The subsidy dollars that have gone into the shipyards since the 1970 act are 1.5 or 1.6 million dollars. They have generated about \$3.5 million worth of work, for 71 ships and 37 conversions. Other than balance of payments and taxes that accrue. I think the biggest net advantage, other than the direct national security advantage of having this, is that about 9,000 workers are employed in the yards as a result of that program right now, and probably another 6,000 to 7,000 are in supporting industries. And I'm not going into the tertiary support because that gets a little bit remote.

Not only has the Government made this contribution through the CDS program of 1.6 million, which led to almost \$5 billion worth of work and 6 million deadweight tons of shipping, but the fact is that based on that commitment in the 1970 act the yards themselves have contributed in terms of investment in capital facilities, about \$1.279 million. We anticipate that in both the large and small yards this year, it's going to be about another \$200 million.

So you have not only a maintenance of the facilities, but a very substantial upgrading that is obviously an enhancement to our defense posture, and which also allows us to build ships more efficiently.

The CHAIRMAN. Of the vessels contracted for since the 1970 act, how many were contracted for as part of an ODS replacement obligation?

Mr. BLACKWELL. Sixteen, I believe. That doesn't sound like much, 16 out of 71, but you have to remember that 31 of those 71 ships that we built were tankers. So as far as the nontanker segment of the fleet, about half of the liner building has emanated from the ship replacement program or contracts.

The CHAIRMAN. What is MarAd's policy with respect to permitting ODS operators to defer the replacement of vessels, and how many deferrals have been granted by MarAd since the 1970 act?

Mr. BLACKWELL. I can't be very specific on the numbers. I don't think there has been more than one or two, or three, outright deferrals.

We have occasionally postponed building commitments, waiting for the operator to develop a better design for a vessel, or because the trade in that particular year was way off and overtonnaged, or in some cases, frankly, where the operator was "strapped" and didn't have the financial resources to make the commitment in terms of the equity required.

So sometimes we would have a limited postponement, but in most cases that obligation has to be met. That's the heart of the program.

The CHAIRMAN. Mr. Biaggi.

Mr. BIAGGI. On page 5 of your statement you point out \$122 million CDS funds will be carried forward from fiscal year 1978, and

one of the reasons is that "a major recovery of funds associated with prior year's contract."

What do you mean by that?

Mr. BLACKWELL. Well, we had a substantial amount of money that was deferred as a result of Waterman not building four vessels that we had them programed for, but only going ahead to build two. That was essentially deferred and carried over.

In addition to that, the Berger group had a three-ship tanker contract at Avondale Shipyards that aborted, and those moneys also were deferred.

In addition to that, we had held in reserve some funds as a result of some cancellations at the Todd Shipyard in San Pedro until we could precisely determine what the Government's exposure was going to be. That money, some \$15 million, has also been carried from 1977, 1978, into 1979.

Mr. BIAGGI. The Federal budget contains the following statement:

Although funding will continue for the construction of liquefied natural gas for carrier ships, this policy will be reviewed when the current interagency study of LNG import policy has been completed.

A number of questions. What agency has taken part in this study, what's the current status, and can you give us any indication as to tentative findings?

Mr. BLACKWELL. The agencies that are taking part—I may miss one—but they are the Departments of Energy, Commerce, State, Treasury, and Transportation. I think that's probably it.

They have just indicated—I'm not sure if it was prior to any decisions on specific applications, but one of the first things this interagency group is going to do is to study the environmental impact of a programmatic decision, not a decision as to any application, but an entire LNG import program.

I don't know what they're going to do in terms of coming out with a decision. You've got a mix of regulatory problems before the regulatory authority, and a mix of policy problems.

Some of the problems they are confronted with are the reliability of the source, the diversification of the source of the gas, obviously the price, safety of the carriage, the siting problem is a very critical one, particularly in California, where a current controversy is going on, what the escalation provisions are going to be, that is, whether you can use an OPEC indexing system in terms of escalating gas prices, or a domestic energy source indexing system. The incremental pricing issue is another one—in other words, who is going to pay for the higher price gas. Is it going to be paid by the user or are you going to mix it with domestic gas and have an average price?

And there is something called the all-events tariff, which is a very critical issue, because that issue determines who absorbs the risk, particularly from a transportation point of view, in terms of whether vessels get finished or not.

That litany of problems causes me to really defer making a judgment as to what they are going to decide. I just hope they make the decision soon. We expect the decision in 4 to 6 months, including the environmental impact statement.

Mr. BIAGGI. Thank you, Mr. Secretary, for your comprehensive responses and obvious candor.

The CHAIRMAN. Thank you.

There is a quorum call, but before we go I will submit to you a list of questions regarding the National Defense Reserve Fleet, some of the R. & D. projects, and the interface of costs shared by private enterprise and so forth.

But perhaps you could comment on one point that came up at our recent tours of the different Maritime Academies. How are these academies going to cope with the staggering cost increase in fuel that is vital to the cruises that are so necessary to their meeting the requirements of the Department? Is there any program for assisting those schools with their excess fuel bills?

Mr. BLACKWELL. We have a school ship fleet, Mr. Chairman, that is adequate. I wish I could characterize it in better fashion than that. These are relatively old ships. They still have some years left in them. They are not ideal training ships. About the only thing you can say for them is they can carry a great many cadets to sea for their training.

We have looked at the possibility of having the Government support these training cruises in terms of a contribution or payment for fuel. As you know, that would have to be a legislative requirement, and a legislative change would be necessary.

My own approach is, while that might be helpful, it only solves the near-term problem. We really have to take a look at how we train our merchant marine officers in terms of at-sea experience. I am convinced that the present system just won't do the trick into the 1980's, for any long period of time.

We are looking at the possibility—

The CHAIRMAN. For at-sea training?

Mr. BLACKWELL. At-sea training. And we are looking at the possibility of developing, at Government expense, perhaps two training vessels that would be uniquely designed for training, and which the Government would pay for.

Unfortunately, after meeting with the industry and the State Maritime schools, our staff has drawn up some preliminary indications of what such a ship would look like and what its cost would be. Quite honestly, the cost was staggering. I just couldn't believe it. I basically sent it back to the drawing board, to see if they could come up with a more austere vessel, an effective vessel, that was reasonably priced, so that we would have a reasonable chance of getting it through the administration and through the Congress. That's what we're looking at.

The CHAIRMAN. Thank you, Mr. Blackwell.

If minority has any questions, would you work with Mr. Sutter and submit them for the record.

The committee stands adjourned until 10 a.m.

[The following material was received for the record:]

U.S. DEPARTMENT OF COMMERCE,
ASSISTANT SECRETARY FOR MARITIME AFFAIRS,
Washington, D.C., March 15, 1978.

Hon. JOHN M. MURPHY,
Chairman, Committee on Merchant Marine and Fisheries, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This refers to your letter of February 15, 1978, in which you requested answers to 18 questions for insertion in the record of the

hearing on H.R. 10729. We received your letter on February 23. Answers to the questions are forwarded herewith.

Please let me know if I can be of further assistance on this matter.

Sincerely,

ROBERT J. BLACKWELL,
Assistant Secretary for Maritime Affairs.

Enclosures.

Question 1. On page 3 of your statement, you state: "In summary, the U.S.-flag merchant fleet is continuing to grow in size and efficiency under our maritime program, and, while shipbuilding prospects are discouraging, our shipyard prospect is more stable than the world prospect in this difficult time." In this regard:

a. What is your assessment of the current financial condition and future prospects of the ten subsidized U.S.-flag liner operators?

b. What is your assessment of the current financial condition and future prospects of the eleven subsidized U.S.-flag bulk operators?

c. What is your assessment of the current financial condition and future prospects of the nonsubsidized operators operating in the foreign commerce of the United States?

d. What is your assessment of the current financial condition and future prospects of our 13 major commercial shipyards?

Answer (a). All subsidized liner companies reported net losses before subsidy in 1975 and 1976 except for one company, which had a positive net increase in both years and a second company which avoided a net loss in 1975. The first of these reported returns on net worth of 1% and 14% in the successive years. The second had a 3.7% return on net worth in 1976.

The current financial position of the subsidized liner companies, excluding Prudential, PFEL and States, may be considered as sound. Prudential is in the process of consummating the sale of a major portion of its assets to Delta, which is relatively strong. PFEL is currently trying to restructure its operations under Chapter XI of the Bankruptcy Act. States is attempting to realign its operations to implement the Ro/Ro concept of its trans Pacific trade routes.

The profit/loss performance of the subsidized liner companies in 1975 and 1976 is summarized on the attached table. Data for 1977 are not yet available.

(b) See insert on p. 10.

SUBSIDIZED LINER COMPANIES PROFIT/LOSS IN 1975-76

[Stated in millions of dollars]

Company ¹	1975			1976		
	Profit/loss before subsidy	Subsidy	Net profit and loss	Profit/loss before subsidy	Subsidy	Net profit and loss
A-----	(\$5)	\$15	\$10	(\$2)	\$13	\$11
B-----	14	15	29	1	16	17
C-----	(34)	28	(6)	(29)	31	2
D-----	(41)	34	(7)	(26)	40	14
E-----	3	22	25	(14)	26	12
F-----	(13)	12	(1)	(11)	11	-----
G-----	(27)	47	20	(41)	57	16
H-----	(33)	36	3	(37)	37	-----
I-----	(22)	26	4	(17)	26	9
J-----	(5)	16	11	(4)	17	13

¹ The confidential nature of this information precludes the use of actual company names.

(c) There are only three major unsubsidized U.S.-flag liner companies engaged in the foreign commerce of the United States. They are, in order of total revenues, Sea-Land, U.S. Lines and Central Gulf Lines. The current financial condition of these three companies is satisfactory. In 1976, all three carriers earned in excess of 10% on net worth.

(d) The Maritime Administration does not have a detailed assessment of the financial condition of the major commercial yards because shipyards are

not required to report on their financial status. Of the major commercial yards, all but one are held by major corporations, and it is not possible to derive the status of the shipyard from the financial statements of the parent companies. The one independent shipbuilding company, Todd, has a new Navy contract, and its near term prospects are good.

As far as maritime work is concerned, we do not believe that the other yards are in particularly good financial condition. A significant part of the shipbuilding orderbook in those yards represents orders that were placed when market rates were going up and when there was a relatively stable inflation rate of about 5.3 percent. The yards accepted significant numbers of contracts at fixed prices. Once those contracts were concluded, the inflation rate increased, and the economy became overheated. It was impossible to get supplies in many instances, and the yards were confronted with inflation rates of 12, 13 and 14 percent.

It appears likely that many of the yards sustained losses on those early contracts which they have not been able to fully recoup. MarAd took that into consideration shortly thereafter by changing its contracting system from a fixed-cost basis to a fixed-cost-plus-escalation basis. However, the number of contracts awarded under that procedure have been relatively limited, insufficient to provide for full recovery.

Recently, the major U.S. shipyards have seen the backlog of merchant ship construction orders decline to a dangerously low point. There are only 42 undelivered merchant ships on order at this time in the 13 major yards. Over half of them (24) will be delivered during 1978, and additional orders for naval and commercial vessels will not be able to sustain current employment levels.

Question 2. I understand that the \$279 million CDS program for Fy 1979 will be generally allocated as follows: (a) \$80 million for two containerships; (b) \$88 million for two Roll-on/Roll-off vessels, (c) \$102 million for two LNG ships, (d) \$6 million for pollution abatement features, and (e) \$3 million for engineering, changes, etc.

a. With respect to the six new vessels to be constructed, what are the expected CDS rates?

b. Would you comment further on the \$6 million earmarked for pollution abatement features?

c. The \$3 million for engineering, changes, etc., is fairly standard, but would you elaborate on this element of your construction program?

Answer (a). The expected CDS rates are:

1979 Contracts	CDS rates (percent)
2 roll-on/roll-off ships.....	47-50
2 LNG's.....	28 or less
2 containerships.....	47-50

(b) The President, in his March 12, 1977 address to the Congress, outlined a proposal to require all U.S. and foreign-flag tankers, over 20,000 DWT and operating in U.S. waters, to be equipped with certain pollution abatement features. These features included double bottoms for new construction, segregated ballast, inert gas systems, backup radar and collision avoidance systems, and improved emergency steering gear. On May 16, 1977, the U.S. Coast Guard issued a Notice of Proposed Rulemaking to implement the Presidential initiatives and require the installation of the recommended pollution abatement features by 1981.

Anticipating that these new U.S. Coast Guard requirements would soon go into effect, MarAd initiated a four year \$50 million program to ensure that by 1981 all CDS tankers were equipped with the requisite pollution abatement features. For fiscal year 1978, the first year of MarAd's program, \$6 million in CDS funds was earmarked primarily for pollution abatement changes to tankers currently under construction. For fiscal year 1979, \$6 million in CDS funds was earmarked for retrofitting existing tankers with the proposed pollution abatement features. For both years, segregated ballast tanks were assumed to be the major cost item.

However, on February 17, 1978, the London Conference on Tanker Safety and Pollution, convened under the auspices of the Intergovernmental Maritime

Consultative Organization (IMCO) on the recommendation of the President, adopted a set of new international standards for tanker pollution abatement. These standards included, among other things, clean ballast tanks and crude oil washing systems as alternatives to segregated ballast tanks. Based on the favorable response of the Secretary of Transportation to the results of this Conference, it appears most likely that the Administration will support these international standards and that the U.S. Coast Guard will revise its 1977 Proposed Rulemaking to conform with them. This course of action, particularly in regard to permitting alternatives to segregated ballast, will necessitate a review of MarAd's CDS pollution abatement program. MarAd has already undertaken a study to determine the impact of these new standards, including how they will affect both CDS and non-CDS tankers, the amount of money required to meet the standards, and whether subsidy will be allowed for retrofitting pollution abatement features on tankers in the foreign trade. It is expected that the results of this study will be available by May 1978.

(c) The CDS line item, "engineering, exchanges, etc.," incorporates those changes which may be approved for existing CDS contracts to correct design deficiencies or to provide for improvements during the construction of ships. The estimate of \$3 million in 1979 is based primarily on historical averages of CDS amounts for such changes.

Question 3. As you know, the Federal Budget provides that the subsidized ship construction program "enables U.S. shipyards to construct ships for U.S. citizens at prices which are comparable to the prices which would be paid for the same construction in a foreign shipyard." In view of the current status of the world shipbuilding industry, in your opinion, does the current statutory maximum of 50 percent Construction-differential Subsidy enable "U.S. shipyards to construct ships . . . at prices which are comparable to the prices which would be paid for the same construction in a foreign shipyard"?

Answer. The current budget is based on the premise that liner ships will be contracted for at subsidy rates somewhat below 50 percent and that LNG vessels will be contracted for at CDS rates below 30 percent. These rates, which reflect the current differential between U.S. shipbuilding prices and world prices, are below the legal maximum of 50 percent. It is therefore clear that the depression in world shipbuilding prices has not affected contracting for these types of vessels. This is not true at the present time, however for standard design bulk carriers, which would require CDS rates in excess of 50 percent to equate the U.S. and foreign prices. (However, it is anticipated in the special case of certain proposed Livingston shipyard bulk carriers, which incorporate both specialized design features and shipyard equity participation, the CDS rate may be 50 percent.)

Question 4. The Committee recently heard testimony to the effect that our Shipbuilding Industrial Base is only marginally adequate in a short war and not adequate in a so-called long war. As you know, our Shipbuilding Industrial Base is generally supported by military and commercial construction and repair work. In this regard:

a. How much does subsidized ship construction assist in the maintenance of our Shipbuilding Industrial Base?

b. Of the vessels contracted for since the Merchant Marine Act of 1970, how many were contracted for as part of an Operating-Differential Subsidy (ODS) replacement obligation?

c. What is the policy of the Maritime Administration with respect to permitting ODS operators to defer the replacement of vessels? How many such deferrals have been granted by the Maritime Administration since the Merchant Marine Act of 1970?

Answer (a). Subsidized ship construction supports a significant segment of the U.S. Shipbuilding Industrial Base. Since 1970, about \$1.5 billion of Construction-differential Subsidy funds have been made available to shipbuilders. This has generated \$3.6 billion of vessel construction for 71 new ships which total 6.1 million deadweight tons and 40 reconstructions or conversions. Moreover, for the period fiscal year 1971-fiscal year 1977, Title XI commitments were made for 250 oceangoing non-CDS vessels which totalled more than \$2 billion in ship construction. The programs have also stimulated investment of \$1.3 billion in shipyards through fiscal 1977, with additional projects estimated at \$167.0 million expected during fiscal 1978.

(b) Of the 71 vessels contracted for since 1970, excluding those which were later cancelled, 16 were contracted for under ODS replacement obligations.

(c) It is not the policy of the Maritime Administration to permit the deferral of obligated vessel replacement. Consideration is given to deferral in individual cases when new construction does not appear economically viable. Since 1970 there have been relatively few deferrals. In one instance, replacement of breakbulk vessels was deferred annually for several years due to the disruption of service caused by the closure of the Suez Canal. In the interim, the operator, through conversion of breakbulk vessels to container vessels, was able to provide the same amount of or greater service with its more productive fleet, thereby eliminating the need to replace vessels which had been withdrawn from its contract. On at least one other occasion, the combination of shipyard price and the level of CDS prescribed by statute at the time made replacement economically imprudent and construction was deferred for one year. The temporary inability of an operator to secure adequate bank financing has resulted in some short-term deferrals.

Question 5. On page 5 of your statement, you point out that \$122 million in CDS funds will be carried forward from FY 1978, and that one of the reasons for this is "(2) a major recovery of funds associated with prior years' contracts." What do you mean by this statement?

Answer. During 1977 \$62.4 million of prior years obligations were recovered, \$46.3 million from the termination of a contract for three tankers at Avondale (Berger contract awarded June 30, 1975), and an additional \$16.1 million from the Todd-Hawaiian contract (contract awarded June 12, 1974). At this time last year a recovery of \$15 million for the elimination of one tanker from the Avondale contract was anticipated and the \$15 million was included in the budget to fund the 1978 program. The remaining \$31.3 million from that contract has since been recovered. This, in combination with the \$16.1 million from the Todd-Hawaiian contract, accounts for the "major recovery of funds" (\$47.4 million) referred to on page 5 of the statement.

Question 6. I note that the Federal Budget contains the following statement: "Although funding will continue for the construction of liquified natural gas (LNG) carrier ships this policy will be reviewed when the current interagency study of LNG import policy has been completed."

a. What agencies are taking part in this interagency study?

b. What is the current status of the study?

c. Can you give us any indication as to tentative findings of this LNG study?

Answer (a). The Federal Inter-agency Task Force is conducting an in-depth review of LNG import policy. The following agencies are involved in this effort: The Departments of Energy, Commerce, State, Treasury, and Transportation and the Council of Economic Advisors.

(b) The Current study covers the full range of issues relating to LNG importation. Among the most important are pricing, reliability of exporting country dependency both nationally and regionally, contingency planning and safety and siting. Public hearings were held recently at which representatives of various interests from industry, government, and the public stated their views on the issues under consideration.

The next step in the current effort will be the preparation by the Department of Energy of a programmatic environmental impact statement on the overall topic of LNG importation. Its purpose is to determine the environmental consequences of alternative federal LNG import policies. It will focus on LNG imports in general, not on specific projects. No recommendations will be made by the task force until its completion, estimated to be within four to six months (or longer—September has been mentioned as a likely completion time).

(c) As is indicated above, the task force has not made any findings. A major question is how the current study will impact on the El Paso II and Tenneco LNG import applications, now pending before the Federal Energy Administration. Secretary Schlesinger has not yet determined whether the decisions on these projects will be delayed until the task force report is issued. The applications have been approved on the administrative law judge level. However, the recent ERA decisions in the Pacific/Indonesia LNG case pointed to several potential problem areas with all three projects. The ERA called for incremental pricing at the wholesale level and disapproved the project's escalation provisions and "all events" cost of service tariff. These decisions are being appealed by the applicants.

Question 7. Would you please submit for the record a complete list of vessels constructed, reconstructed or converted with the aid of CDS since the Merchant

Marine Act of 1970. For each such vessel, please furnish the following information:

- a. Whether constructed, reconstructed or converted.
- b. Date contracted.
- c. Owner.
- d. Type.
- e. Size.
- f. Total cost.
- g. CDS rate.
- h. CDS dollars.
- i. Date delivered.
- j. Whether a replacement obligation.
- k. Other Government aid involved; i.e., trade-in, Title XI, etc.

Answer. The table containing the requested data was previously submitted.

Question 8. You are requesting \$262,800,000 for Operating-differential Subsidy and inform us that this amount, together with \$73,726,000 carryover funds will provide a program level of \$336,526,000. With respect to these carryover funds of \$73,726,000:

a. In both fiscal year 1977 and 1978, the amount appropriated was less than the amount this Committee authorized for ODS. Why?

b. If you have \$73.7 million left over, there must be slippage somewhere. As this appears to be a continuing problem, what is it all about?

Answer (a). The Appropriations Committee, during their mark-up of both the fiscal year 1977 and the fiscal year 1978 MarAd budgets, requested and were provided with additional information concerning actual ODS program performance. In both cases, the 1977 ODS program was proceeding at a slower pace than previously expected. The slowed progress was due, in each case, to declines in 1977 liner cargo shipments.

The Appropriations Committee, based on this information, projected in two stages that the 1977 ODS program would be a total of \$35,830,000 below the original MarAd request. This total reduction was made in two parts: \$15,721,000 from the original 1977 budget request; and, \$20,109,000 from the 1978 request based on projected carryover from 1977 funds which had already been appropriated.

(b) The primary slippage in the ODS program occurred in the 1977 liner activity. Major declines in 1977 liner cargoes caused the continuing charters of subsidized ships to unsubsidized operators, as well as almost 10 idle ship years in the remaining subsidized fleet. The effects of this slippage were evident in both 1977 and 1978, as noted in Appropriation Committee mark-up of the ODS budget requests for those years.

We have no reason to anticipate either a continuation or a recurrence of the reduction in liner activity. However, the ramifications of the 1977 cargo declines are reflected in the request for 1979 ODS appropriation. A total of \$28,505,000 of the projected carryover to 1979 represents funds that became surplus to 1978 requirements when 1977 carryover exceeded anticipated levels. The balance of the projected \$73,726,000 carryover to 1979 is composed of two items:

\$15,526,000 is accounted for by the increasing availability of unsubsidized trades to tankers which had been included in projections of 1978 U.S.-flag subsidized grain carriage to the U.S.S.R.; and,

\$29,695,000 reflects reductions in calculated subsidy costs for 1978 and prior years, resulting from greater foreign cost escalation than had been expected.

Question 9. Tell me, why have you budgeted \$37.7 million for 20 ship-years of subsidized operation by American President Lines in fiscal year 1979, and only \$31 million for 22 ship-years of subsidized operation by American Export Lines? How is it that one operator appears to receive more Operating-differential Subsidy than another?

Answer. In the example cited, American President Lines is estimated to receive more operating subsidy per ship-year than American Export Lines. However, this does not indicate an advantage to one operator over the other. Operating-differential Subsidy represents the differential between certain costs (primarily wages) of operating specific U.S.-flag ships and the costs of operating equivalent ships under the flags of the operator's substantial foreign competitors. The dollar amount of subsidy received by various U.S. ships vary according to crew size, maintenance and insurance costs, and primarily, the

flags of the foreign competitors on the trade route. Regardless of the actual amount of subsidy paid to any operator, in every case it enables each operator to achieve cost parity—no more and no less. Since shipping rates are set by conferences, rates will be profitable to all operators who are cost competitive.

In the case of APL and AEL, APL operates primarily off the Pacific Coast competing with relatively lower cost competitors, while AEL operates primarily off the East Coast, with most of its competition coming from higher cost flags. Specifically, in order of dominance, AEL's major competitors are Japan, Germany, Liberia, Italy, Denmark, Yugoslavia, France and Israel. APL's major competitors in order of dominance are Japan, Norway, Russia, Liberia, Germany, Denmark, Greece and the United Kingdom. The influence of the extremely low cost Russian competition plus the lower cost flags—Liberia, Greece and the United Kingdom combine to produce a weighted foreign cost for APL's competition significantly lower than AEL's. As a consequence, the cost differential tends to be larger for APL and operating subsidy accordingly more on a per ship-year basis.

Question 10. You point out on page 8 of your statement that you have saved about \$9 million in 1978 from ODS reductions that seven operators have agreed to:

a. What is your authority for reducing certain elements of Operating-differential Subsidy?

b. Do you know if such reductions in subsidy have had an adverse effect on the financial condition of these operators?

c. What is the current financial condition of the seven operators who have agreed to these reductions in ODS?

Answer (a). The authority to reduce Operating-differential Subsidy is contained in section 603(b) of the Merchant Marine Act, 1936, as amended, which states that the subsidy should equal the excess of U.S. subsidizable costs over the cost of foreign operations, " * * * except as the parties should agree upon a lesser amount * * *." The reduction of subsidy has been implemented by the elimination of subsidy for certain of the lesser items of expense such as H&M and P&I insurance and maintenance and repairs, particularly for high-technology ship types. This approach to a reduction in subsidies is based on a consideration of the overall cost of operating these vessels and reflects the fact that the changes in operating cost patterns have reduced the significance of the minor items of subsidy to levels below which the subsidy amount cannot be expected to have a significant impact on overall operations.

(b) We have no indication that the reduced levels of subsidy will have an adverse impact on the financial condition of the subsidized operators who have agreed to subsidy reductions. In most instances it is somewhat early to make this determination on the basis of actual operating results because the reduced levels of subsidy became effective, in most cases, on January 1, 1978. American Export Lines, which has been receiving a fixed-rate subsidy on its North Atlantic service, was profitable in 1976. Operating results for 1977 are not yet available.

(c) As is indicated above, current financial data are not available. Profit and loss data for the seven affected companies in 1975 and 1976 are shown below. Since the data are proprietary, company names are not shown.

[In millions of dollars]

Company	1975			1976		
	Profit/loss before subsidy	Subsidy	Net profit and loss	Profit/loss before subsidy	Subsidy	Net profit and loss
A.....	(\$5)	\$15	\$10	(\$2)	\$13	\$11
B.....	14	15	29	1	16	17
C.....	(34)	28	(6)	(29)	31	2
D.....	(41)	34	(7)	(26)	40	14
E.....	3	22	25	(14)	26	12
F.....	(13)	12	(1)	(11)	11	-----
G.....	(27)	47	20	(41)	57	16

Question 11. I note that Operating-differential Subsidy for the 173 liner vessels is estimated to be about \$275 million. This is a lot of money. Tell me, roughly what percentage of total operating costs for these 173 vessels does this \$275 million represent?

Answer. Based upon the ratio of Operating-differential Subsidy (ODS) to total operating expense for the years 1974 through 1976, we estimate that the ODS budget for 1979 of \$275 million will represent less than 16 percent of the total operating expenses for these 173 vessels.

Question 12. You have been very brief with respect to subsidized bulk vessel operations:

(a) Please furnish the particulars with respect to the 21 bulk vessels to be subsidized in fiscal year 1979.

(b) What percentage of our energy imports do these 21 vessels currently transport?

(c) Overall, do you believe that the subsidized bulk vessel program is progressing in a satisfactory manner?

Answer (a). The 21 bulk carrier ships planned for subsidized operation in worldwide bulk trades in 1978 and 1979 are included under existing contracts with eleven operators. All but two are tankers. Nine of these tankers are 89,700 deadweight tons; six, operated under contracts with Margate Shipping Company and Moore-McCormack Bulk transport, are 38,300 deadweight tons; and four, operated by Zapata Products Tankers, Inc., are 35,100 deadweight tons. The two remaining ships, operated under a contract with Aries Marine Shipping Co., are ore-bulk-oil carriers, and are 81,000 deadweight tons.

(b) In 1976, the subsidized bulk carrier fleet consisted of 22 ships, one of which has since dropped out due to the expiration of an ODS contract with Ecological Shipping Corp. These ships carried approximately one percent of U.S. imports of crude and refined petroleum products. The total U.S.-flag tanker fleet carried 3.4 percent of U.S. oil imports in 1976.

(c) As is indicated in the response to question 16, the financial performance of the subsidized bulk fleet operators is not encouraging. That fleet, as is noted above, consists primarily of tankers, and the current deep depression in the world tanker market has contributed to this poor performance. The situation with respect to dry bulkers is also unfortunate. The bulk vessel program has generated only two vessels that fit into this category. Those are the two oil-bulk-ore carriers mentioned above.

However, I believe there is substantial industry interest in the dry bulk program. The attendance and active participation of dozens of industry leaders in our 1976 dry bulk shipping conference at Hyannis and their continuing contact with the Maritime Administration demonstrates their interest and concern for a viable U.S.-flag dry bulk fleet. As a result of this industry input and our own analysis of impediments to a fleet expansion program, we have taken specific stimulative actions. We have relaxed foreign-to-foreign trading restrictions for subsidized operators, and we are now drafting new comprehensive regulations for bulk operators. We hope to take further steps to encourage industry action in this regard.

Question 13. With respect to the Soviet grain trade:

(a) What has been the percentage participation by U.S.-flag vessels?

(b) How is it that the United States can currently carry only about three percent when there are still two tankers in lay-up?

Answer (a).

Accounting period:	U.S.-flag percentage participation
July 1, 1972, to Dec. 31, 1973.....	17.9
Jan. 1, 1974, to Dec. 31, 1974.....	47.7
Jan. 1, 1975, to Dec. 31, 1975.....	23.3
Jan. 1, 1976, to Dec. 31, 1976.....	25.9
Jan. 1, 1977, to Dec. 31, 1977.....	30.2
Total.....	24.3

(b) Most of the ships which participated in the U.S.-U.S.S.R. grain trade from 1973 to 1977 have moved to the domestic trade, particularly the Alaskan oil trade. The Strategic Petroleum Reserve program is also providing a significant additional market for U.S.-flag tankers.

Question 14. With respect to applications for Operating-differential Subsidy: (a) How many applications are currently on file with the Maritime Administration? How many of these are for liner operations and how many are for bulk vessel operations?

(b) How many of these applications for ODS are currently being processed by the Maritime Administration?

(c) What would be the annual ODS cost if the Maritime Administration was in the position to approve all such applications you believed would further the declaration of policy set forth in the Merchant Marine Act of 1936?

Answer (a). On January 1, 1978, a total of 12 active and nine inactive applications for ODS were on file with MarAd. Of the active applications, nine involve a total of 110 liner ships and three involve a total of 11 bulk carrier ships. Five of the applications and 82 of the liner ships are covered by existing ODS contracts.

(b) Ten of the applications are currently undergoing hearings by the Administrative Law Judge or the Maritime Subsidy Board. Additional information from the applicants will be required before the other applications are processed.

(c) One of the purposes of the hearings now in progress on ten of the ODS applications is to determine whether the award of ODS would further the policy and intent of the Merchant Marine Act of 1936, as amended. It is not possible, prior to the completion of these hearings, to state which of the applications would fulfill this requirement. The total subsidy cost, in 1979 dollars, if all of the active applications were to be approved, would be approximately \$188 million (\$175 million for 110 liners and \$13 million for 11 bulk carriers).

Question 15. I understand that the objective of your Research and Development Program is to develop methods, equipment, and systems to make the U.S. shipbuilding and ship operating industries more efficient, competitive, and productive.

(a) Do you believe the Maritime Administration has been successful in this regard?

(b) Please give me some examples of your recent successes in the R&D area? Answer. Yes. As a result of MarAd's R&D efforts, both the shipbuilding and ship operating industries are considerably more efficient, competitive and productive than they were in 1970, when the R&D program was initiated. Examples of MarAd's recent successes in various R&D areas follow.

COMPETITIVE SHIPBUILDING

Computer systems have been introduced into the shipbuilding design and production process. Autokon, a computer software system, is now widely used in American shipyards with very large savings accumulated and more to come.

Improved welding techniques are being used in several shipyards.

Optical lasers for greater accuracy in construction are being used.

Improved electrical cable connection techniques, adapted for marine use by the R&D program, have been approved by the U.S. Coast Guard. These techniques have resulted in greater use of large prefabricated ship sections.

ADVANCED SHIP MACHINERY

The marine gas turbine, which results in lower costs, has been installed in four out of six U.S. tankers built for Chevron. This machinery provides for unmanned engine room space through bridge control of propulsion machinery.

Completed shipboard testing of a device which reduces electrostatic charges during cleaning of shipboard cargo oil tanks and potentially lessens causes for tanker explosions.

A main propulsion planetary gear and contra-rotating propeller system has been developed and shop tested. This propulsion system promises to reduce fuel consumption 15-20 percent.

Completed at-sea evaluation of additives and oil/water emulsifiers on a generic basis. The additives and emulsifiers offer potential in reducing soot deposits and corrosion in the boilers and reducing fuel consumption in the range of three to seven percent.

Instituted procedures whereby industry is developing standards and guidelines in the following areas:

Marine boiler design, fabrication and maintenance
 Maintenance management practices aboard ship
 Economic analyses of various marine power plants.

COMPETITIVE SHIPPING (SOIS)

MarAd working with 15 major ship operators, has introduced major computer systems into shipping operations by developing a Shipping Operations Information System (SOIS) which improves fleet and cargo control. The system's modules are now being implemented in various companies and they are bringing about significant cost savings.

ADVANCED NAVIGATION/COMMUNICATION

Demonstrated the commercial feasibility of satellites for maritime use. Currently there are 23 U.S.-flag ships and a substantial number of oil rigs which are equipped with satellite communication capability.

A system for selective calling of ships was developed in this program. The system will improve seagoing communications substantially, and it is now being considered for adoption as the international standard.

Assisted in the development and installation of an Automated VHF Radio system on the Great Lakes. The system is now fully operational and has improved safety and ship management.

CARGO HANDLING

Development of sea-shed concept of over-size containers which can be used as work through decks to convert containerhips to a break bulk system which would be especially useful in national emergency situations.

MARINE SCIENCES

Developed a highly skewed propeller which reduces ship vibrations resulting in lower maintenance and repair costs as well as improving ship habitability. These propellers have been installed on several new ships and are being considered for retrofit on some older ships.

CAORF (COMPUTER AIDED OPERATIONS RESEARCH FACILITY)

This is the world's most advanced maritime operations simulator. This facility was placed into operation in June 1976 and it provides MarAd a substantial opportunity to study those operational problems that result in ships casualties. Criteria are being developed for ship design and operations that will reduce casualties at sea and in harbors or restricted waterway areas. Operational exercises to assess human factors in ship operations have been conducted for simulated ship entrances and departures at Valdez Harbor to facilitate the transport of oil from the Alaska pipeline. Other projects are being conducted for industry and the U.S. Coast Guard on a reimbursable basis.

Question 16. With respect to cost-sharing by private industry of Research and Development projects conducted by the Maritime Administration:

- (a) What percentage of such projects are paid for by private industry?
- (b) Please furnish for the record a list of R&D projects, with a breakdown of costs incurred by the government and private industry.

Answer (a). From the beginning of fiscal year 1971 through fiscal year 1977, private industry has directly cost-shared an amount that equals approximately 28 percent of the total cost of the program during the same period.

- (b) A list of R&D projects, with a breakdown of costs incurred by the government and private industry, will be supplied for the record.

Question 17. With respect to the National Defense Reserve Fleet:

- (a) How many vessels are currently held in the Fleet?
- (b) How many of these vessels are so-called scrap candidates?
- (c) How many vessels in the Fleet could be called upon in a national emergency? How old and what types of vessels are they?

(d) Please comment further on the Ready Reserve Fleet Program. Who is funding this program?

(e) Overall, what is your judgment as to the current condition of the National Defense Reserve Fleet?

Answer (a). As of December 31, 1977, there were 325 ships in the Reserve Fleet.

(b) 42.

(c) The NDRF includes 146 general cargo ships which are usable for sealift purposes under MarAd auspices in a national emergency. They include:

130 Victory (VC2-S-AP2 and AP3) ships, built in 1944 and 1945

11 Seatrains, of which 9 were built in 1944 and 1945 as T2-Se-A2 tankers and 2 were built in the same period as rail car carriers. In 1966, 9 of the Seatrains were converted to vehicle carriers for Viet Nam service. Two were converted to non-self-sustaining container ships.

2 Seatrains, built in the same period as rail car carriers and converted to non-self-sustaining container ships

5 C3 breakbulk freighters built in 1960 and 1961.

In addition, 67 naval auxiliary vessels of various specialized types are retained for the Navy.

(d) The Ready Reserve Fleet (RRF) program is a joint MarAd-Navy program under which selected NDRF ships are being upgraded to a readiness status that will permit their emergency activation within 5 to 10 days. The present goal of the program is to have ships with aggregate lift capacity of 340,000 measurement tons in this advanced readiness state by 1981.

The Navy is funding the initial upgrading and MarAd is maintaining the ships. The Navy provided \$6.1 million in 1977 to upgrade 8 ships, and will provide \$8.2 million in 1978 to upgrade additional ships. MarAd was provided \$141,000 in the 1978 budget for maintenance, repairs and special support contracts for this program. An additional \$70,000 (\$211,000 total) is requested in 1979 to support the additional ships to be added to the program in 1979. Approximately \$12.5 million was paid from the MarAd ship construction appropriation on the trade-in of 5 C3's that were placed in RRF status in 1977.

(e) Overall, the ships are in good condition. The Victories have had relatively little service and their hulls and main propulsion machinery are in good shape. Six of the Victories were not activated for Vietnam and need more work than the rest to get them ready for service. The Seatrains have seen much service and, as a result, require more rehabilitation. All of the ships are serviceable.

Question 18. You have requested \$29,329,000 for operating expenses related to the development and use of waterborne transportation systems and for general administrative expenses. Tell me, how is this \$29 million allocated among functions?

Answer. "Other operating expenses" supports administration and direction of 13 different programs. Of this amount, approximately 73 percent is for personnel services and the remaining for other expenses. The attached table shows the allocation of "other operating expenses" among functions.

FISCAL YEAR 1979 OTHER OPERATING EXPENSES

[In thousands of dollars]

Program	Positions	Personnel services	Other	Total
Operating subsidy.....	141	\$3,299	\$333	\$3,632
Ship construction.....	80	2,306	173	2,479
Research and development.....	42	1,431	97	1,528
Capital construction funds.....	15	360	13	373
Ship design, construction and operating procedures.....	27	565	77	642
Maritime manpower (excluding training).....	12	279	234	513
Civil rights.....	28	670	36	706
Emergency planning/operations.....	26	710	85	795
Market development.....	38	913	83	996
Cargo preference.....	16	393	160	553
Ports and intermodal systems.....	31	780	57	837
Domestic shipping.....	19	444	22	466
General administration.....	1376	19,387	26,422	15,809
Total.....	851	21,537	7,792	29,329

¹ Includes 45 positions for executive direction; 26 positions for policy and planning; 178 positions for centralized administrative and financial services; and 127 positions for direction and administration of regional line offices.

² Includes funds for the following: Space changes, \$1,634; communications and utilities, \$803; ADP operations and support, \$2,418; centralized services for DOC, \$658; travel, \$341; supplies, \$129; and other expenses, \$433.

QUESTIONS OF MR. MURPHY AND RESPONSES OF MARITIME ADMINISTRATION

Question A: On page 1 of your statement you inform that as of January 1, 1978, the privately owned deep-draft fleet of the U.S. merchant marine totaled 744 ships, comprising 20.4 million deadweight tons. This figure would appear to be on the high side, and I wondered how you arrived at it?

Answer

There are 744 ships comprising 20.4 million deadweight tons in the privately owned deep-draft fleet, which includes the oceangoing fleet and the Great Lakes fleet. As of January 1, 1978, the oceangoing fleet totaled 578 ships of 17.6 million deadweight tons and the Great Lakes fleet comprised 166 ships of 2.8 million deadweight tons.

Question B. On page 2 of your statement, you inform that "The U.S.-flag share of liner cargoes in U.S.-foreign trade has increased from slightly over 20 percent in 1970 to more than 30 percent today." In this regard:

1. How much of this cargo is carried by nonsubsidized U.S.-flag liner operators?
2. Of the remainder, how much of this cargo is military or other government generated cargo?
3. If possible, please break out by operator, subsidized and nonsubsidized, the amount of military and other government generated cargo that is carried.

Answer.

For calendar year 1975, the latest year for which final data is available, U.S.-flag liner operators carried approximately 32 percent of commercial cargoes in U.S.-foreign trades. Nonsubsidized liner operators carried about 43 percent of the U.S.-flag share. The distribution of DoD cargoes subject to the 1904 Act among subsidized and nonsubsidized operators is shown below.

U.S.-FLAG LINER CARRIAGE
1975

	(Thousands of Long Tons)		
	<u>Commercial</u>	<u>Defense</u>	<u>Total</u>
Subsidized Operators	8,782	485	9,267
Nonsubsidized Operators	<u>6,632</u>	<u>582</u>	<u>7,214</u>
Total	15,414	1,067	16,481

U.S.-FLAG LINER CARRIAGE - DEFENSE CARGOES1975

(Thousands of Long Tons)

A) Subsidized Operators

1)	American Export Lines	123
2)	American President Lines	151
3)	Delta Steamship Lines	1
4)	Farrell Lines	7
5)	Lykes Bros. Steamship	45
6)	Moore-McCormack Lines	2
7)	Pacific Far East Line	70
8)	Prudential Lines	5
9)	States Steamship	38
10)	Waterman Steamship	<u>44</u>
	Total	485

B) Nonsubsidized Operators

1)	Central Gulf Lines	10
2)	Sea-Land Services	231
3)	U.S. Lines	235
4)	Others	<u>106</u>
	Total	582

The Maritime Administration does not have complete information on DoD generated military assistance cargoes subject to the 1954 50/50 Act moving in the waterborne trades. Thus, Foreign Military Sales cargoes shown below include only cargoes carried on commercial liner voyages and may be incomplete. Other government generated cargoes are included under "commercial" in these statistics.

A new system is under development by the Maritime Administration to provide data on the carriage of all government generated cargoes. The following information, while incomplete, provides the best available estimates of government generated cargoes subject to the 1954 Act carried by liner operators.

GOVERNMENT SPONSORED CARGOES

1976

	Tonnage (Thousands of Long Tons)		Freight Revenue (Thousands of Dollars)	
	Civilian	FMS(2)	Civilian	FMS(2)
A) Subsidized Operators				
1) American Export Lines	115	24	\$ 15,680	\$ 5,925
2) American President Lines	180	1	12,381	320
3) Delta Steamship Lines	99	(1)	9,489	6
4) Farrell Lines	22	(1)	5,445	177
5) Lykes Bros. Steamship	399	19	33,005	4,836
6) Moore-McCormack Lines	7	(1)	2,356	135
7) Pacific Far East Line	46	(1)	3,128	63
8) Prudential Lines	78	1	8,053	736
9) States Steamship	44	(1)	3,553	159
10) Waterman Steamship	148	13	18,237	6,037
TOTAL	1,138	60	\$ 111,327	\$ 18,394
B) Non-Subsidized Operators				
1) Central Gulf Lines	50	4	4,988	477
2) Sea-Land Services	20	2	3,167	377
3) U.S. Lines	9	3	1,771	656
TOTAL	79	9	9,926	1,510
C) Total Liner Operators	1,217	69	\$ 121,253	\$ 19,904

(1) Less than 1,000 Long Tons of Cargo

(2) Foreign Military Sales (Credit Sales Only)

Question C. On page 2 of your statement, you inform that the operating subsidy cost per unit of carrying capacity offered in subsidized service has declined by more than 10 percent since 1970. What do you mean by this and how have you arrived at this conclusion?

Answer.

A relevant measure of the effectiveness of the operating differential subsidy program for the subsidized liner fleet can be developed by relating subsidy to the carrying capacity of the fleet which is supported by that subsidy.

The attached table reflects for liner vessels, ODS accruals and the actual cargo capacity offered in subsidized service for the years 1970-75. The data indicate that the subsidy per ton of fleet capacity has declined from \$9.80 in 1970 to \$8.40 in 1975, an actual decline of about 14 percent.

If these same data are considered in terms of constant 1970 dollars, the effective decline is more impressive. The subsidy per ton of fleet capacity declined from \$9.80 in 1970 to \$6.05 in 1975, a decline of 38 percent.

ODS Program Cost/Effectiveness-Subsidized Liner Fleet
(excludes passenger vessels)

<u>Year</u>	<u>Est. \$ODS Accruals</u>	<u>Subsidized Liner Fleet Laydown Capacity (million CDWT)^{1/}</u>	<u>Current Dollars \$ODS/CDWT</u>	<u>Constant 1970 Dollars \$ODS/CDWT^{2/}</u>
1970	\$ 214.7 million	21.83	9.8	9.8
1971	131.4 million	17.39	10.4	9.9
1972	133.0 million	18.21	10.0	9.1
1973	194.5 million	20.80	9.4	8.1
1974	198.2 million	23.07	8.6	6.8
1975	208.5 million	24.96	8.4	6.05

^{1/} The cargo deadweight capacity is determined by deducting from the total deadweight, or lifting capacity of a vessel, the weight of fuel, water, stores, tonnage, crew, passengers, and other items necessary for use on a voyage.

^{2/} Items in "current" column adjusted to a 1970 base by the GNP deflator in order to eliminate the effect of inflation.

Question D. Your previous testimony before this Committee would indicate that there are thirteen or fourteen major commercial shipyards in the United States.

1. Please list these shipyards, indicating:
 - a. The primary CDS contractors, and
 - b. Those that specialize in Navy work.
2. With respect to each such shipyard, please indicate:
 - a. Whether layoffs from lack of employment have occurred.
 - b. When layoffs can be anticipated if new work is not forthcoming.

Answer.

There are now 13 shipyards which are considered to have major commercial standing based upon current workload. They are:

Avondale Shipyards
New Orleans, Louisiana

Bath Iron Works, Inc.
Bath, Maine

Bethlehem Steel Corporation - Sparrows Point
Baltimore, Maryland

General Dynamics Corp.
Quincy, Massachusetts

General Dynamics Corp. - Electric Boat Div.
Groton, Connecticut

Ingalls Shipbuilding Co.
Pascagoula, Mississippi

Lockheed Shipbuilding & Construction Co.
Seattle, Washington

National Steel and Shipbuilding Co.
San Diego, California

Newport News Shipbuilding & Drydock - Commercial
Newport News, Virginia

Newport News Shipbuilding & Drydock - Navy
Newport News, Virginia

Seatrain Shipbuilding Co.
Brooklyn, New York

Sun Shipbuilding Corporation
Chester, Pennsylvania

Todd Shipyards Corp.
San Pedro, California

Of these, the primary CDS contractors are:

Avondale

Bath

Bethlehem - Sparrows Point

General Dynamics - Quincy

Newport News - Commercial Yard

Seatrain

Those shipyards which specialize in Navy work are:

Newport News - Navy

General Dynamics - Groton

Ingalls

Lockheed - Seattle

Almost 15,000 ship construction workers experienced layoffs during the 4th quarter of 1977. The attached table illustrates these layoffs on a yard-by-yard basis. If the current orderbook remains unchanged, another 11,950 workers are expected to lose their jobs during 1978.

Predicted Layoffs and Recalls of Production Workers in New Ship Construction
for Selected Major Commercial Shipyards

	Average Ship Construction Employment Oct. 1977	Layoffs During 4th Qtr. 1977	Estimated Ship Construction Employment 1-1-78	Anticipated Layoffs During 1978 1/		Projected Recalls During 1978		Projected Employment 12-31-78
				Number	Percent	Number	Percent	
Newport News 2/	17,403	yes 3,103	14,300	2,300	16.1	-	-	12,000
Virginia								
Ingalls	18,572	yes 7,572	11,000	2,700	24.5	-	-	8,300
Pascagoula								
Avondale	4,990	no -	5,600	3,800	67.9	-	-	1,800
New Orleans								
National	3,715	no 15	3,700	-	-	500	13.5	4,200
San Diego								
Gen. Dynamics	1,378	no -	3,300	-	-	700	21.2	4,000
Quincy								
Sun	2,709	yes 1,909	800	-	-	1,050	131.3	1,850
Chester, Penn.								
Bath Iron	2,334	yes 984	1,350	-	-	850	63.0	2,200
Main								
Lockheed	2,522	yes 472	2,050	-	-	-	-	2,050
Seattle								
Bethlehem	1,710	no -	1,800	1,250	69.4	-	-	550
Baltimore								
Seatrain	1,640	no -	2,400	1,900	79.2	-	-	500
Brooklyn								
Todd	519	yes 219	300	-	-	1,000	333.3	1,300
Seattle								
Todd	855	yes 555	300	-	-	650	216.7	950
San Pedro								
TOTAL	58,347	14,829	46,900	11,950		4,750		39,700

1/ Based on current orderbook.

2/ Includes both Navy and commercial work.

Question E. Did the Maritime Administration extend beyond December 31, 1977, the temporary waiver of foreign-to-foreign trading restrictions for subsidized bulk carriers? Why?

Answer.

Yes, the temporary waiver of foreign-to-foreign trading restrictions for subsidized bulk carriers was extended to December 31, 1978, on December 29, 1977.

Restrictions on foreign-to-foreign trading create an impediment for U.S. bulk carriers in their efforts to compete successfully with their foreign counterparts. The foreign-to-foreign restriction is not consistent with the nature of the bulk trade, which demands vessel flexibility. In the event the waiver hadn't been granted, U.S. vessels deployed in the foreign-to-foreign bulk marketplace could have experienced substantial reductions to operating-differential subsidy which would have impaired their competitiveness.

Question F. With respect to the \$73.7 million carryover of Operating-differential Subsidy funds, you informed Mr. Biaggi that you did not think idle time would be a continuing problem. Why? In this regard, please furnish the following information for fiscal years 1977 and 1978:

1. The amount of idle time, by subsidized operator
2. The number of ships involved
3. The reasons for this idle time

Answer.

See attachment

F

Attachment

Answer

	<u>FY 1977 Idle Status</u>		<u>FY 1978 Idle Status^{b/}</u>	
Subsidized Operator ^{a/}	Ship-Years	Ships ^{c/}	Ship-Years	Ships ^{c/}
Liner Operators:				
A	1.0	5	1.9	5
B	.8	5	2.3	6
C	1.2	3	1.0	3
D	.3	2	1.1	3
E	7.5	14	3.3	8
F	1.3	4	1.0	3
G	.5	2	.8	3
H	.6	5	1.6	5
K	.3	3	.3	3
L	1.0	4	2.7	5
Subtotal, Liner Operators	14.5		16.0	
Bulk Operators:				
A	...	...	.1	1
B	...	...	.1	1
C	.4	1	.1	1
D	.4	1	.1	1
E	...	...	.1	1
F	.2	1	.1	1
G	.02	1	...	...
H	.03	1	.2	1
K	.05	1	.2	1
L	...	...	.1	1
M	.07	1	.1	1
N	.1	1	.3	2
Subtotal, Bulk Operators	1.27		1.5	
Total, Idle Status	15.77		17.5	

a/ The names of the operators are not provided in this table due to the sensitivity of the requested data.

b/ Projected estimates

c/ Represents the maximum estimate of ships idle during any month of the fiscal year.

The major causes of the idle status in 1977 were: (1) major declines in liner cargo available to U.S.-flag ships, especially in the Far East and Africa trades; and, (2) standard ship maintenance and repair work.

The major causes of idle status in 1978 are: (1) the three-month strike by the International Longshoremen's Association (ILA); slow recovery of liner cargo trades; and, (3) standard ship maintenance and repair work.

Question Gla : A list of all subsidized steamship operators. With respect to each such company:

The trade route or routes served and type of cargo generally carried. Indication of whether military or so-called government generated cargo is carried.

Answer.

See attached.

Operator	Trade Routes Served	Type of Cargo Generally Carried	Military and/or	
			Gov't Cargo	
Aeron Marine Shipping Company	Worldwide Bulk Trade	Liquid and dry bulk	No	
American Export Lines, Inc.	U.S. Atlantic/Western Europe (TR 5-7-8-9)	Containerized general	Yes	
	U.S. Atlantic/Mediterranean (TR 10)	Containerized and breakbulk general	Yes	
	U.S. Atlantic/Far East (TR 12)	Breakbulk general	Yes	
	U.S. Atlantic/India, Pakistan (TR 18)	Breakbulk general & dry bulk types	Yes	
American President Lines, Ltd.	U.S. Pacific/Far East (TR 29)	Containerized general	Yes	
	U.S. Pacific/Southeast & South Asia & Persian Gulf (TR 17&28)	Containerized and breakbulk general & dry bulk types	Yes	
American Shipping, Inc.	Worldwide Bulk Trade	Liquid and dry bulk	No	
Aquarius Marine Company	Worldwide Bulk Trade	Liquid and dry bulk	No	
Aries Marine Shipping Company	Worldwide Bulk Trade	Liquid and dry bulk	No	
Atlas Marine Company	Worldwide Bulk Trade	Liquid and dry bulk	No	
Chestnut Shipping Company	Worldwide Bulk Trade	Liquid and dry bulk	No	
Delta Steamship Lines, Inc.	U.S. Gulf/East Coast South America (TR 20)	Breakbulk general and containerized	Minor	
	U.S. Gulf/West Africa (TR 14-2)	Breakbulk general	Minor	
Farrell Lines Incorporated	U.S. Atlantic/South & East Africa (TR 15-A)	Breakbulk general	Yes	
	U.S. Atlantic/West Africa (TR 14-1)	Breakbulk general	Yes	
	U.S. Atlantic & Gulf/Australia and New Zealand (TR 16)	Containerized and breakbulk general	Minor	
	U.S. West Coast/Australia and New Zealand (TR 27)	Containerized and breakbulk general	Minor	
Lykes Bros. Steamship Co., Inc.	U.S. Gulf/U.K. - Continent (TR 21)	Containerized and breakbulk general and dry bulk types	Yes	
	U.S. Gulf/Mediterranean (TR 13)	Containerized and breakbulk general and dry bulk types	Yes	
	U.S. Gulf/Far East (TR 22)	Containerized and breakbulk general and dry bulk types	Yes	

Operator	Trade Routes Served	Type of Cargo Generally Carried	Military and/or Gov't Cargo
(Contd.)			
Lykes Bros. Steamship Co., Inc.	U.S. Gulf/South & East Africa (TR 15-B) U.S. Gulf/West Coast South America (TR 3) U.S. Great Lakes/Mediterranean, Red Sea, Persian Gulf, India & Pakistan (TR 4)	Breakbulk general & dry bulk types Breakbulk general & dry bulk types Breakbulk general & dry bulk types	Minor Yes Yes
Margate Shipping Company	Worldwide Bulk Trade	Liquid and dry bulk	No
Moore-McCormack Lines, Incorporated	U.S. Atlantic/East Coast South America (TR 1) U.S. Atlantic/South and East Africa (TR 15-A)	Breakbulk general and containerized Breakbulk general	Minor Minor
Pacific Far East Line, Inc.	U.S. Pacific Far East (TR 29)	Containerized and breakbulk general & dry bulk types	Yes
Pacific Shipping, Inc.	Worldwide Bulk Trade	Liquid and dry bulk	No
Prudential Lines, Inc.	U.S. Atlantic/West Coast South America (TR 2) U.S. Pacific/South America, Caribbean, Central America, and Mexico (TR 23, 24, 25) U.S. Atlantic/Caribbean (TR 4) U.S. North Atlantic/Mediterranean (TR 10)	Breakbulk general Breakbulk general and containerized Breakbulk general Containerized and breakbulk general	Minor Minor Minor Yes
States Steamship Company	U.S. Pacific/Far East (TR 29)	Containerized, unitized, and breakbulk general & dry bulk types	Yes
Waterman Steamship Corporation	U.S. Atlantic & Gulf/India, Persian Gulf, Red Sea (TR 18), U.S. Gulf-Matl./Far East (TR 22 & 12)	Breakbulk general & dry bulk types Breakbulk general & dry bulk types	Yes Yes
North Oil Transport Company	Worldwide Bulk Trade	Liquid and dry bulk	No
Zapata Products Tankers, Inc.	Worldwide Bulk Trade	Liquid and dry bulk	No
Moore-McCormack Bulk Transport, Inc.	Worldwide Bulk Trade	Liquid and dry bulk	No

February 1978

Question G1b: A list of all subsidized steamship operators.
With respect to each such company:

A list of the vessels, by name, presently operated.
With respect to each such vessel, please indicate
the (a) type, (b) amount of construction-differential
subsidy paid, (c) whether it is insured under the
Title XI program, and (d) whether under charter to
another operator.

Answer.

See attached.

(The data on amount of construction-differential
subsidy paid is as of 1/1/77, the latest date for
which such information is currently compiled.)

AERON MARINE SHIPPING COMPANY

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
GOLDEN DOLPHIN	286	T8-S-100b	\$11,938,000	-0-	\$11,938,000	yes	no
GOLDEN ENDEAVOR	287	T8-S-100b	11,938,000	-0-	11,938,000	yes	no
TOTAL			\$23,876,000	-0-	\$23,876,000		

AMERICAN EXPORT LINES, INC.

MA Hull No.	Name of Vessel	Type	Construction		Reconstruction Subsidy	Total Subsidy on Vessel		Title XI	
			Subsidy			on Vessel		on Con- struction	on Recon- struction
206	C.V. LIGHTNING	C5-S-73b	\$7,071,421	\$7,071,421	-0-	\$7,071,421	\$7,071,421	yes	no
207	C.V. STAG HOUND	C5-S-73b	7,071,419	7,071,419	-0-	7,071,419	7,071,419	yes	no
221	DEFIANCE	C5-S-78a	8,239,352	8,239,352	-0-	8,239,352	8,239,352	no	no
57	EXPORT ADVENTURER	C3-S-38a	5,245,679	5,245,679	-0-	5,245,679	5,245,679	yes	no
58	EXPORT AGENT	C3-S-38a	5,297,560	5,297,560	-0-	5,297,560	5,297,560	yes	no
59	EXPORT AIDE	C3-S-38a	5,296,964	5,296,964	-0-	5,296,964	5,296,964	yes	no
56	EXPORT AMBASSADOR	C3-S-38a	5,250,121	5,250,121	-0-	5,250,121	5,250,121	yes	no
78	EXPORT BANNER	C3-S-46a	5,312,173	5,312,173	-0-	5,312,173	5,312,173	yes	no
79	EXPORT BAY	C3-S-46a	5,312,173	5,312,173	-0-	5,312,173	5,312,173	yes	no
80	EXPORT BUILDER	C3-S-46a	5,312,174	5,312,174	-0-	5,312,174	5,312,174	yes	no
81	EXPORT BUYER	C3-S-46a	5,312,179	5,312,179	-0-	5,312,179	5,312,179	yes	no
126	EXPORT CHALLENGER	C3-S-46b	4,358,245	4,358,245	-0-	4,358,245	4,358,245	yes	no
127	EXPORT CHAMPION	C3-S-46b	4,356,327	4,356,327	-0-	4,356,327	4,356,327	yes	no
125	EXPORT COMMERCE	C3-S-46b	4,359,169	4,359,169	-0-	4,359,169	4,359,169	yes	no
124	EXPORT COURIER	C3-S-46b	4,248,088	4,248,088	-0-	4,248,088	4,248,088	no	no
5	EXPORT DEFENDER	C4-S-1h	4,039,115	4,039,115	810,911	4,850,026	4,850,026	no	no

AMERICAN EXPORT LINES, INC. (Continued)

Name of Vessel	MA Hull No.	Type	Construction Subsidy	Reconstruction Subsidy	Total Subsidy on Vessel	Title XI on Con- struction	Title XI on Recon- struction
EXPORT DEMOCRACY	6	C4-S-1p	3,507,737	845,746	4,353,483	no	no
EXPORT DIPLOMAT	1	C4-S-1h	4,392,718	824,061	5,216,779	yes	no
EXPORT FREEDOM	256	C5-S-73b	7,110,062	-0-	7,110,062	yes	no
EXPORT LEADER	257	C5-S-73b	7,166,950	-0-	7,166,950	yes	no
EXPORT PATRIOT	258	C5-S-73b	7,164,481	-0-	7,164,481	no	no
GREAT REPUBLIC	222	C5-S-78a	8,239,351	-0-	8,239,351	no	no
RED JACKET	223	C5-S-78a	8,239,351	-0-	8,239,351	yes	no
YOUNG AMERICA	224	C5-S-78a	8,239,351	-0-	2,239,351	yes	no
TOTAL			\$140,142,160	\$2,480,718	\$142,622,878		

AMERICAN MAIL LINE, LTD., division of AMERICAN PRESIDENT LINES, LTD.

Name of Vessel	MA Hull No.	Type	Construction Subsidy	Reconstruction Subsidy	Total Subsidy on Vessel	Title XI on Con- struction	Title XI on Recon- struction
ALASKAN MAIL	215	C5-S-75a	\$9,357,069	-0-	\$9,357,069	yes	no
AMERICAN MAIL	225	C5-S-75a	8,834,092	-0-	8,834,092	yes	no
HONG KONG MAIL	218	C5-S-75a	9,380,398	-0-	9,380,398	yes	no
INDIAN MAIL	216	C5-S-75a	9,357,070	-0-	9,357,070	yes	no
KOREAN MAIL	217	C5-S-75a	9,364,298	-0-	9,364,298	yes	no
TOTAL			\$46,292,927	-0-	\$46,292,927		

AMERICAN PRESIDENT LINES, LTD.

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
PRESIDENT EISENHOWER	88	C6-S-1x	\$6,686,603	\$3,381,445	\$10,068,048	yes	no
PRESIDENT FILMORE	204	C6-S-69a	7,157,213	2,775,570	9,932,783	yes	yes
PRESIDENT HARRISON	166	C6-S-1qa	7,086,892	2,885,226	9,972,118	yes	yes
PRESIDENT JEFFERSON	248	C6-S-85b	10,731,999	-0-	10,731,999	yes	no
PRESIDENT JOHNSON	255	C6-S-85b	10,450,000	-0-	10,450,000	yes	no
PRESIDENT KENNEDY	153	C6-S-1xa	6,090,680	4,135,290	10,225,970	yes	yes
PRESIDENT LINCOLN	60	C4-S-1q	8,223,566	295,725	8,519,291	yes	yes
PRESIDENT MADISON	249	C6-S-85b	10,731,999	-0-	10,731,999	yes	no
PRESIDENT MCKINLEY	194	C6-S-69a	7,726,509	2,775,571	10,502,080	yes	yes
PRESIDENT MONROE	165	C6-S-1qa	7,088,533	2,885,226	9,973,759	yes	yes
PRESIDENT PIERCE	250	C6-S-85b	10,731,999	-0-	10,731,999	yes	no
PRESIDENT POLK	164	C6-S-1qa	7,075,447	2,878,422	9,953,869	yes	yes
PRESIDENT ROOSEVELT	86	C6-S-1x	6,633,157	3,949,286	10,582,443	yes	yes
PRESIDENT TAFT	193	C6-S-69a	7,726,796	3,090,527	10,817,323	yes	yes
PRESIDENT TRUMAN	87	C6-S-1x	6,582,344	3,179,965	9,762,309	yes	no

AMERICAN PRESIDENT LINES, LTD. (Continued)

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
PRESIDENT TYLER	61	C4-S-1q	\$8,205,096	-0-	\$8,205,096	yes	no
PRESIDENT VAN BUREN	191	C6-S-69c	7,726,866	\$2,981,887	10,708,753	yes	yes
TOTAL			\$136,655,699	\$35,214,140	\$171,869,839		

AMERICAN SHIPPING, INC.

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
BEAVER STATE	300	T8-S-100b	\$10,260,000	-0-	\$10,260,000	yes	no

AQUARIUS MARINE COMPANY

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
GOLDEN MONARCH	288	T8-S-100b	\$11,938,000	-0-	\$11,938,000	yes	no

APIES MARINE SHIPPING COMPANY

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
ULTRAMAR	266	OB8-S-90a (OBO)	\$13,500,000	-0-	\$13,500,000	yes	no
ULTRASEA	267	OB8-S-90a (OBO)	13,500,000	-0-	13,500,000	yes	no
TOTAL			\$27,000,000		\$27,000,000		

ATLAS MARINE COMPANY

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
AMERICAN HERITAGE	302	T8-S-100b	\$10,260,000	-0-	\$10,260,000	yes	no

CHESTNUT SHIPPING COMPANY

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
CHESTNUT HILL	316	T8-S-100b	\$10,951,482	-0-	\$10,951,482	yes	no
KITTANNING	317	T8-S-100b	--	--	--	yes	no

DELTA STEAMSHIP LINES, INC.

Name of Vessel	MA Hull No.	Type	Construction		Reconstruction		Total Subsidy		Title XI		Title XI	
			Subsidy		Subsidy		on Vessel		on Con- struction		on Recon- struction	
DEL ORO	84	C3-S-43a	\$4,826,138		-0-		\$4,826,138		yes		no	
DEL RIO	82	C3-S-43a	4,819,642		-0-		4,819,642		yes		no	
DEL SOL	83	C3-S-43a	4,824,778		-0-		4,824,778		yes		no	
DELTA ARGENTINA	199	C3-S-76a	5,695,783		-0-		5,695,783		yes		no	
DELTA BRAZIL	200	C3-S-76a	5,683,662		-0-		5,683,662		yes		no	
DELTA MAR	259	C3-S-81d	12,686,217		-0-		12,686,217		yes		no	
DELTA MEXICO	203	C3-S-76a	5,678,549		-0-		5,678,549		yes		no	
DELTA NORTE	260	C9-S-81d	12,686,217		-0-		12,686,217		yes		no	
DELTA PARAGUAY	201	C3-S-76a	5,683,662		-0-		5,683,662		yes		no	
DELTA SUD	261	C9-S-81d	12,686,217		-0-		12,686,217		yes		no	
DELTA URUGUAY	202	C3-S-76a	5,683,662		-0-		5,683,662		yes		no	
TOTAL			\$80,954,527				\$80,954,527					

FARRELL LINES INCORPORATED

Name of Vessel	MA Hull No.	Type	Construction		Reconstruction		Total Subsidy		Title XI	
			Subsidy		Subsidy		on Vessel		on Recon- struction	
AFRICAN COMET	103	C4-S-58a	\$5,090,144		-0-		\$5,090,144		yes	
AFRICAN DAWN	108	C4-S-58a	5,093,698		-0-		5,093,698		yes	
AFRICAN MERCURY	105	C4-S-58a	5,091,424		-0-		5,091,424		yes	
AFRICAN METEOR	104	C4-S-58a	5,090,175		-0-		5,090,175		yes	
AFRICAN NEPTUNE	106	C4-S-58a	5,093,746		-0-		5,093,746		yes	
AFRICAN SUN	107	C4-S-58a	5,113,384		-0-		5,113,384		yes	
AUSTRAL PATRIOT	150	C4-S-64a	5,590,275		-0-		5,590,275		yes	
AUSTRAL PILOT	146	C4-S-64a	5,578,319		-0-		5,578,319		yes	
AUSTRAL ENVOY (2)	244	C6-S-85a	11,362,108		-0-		11,362,108		yes	
AUSTRAL ENSIGN (1)	245	C6-S-85a	11,366,850		-0-		11,366,850		yes	
AUSTRAL ENDURANCE	246	C6-S-85a	11,393,517		-0-		11,393,517		yes	

- (1) Chartered from Continental Illinois Bank and Trust Company.
 (2) Chartered from United States Trust Company.

LYKES BROS. STEAMSHIP COMPANY, INC.

Name of Vessel	MA Hull No.	Type	Construction		Reconstruction		Total Subsidy		Title XI	
			Subsidy		Subsidy		on Vessel	on Con- struction	on Recon- struction	
ALMERTA LYKES	242	C8-S-82a	\$19,109,133		-0-		\$19,109,133		no	no
ADABELLE LYKES	115	C3-S-37c	4,338,478		-0-		4,338,478		yes	no
AIMEE LYKES	132	C3-S-37c	4,006,824		-0-		4,006,824		yes	no
ALLISON LYKES	135	C3-S-37c	4,010,397		-0-		4,010,397		yes	no
ASHLEY LYKES	102	C5-S-37f	4,785,129		\$1,507,432		6,292,561		yes	yes
BRINTON LYKES	99	C5-S-37b	4,796,673		1,512,665		6,309,338		yes	yes
CHARLOTTE LYKES	116	C3-S-37c	4,334,514		-0-		4,334,514		yes	no
CHRISTOPHER LYKES	133	C3-S-37c	4,007,299		-0-		4,007,299		yes	no
DOCTOR LYKES	241	C8-S-82a	19,109,134		-0-		19,109,134		no	no
DOLLY TURMAN	181	C4-S-66a	5,812,926		-0-		4,812,926		yes	no
ELIZABETH LYKES	157	C4-S-66a	5,459,818		-0-		5,459,818		yes	no
FREDERICK LYKES	179	C4-S-66a	5,812,766		-0-		5,812,766		yes	no
GENEVIEVE LYKES	209	C4-S-66a	6,011,391		-0-		6,011,391		yes	no
GULF BANKER	137	C3-S-37d	4,077,006		-0-		4,077,006		yes	no

LYKES BROS. STEAMSHIP COMPANY, INC. (Continued)

Name of Vessel	MA Hull No.	Type	Construction Subsidy	Reconstruction Subsidy	Total Subsidy on Vessel	Title XI on Con- struction	Title XI on Recon- struction
GULF FARMER	136	C3-S-37d	\$4,077,006	-0-	\$4,077,006	yes	no
GULF MERCHANT	170	C3-S-37d	4,794,571	-0-	4,794,571	yes	no
GULF SHIPPER	169	C3-S-37d	4,798,400	-0-	4,798,400	no	no
GULF TRADER	168	C3-S-37d	4,796,195	-0-	4,796,195	yes	no
HOWELL LYKES	180	C4-S-66a	5,812,926	-0-	5,812,926	yes	no
JAMES LYKES	62	C5-S-37e	4,572,372	\$1,508,392	6,080,764	no	no
JEAN LYKES	73	C5-S-37e	4,671,177	1,547,642	6,218,819	no	no
JOHN LYKES	65	C5-S-37e	4,567,332	1,548,392	6,115,724	no	no
JOSEPH LYKES	63	C5-S-37e	4,564,641	1,555,304	6,119,945	no	no
LESLIE LYKES	74	C3-S-37a	4,669,620	1,630,853	6,300,473	no	no
LETITIA LYKES	208	C4-S-66a	5,371,901	-0-	5,371,901	yes	no
LOUISE LYKES	156	C4-S-66a	5,428,579	-0-	5,428,579	yes	no
MALLORY LYKES	173	C4-S-66a	6,071,931	-0-	6,071,931	yes	no

LYKES BROS. STEAMSHIP COMPANY, INC. (Continued)

Name of Vessel	MA Hull No.	Type	Construction		Reconstruction		Total Subsidy		Title XI		Title XI	
			Subsidy		Subsidy		on Vessel		on Con- struction		on Recon- struction	
MARGARET LYKES	134	C3-S-37c	\$4,005,258		-0-		\$4,005,258		yes		no	
MARJORIE LYKES	101	C5-S-37f	4,797,355		\$1,507,431		6,304,786		yes		yes	
MASON LYKES	172	C4-S-66a	6,062,796		-0-		6,062,796		yes		no	
MAYO LYKES	117	C3-S-37c	4,351,750		-0-		4,351,750		yes		no	
NANCY LYKES	72	C5-S-37e	4,676,965		1,584,280		6,261,245		no		no	
RUTH LYKES	158	C4-S-66a	5,441,486		-0-		5,441,486		yes		no	
SHELDON LYKES	114	C3-S-37c	4,328,650		-0-		4,328,650		yes		no	
SHIRLEY LYKES	100	C5-S-37f	4,794,083		1,512,665		6,306,748		yes		yes	
SOLOH TURMAN	71	C5-S-37e	4,682,725		1,539,641		6,222,366		no		no	
STELLA LYKES	174	C4-S-66a	6,072,535		-0-		6,072,535		yes		no	
THOMPSON LYKES	66	C5-S-37e	4,570,736		1,539,641		6,110,377		no		no	
TILLY LYKES	243	C8-S-82a	19,111,795		-0-		19,111,795		no		no	

LYKES BROS. STEAMSHIP COMPANY, INC. (Continued)

Name of Vessel	MA Hull No.	Type	Construction Subsidy	Reconstruction Subsidy	Total Subsidy on Vessel	Title XI on Con- struction	Title XI on Recon- struction
VELMA LYKES	182	CH-S-66a	\$5,812,926	-0-	\$5,812,926	yes	no
ZOELLA LYKES	64	C5-S-37e	4,570,597	\$1,586,280	6,156,877	no	no
TOTAL			\$243,147,796	\$20,080,618	\$263,228,414		

MARGATE SHIPPING COMPANY

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
CORONADO	269	T6-S-93a	\$7,811,681	-0-	\$7,811,681	yes	no
CHERRY VALLEY	270	T6-S-93a	7,811,681	-0-	7,811,681	yes	no
CHELSEA	271	T6-S-93a	7,811,681	-0-	7,811,681	yes	no
TOTAL			\$23,435,043		\$23,435,043		

MOORE-McCORMACK LINES, INCORPORATED

MA Hull No.	Name of Vessel	Type	Construction		Reconstruction		Total Subsidy on Vessel	Title XI		
			Subsidy		Subsidy			on Con- struction	on Recon- struction	
143	- MORMACALTAIR	C4-S-60a	\$	5,361,860	\$	3,615,000	\$	8,976,860	yes	yes
139	- MORMACARGO	C4-S-60a		5,366,229		-0-		5,366,229	yes	no
69	- MORMACCAPE	C3-S-33a		5,083,441		-0-		5,083,441	no	no
144	- MORMACDRACO	C4-S-60a		5,361,860		3,615,000		-	yes	yes
"	"	C4-s-60a		-		58,583		9,035,443	-	no
70	- MORMACGLEN	C3-S-33a		5,079,737		-0-		5,079,737	no	no
141	- MORMACLYNX	C4-S-60a		5,361,860		-0-		5,361,860	yes	no
142	- MORMACRIGEL	C4-S-60a		5,361,860		-0-		5,420,443	yes	no
128	- MORMACSAGA	C4-S-lu		5,363,147		-0-		5,363,147	yes	no
97	- MORMACSEA	C4-S-lu		5,488,049		-0-		5,488,049	yes	no
95	- MORMACTIDE	C4-S-lu		5,438,153		-0-		5,438,153	yes	no
98	- MORMACTRADE	C3-S-33a		5,102,822		-0-		5,102,822	yes	no
140	- MORMACVEGA	C4-S-60a		5,361,860		-0-		5,361,860	yes	no
96	MORMACWAVE	C4-S-lu		5,464,613		-0-		5,464,613	yes	no
TOTAL							\$72,195,491	\$76,542,657		

MOORE-McCORMACK BULK TRANSPORT, INC.

Name of Vessel	MA Hull No.	Type	Title XI		
			on Con- struction	Total Subsidy on Vessel	on Recon- struction
MORMACSTAR	313	T6-S-93a	-0-	\$7,613,579	no
MORMACSN	314	T6-S-93a	-0-	7,613,579	no
MORMACSKY	315	T6-S-93a	--	--	yes
TOTAL				<u>\$15,227,158</u>	<u>\$15,227,158</u>

PACIFIC FAR EAST LINE, INC.

Name of Vessel	MA Hull No.	Type	Title XI		
			on Con- struction	Total Subsidy on Vessel	on Recon- struction
GOLDEN BEAR	232	C8-S-81b	-0-	\$ 10,841,141	yes
JAPAN BEAR	234	C8-S-81b	-0-	10,860,520	yes
MARIPOSA	18	P2-S1-1k	\$ 7,051,323	11,333,911	no
MONTEREY	11	P2-S1-1k	7,051,051	10,888,288	no
PACIFIC BEAR	233	C8-S-81b	-0-	10,841,608	yes
THOMAS E. CUFFE	231	C8-S-81b	-0-	<u>10,841,141</u>	yes
TOTAL				<u>\$ 51,504,235</u>	<u>\$ 65,606,609</u>

** Vessels had Title XI but mortgages have been paid in full.

PACIFIC SHIPPING, INC.

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
ROSE CITY	301	T8-S-100b	\$10,260,000	-0-	\$10,260,000	yes	no

PRUDENTIAL LINES, INC.

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Name of Vessel	MA Hull No.	Type	Construction Subsidy	Reconstruction Subsidy	Total Subsidy on Vessel	Title XI on Con- struction	Title XI on Recon- struction
LASH ATLANTICO	236	C8-S-81b	\$11,231,188	\$130,000	\$11,361,188	yes	no
LASH ITALIA	228	C8-S-81b	11,470,072	-0-	11,470,072	yes	no
LASH PACIFICO	237	C8-S-81b	11,231,188	130,000	11,361,188	yes	no
*LASH TURKYE	229	C8-S-81b	11,471,927	-0-	11,471,927	yes	no
PRUDENTIAL OCEANJET	178	C4-S-64b	5,898,801	-0-	5,898,801	yes	no
PRUDENTIAL SEAJET	177	C4-S-64b	5,891,674	-0-	5,891,674	yes	no
SANTA BARBARA	175	C4-S-65a	7,108,953	-0-	7,108,953	yes	no
SANTA CLARA	162	C4-S-65a	7,727,623	-0-	7,727,623	yes	no
SANTA CRUZ	161	C4-S-65a	7,703,617	-0-	7,703,617	yes	no
SANTA ELENA	163	C4-S-65a	7,727,899	-0-	7,727,899	yes	no
SANTA ISABEL	176	C4-S-65a	7,135,833	-0-	7,135,833	yes	no
SANTA LUCIA	160	C4-S-65a	7,695,166	-0-	7,695,166	yes	no
SANTA MAGDALENA	91	C4-S1-49a (Comb.)	9,257,158	-0-	9,257,158	yes	no
SANTA MARIA	93	C4-S1-49a (Comb.)	9,302,387	-0-	9,302,387	yes	no

PRUDENTIAL LINES, INC.

Name of Vessel	MA Hull No.	Type	Construction		Reconstruction		Total Subsidy		Title XI on Con- struction		Title XI on Recon- struction	
			Subsidy		Subsidy		on Vessel		struction		struction	
LASH ATLANTICO	236	C8-S-81b	\$11,231,188		\$130,000		\$11,361,188		yes		no	
LASH ITALIA	228	C8-S-81b	11,470,072		-0-		11,470,072		yes		no	
LASH PACIFICO	237	C8-S-81b	11,231,188		130,000		11,361,188		yes		no	
*LASH TURKIYE	229	C8-S-81b	11,471,927		-0-		11,471,927		yes		no	
PRUDENTIAL OCEANJET	178	C4-S-64b	5,898,801		-0-		5,898,801		yes		no	
PRUDENTIAL SEAJET	177	C4-S-64b	5,891,674		-0-		5,891,674		yes		no	
SANTA BARBARA	175	C4-S-65a	7,108,953		-0-		7,108,953		yes		no	
SANTA CLARA	162	C4-S-65a	7,727,623		-0-		7,727,623		yes		no	
SANTA CRUZ	161	C4-S-65a	7,703,617		-0-		7,703,617		yes		no	
SANTA ELENA	163	C4-S-65a	7,727,899		-0-		7,727,899		yes		no	
SANTA ISABEL	176	C4-S-65a	7,135,833		-0-		7,135,833		yes		no	
SANTA LUCIA	160	C4-S-65a	7,695,166		-0-		7,695,166		yes		no	
SANTA MAGDALENA	91	C4-SL-49a (Comb.)	9,257,158		-0-		9,257,158		yes		no	
SANTA MARIA	93	C4-SL-49a (Comb.)	9,302,387		-0-		9,302,387		yes		no	

PRUDENTIAL LINES, INC. (Continued)

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
SANTA MARIANA	92	CH-SL-49a (Comb.)	\$9,297,314	-0-	\$9,297,314	yes	no
SANTA MERCEDES	138	CH-SL-49a (Comb.)	9,226,088	-0-	9,226,088	yes	no
TOTAL			\$129,376,888	\$260,000	\$139,636,888		

* The LASH TURKIYE is operated under charter to Delta Steamship Lines, Inc. The SANTA ANA and SANTA RITA are operated under charter to States Steamship Company, but are not operated under subsidy

STATES STEAMSHIP COMPANY

<u>Name of Vessel</u>	<u>MA Hull No.</u>	<u>Type</u>	<u>Construction Subsidy</u>	<u>Reconstruction Subsidy</u>	<u>Total Subsidy on Vessel</u>	<u>Title XI on Con- struction</u>	<u>Title XI on Recon- struction</u>
COLORADO	210	C4-S-69b	7,893,621	-0-	7,893,621	yes	no
IDAHO	212	C4-S-69b	7,893,621	-0-	7,893,621	yes	no
ILLINOIS	295	C7-S-95a	--	--	--	yes	no
MAINE	279	C7-S-95a	16,248,000	-0-	16,248,000	yes	no
MICHIGAN	214	C4-S-69b	7,893,610	-0-	7,893,610	yes	no
MONTANA	211	C4-S-69b	7,893,621	-0-	7,893,621	yes	no
NEVADA	281	C7-S-95a	16,841,215	-0-	16,841,215	yes	no
WYOMING	213	C4-S-69b	7,893,621	-0-	7,893,621	yes	no
TOTAL			\$72,557,309		\$72,557,309		

WATERMAN STEAMSHIP CORPORATION

Name of Vessel	MA Hull No.	Type	Construction Subsidy	Reconstruction Subsidy	Total Subsidy on Vessel	Title XI on Con- struction	Title XI on Recon- struction
GEORGE WALTON	20	C4-S-1a	3,793,526	-0-	3,793,526	no	no
JOSEPH HEWES	3	C4-S-1h	3,375,252	\$816,194	4,191,446	no	no
THOMAS NELSON (EX-NATHANIEL GREEN)	89	C4-S-1t	7,064,891	197,100	7,261,991	yes	no
JEFF DAVIS	90	C4-S-1t	7,064,891	197,100	7,261,991	yes	no
ROBERT E. LEE	262	C9-S-81d	12,306,606	-0-	12,306,606	yes	no
SAM HOUSTON	264	C9-S-81d	12,306,606	-0-	12,306,606	yes	no
SAMUEL CHASE	7	C4-S-1p	3,305,895	881,575	4,187,470	no	no
STONEWALL JACKSON	263	C9-S-81d	12,306,606	-0-	12,306,606	yes	no
THOMAS LYNCH (EX-KOREA BEAR)	34	C4-S-1f	5,030,375	-0-	5,030,375	no	no
ARTHUR MILLER	22	C4-S-1a	--	--	--	no	no
ROBERT TOOMBS (EX ROBERT E. LEE)	711	C4-S-A4	-0-	-0-	-0-	no	no
JOHN TYLER	16	C4-S-1a	--	--	--	no	no

WATERMAN STEAMSHIP CORPORATION (Continued)

Name of Vessel	MA Hull No.	Type	Construction Subsidy	Reconstruction Subsidy	Total Subsidy on Vessel	Title XI on Con- struction	Title XI on Recon- struction
ALEX STEPHENS (Ex-STONEHALL JACKSON)	710	CH-S-44	-0-	-0-	-0-	no	no
JOHN B. WATERMAN (Ex-WASHINGTON BEAR)	2	CH-S-1a	3,047,662	-0-	3,047,662	yes	no
TOTAL			\$69,602,310	\$2,091,969	\$71,694,279		

NORTH OIL TRANSPORT COMPANY

Name of Vessel	MA Hull No.	Type	Construction Subsidy	Reconstruction Subsidy	Total Subsidy on Vessel	Title XI on Con- struction	Title XI on Recon- struction
NORTH	299	T8-S-100b	\$10,260,000	-0-	\$10,260,000	yes	no

ZAFATA PRODUCTS TANKERS, INC.

Name of Vessel	MA Hull No.	Type	Construction Subsidy	Reconstruction Subsidy	Total Subsidy on Vessel	Title XI on Con- struction	Title XI on Recon- struction
ZAFATA PATRIOT	282	T6-M-98a	\$8,530,000	-0-	\$8,530,000	yes	no
ZAFATA RANGER	283	T6-M-98a	8,530,000	-0-	8,530,000	yes	no
ZAFATA COURIER	285	T6-M-98a	--	--	--	yes	no
ZAFATA ROVER	284	T6-M-98a	--	--	--	yes	no
TOTAL			\$17,060,000		\$17,060,000		

Question Glc: A list of all subsidized steamship operators. With respect to each such company: A list of vessels that have been contracted to be constructed with CDS but have not been officially delivered. Indication for each vessel of (a) type, (b) amount of construction-differential subsidy paid, (c) whether insured under Title XI Program, and (d) whether under charter to another operator.

Answer.

See attached.

<u>Operator</u>	<u>Name of Vessel</u>	<u>Type</u>	<u>CDS</u> <u>(\$ Million)</u>	<u>Title XI</u>	<u>Under</u> <u>Charter to</u> <u>Another</u> <u>Operator</u>
Aeron Marine Shipping Co.	None				
American Export Lines, Inc.	HULL 325	16,300 DWT Containership	\$21.50	Yes	No
	HULL 326	16,300 DWT Containership	\$21.50	Yes	No
American President Lines, Inc.	None				
American Shipping, Inc.	None				
Aquarius Marine Co.	None				
Aries Marine Shipping Co.	None				
Atlas Marine Co.	None				
Chestnut Shipping Co.	None				
Delta Steamship Lines, Inc.	None				
Farrell Lines, Inc.	AUSTRAL PIONEER	54,680 DWT Containership	\$38.90	Yes	No
	AUSTRAL PURITAN	54,680 DWT Containership	\$38.90	Yes	No
Lykes Bros. Steamship Co., Inc.	None				
Margate Shipping Co.	None				
Moore-McCormack Bulk Transport, Inc.	None				
Moore-McCormack Lines, Inc.	None				
Pacific Far East Line, Inc.	None				
Pacific Shipping, Inc.	None				
Prudential Lines, Inc.	None				
States Steamship Co.	None				
Waterman Steamship Corp.	HULL 336	83,042 DWT LASH	\$32.85	Yes	No
	HULL 337	83,042 DWT LASH	\$32.85	Yes	No
Worth Oil Transport Co.	None				
Zapata Product Tankers, Inc.	None				

1/1/78

Question G1d: A list of all subsidized steamship operators with respect to each such company:

- d. The amount of operating-differential subsidy paid, by year, for the last five years.

Answer

(See attached)

Operating-Differential Subsidies
Net Subsidies Paid

	Fiscal Year					Total
	1973	1974	1975	1976	1977	
Aeron Marine Shipping	--	--	388,263	2,447,910	2,378,684	5,214,857
American Export Lines	24,467,197	24,937,158	25,469,791	33,086,182	34,545,469	142,505,797
American Mail Line 1/	11,872,395	7,486,546	11,768,520	160,412	555,059	31,842,932
American President Lines 1/	34,601,730	27,114,706	22,433,802	38,357,289	40,881,836	163,389,363
American Snipping	--	--	--	--	1,227,659	1,227,659
Aquarius Marine Co.	--	--	--	455,924	782,696	1,238,620
Aries Marine Shipping	--	--	1,269,046	1,673,909	2,288,601	5,779,639
Atlas Marine Co.	--	548,083	--	--	570,389	570,389
Chestnut Shipping Co.	--	--	--	--	1,115,233	1,115,233
Delta Steamship Lines	7,131,859	10,667,540	11,201,923	17,145,887	14,008,089	60,155,298
Farrell Lines	14,426,466	18,175,239	21,408,963	32,516,434	27,734,359	114,261,461
Gulf & South American						
Steamship 2/	442,682	851,717	624,280	570,573	--	2,489,252
Lykes Bros. Steamship	31,469,560	38,838,071	43,194,368	69,542,959	57,167,918	240,212,876
Margate Shipping	--	343,578	1,650,835	3,549,121	3,689,492	9,233,026
Moore-McCormack Bulk transport	--	--	--	334,997	3,032,257	3,367,254
Oceanic Steamship Lines	11,679,537	13,355,166	18,031,316	32,811,563	24,086,090	99,963,672
Oceanic Steamship 3/	1,407,924	1,965,932	817,955	1,067,313	--	5,259,124
Pacific Far East Line	25,609,185	22,479,260	24,891,650	33,047,741	23,588,008	129,615,844
Pacific Shipping	--	--	--	--	918,656	918,656
Prudential Lines 4/	24,217,078	26,829,516	26,580,122	44,289,852	38,005,269	159,921,837
States Steamship	14,424,014	15,595,364	11,683,072	13,990,499	10,473,748	66,166,697
Waterman Steamship	11,471,464	14,857,186	15,687,881	21,914,611	16,924,865	80,856,007
Worth Oil Transport	--	--	--	310,790	1,249,575	1,560,365
Zapata Products	--	--	--	253,529	3,243,925	3,487,524
Total Regular ODS	213,221,091	224,045,062	237,101,787	347,527,565	308,457,977	1,330,353,302
Soviet grain Programs 2/	9,864,670	31,415,253	5,709,979	38,508,455	34,317,451	119,815,808
Total ODS	223,085,761	255,460,315	242,811,766	386,036,020	342,775,328	1,450,169,190

1/ No longer subsidized or combined with other subsidized lines

2/ Purchased by Lykes Bros. Steamship Co.

3/ Purchased by Pacific Far East Line, Inc.

4/ Changed from Prudential-Grace Lines, Inc.; August 1, 1974

5/ Includes 42 subsidized operators.

Question Gle: A list of all subsidized steamship operators.
With respect to each such company:

The amount of construction-differential subsidy
paid, by year, for the last five years.

Answer.

It should be noted that CDS payments are to the shipyards.
The attached table lists the payments to shipyards which are
associated with the construction of ships for the operators
indicated.

Construction and Reconstruction Differential Subsidy

Operator	Accrued Expenditures *					Total for 5 Fiscal Year's & TQ
	Fiscal Year 1973	Fiscal Year 1974	Fiscal Year 1975	Fiscal Year 1976	TQ Fiscal Year 1976	Fiscal Year 1977
Fiscal Years 1973 through 1977 (including breakout of TQ for 1976)						
Aeron Marine Shipping Co.	\$ 3,849,543	\$20,768,483	\$12,811,385	\$ -105,611	\$ 4,189	\$ -0- \$37,327,989
American Export Lines, Inc.	5,709,592	114,922	-20,184	-0-	-0-	5,956,376 11,760,706
American Mail Line Ltd. 1/	2,057,298	20,782	-5,963	-0-	-0-	-- 2,072,117
American President Lines, Ltd.	21,315,657	5,328,311	-241,702	983,850	13,023	1,358,762 28,757,901
American Shipping, Inc.	--	--	--	--	--	-- --
Aries Marine Shipping Co.	15,875,225	6,943,005	1,256	88,511	-0-	-- 22,907,997
Aquarius Marine Co. 2/	--	--	--	--	--	-- --
Atlas Marine Co. 3/	--	--	--	--	--	-- --
Chestnut Shipping Co.	-0-	-0-	3,230,221	12,882,195	3,143,100	-0- 19,255,516
Delta Steamship Lines, Inc.	19,807,377	7,839,482	-35,361	301,387	-19,332	-162,351 27,731,202
Farrell Lines, Inc.	8,601,090	2,652,974	145,563	2,298,770	1,399,028	25,734,698 40,832,123
Lykes Bros. Steamship Co.	10,878,096	583,742	64,809	-2,609	-0-	-- 11,524,038

<u>Operator</u>	<u>Fiscal Year 1973</u>	<u>Fiscal Year 1974</u>	<u>Fiscal Year 1975</u>	<u>Fiscal Year 1976</u>	<u>Fiscal Year 1976</u>	<u>Fiscal Year 1977</u>	<u>Total for 5 Fiscal Year's & TQ</u>
Margate Shipping Co.	7,824,361	11,152,775	4,653,508	134,790	-0-	167,563	23,932,997
Moore-McCormack Bulk Transport, Inc.	--	--	--	--	--	1,784,203	1,784,203
Moore-McCormack Lines, Inc.	467,050	608,990	11,893,034	16,158,702	502,834	88,092	29,718,702
Pacific Far East Line, Inc.	9,532,786	3,757,051	355,094	-4,847	-0-	4,514,711	18,154,795
Prudential Lines, Inc.	1,070,221	197,004	-19,246	213,991	--	1,487,422	2,949,392
States Steamship Co.	2,044,804	10,231,119	24,143,119	23,057,541	1,696,509	4,626,042	65,799,134
Waterman Steamship Corp. 2/	11,195,357	19,169,773	29,487	534,652	-0-	27,833	30,937,102
Worth Oil Transport Co. 2/	--	--	--	--	--	--	--
Zapata Products Tankers, Inc.	102,511	7,893,075	16,204,985	10,036,982	1,045,499	1,515,886	36,798,938
	\$120,330,968	\$97,261,488	\$73,210,005	\$66,578,304	\$7,784,850	\$47,099,237	\$412,264,852

*Based upon latest available data. Source: Division of Accounts. Negative entries in some cases above represent adjustments of prior periods due to contract price changes.

1/ American Mail Line, Ltd. was absorbed by American President Lines, Ltd. in 1973.

2/ Data not presently available

3/ Came on operating-differential subsidy in December 1976

4/ Came on operating-differential subsidy in July 1976.

NOTE: CDS expenditures are primarily to yards - above listings are of expenditures associated with ships for indicated operators.

Question G2 : A list of current applications for subsidy. With respect to each, please indicate the name of the company, the type vessel, proposed trade route, and cargo to be carried; the type of subsidy and other government aids applied for; and whether the company had previously been under subsidy.

- a. Construction-Differential Subsidy
- b. Operating-Differential Subsidy
- c. Title XI Guarantees

Answer.

See attached.

CONSTRUCTION-DIFFERENTIAL SUBSIDY APPLICATIONS PENDING
(as of January 6, 1978)

(Dollar Amounts in Thousands)

Applicant	Type of Vessel	No. of Ships	Size of Ship	Estimated Total Cost	Proposed Trade	Other Government Aid Applied For *
Amoco International Oil Co. (12-8-72)	LNG	2	125,000m ³	\$194,000	Trinidad to U.S. Gulf	None
Apollo Marine Shipping Company (9-17-73)	Tanker	8	3- 38,300 DWT 1- 89,700 DWT 4-380,000 DWT	Not Specified	World-Wide	None
Atlantic Richfield Company (1-21-74)	Tanker	2	380,000 DWT	\$229,120	U.S. Foreign Commerce	None
Bernuth, Lembcke Co., Inc. (8-30-73)	Tanker	3	270,700 DWT	\$240,000	U.S. Foreign Commerce	None
Central Gulf Lines, Inc. (7-37-73)	Tanker	6	380,000 DWT	\$635,400	U.S. Foreign Commerce	None * (a, c)
Cities Service Tankers Corp. (8-28-73)	Tanker	2	265,000 DWT	\$166,000	U.S. Foreign Commerce	None
Cove Carriers, Inc. (10-22-76)	Self-Propelled RO/RO Barge	1	4,700 DWT	\$ 11,970	U.S. Foreign Commerce	Title XI

<u>Applicant</u>	<u>Type of Vessel</u>	<u>No. of Ships</u>	<u>Size of Ship</u>	<u>Estimated Total Cost</u>	<u>Proposed Trade</u>	<u>Other Government Aid Applied For</u>
Delta Steamship Lines, Inc. (3-20-73)	Mini-LASH	1	11,800 DWT	\$ 10,000	U.S. Foreign Commerce	None (a,b,c)
Energy Carriers Corp. (11-12-73)	Tanker	1	380,000 DWT	\$110,228	U.S. Foreign Commerce	None
Energy Corporation of America (11-6-73)	Tanker	12	414,000 DWT	\$2,053,613	World-Wide	None
Energy Feeders Corp. (11-12-73)	Tanker	1	380,000 DWT	\$110,228	U.S. Foreign Commerce	None
Energy Shippers Corp. (11-12-73)	Tanker	1	380,000 DWT	\$110,228	U.S. Foreign Commerce	None
Falcon Cargo Ships, Inc. (1-23-76) As Amended	Dry Bulk Carriers	5	37,000 DWT	\$180,000	World-Wide	Title XI, ODS
Farrell Tankers Incorporated (11-23-73)	Tanker	4	89,000 DWT	\$136,000	U.S. Foreign Commerce	Title XI, ODS
First Pennsylvania Tanker I, Inc. (6-19-73)	Tanker	1	265,000 DWT	\$ 81,956	World-Wide	None
First Pennsylvania Tanker II, Inc. (6-19-73)	Tanker	1	265,000 DWT	\$ 81,956	World-Wide	Title XI

Applicant	Type of Vessel	No. of Ships	Size of Ship	Estimated Total Cost	Proposed Trade	Other Government Aid Applied For
Fuel Transport, Inc. (8-27-73)	Tanker	2	89,700 DWT	\$ 60,000	U.S. Foreign Commerce	None
Hedge Haven Corporation (3-19-73, as amended)	Tanker	4	56,000 DWT	\$161,588	Bahamas to U.S.	Title XI, ODS
Ingram Technologists Inc. (4-27-73)	Tug/Barge	6	80,000 DWT	\$162,000	Bahamas to U.S.	Title XI
Interstate Oil Transport Company (4-2-74)	Liquid Bulk Carrier	1	42,970 DWT	\$ 20,000	U.S. Foreign Commerce	Title XI
Marvland Sun Shipping Co., Inc. (9-28-73)	Tanker	1	129,000 DWT	\$ 37,000	U.S. Foreign Commerce	None
Methane Eta Company (11-8-73)	LNG	1	125,000m ³	\$107,500	U.S. Foreign Commerce	Title XI
Methane Iota Company (11-8-73)	LNG	1	125,000m ³	\$107,500	U.S. Foreign Commerce	Title XI
Methane Lambda Company (11-21-73)	LNG	1	125,000m ³	\$ 97,000	U.S. Foreign Commerce	Title XI
Methane Mu Company (11-21-73)	LNG	1	125,000m ³	\$ 97,000	U.S. Foreign Commerce	Title XI
Methane Theta Company (11-8-73)	LNG	1	125,000m ³	\$107,500	U.S. Foreign Commerce	Title XI

<u>Applicant</u>	<u>Type of Vessel</u>	<u>No. of Ships</u>	<u>Size of Ship</u>	<u>Estimated Total Cost</u>	<u>Proposed Trade</u>	<u>Other Government Aid Applied For</u>
Mobil Oil Corporation (10-15-73)	Tanker	2	265,000 DWT or 425,000 DWT	\$190,000 \$240,000	World-Wide	None
Multi-Carriers, Inc. (6-1-73)	ORO Tug/Barge	4	105,000 DWT	\$156,000	U.S. Foreign Commerce	Title XI, ODS
National Shipping Corporation (7-3-73)	Hatchless Bulk Carrier	1	40,000 DWT	\$ 22,000	Canada-U.S.	ODS
Norton Lilly Steamship Co., Inc. (7-23-75)	Heavy-Lift	1	3,100 DWT	\$ 10,000	U.S. Foreign Commerce World-Wide	Title XI
Pacific Alaska LNG Company (1-5-73)	LNG	5	125,000m ³	Not speci- fied	Indonesia to S. California	Title XI
Pacific Lighting Marine Company (1-23-74)	LNG	4	130,000m ³	\$532,000	U.S. Foreign Commerce	Title XI
Prairie Shipping Incorporated (1-20-75)	Bulk Carrier	3	33,000 DWT	\$ 81,000	Great Lakes/ Europe	ODS
Rail-Sea Corporation (7-8-76)	Self- Propelled RO/RO Barge	1	NA	\$ 9,000	U.S. Foreign Commerce	Title XI
Sealift Tankers, Inc. (8-17-72)	LNG	7	125,000m ³	\$574,000	Iran & Japan to U.S.	None

<u>Applicant</u>	<u>Type of Vessel</u>	<u>No. of Ships</u>	<u>Size of Ship</u>	<u>Estimated Total Cost</u>	<u>Proposed Trade</u>	<u>Other Government Aid Applied For</u>
Superport Tankers, Inc. (8-17-73)	Tanker	6	380,000 DWT	\$635,400	U.S. Foreign Commerce	None
Suwanee River Lines, Inc. (7-5-73)	Bulk Liquid Chemical Carriers	4	44,600 DWT	Not Specified	U.S.-U.S.S.R.	Title XI, ODS
Tankers Holding, Inc. (6-14-73)	OBO	2	80,000 DWT	\$ 71,300	World-Wide	Title XI, ODS
Taylor Tanker Corp. (11-21-73)	Tanker	2	265,000 DWT	\$171,000	World-Wide	None
Transportation Techniques, Inc. (9-24-71)	LNG	3	125,000m ³	\$246,000	Venezuela to U.S.	None
Trinidad Corporation (10-2-72)	Tanker	3	383,600 DWT	\$349,260	U.S. Foreign Commerce	Title XI
United States Lines, Inc. (5-23-73)	Tanker	5	84,000	\$109,500	U.S. Foreign Commerce	None (a,b,c)*
Virginia Shipping Corp. (6-1-73)	Tanker	6	380,000 DWT	\$635,400	U.S. Foreign Commerce	None
Waterman Steamship Corporation (3-11-76) (Amended 1-6-78)	RO/RO	3/4	17,440 DWT	\$195,000/ \$260,000	U.S. Foreign Commerce	Title XI, ODS (a,b,c)

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Applicant	Type of Vessel	No. of Ships	Size of Ship	Estimated Total Cost	Proposed Trade	Other Government Aid Applied For
Western Bulkships Associates 1/ (12-4-73)	OBO	4	80,000 DWT	\$138,770	U.S. Foreign Commerce	None
Zapata Western LNG, Inc. (12-8-75)	LNG	3	125,000m ³	\$400,000	U.S. Foreign Commerce	Title XI
Zapper, Inc. (2-25-77)	Semi-Submersible Barge Carrier	1	7,200 DWT	\$ 8,723	U.S. Gulf-Kingston	Title XI
TOTAL		141/142		\$9,944,140/ \$10,059,140		

1/ An affiliated company of both Waterman Carriers, Inc. and Zapata Western Shipbuilding, Inc.

Shipyard Code:

T	(Tcdd	GD	(General Dynamics)
NA	(Not Available)	B	(Bethlehem - Sparrows Point)
NN	(Newport News)	A	(Avondale)
S	(Searain)	K	(Kelco)
SUN	(Sun Shipbuilding)	BSF	(Bethlehem - San Francisco)
L	(Levington Ship-Building)	H	(Halter Marine Services, Inc.)

*Whether company previously under subsidy

- a. CDS
b. ODS
c. Title XI

OPERATING-DIFFERENTIAL SUBSIDY

PENDING APPLICATIONS (exclusive of ODS Grain Contracts)
(as of January 6, 1978)

	<u>Company</u>	<u>Date of Application</u>	<u>Number of Ships</u>	<u>Vessel Type</u>	<u>Proposed Trade</u>
<u>2/</u> (a,b,c)	American Export Lines, Inc.*	2-10-77	6	C-3 Vessels	TR 18
	Atlantic Bear Steamship Company	12-09-76	3	RO/RO	Modified TR 18
<u>2/</u> (a, c)	Central Gulf Lines, Inc.	3-04-77	3	LASH	TRs 17 & 18
	Equity Carriers, Inc.	1-23-76 (as amended)	5	Dry Bulk Carriers	Worldwide
	Farrell Tankers Incorporated	9-13-74	4	Tankers	U.S. Foreign Commerce
	Hedge Haven Corporation	4-05-73	4	Tankers	U.S. Foreign Commerce--Worldwide
<u>2/</u> (a,b,c)	Lykes Bros. Steamship Co., Inc.*	12-02-74	41	Freighters, Seabee	U.S. Foreign Commerce--TRs 13, 15-B, 21, 22, 31, TA 4
<u>2/</u> (a,b,c)	Lykes Bros. Steamship Co., Inc.**	2-11-77	1/	Freighters, Seabee	U.S. Foreign Commerce--TRs 10 & 18
	Multi-Carriers, Inc.	6-01-73	4	OBO, Tug/Barge	U.S. Foreign Commerce--Worldwide

OPERATING-DIFFERENTIAL SUBSIDY

PENDING APPLICATIONS (continued)
(as of January 6, 1978)

	<u>Company</u>	<u>Date of Application</u>	<u>Number of Ships</u>	<u>Vessel Type</u>	<u>Proposed Trade</u>
	National Shipping Corporation	7-03-73	1	Dry Bulk	West Coast Canada/East East Coast U.S.
^{2/} (a,b,c)	Pacific Far East Line, Inc. *	12-18-75 (as amended)	4	LASH	U.S. Foreign Commerce-- TR 29, Modifie
	Prairie Shipping Incorporated	1-20-75	3	Bulk Carrier	Great Lakes/ Europe
^{2/} (a,b,c)	Prudential Lines, Inc.	1-24-77	3	Breakbulk	U.S. Foreign Commerce-- TR 18
^{2/} (a,b,c)	Statos Steamship Company *	10-17-74	13	Freighter, RO/RO	U.S. Foreign Commerce-- TR 29
	Suwanee River Lines, Inc.	7-05-73	4	Liquid Bulk Chemical	U.S./U.S.S.R.
	Tankers Holding, Inc.	6-14-73	2	OBO	U.S. Foreign Commerce-- Worldwide
^{2/} (a,b,c)	United States Lines, Inc.	8-01-75	16	Line-Haul Containership	Transatlantic Transpacific

OPERATING-DIFFERENTIAL SUBSIDY

PENDING APPLICATIONS (continued)
(as of January 8, 1973)

COMPANY	Date of Application	Number of Ships	Vessel Type	Proposed Trade
Waterman Carriers, Inc.	1-21-74	2	OBO	U.S. Foreign Commerce-- Worldwide
2/ (a,b,c) Waterman Steamship Corporation**	8-17-73 5-15-75	4	Freighter	U.S. Foreign Commerce-- TS 21
2/ (a,b,c) Waterman Steamship Corporation**	6-16-75	2	Freighter	U.S. Foreign Commerce-- TSs 5,7,8,9, 6, 1
Canada Western Shipholding, Inc.	1-24-74	2	OBO	U.S. Foreign Commerce-- Worldwide

(*) Renewal applications

(**) New long-range contract

1/ No additional vessels required

2/ Whether company previously under subsidy

a. CDS

b. ODS

c. Title XI

PENDING TITLE XI APPLICATIONS

December 30, 1977

Formal Applications - Active *	No. of Ships	Types of Vessels Size/Tonnage	Estimated Cost to Applicant	Estimated Mort. Loan
American Pacific Container Line, Inc. 501 Army St. Pier 80 San Francisco, California 94124	4	Container Vessels (Cargo)	105,000,000	92,000,000
Arna Marine Co. and Transocean Carriers, Ltd. 410 Lakeville Rd. Lake Success, N.Y. 11040	3 3	Tug/Barge Units (Ocean Tugs) Tug/Barge Units (Ocean Barges)	127,739,925	111,764,000
Belcher Towing Co. 2050 Coral Way Miami, Florida 33101	2 2	Tug/Barge Units (Ocean Tugs) Tug/Barge Units (Ocean Barges)	41,000,000	35,875,000
Bulk Food Carriers, Inc. 425 California St. San Francisco, California 94104	*c 1	Ocean Barge	1,499,428.57	1,312,000
Bulk Food Carriers, Inc. 425 California Street San Francisco, California 94104	*c 2	Bulk Carriers (conv.)	11,300,000	9,887,000
Clipper Fleet, Inc. 100 Cherry St. Panama City, Florida 32401	8	Aluminum Crewboats (Drill Service)	3,409,964	2,318,470
Chiles Offshore Ltd. 500 Westheimer, Suite 135 Houston, Texas 77056	1	Offshore Drilling Vessel	13,832,000	10,374,000
Dotco One, Inc. P.O. Box 2607 Morgan City, LA 70380	1 1	Ocean Barge Ocean Tug	5,540,000	4,847,500

*Whether company previously under subsidy

a. GDS

b. ODS

c. Title XI

<u>Formal Applications - Active</u>	<u>No. of Ships</u>	<u>Types of Vessels Size/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Mort. Loan</u>
Oillingham Tug & Barge Corp. Pier 24 (P.O. Box 3288) Honolulu, Hawaii 96801	1	Ocean Barge	1,533,000	1,341,375
Eagle Dredging Corp. Suite 3780, One Shell Square New Orleans, Louisiana 70139	1	Ocean Dredge	29,840,300	26,110,263
Falcon Cargo Ships, Inc. 277 Park Avenue New York, New York 10017	5	Bulk Cargo Vessels, 37,000 DWT	84,000,000	63,000,000
F & S Offshore, Inc. 3501 N. Causeway Blvd., Suite 600 Natairie, Louisiana 70002	4 *c	Tug/Supply Vessels	7,885,714.29	6,900,000
First Seal, Inc. 3305 Avenue S. P.O. Box 1168 Galveston, Texas 77553	2	Tug/Supply Vessels	4,486,000	3,920,000
Foss Launch & Tug Co West Ewing St. Seattle, Wa. 98119	1 2 2 *c	Ocean Tug Ocean Barges Ocean Tugs (Reconditioned)	1,880,000 3,261,000 1,561,800	1,410,000 2,853,375 1,171,350
Hannah Inland Waterways Corp. P.O. Box 189 Lemont, Illinois 60439	1 1 *c	Ocean Liquid Cargo Barge Ocean Tug (repowered)	3,300,000 1,000,000	2,887,500 875,000
Inland Well Service, Inc. 1930 South State St. Abbeville, La. 70510	2	Drill Barges (River)	9,000,000	6,750,000

<u>Formal Applications - Active</u>	<u>No. of Ships</u>	<u>Types of Vessels Size/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Mort. Loan</u>
K. A. Steel Chemicals, Inc. 2730 River Rd. Des Plaines, Illinois 60118	2	River Barges	1,200,000	1,050,000
Louisiana Offshore Equipment Co. Box 167 (P.O. Box 68) Paurice, Louisiana 70555	2	Pipe Laying Barges (Ocean)	3,000,000	2,625,000
Marine Equipment Suppliers, Inc. 601 Jefferson St., Suite 3600 Houston, Texas 77210	*c 1	Self-Propelled Reel Pipe Lay Ship (Misc.)	34,000,000	29,750,000
Marine Leasing Corp. 1411 N. Northlake Way Seattle, Washington 98103	*c 5	Ocean Barges	6,640,000	5,810,000
Pacific Island Ferry Georgia Street Wharf Vallejo, California 94590	1	Passenger Carrying Barge (River)	425,000	371,875
Micro Line Systems, Inc. c/o Sares Shipping, Inc. One World Trade Center, Suite 5057 New York, New York 10048	2	Ro/Ro Container Vessels	5,453,200	4,089,900
Porenia Tug & Barge, Inc. 135 East 57th St. New York, N.Y. 10022	1 1	Ocean Tug Ocean Barge	1,917,000 2,500,000	1,500,000 1,500,000
Ocean Marine Services Partnership #2	*c 1	Tug/Supply Vessel (Ocean)	3,428,571.43	3,000,000
Ocean Marine Services Partnership #3	1	Tug/Supply Vessel (Ocean)	3,428,571.43	3,000,000
Ocean Marine Services Partnership #4	1	Tug/Supply Vessel (Ocean)	3,428,571.43	3,000,000
Ocean Marine Services Partnership #5 4350 South Wayside Houston, Texas 77087	1	Tug/Supply Vessel (Ocean)	3,428,571.43	3,000,000

<u>For All Applications - Active</u>	<u>No. of Ships</u>	<u>Types of Vessels Size/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Mort. Loan</u>
*c Offshore Logistics, Inc. 900 East University P.O. Box 5-C Lafayette, La. 70505	4	Tug/Supply (Drill Service)	13,400,000	10,050,000
Ogden Marine Indonesia, Inc. 280 Park Avenue New York, New York 10017	3	LNG's	420,000,000	367,500,000
Oklahoma-Kansas Grain Corp. 5150 West Channel Rd. Catoosa, OK 74015	10	River Barges	2,285,714.29	2,000,000
Pacific Envoy, Inc. 135 Dominican Drive San Rafael, CA 94901	1	Container Vessel (Cargo) (Reconstruction)	3,400,000	2,975,000
Quincy Corporation 97 East Howard Street Quincy, Massachusetts 02169	1	Ocean Barge	3,450,473	2,900,000
Rail-Sea Corp. 500 Skelton Road Piscataway, New Jersey 08859	1	Self-propelled Ro/Ro barge (Ocean)	5,000,000	3,750,000
*c Robin Towing Corp. 400 Fallet Avenue Harvey, Jefferson Parish, LA 70058	2 2 2	Ocean Tugboats Crewboats Refinanced Ocean Tugboats	4,000,000 1,202,666.67 1,721,142.86	3,500,000 902,000 1,506,000
Sanders Equipment Company, Inc. P.O. Box 1036 New Iberia, Louisiana 70560	1	Drilling Barge (River) Semi-submersible	5,162,745	3,864,000

<u>Formal Applications - Active</u>	<u>No. of Ships</u>	<u>Types of Vessels Size/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Port. Loan</u>
675 Leasing Company 100 West Tenth Street Wilmington, Delaware 19801	1	Ro/Ro 15,622 DMT (Cargo)	52,572,000	46,000,000
Shipping Ventures, Inc. I	1	LNG Vessel, 125,000 M3	201,155,428.57	176,011,000
Shipping Ventures, Inc. II	1	LNG Vessel, 125,000 M3	207,146,285.71	181,253,000
Shipping Ventures, Inc. III	1	LNG Vessel, 125,000 M3	212,608,000	186,032,000
Shipping Ventures, Inc. IV P.O. Box 2511, Tenneco Bldg. 1010 Milam Street Houston, Texas 77001	1	LNG Vessel, 125,000 M3	218,072,000	190,813,000
Toten Ocean Trailer Express, Inc. 1201 Alaskan Way So., Pier 37 Seattle, Washington 98134	1	RO/RO Trailership (Cargo) High Speed	77,714,286	68,000,000
Transocean Carriers (see Arma Marine Co.)				
Ultramar Partners 10 South Brentwood Blvd. Clayton, NJ 63105	6	Ocean Barges	7,800,000	6,825,000
Velvet Ocean Systems, Inc. P.O. Box 101 Hahnville, La. 70057	1	Ocean Tug	4,162,916	3,700,000
Western Company of North America P.O. Box 186 2525 Ridgmar Blvd. Ft. Worth, Texas 76101	2	Jack-up Drilling Barges	52,000,000	39,000,000
Western Quarries & Const. Co. 228 No. LaSalle Street Chicago, Ill. 60601	1	Self-propelled Suction Dredge (Misc.)	9,825,000	8,596,875

<u>Pending Applications - Inactive</u>	<u>No. of Ships</u>	<u>Types of Vessels Size/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Mort. Loan</u>
Aberdeen Shipping, Inc. c/o The Corporation Trust Co. 180 West 10th Street Wilmington, Delaware 19801	6	VLCC's/380,000 DWT	\$408,000,000	\$ 312,000,000
Acadian Marine Service, Inc. 225 Baronne Street New Orleans, Louisiana 70112	6	Tug/supply vessels drill service / 175 ft.	6,222,000	5,400,000
Agra Mar Shipping Co. 200 Kiewit Plaza Omaha, Nebraska 68131	1 1	Tug-Barge Unit (Ocean Tug) Tug-Barge Unit (Ocean Barge)	7,110,250 7,110,250	6,220,500 6,220,500
Asbulk Shipping, Inc. 551 Fifth Avenue New York, New York 10017	6	Bulk Carriers/51,000 DWT	92,040,000	67,200,000
Arctic Offshore Company 700 North Post Oak Road Suite 211 Houston, Texas 77024	2	Ocean tug/supply vessels/3280 HP	4,492,230	3,550,000
Ayers Materials Co. 2000 Peters Road Harvey, Louisiana 70058	1	Suction-type Dredge KATHY L Dredge KATHY L Reconstruction	980,439	716,856
Bedford Shipping Corp. One Chase Manhattan Plaza New York, NY 10005	1	Self-unloading bulk carrier	41,598,000	36,400,000
Cat Limited Partnership No. 1 P.O. Drawer 53475 Lafayette, La. 70501	1	Twin hull catamaran work barge	3,000,000	2,625,000

<u>Pending Applications - Inactive</u>		<u>No. of Ships</u>	<u>Types of Vessels Size/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Mort. Loan</u>
<u>*c</u>					
Construction Aggregates Corp. 120 S. LaSalle St. Chicago, Illinois 60603		1	Oceangoing Tug/7000 HP	5,000,000	4,375,000
Cove Carriers, Inc. 83 Pine Street New York, NY 10005		1	Self-propelled Ro/Ro Barge	6,604,700	4,953,525
Crown Marine Incorporated 5 Noble Drive Belle Glasse, Louisiana 70037		2	Oceangoing Tugs/5600 HP	5,735,000	5,018,125
Delta Steamship Company 1700 International Trade Mart P. O. Box 50250 New Orleans, Louisiana 70150	* (a,b,c)	250	Lash Type Barges	10,000,000	8,380,000
Diamond H Drilling 4615 Post Oak Place Dr. Houston, Texas 77027	*c	1	Semi-Submersible Drilling Rig	35,500,000	26,625,000
Drill Rig No. I, Inc. c/o Sincer & Pincus 110 E. 59th Street New York, New York 10002		1	Jackup Drilling Rig	29,623,206	22,500,000
Drill Rig No. II, Inc.		1	Jack-Up Drilling Rig	33,894,198	22,500,000
Drill Rig No. III, Inc.		1	Jack-Up Drilling Rig	37,729,321	27,000,000
Drill Rig No. IV, Inc.		1	Jack-Up Drilling Rig	37,577,887	28,500,000
Field International Corp. 930 William Building San Antonio, Texas 78205		1	Semi-submersible drilling rig	9,948,320	7,461,240

<u>Pending Applications - Inactive</u>	<u>No. of Ships</u>	<u>Types of Vessels Size/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Mort. Loan</u>
Great Lakes & European Lines Suite 2310 222 South Riverside Plaza Chicago, Illinois 60606	5	Containerships (to be used in Great Lakes)	112,428,000	84,321,000
Gulf Overseas Marine P.O. Box 5-2532 Oil & Gas Building 3 Lafayette, LA 70501	4 *C	Ocean Tugs	9,500,000	8,312,000
Gulf Overseas Marine Corp. 1001 Pinhook Road Lafayette, LA 70505	3 *C	Ocean Cargo Barges	5,093,592	4,456,893
Hawaiian Inter-Island Ferry System City Bank Building 810 Richards Street Honolulu, Hawaii 96813	2	Passenger/auto ferries	37,818,589	33,091,257
Hedge Haven Farms, Inc. Rt. 22, P. O. Box 5199 Clinton, New Jersey 08809	2	OBO's / 80,500 DWT	45,010,000(1)	33,757,500
JSC, Inc. P. O. Box 1812 Bellevue, Washington 98009	2	Hydrofoils	7,967,000	6,971,003
Kellie C., Incorporated East 118th Street P. O. Box 308 Galliano, Louisiana 70354	2	Utility Vessels - Drill Service/ 1800 HP	800,000	600,000
KAR-BIL, Inc. 5541 Cleves Warsaw Pike Cincinnati, Ohio 45238	3	River Towboats/1,000 H.P.	1,557,000	1,167,750

<u>Ponting Applications - Inactive</u>	<u>No. of Ships</u>	<u>Types of Vessels Size/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Mort. Loan</u>
*a MFC Easton Tankers, Inc. FENN I and FENN II 100 Federal Street Boston, Mass. 02110	2	VLCC's/265,000 DWT	111,660,000	83,170,000
Methane Eta Company (El Paso) Methane Theta Company Methane Iota Company 2727 Allen Parkway Houston, Texas 77019	3	LNG Tankers/64,000 DWT	111,416,000 111,416,000 111,416,000	86,120,000 86,120,000 86,120,000
Methane Mu Company Methane Kappa Methane Lambda Company	3	LNG Tankers/64,000 DWT	111,416,000 111,416,000 111,416,000	86,120,000 86,120,000 86,120,000
Multi-Carriers, Inc. c/o Iren Destiny Carriers 277 Park Avenue New York, New York 10017	4	OBO's /105,000 DWT	104,600,000	78,448,000
*c North American Trailing Co. 223 North LaSalle Chicago, Illinois 60601	1	Self-propelled hopper suction dredge	22,750,000	19,906,000
Morton Lilly Steamship Co., Inc. 50 West Street New York, N.Y. 10017	1	Heavy Lift Type Vessel/3100 DWT	10,000,000	8,750,000
Oceanic LNG Transport (Burmah) Methane Transport Global LNG Shipping c/o Corporation Trust Company 110 West 10th Street Wilmington, Delaware 19899	3	LNG Tankers/125,000 cu. mtr.	71,845,574 71,845,574 71,845,574	53,884,000 53,884,000 53,884,000

<u>Pending Applications - Inactive</u>	<u>No. of Ships</u>	<u>Types of Vessels Size/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Mort. Loan</u>
Oil Base, Inc. 3625 Southeast Freeway Houston, Texas 77027	2	Tug/supply vessels/2560 HP-drill service	1,149,000	1,005,000
Oil Transport Barge Line P. O. Box 52708 New Orleans, Louisiana 70152	2 2	River Barges/296 ft. River Tonnboats, twin screw/4000 HP	900,000 2,600,000	787,500 1,950,000
Oil Well Services, Inc. 1625 Belle Chasse Highway Gretna, Louisiana	5 3	Barges, Refinancing drill service Barges, Reconstruction-drill service	1,500,000	1,300,000
Pacific Lighting Marine Co. 720 W. Eighth Street Los Angeles, California 90017	2	LNG Tankers 130,000 cu. mtr.	270,000,000	236,000,000
Portable Marine Structures, Inc. 811 Americana Bldg., Dallas St. Houston, Texas 77002	2	Ocean Tugs/3,000 H.P.	11,500,000	10,000,000
Robbins Towing Company 7233 Normandie Road Minneapolis, Minn. 55435	2	River Tugs/4200 HP	3,195,000	2,369,000
Seabulk Tankers, Ltd. P. O. Box 13109 Port Everglades Station Port Everglades, Florida 33316	1 1	Integrated tug/barge unit (Ocean Tug) Integrated tug/barge unit (Ocean Barge)	7,771,711 8,746,293	6,800,000 7,653,000
Storm Drilling Company 900 Corpus Christi National Bank Bldg. Corpus Christi, Texas 78401	1	Jack up drilling platform	16,939,000	12,000,000
Sun Bulk Carriers 240 Ragner-Chester Road St. Davids, PA 19087	2 2	Tug/Barge units (Tugs) for Great Lakes Tug/Barge units (Barges)	33,300,000	30,000,000

<u>Pending Applications - Inactive</u>	<u>No. of Ships</u>	<u>Types of Vessels Size/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Mort. Loan</u>
Suwannee River Lines c/o Occidental International Corp. 1717 Pennsylvania Ave., N. W. Washington, D. C. 20006	3	Bulk Carriers/45,000 DWT	131,760,000	98,820,000
Tankers Holding, Inc. 80 Broad Street New York, New York 10004	2	OBO's/80,000 DWT	44,037,000	31,550,000
Trinidad Corporation 30 Rockefeller Plaza New York, New York 10020	3	Tankers/383,600 DWT	165,105,000	143,091,000
Velvet Marine P.O. Box 101 Hahnville, La. 70057	1	Tug/Barge Unit (Ocean Tug)	2,984,000	2,611,000
Victory Carriers, Inc. 828 Seventh Avenue New York, New York 10019	1	Tug/Barge Unit (Ocean Barge)	4,708,000	4,119,000
Waterman Steamship Corp. 120 Wall Street New York, NY 10005	2	Tankers/151,000 DWT	172,277,000	143,091,000
* (a, b, c)	4	Ro/Ro type Vessel (Cargo)	120,000,000	90,000,000
Western Bulkships Assoc. 919 18th Street, N. W., Suite 820 Washington, D. C. 20006	4	OBO's/80,000 DWT	102,795,000	77,096,250
Zapata Off-shore Company 2000 Southwest Tower Houston, Texas 77002	1	Conversion of CRAIGALLIAN to Drill Ship	43,496,000	33,000,000
* c				

Letter Applications - (These Applicants have requested that their applications be considered as still in force)

<u>Applicant</u>	<u>No. of Ships</u>	<u>Types of Vessels Sizes/Tonnage</u>	<u>Estimated Cost to Applicant</u>	<u>Estimated Mort. Loan</u>
Ceramic Bros. Boat Co., Inc. P. O. Box 775 Golden Meadow, Louisiana 70357	2	Offshore Tug/Supply Vessels	\$ 900,150 878,150	\$ 787,631 767,631
Dixie Carriers, Inc. 1616 West Loop South Houston, Texas 77027	1	Self-propelled tank vessel 20,000 to 24,000 DWT	6,000,000	4,500,000
Dixilyn Corporation 2312 First City Natl. Bank Bldg. Houston, Texas 77007	1	Semi-sub drilling	18,000,000	13,500,000
Guinn International, Inc. P. O. Box 1126 Houston, Texas 77001	2	Drill ship conversion	14,000,000	10,500,000
Marine Drilling Company 900 Corpus Christi State Natl. Bank Building Corpus Christi, Texas 78401	1	Oceangoing drilling barge, mobile jackup/6000 GT	8,000,000	6,000,000
Marine Drilling Company 511 East Marceau Street St. Louis, Missouri 63111	1	Semi-sub drilling barge/4000 GT	15,000,000	11,250,000
Todd Shipyard Corporation One State Street Plaza New York, New York 10004	1	Floating Drydock/85,000 DWT	16,000,000	12,000,000

Question G3a&b: Operating-Differential Subsidy Program for the carriage of bulk raw and processed agricultural commodities from the United States to the Union of Soviet Socialist Republics.

- (a) Names of operators and vessels with executed operating-differential subsidy contracts.
- (b) Names of operators and vessels with pending applications for operating-differential subsidy contracts.

Answer.

See attached.

(a)

SOVIET GRAIN PROGRAM

OPERATING-DIFFERENTIAL SUBSIDY GRAIN CONTRACTS
 EXTENDED TO DECEMBER 31, 1977

<u>Company</u>	<u>Contract No.</u> & <u>Date Approved</u>	<u>Vessels</u>
ACADEMY TANKERS, INC. Americana Building 811 Dallas Avenue Houston, Texas 77002	MA/MSB-219 12-7-72 Addendum 5-1-73	THOMAS Q THOMAS M
ALDATROSS TANKER CORPORATION One Chase Manhattan Plaza New York, New York 10005	MA/MSB-492 3-8-77	ERNA ELIZABETH
AMERICAN EAGLE TANKER CORP. 80 Broad Street New York, New York 10004	MA/MSB-245 1-31-73	AMERICAN EAGLE
AMERICAN TRADING TRANSPORTATION COMPANY, INC. 555 Fifth Avenue New York, New York 10017	MA/MSB-221 12-14-72 Addendum 12-23-75	WASHINGTON TRADER
ATLANTIC RICHFIELD COMPANY 515 South Flower St. Los Angeles, California 90071	MA/MSB-270 7-17-74 Addendum 11-13-75 Addendum 5-18-76	ARCO ANCHORAGE ARCO PRUDHOE BAY ARCO ENTERPRISE ARCO HERITAGE ARCO ENDEAVOR ARCO FAIRBANKS ARCO JUNEAU ARCO PRESTIGE ARCO SAG RIVER
BLACKSHIPS, INC P. O. Box 3410 Pittsburgh, Pa. 15230	MA/MSB-246 2-9-73 Addendum 11-9-76	GULFKING GULFKNIGHT GULFPRINCE GULFQUEEN GULFCREST GULFDEER GULFLION GULFOIL GULFPRIDE GULFSOLAR GULFSPRAY GULFSUBLINE GULFTIGER

<u>Company</u>	<u>Contract No. & Date Approved</u>	<u>Vessels</u>
CHAS. KURZ & CO., INC. c/o Keystone Shipping Co. 313 Chestnut St. Philadelphia, Pa. 19106	MA/MSB-188 11-22-72 Addendum 4-27-76	ILLAIOMA SPIRIT OF LIBERTY
CONNECTICUT TRANSPORT, INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-191 11-24-72	CONNECTICUT
COVE TANKERS CORPORATION 88 Pine Street New York, New York 10005	MA/MSB-357 10-6-75 Addendum 7-13-76	MOUNT EXPLORER MOUNT NAVIGATOR COVE COMMUNICATOR
EMPIRE TRANSPORT, INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-235 3-9-73	POTOMAC
FREDERICKSBURG SHIPPING COMPANY c/o Keystone Shipping Co. 313 Chestnut Street Philadelphia, Pa. 19106	MA/MSB-385 12-16-76	FREDERICKSBURG
GLOBE SEAWAYS, INC. 1114 Avenue of the Americas New York, New York 10036	MA/MSB-209 11-24-72	OVERSEAS ANCHORAGE
INGRAM OCEAN SYSTEMS, INC. 4100 One Shell Square New Orleans, La. 70139	MA/MSB-367 4-27-76	MARTHA R. INGRAM
INTERCONTINENTAL BULTANK CORPORATION 1114 Avenue of the Americas New York, New York 10036	MA/MSB-216 12-5-72	OVERSEAS ALASKA
INTERNATIONAL OCEAN TRANSPORT CORPORATION 3 Parkway Philadelphia, Pa. 19102	MA/MSB-244 1-13-73 Addendum 5-3-73	ALLEGIANCE BRADFORD ISLAND FORT HOOKINS BANNER

(b)

The following companies have applied for operating-differential subsidy contracts for the carriage of bulk raw and processed agricultural commodities from the United States to the Union of Soviet Socialist Republics. All vessels were built without CDS.

<u>Company</u>	<u>Name of Vessel</u>	<u>Type</u>	<u>Title XI</u>
Bolton Shipping Co., Inc.	PISCES	Tanker	No
Colby Shipping Co., Inc.	VIRGO	Tanker	No
Cove Trading, Inc.	COVE TRADER	Tanker	No
Sun Transport, Inc.	AMERICA SUN	Tanker	No
	PENNSYLVANIA SUN	Tanker	No
	TEXAS SUN	Tanker	No

<u>Company</u>	<u>Contract No.</u> <u>&</u> <u>Date Approved</u>	<u>Vessels</u>
SEA TRANSPORT CORPORATION 250 Park Avenue New York, New York 10017	MA/MSB-211 11-29-72	EAGLE TRAVLER
UNITED TANKER CORPORATION 250 Park Avenue New York, New York 10017	MA/MSB-210 11-29-72	EAGLE CHARGER EAGLE LEADER
WABASH TRANSPORT, INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-192 11-24-72	OGDEN WABASH
WILLAMETTE TRANSPORT, INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-193 11-24-72	OGDEN WILLAMETTE

<u>Company</u>	<u>Contract No. & Date Approved</u>	<u>Vessels</u>
OCEAN CLIPPERS, INC. 1114 Avenue of the Americas New York, New York 10036	MA/MSB-228 1-22-73	OVERSEAS TRAVELER
OCEAN TANKSHIPS CORPORATION 1114 Avenue of the Americas New York, New York 10036	MA/MSB-217 12-5-72 MA/MSB-167 11-15-72	OVERSEAS VIVIAN OVERSEAS NATALIE
OCEAN TRANSPORTATION COMPANY INC. 1114 Avenue of the Americas New York, New York 10036	MA/MSB-208 11-24-72	OVERSEAS ALEUTIAN OVERSEAS ULLA
OGDEN MERRIMAC TRANSPORT, INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-239 3-9-73	MERRIMAC
OGDEN SEA TRANSPORT, INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-241 3-9-73	COLUMBIA
OVERSEAS BULK TANK CORPORATION 1114 Avenue of the Americas New York, New York 10036	MA/MSB-218 12-5-72 Addendum 2-15-77	OVERSEAS ARCTIC OVERSEAS JUNEAU
OVERSEAS OIL CARRIERS, INC. 1114 Avenue of the Americas New York, New York 10036	MA/MSB-207 11-24-72	OVERSEAS JOYCE
PENN TANKER COMPANY c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-222 1-3-73	OGDEN CHALLENGER OGDEN CHAMPION
RIO GRANDE TRANSPORT, INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-243 3-9-73	YELLOWSTONE
SEA TANKERS, INC. 1114 Avenue of the Americas New York, New York 10036	MA/MSB-233 1-22-73 Addendum 2-23-76	OVERSEAS ALICE OVERSEAS VALDEZ

<u>Company</u>	<u>Contract No.</u> & <u>Date Approved</u>	<u>Vessels</u>
JAMES RIVER TRANSPORT, INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-236 3-9-73	JAMES
KEYSTONE SHIPPING CO. 313 Chestnut Street Philadelphia, Pa. 19106	MA/MSB-189 11-22-72	PERRYVILLE
KEYSTONE TANKSHIP CORPORATION c/o Keystone Shipping Co. 313 Chestnut Street Philadelphia, Pa. 19106	MA/MSB-190 11-22-72 Addendum 3-1-74	GOLDEN GATE
MANHATTAN TANKERS COMPANY, INC. One Chase Manhattan Plaza New York, New York 10005	MA/MSB-204 11-28-72	MANHATTAN
MATHIASSEN'S TANKER INDUSTRIES, INC. Public Ledger Building Philadelphia, Pa. 19106	MA/MSB-212 12-13-72 Addendum 9-24-75	SONHO INTREPID SONHO RESOLUTE JOSEPH D. POTTS
MOBIL OIL CORPORATION 150 East 42nd Street New York, New York 10017	MA/MSB-363 5-18-76	MOBIL AERO MOBIL ARCTIC MOBIL LUBE MOBIL MERIDIAN
MOHAWK SHIPPING CO., INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-238 3-9-73	MOHAWK
MONTICELLO TANKER COMPANY 645 Fifth Avenue New York, New York 10022	MA/MSB-250 4-17-73	MONTICELLO VICTORY
MONTPELIER TANKER COMPANY 645 Fifth Avenue New York, New York 10022	MA/MSB-247 2-20-73	MONTPELIER VICTORY
MOUNT VERNON TANKER COMPANY 645 Fifth Avenue New York, New York 10022	MA/MSB-223 12-18-72	MOUNT VERNON VICTORY
MOUNT WASHINGTON TANKER COMPANY 645 Fifth Avenue New York, New York 10022	MA/MSB-224 12-18-72	MOUNT WASHINGTON
NEPORT TANKERS CORPORATION 7 West 54th Street New York, New York 10019	MA/MSB-240 3-5-73	NEPORT

<u>Company</u>	<u>Contract No.</u> & <u>Date Approved</u>	<u>Vessels</u>
JAMES RIVER TRANSPORT, INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-236 3-9-73	JAMES
KEYSTONE SHIPPING CO. 313 Chestnut Street Philadelphia, Pa. 19106	MA/MSB-189 11-22-72	PERRYVILLE
KEYSTONE TANKSHIP CORPORATION c/o Keystone Shipping Co. 313 Chestnut Street Philadelphia, Pa. 19106	MA/MSB-190 11-22-72 Addendum 3-1-74	GOLDEN GATE
MANHATTAN TANKERS COMPANY, INC. One Chase Manhattan Plaza New York, New York 10005	MA/MSB-204 11-28-72	MANHATTAN
MATHIASSEN'S TANKER INDUSTRIES, INC. Public Ledger Building Philadelphia, Pa. 19106	MA/MSB-212 12-13-72 Addendum 9-24-75	SOHIO INTREPID SOHIO RESOLUTE JOSEPH D. POTTS
MOBIL OIL CORPORATION 150 East 42nd Street New York, New York 10017	MA/MSB-363 5-18-76	MOBIL AERO MOBIL ARCTIC MOBIL LUBE MOBIL MERIDIAN
MOHAWK SHIPPING CO., INC. c/o Ogden Marine, Inc. 280 Park Avenue New York, New York 10017	MA/MSB-238 3-9-73	MOHAWK
MONTICELLO TANKER COMPANY 645 Fifth Avenue New York, New York 10022	MA/MSB-250 4-17-73	MONTICELLO VICTORY
MONTPELIER TANKER COMPANY 645 Fifth Avenue New York, New York 10022	MA/MSB-247 2-20-73	MONTPELIER VICTORY
MOUNT VERNON TANKER COMPANY 645 Fifth Avenue New York, New York 10022	MA/MSB-223 12-18-72	MOUNT VERNON VICTORY
MOUNT WASHINGTON TANKER COMPANY 645 Fifth Avenue New York, New York 10022	MA/MSB-224 12-18-72	MOUNT WASHINGTON
NEUPORT TANKERS CORPORATION 7 West 54th Street New York, New York 10019	MA/MSB-240 3-5-73	ACHILLES

Question G4a&b: With respect to the nonsubsidized operators, Sea-Land Services Inc., U.S. Lines, and Central Gulf Steamship Company, please furnish the following information:

- a. The trade route or routes served and type of cargo generally carried. Please indicate whether military or so-called government generated cargo is carried.
- b. A list of the vessels, by name, presently operated. With respect to each such vessel, please indicate the (a) type, (b) government assistance, if any, and (c) whether under charter to another operator.

Answer.

See attached.

Answer:

The Maritime Administration does not collect the same detailed information on non-subsidized operators as it does for those operators receiving subsidy. The following represents available information on the requested three companies.

	<u>Trade Routes</u>	<u>Types of Cargo Generally Carried</u>	<u>Is Military or Govt. Sponsored Cargo Carried</u>
<u>Sea-Land Service, Inc.</u>			
4	U.S. Atlantic/Caribbean	Containerized General	YES
5-7-8-9	U.S. N. Atlantic/Western Europe	"	YES
23	U.S. Pacific/Caribbean and East Coast Mexico	"	NO
29	U.S. Pacific/Far East		YES
<u>U.S. Lines</u>			
5-7-8-9, 11	U.S. Atlantic/Western Europe	Containerized General	YES
12, 29	U.S. Atlantic & Pacific/ Far East	"	YES
<u>Central Gulf</u>			
17	U.S. Atlantic, Gulf, & Pacific/Indonesia- Malaya	General Cargo (also wheeled vehicles)	YES
18	U.S. Atlantic & Gulf/ India, Persian Gulf and Red Sea	"	YES

b.

Vessel Names^{1/}Type^{1/}

Sea-Land Service, Inc.

Owned

BALTIMORE	CONTSHIP T2-S-E-11 C
GALVESTON	CONTSHIP C4-S-13 C
MOBILE	CONTSHIP C4-S-11-C
PHILADELPHIA	CONTSHIP C4-S-11 C
ST LOUIS	CONTSHIP C4-S-11 C

Leased

(R.J. Reynolds Industries)

GATEWAY CITY	CONTSHIP C2-S-E1 C
RAPHAEL SENNES	CONTSHIP C2-S-E1 C

(Reynolds Leasing Corp)

AFOUNDRIA	CONTSHIP C2-S-E1 C
ALEUTIAN DEVELOPE	CONTSHIP 0-1H
ANCHORAGE	CONTSHIP T2-S-E-11 C
BOSTON	CONTSHIP C4-S-11-C
CHARLESTON	CONTSHIP C4-S-13 C
ELIZABETHPORT	CONTSHIP PRVT-TAR-C
HOUSTON	CONTSHIP T2-S-E-12 C
LONG BEACH	CONTSHIP C4-S-13-C
LOS ANGELES	CONTSHIP PRVT-TAR-C
MAYAGUEZ	CONTSHIP C2-S-13A C
NEWARK	CONTSHIP C4-S-11-C
OAKLAND	CONTSHIP C4-S-13-C
PANAMA	CONTSHIP C4-S-13-C
PITTSBURGH	CONTSHIP C4-S-12-C
PONCE	CONTSHIP C3-S-13A C
PORTLAND	CONTSHIP C4-S-11-C
SAN FRANCISCO	CONTSHIP PRVT-TAR-C
SAN JUAN	CONTSHIP PRVT-TAR-C
SAN PEDRO	CONTSHIP C4-S-13 C
SEA-LAND COMMERCE	CONTSHIP FOREIGN CONST
SEA-LAND CONSUMER	CONTSHIP C7-S-8SA
SEA-LAND ECONOMY	CONTSHIP FOREIGN CONST
SEA-LAND EXCHANGE	CONTSHIP FOREIGN CONST
SEA-LAND FINANCE	CONTSHIP FOREIGN CONST
SEA-LAND GALLOWAY	CONTSHIP FOREIGN CONST
SEA-LAND MARKET	CONTSHIP PRIVATE
SEA-LAND MOLCAN	CONTSHIP FOREIGN CONST
SEA-LAND PRODUCER	CONTSHIP C7-S-8SA
SEA-LAND RESOURCE	CONTSHIP FOREIGN CONST
SEA-LAND TRADE	CONTSHIP FOREIGN CONST
SEA-LAND VENTURE	CONTSHIP FOREIGN CONST
SEATTLE	CONTSHIP T2-S-E-11 C
TAMPA	CONTSHIP T2-S-E-12 C
WACOSTA	CONTSHIP C2-S-E1-C
WARRIOR	CONTSHIP C2-S-E1-C

o Received construction-differential subsidy.

^{1/} Based upon latest U.S. Merchant Fleet Report - 1/31/78

	<u>Vessel Name</u>	<u>Type</u>
U. S. Lines		
<u>Owned</u>		
O *	AMERICAN CHALLENGE	FREIGHT C4-S-57A
O *	AMERICAN CHAMPION	FREIGHT C1-S-57A
O *	AMERICAN CHARGER	FREIGHT C2-S-57A
O *	AMERICAN CHIEFTAIN	FREIGHT C3-S-57A
O *	AMERICAN CORSAIR	FREIGHT C4-S-57A
O *	AMERICAN COURIER	FREIGHT C4-S-64A
O *	AMERICAN RACER	FREIGHT C4-S-64A
O *	AMERICAN RANGER	FREIGHT C4-S-64A
O *	AMERICAN RELIANCE	FREIGHT C4-S-57A
O *	PIONEER COMMANDER	FREIGHT C4-S-57A
O *	PIONEER CONTENDER	FREIGHT C4-S-57A
O *	PIONEER CONTRACTOR	FREIGHT C4-S-57A
O *	PIONEER CRUSADER	FREIGHT C4-S-57A
O	PIONEER MOON	FREIGHT C4-S-57A
O *	AMERICAN ACCORD	CONTSHIP C6-S-1W C
O	AMERICAN ACE	CONTSHIP C6-S-1W C
O	AMERICAN ALLIANCE	CONTSHIP C6-S-1W C
O	AMERICAN APOLLO	CONTSHIP C7-S-68E
O	AMERICAN AQUARIUS	CONTSHIP C7-S-68E
O	AMERICAN ARCHER	CONTSHIP C6-S-1W C
O	AMERICAN ARGOSY	CONTSHIP C6-S-1W C
O	AMERICAN ASTRONAUT	CONTSHIP C7-S-68E
O *	AMERICAN LARKER	CONTSHIP C7-S-68C
O *	AMERICAN LARK	CONTSHIP C7-S-68D
O	AMERICAN LEADER	CONTSHIP C6-S-1W C
O	AMERICAN LEGACY	CONTSHIP C6-S-1W C
O	AMERICAN LEGEND	CONTSHIP C6-S-1W C
O *	AMERICAN LEGION	CONTSHIP C7-S-68C
O *	AMERICAN LIBERTY	CONTSHIP C7-S-68D
O *	AMERICAN LYNX	CONTSHIP C7-S-68D

Central Gulf

Owned

	GREEN FOREST	FREIGHT C4-S-11 C
	GREEN LAKE	FREIGHT C4-S-13 C
	GREEN PORT	FREIGHT C4-S-11 C
	GREEN SPRINGS	FREIGHT C4-S-13 C
	GREEN WAVE	FREIGHT C4-S-11 C
O *	GREEN HARBOR	CONTBARG C9-S-81D
O *	GREEN ISLAND	CONTBARG C9-S-81D
O *	GREEN VALLEY	CONTBARG C9-S-81D

o Received construction-differential subsidy.

* Received Title XI guarantees.

Question H. You have informed that Prudential Lines, States Steamship Company and Pacific Far East Line are in an unsatisfactory financial condition. With respect to each operator, please give us your best judgment as to why these operators are now in financial difficulties.

Answer.

The three companies which we consider to be in unsatisfactory financial condition share certain characteristics. They are currently experiencing operating difficulties which result largely from the operation of vessels not well suited for their respective trades. Not only do these companies have long term debt/net worth ratios substantially higher than other subsidized liner companies, but operational difficulties which they have experienced have resulted in the depletion of working capital in each case. With net worth and working capital at reduced levels, these operators were not in strong positions to weather such factors as the recent longshoremen's strike which affected east coast operations or increasing non-conference competition of state-owned merchant fleets which impact severely on the trans-Pacific trades.

A principal cause for Prudential Lines' financial difficulties is the debilitating performance of its LASH vessels in the trade between the United States East Coast and the Mediterranean. The cargo volume, value per ton and shipping revenue projections which formed the basis for the decision to procure LASH vessels for this trade have not been achieved.

The unsatisfactory financial condition of States Steamship Company is due, in part, to its decision to introduce the COLORADO Class breakbulk vessels into the trans-Pacific trades in 1968. Subsequent competition from containership operators substantially reduced available breakbulk cargoes and placed continuing pressure on breakbulk rates. Furthermore, in 1976, the Company introduced three Roll On/Roll Off vessels, two purchased and one leased, which have not yet achieved breakeven utilization rates.

As in the case of Prudential Lines, the investment in LASH vessels contributed to the financial difficulties of Pacific Far East Line. Efforts to market the LASH concept on Trade Route 29 proved unsuccessful. The Company planned to use the proceeds from the sale of its interest in Trade Route 27 and its Capital Reserve Fund to finance the introduction of a Roll On/Roll Off service for the U.S. Atlantic Coast to Persian Gulf trade and the conversion of the remaining LASH vessels to full containerships. The Persian Gulf route became overtonnaged with a consequent depression in freight rates, resulting in losses rather than profits to offset lost revenue during conversion.

Question I: During the hearing you informed that Prudential Lines is currently negotiating the sale of a major portion of its assets to Delta Steamship Lines. In this regard,

1. What assets are involved in this proposed sale?
2. What is the current status of these negotiations?
3. If the proposed sale is consummated, what will Prudential be left with?

Answer:

1. The sale involves all assets relating to Prudential Lines' total operations on Trade Routes 2 and 4--East Coast Caribbean and South America, and Trade Routes 22, 24 and 25--West Coast Caribbean and South America. There are two separate contracts of sale, each involving various types of assets either being sold outright or leased.

Contract re: East Coast Caribbean

Items to

be sold This involves an outright sale of the six vessels operating on TR 2 and 4--SANTA LUCIA, SANTA CRUZ, SANTA CLARA, SANTA ELENA, SANTA BARBARA and SANTA ISABEL. Also to be sold are the lighters, vessel equipment, vessel stores and bunkers, certain shoreside equipment, a portion of the outport facilities, the office equipment, the pooling/equal access agreements, and Prudential's East Coast Caribbean and South American services and the rights under their ODS agreement.

Items

to be Delta will lease from Prudential the container equipment
Leased
and the office leases.

Contract re: West Coast Caribbean

Items to
be Sold This does not involve the vessels (see leased list below).

However, outright sale is to be made of the following: certain shoreside equipment, a portion of the outport facilities, the office equipment, vessel stores and bunkers, the pooling/equal access agreements, and Prudential's West Coast Caribbean and South American Services and the rights under their ODS agreement.

Items
to be
Leased Delta will lease the six vessels operating on TR 22, 24 and 25--SANTA MAGDELENA, SANTA MARIANA, SANTA MARIA, SANTA MERCEDES, PRUDENTIAL SEAJET and PRUDENTIAL OCEANJET. Also leased are the vessel equipment, the container equipment and the office leases.

2. The two contracts are both dated December 30, 1977. The initial closing date of the East Coast Caribbean Agreement is June 15, 1978, or such earlier date as may be agreed upon between the buyer and the seller. The closing date of the West Coast Caribbean Agreement is June 16, 1978, or any other date as may be specified by 30-day written notice given by seller to buyer.

Both contracts are subject to a number of conditions precedent to closing by the buyer. Also, various approvals must first be acquired, including the consent in writing of MarAd to the consummation of the transactions contemplated by the agreements. At this time, our MarAd review of this matter is ongoing.

3. Prudential Lines will be left with all assets relating to Trade Route 10--U.S. North Atlantic/Mediterranean. This includes the following vessels:

- LASH ATLANTICO
- LASH ITALIA
- LASH PACIFICO

Additionally, the contract involving the West Coast Caribbean operations on Trade Routes 22, 24, and 25 concerned charters of the six vessels to Delta. Therefore, Prudential continues to own the SANTA MAGDALENA, SANTA MARIANA, SANTA MARIA, SANTA MERCEDES, SS PRUDENTIAL SEAJET, and the SS PRUDENTIAL OCEANJET.

Other vessels not owned by Prudential but chartered from others are:

LASH TURKIYE - This was sold to Delta at the end of last year--it has since been chartered back and operating on Trade Route 4. This charter will end when the East Coast Agreement is closed, i.e., expected by 6/15/78.

SANTA ANA)
SANTA RITA) - These ships are under charter to Prudential from States Steamship. These ships are not operated under subsidy and the charters expire in 1979.

Question J : The supporting materials supplied to the Committee in connection with consideration of the FY 78 budget request indicated that \$5.045 million would be sought for the Merchant Marine Academy's modernization program for FY 79. Yet the budget request asks for only \$3.331 million which is a substantial decrease from the \$4 million appropriated for FY 78. Does this represent a serious slow-down of the modernization program, or were the original plans beyond the ability to get the work done in the years specified?

Answer.

This decreased budget request does not represent a serious slow-down of the modernization program. The original modernization plans were based on a somewhat ambitious schedule which, if pursued, would have resulted in unacceptable disruption of academic activities at the Academy.

Question K. After authorization and appropriation of FY 78 funds for the Merchant Marine Academy, \$197,000 of the modernization funds were reprogrammed for purchase of slow speed diesel training equipment, and \$200,000 of the modernization funds were used instead for operating expenses. In neither case was the authorizing committee advised of the use of the funds for a purpose different than described during the authorization process. In the future, could you notify the Committee on Merchant Marine and Fisheries prior to transferring or reprogramming such funds?

Answer.

MarAd concurs that the Committee should be aware of the transferring or reprogramming of funds and would be happy to cooperate with the Committee on this matter. We would suggest that, to avoid a stream of minor items, we use the guidelines established by the Appropriations Committee for notifying Congress of reprogramming. Under these guidelines, notification is required only when reprogramming involves ten percent of the activity funding level or \$250,000, whichever is less. Regardless of what procedure the Committee prefers, MarAd will be pleased to furnish notification prior to reprogramming.

Question L : In the supporting material provided to the Committee, it appears that the receipts from radar courses do not add up to the full amount of tuition times number of participants. What categories of participants in these courses do not have to pay tuition?

Answer.

USCG personnel and certain Naval Reserve units pay no tuition for participating in courses at MarAd's Regional Radar Training Schools. The small number of NOAA personnel participating pay a reduced fee. A relatively large number of participants take only the 3-day course at a MarAd school, paying the prescribed \$50 fee, but are recorded as having taken the 8- or 5-day course, which normally entails a \$90 fee. These participants, including cadets from the California, Great Lakes, Massachusetts and Texas maritime academies, take the theoretical segment of an 8- or 5-day course through approved off-site training programs at state vocational schools and maritime academies. Subsequently, they take only the 3-day radar simulator portion of the course at a MarAd school and receive certification for the 8- or 5-day course.

Question M: The witness for the Council of American-flag Ship Operators recommended that the Maritime Administration be given substantially increased funds for the purchase of vessels of high military utility for lay-up in the National Defense Reserve Fleet. In this regard:

1. Are these vessels required in the National Defense Reserve Fleet?
2. Does the Maritime Administration favor such an approach?
3. If yes, about how many vessels and at what "fair market value" cost would you recommend be purchased?

Answer: It is understood that the witness referred particularly to the Mariners, which are now reaching the end of their commercial service lives. There is clearly a requirement for Mariners in the NDRF, and for other vessels that are larger, faster, and more modern than the war-built Victory ships of which the NDRF is now primarily constituted.

In the view of the Maritime Administration, funds will be needed for the acquisition of all NDRF-suitable ships that become excess to the requirements of the privately owned merchant fleet. However, there is not a current need for additional funds, because most of the ships that are likely to become excess in the near term are expected to be traded in under the provisions of Section 510 of the Act, and sufficient funds are available to cover such trade-ins. Furthermore, the scrap vessel trade-out provisions of Section 510 permit the acquisition of certain commercially obsolete vessels even when they are not offered as trade-ins. If and when desirable vessels become available that cannot

be acquired with available resources under the provisions of Section 510, MarAd will seek additional funds for their acquisition.

During the last 12 months, MarAd has acquired 11 Mariners under the regular CDS trade-in program, eight from Waterman on November 22, 1977, three from American Export Lines on March 2, 1977 at an average cost of \$1.4 million. Three of the Waterman ships are being processed for turn in to the NDRF in March, April and May 1978. Five are still being operated by Waterman under use agreements. Three of them are scheduled to be turned in in July 1980, the remaining two in September 1980. The three AEL ships are scheduled to be turned in within the next three months. According to current tentative projections, as many as 14 additional suitable vessels may become available during the period 1978-1980.

Question N. The witness for the American Maritime Association testified that the members of his association "believed, however, that administration of the operating subsidy could be tightened, particularly with respect to the carriage of government sponsored cargoes, for which there is no foreign flag competition, and with respect to the servicing of U.S. trades in which unsubsidized American operators have demonstrated that they can compete successfully without such government aid." May I have your comments with respect to this statement?

Answer.

Subsidized operators receive ODS to provide service on certain routes and are allowed to operate only on designated essential trade routes. As a result, it is often necessary for the subsidized operator to carry government impelled cargoes because those cargoes are simply one of the cargoes on the route. However, to ensure that the subsidized liner carrier does not gain an unfair advantage, the Maritime Subsidy Board has developed a procedure to reduce ODS payments in cases where more than 50 percent of the gross freight revenues are earned from the carriage of cargoes not subject to foreign flag competition.

The issue of whether ODS should be limited or reduced when a liner vessel carries preference cargo was considered by the U.S. Court of Appeals in 1975, in a suit in which the American Maritime Association, among others, was plaintiff. The Court concluded that the Maritime Subsidy Board, defendant, could adopt a subsidy abatement rule, as determined in Docket S-244 (518 F. 2d 1970 (1975)). The Supreme Court upheld this ruling. MarAd has complied with the decision of the Court.

By contract, subsidized bulk carriers have been precluded from carriage of cargo preference with subsidy unless such cargoes are those that would, except for the participation of the operator, be carried by a foreign flag vessel(s). Such liftings shall be at rates comparable to those offered by foreign flag vessels and shall not reduce the amount of such cargoes reserved for carriage by U.S.-flag vessels at fair and reasonable rates for U.S.-flag commercial vessels.

Question Q: More than one witness recommended that the statutory ceiling for the Title XI Guarantee Program be increased from \$7 billion to \$10 billion. In this regard: 1. When do you anticipate that the \$7 billion ceiling will be reached? 2. Do you believe that my Committee should implement this recommendation? If so, why?

Answer

Based on a current backlog of \$2.2 billion in active pending Title XI applications, the current \$7 billion ceiling will be reached during fiscal year 1978. As of June 30, 1977, \$5.7 billion in outstanding Title XI commitments and contracts were in force. The latest projection of future requirements presented on the table below indicates that, if authorized, total commitments would reach \$9.6 billion by the end of fiscal year 1980.

Projected Title XI Program
Requirements
(Dollars in billions)

	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>
Start of Year	\$5.7	\$7.6	\$8.7
New Commitments	2.1	1.3	1.2
Amortization	(0.2)	(0.2)	(0.3)
End of Year	\$7.6	\$8.7	\$9.6

Implementation of the recommendation to increase the ceiling from \$7 billion to \$10 billion would enable the Title XI program to continue as one of the most effective Federal maritime programs. Since the Merchant Marine Act of 1970, approximately \$6 billion in new Title XI commitments have been issued covering

71 cargo vessels, 55 tankers, 15 bulk carriers, 18 LNG's, 1,525 river tugs and barges, 220 oceangoing tugs and barges, and 151 drill vessels and drill service vessels. Construction and private financing of these vessels was encouraged by the Title XI program - a self-sustaining program requiring no Federal appropriations. They represent a significant addition to the U.S.-flag fleet providing service to our domestic and foreign trade as well as a larger, more modern naval and military auxiliary.

Much of the construction for which Title XI commitments and guarantees have been issued is energy related. Demand for this type of construction, as well as for other new ships such as meeting the contractual replacement obligations for the liner vessels, is expected to continue into the 1980's. As indicated above, current projections indicate that, if authorized, our total commitments would reach \$9.6 billion by the end of fiscal year 1980. The recommended increase would thus provide for these anticipated requirements, thereby maintaining continuity in the operation of the program and preserving confidence of U.S. shipowners to obtain financing at favorable terms.

[Whereupon, the committee was adjourned at 12:15 p.m.]

MARITIME AUTHORIZATION—1979

THURSDAY, FEBRUARY 9, 1978

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

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1334, Longworth House Office Building, Hon. John M. Murphy [chairman] presiding.

Present: Representatives Murphy, Bonker, Lent and Emery.

Staff present: Ernest J. Corrado, Chief Counsel; Len Sutter, Counsel; Peter N. Kyros, Counsel; W. Patrick Morris, Chief Minority Counsel; Jack E. Sands, Deputy Minority Counsel; Ronald K. Losch, Minority Counsel; and Elizabeth Coker, Subcommittee Clerk.

The CHAIRMAN. The subcommittee will please come to order.

This morning the subcommittee will continue hearings on H.R. 10729, a bill, "To authorize appropriations for the fiscal year 1979 for certain maritime programs of the Department of Commerce, and for other purposes"—one of the most important pieces of legislation to come before the committee each year.

On Tuesday of this week, Secretary Blackwell appeared in support for the requested funds totaling \$494,628,000.

Today the subcommittee will hear from the private sector concerning the fiscal year 1979 authorization request of Marad. However, this will not be the final day of hearings. We will have another day of hearings. I have set one aside for the minority.

Our first witness this morning is Albert E. May, executive vice president of the Council of American-Flag Ship Operators. Mr. May will be accompanied by some of the subsidized ship operators.

If you will come forward, Mr. May, and please identify your colleagues from left to right for the record.

STATEMENT OF ALBERT E. MAY, EXECUTIVE VICE PRESIDENT OF THE COUNCIL OF AMERICAN-FLAG SHIP OPERATORS; ACCOMPANIED BY JAMES CROWLEY, VICE PRESIDENT, MOORE-McCORMACK LINES, INC.; WILLIAM H. WILLIAMS, VICE PRESIDENT, AMERICAN PRESIDENT LINES; CAPT. RICHARD FORD, VICE PRESIDENT, FARRELL LINES; AND HANS G. BLOCKLIN, VICE PRESIDENT, LYKES BROTHERS STEAMSHIP CO., INC.

Mr. MAY. On my immediate right is Mr. Hans Blocklin, vice president, Lykes Brothers Steamship Co., New Orleans and chair-

man of CASO's Government Affairs Committee; on my immediate left, Mr. James Crowley, who is vice president of Moore-McCormack Lines in New York City, and next to him Mr. Bill Williams, vice president of American President Lines of San Francisco; and on Mr. Blocklin's right, Mr. Richard Ford, who is vice president of Farrell Lines, also of New York City. These gentlemen represent major companies within the Council of American-Flag Ship Operators, which are geographically located on all of our ocean coasts.

Mr. Chairman, at the start, I would like to present a rather brief statement which will, I think, come without your 10 minute time rule, and then I and all members of the panel will be happy to answer any questions which you or members of the committee may have.

The Council of American-Flag Ship Operators, known as CASO, was organized effective January 1, 1978. The CASO companies operate 148 ships which operate in the foreign trades of the United States, and were all built in U.S. shipyards since World War II.

This varied fleet of container, barge, RO/RO and breakbulk ships is the world's most modern and efficient.

First, let me emphasize that investment in and expansion of the U.S. maritime industry depends heavily on confidence of shippers and the financial community in the Government's continuing resolve to support the industry. This is particularly true at a time when traditional Western shipping nations are increasingly challenged by state-owned fleets in most of the Communist nations. The European countries have reacted vigorously to this challenge by funneling more aid to their fleets which they consider essential, just as we do, for economic and defense reasons.

The extent of this aid is detailed in a September 1977 Maritime Administration study, "The Maritime Aids of the Six Major Maritime Nations." This is a major piece of research, and it shows in exhibit 1-1, that for the period 1971 through 1975, vessel operators in the United Kingdom received government aid which averaged \$220 million annually.

While somewhat less, the operators of vessels in the other five nations also received substantial monetary assistance. In addition, the survey reveals a wide range of other programs and policies by these nations to support their national ship operating, building and financing industries. All provide one or more of the following: Low interest loans, loan guarantees, interest subsidies, tax deferrals and shelters, free or accelerated depreciation and cargo preference.

The first element of the Marad budget that we would like to comment on is operating differential subsidy, because all of the carriers in CASO are contractors under that program. All but United States Lines, which I might add has applied for a contract.

The Administration has requested new obligational authority of \$262.8 million for operating differential subsidies in 1979. This, combined with a carryover of \$73.7 million, is expected to be sufficient to meet anticipated ODS payments for the fiscal year.

Since 1936 there have been literally dozens of government and industry studies which have uniformly concluded that operating differential subsidy based on the parity principal and designed solely

to offset certain labor related costs is the most effective and fair means of providing assistance to U.S. operators.

However, there has been some recent criticism of the ODS system on the ground that it has not met its objective of building up the U.S. merchant fleet, and that it is becoming too expensive. Both of these allegations are false. Specifically:

The U.S.-flag liner fleet is the most modern, diversified, and productive in the world. Many of our new barge, container and RO/RO vessels have five or even six times the annual ton-mile capacity of conventional ships built as late as the 1960's. The increase in productivity has been accompanied by a substantial reduction in crew size—averaging around 30 percent.

It is true that the number of ships in the U.S. liner fleet has declined since the late 1950's, but this is offset by the fact that our new fleet has over twice the annual ton-mile capacity of the 1950's fleet it replaced.

The U.S. liner fleet during 1977 transported just over 30 percent of all liner cargo moving in the U.S. foreign trade. While less than we and Government officials responsible for our balance of payments and defense would desire, it is still a very respectable figure. This is particularly true if you consider the disadvantages which the U.S. liner operators face because of the unilateral application of our anti-trust laws; competition, often below cost, from State-owned fleets of COMECON and other nations; and governmental insistence that we alone among the major trading nations maintain an open conference system which encourages dumping of foreign liner shipping into U.S. trades. This dumping, I might add, is often below cost.

It is commonly but erroneously assumed that all operating subsidy goes to liner operators. Since passage of the 1970 amendment to the Merchant Marine Act, U.S.-flag bulk carriers have been eligible for ODS—\$25 million in 1977—and U.S. vessels, usually tankers, have received ODS for carriage of grain to Russia—\$32 million in 1977. In 1977 almost a fifth of total ODS payments went to nonliner operators.

During the 26 years, 1954 through 1979 inclusive, the cost of ODS for U.S.-flag liner operators has increased by only \$2.1 million in constant dollars. Attached to my statement as exhibit 1 is a table showing ODS payments for this 26-year period in both current and constant dollars.

All of the benefits which the Nation receives from its merchant marine—defense—balance of payments—employment—protection of foreign trade—depend on ships. Thus, the most important thing I have to say to this committee today is that the companies having long-term ODS contracts have ordered all but four or five of the liner vessels built in U.S. shipyards for our foreign trade since the Second World War.

The CHAIRMAN. Somebody is trying to drown you out.

(Sound system inoperable.)

Mr. MAY. I see.

Well, I said it was the most important thing that I had to say, and they cut the wire.

Can you hear me, sir?

The CHAIRMAN. Yes.

Mr. MAY. In summary, we find that long term operating differential subsidy contractors have ordered the U.S.-built liner fleet which is among the most modern in the world. The new fleet has twice the annual carrying capacity of the old, with less than a 2-percent increase in constant dollar subsidy cost.

Although the administration has requested only \$157 million in new obligational authority for construction differential subsidy purposes during fiscal year 1979, a total of \$521 million will be available for fiscal year 1978 and 1979. This is shown in the following table:

CDS FUNDS
[In millions of dollars]

	Fiscal year 1978	Fiscal Year 1979
New obligational authority.....	\$122	\$157
Carryover from prior years.....	107	135
	229	292

Since Secretary Blackwell has already discussed the details of the CDS program with you, and since Mr. Hood, President of the Shipbuilders' Council of America, will appear later, I do not believe that it is necessary for us to discuss this program in detail.

However, I must call to your attention the fact that the 1970 amendments to the Merchant Marine Act recognize that construction differential subsidies are designed to promote our shipbuilding industry. This is achieved by a program that permits vessel operators to buy ships in the United States at approximately the same price as he would pay on the world market. When the ships are delivered to the American operator, they are worth exactly what he paid for them because the subsidy stays with the shipyard.

These CDS subsidies are essential to the continued shipbuilding programs of the ODS contractors for they are bound by contract to replace their vessels at specified statutory intervals in U.S. shipyards. Since ODS operators are prohibited from building abroad, they must have sufficient CDS subsidies available or they will be unable to acquire the vessels necessary to compete in international trades.

The administration's request of \$17.5 million for Marad research and development projects, although slightly lower than last year's, is believed to be adequate. We are pleased to note that emphasis in the research and development program for fiscal year 1979 will be placed on advanced ship development, advanced ship operations, maritime research, and advanced maritime technology with the objective being to develop methods, equipment and systems to make the U.S. shipbuilding and ship operating industries more efficient, competitive, and productive.

Over \$57 million is requested under Marad "operations and training," but apparently only \$5 or \$6 million is allocated for the continued expansion of the joint Navy-Marad ready reserve fleet program to upgrade the condition of selected reserve fleet ships and to maintain these ships in a state of advanced readiness.

We were encouraged during 1977 when the Maritime Administration sponsored a joint Government-industry meeting to discuss a sea lift readiness program, which had been suggested by Mr. Amos, who is the president of Lykes and also the chairman of the Caso board.

This initial effort will be meaningful only if followed up with detailed planning sessions. The Vietnam war should have taught the United States that it will often have to rely on its own sea lift resources to meet its military and perhaps at times, economic requirements. Our reserve fleet is woefully small and over-aged.

The construction of new vessels to be moth-balled for standby purposes is prohibitively expensive. However, the privately-owned liner fleet includes a number of vessels of high military utility, generally breakbulk, which will be replaced or become commercially obsolete within the next few years.

We strongly recommend that in fiscal year 1979, or at a minimum no later than fiscal year 1980, the Maritime Administration be given substantially increased funds so that it may purchase these vessels at fair market value from U.S. operators. It would be sheer folly to send these relatively modern and useful ships to the cutter's torch, or to a foreign flag when they could provide the country with cheap and effective emergency military sea lift.

We were pleased to note the emphasis Marad has given to the ready reserve fleet program, as evidenced in Assistant Secretary Blackwell's statement to the committee on Tuesday, and urge the committee to authorize the full amount requested for this activity.

One method by which our Government assists development of the U.S. Merchant Marine is with guaranteed construction loans and mortgages on U.S.-flag vessels built in the United States. This is the title XI program which, although not covered by appropriation authority, is basic to our entire Merchant Marine program.

Title XI is one of the most effective weapons in the Secretary of Commerce's arsenal for accomplishing the stated national goal set forth in the 1936 Merchant Marine Act, namely that the United States should have a Merchant Marine of citizen manned and operated, U.S. built ships sufficient to meet the needs of national defense, and to support our requirements of domestic and international oceanborne commerce.

Additionally, title XI guarantees are available to assist in financing the construction of research, inland, fishing and drilling vessels as well.

At no cost to the taxpayer, and with minimal risk involved to the Government, the title XI program has been invaluable in assisting in the construction and maintenance of a modern merchant fleet. As presently constituted, it has the flexibility to maximize market pressures on interest rates and to tailor financing to the needs of the user or the project involved.

At present, the ceiling on outstanding title XI obligations is \$7 billion. The Office of Management and Budget estimates, and we agree with them, that total commitments and guarantees in force at the end of fiscal year 1978 will exceed that amount. We respectfully urge you to promptly introduce and consider legislation to raise the ceiling to \$10 billion.

Mr. Chairman, my statement is running a little long, but I feel we would be remiss if we did not briefly commend a particularly outstanding program in the Maritime Administration. Marad's Office of Market Development has done an excellent job in assisting the efforts of U.S.-flag liner operators to increase the share of trade they carry. This program has made substantial contributions to shipper awareness that U.S. liner operators generally charge the same rates and offer a service superior to their foreign competitors.

The expansion of this office's operations to all coasts, recently including the Great Lakes, has benefitted all our companies and also the Nation. Foreign shippers often seem to acquire a national flag bias with their mother's milk. This is not true in our continental Nation, and we need an expansion of this program to educate U.S. shippers that their use of U.S.-flag ships increases the export of U.S. services, and thereby improves our balance of payments in penetrating foreign markets.

The maintenance of a viable U.S.-flag fleet capable of carrying a fair share of our foreign trade requires a continued national commitment to a long-term program. These hearings provide an essential forum for reaffirmation of that commitment.

Accordingly, it has been a pleasure to participate and to state again that we wholeheartedly support the Marad authorization request for fiscal year 1979.

Mr. Chairman, this concludes my prepared remarks. We thank you for inviting us to appear, and will be pleased to answer any questions you or other members of the committee may have.

Thank you.

The CHAIRMAN. Thank you, Mr. May.

On page 4, you indicate that 30 percent of all liner cargoes carried in the American flag subsidized fleet is carried in the U.S. foreign trade. What percentage of that 30 percent are mandated cargoes?

Mr. MAY. Mr. Chairman, I do not know the answer to that. We could certainly develop it. I do not know whether the members of the panel might now know.

Mr. BLOCKLIN. I might speak for Lykes.

The trade routes vary. As you know, on the continent service, there are practically no AID-designated contracts to the continent. It goes area by area, as our humanitarian programs are directed to these countries. We have a range in our trade routes from 2 to 4 percent, to probably 15 percent. That is speaking for Lykes.

The CHAIRMAN. We have had testimony that indicates that about half of that 30 percent are mandated cargoes, so in effect, 15 percent of American commerce is going in this subsidized fleet.

I will ask you to submit for the record with respect to the members of the council, the name, address, and name of the chief executive office of each member company; the number and types of U.S.-flag vessels operated by each member company, and indicate whether it is subsidized or nonsubsidized; the number and types of foreign-flag vessels operated by each member company, and how is the Council of American Flag Ship Operators funded.

[The following material was received for the record:]

Council of American-Flag Ship Operators

1625 K STREET, N.W., SUITE 1200 • WASHINGTON, D.C. 20006

TELEPHONE: 202-466-5388

TWX: 710-822-1163 "CASO WSH"

February 17, 1978

RECEIVED

FEB 20 1978

REP. JOHN M. MURPHY

The Honorable John M. Murphy
United States House of Representatives
2187 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Murphy:

Enclosed is the information you requested at the February 9 MARAD Authorization hearing regarding the presidents of our member companies, and the number and types of vessels operated by each line. All lines are subsidized; all vessels are U.S.-flag and were built in U.S. shipyards. Additional information concerning the benefits of the Research and Development program will be forthcoming as soon as we receive comments from our members.

Best wishes,

Sincerely,

Albert E. May

Albert E. May
Executive Vice President

Enclosure

COUNCIL OF AMERICAN-FLAG SHIP OPERATORSBOARD OF DIRECTORSJANUARY 1978

James P. Horn, President*
American Export Lines, Inc.
17 Battery Place
New York, New York 10004
Tel: 212/482-8000

W. B. Seaton, President
American President Lines, Ltd.
1950 Franklin Street
Oakland, California 94612
Tel: 415/271-8000

Thomas J. Smith, President
Farrell Lines Incorporated
One Whitehall Street
New York, New York 10004
Tel: 212/425-6300

W. J. Amoss, Jr., President**
Lykes Bros. Steamship Co., Inc.
Lykes Center, 300 Poydras Street
New Orleans, Louisiana 70130
Tel: 504/523-6611

R. E. O'Brien, President
Moore-McCormack Lines, Inc.
Two Broadway
New York, New York 10004
Tel: 212/363-6628

Spyros S. Skouras
Chairman & Chief Executive Officer
Prudential Lines, Inc.
One World Trade Center, Suite 3601
New York, New York 10004
Tel: 212/775-0550

J. R. Dant, President
States Steamship Company
320 California Street
San Francisco, California 94104
Tel: 415/982-6221

Edward J. Heine, Jr., President
United States Lines, Inc.
One Broadway
New York, New York 10004
Tel: 212/344-5800

*Vice Chairman of CASO Board for 1978

**Chairman of CASO Board for 1978

COUNCIL C AMERICAN-FLAG SHIP OPERAT 3

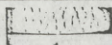
TONNAGE STATEMENT
AS OF JANUARY 1, 1978

NAME OF REPORTING COMPANY: LYKES BROS. STEAMSHIP CO., INC.

VESSELS OWNED AND BAREBOATED (IN)

Name of Vessel (Mark Vessel included under Operating Differential Subsidy Agreement)	Type of Vessel (Tanker/Freighter/ Passenger/Dry Bulk/ LASH/Container)	Deadweight Tonnage (TOTAL)
* ADABELLE LYKES	Freighter	C3-S-37c 12,684
* AIMEE LYKES	"	" 12,684
* ALLISON LYKES	"	" 12,684
* ALMERIA LYKES	Seabee	C8-S-82a 38,410
* ASHLEY LYKES	Freighter	C5-S-37f 14,286
* BRINTON LYKES	"	" 14,286
* CHARLOTTE LYKES	"	C3-S-37c 12,684
* CHRISTOPHER LYKES	"	" 12,684
* DOCTOR LYKES	Seabee	C8-S-82a 38,410
* DOLLY TURMAN	Freighter	C4-S-66a 14,662
* ELIZABETH LYKES	"	" 14,662
* FREDERICK LYKES	"	" 14,662
* GENEVIEVE LYKES	"	" 14,662
* GULF BANKER	"	C3-S-37d 12,717
* GULF FARMER	"	" 12,717
* GULF MERCHANT	"	" 12,717
* GULF SHIPPER	"	" 12,717
* GULF TRADER	"	" 12,717
* HOWELL LYKES	"	C4-S-66a 14,662
* JAMES LYKES	"	C5-S-37c 14,286
* JEAN LYKES	"	" 14,286
* JOHN LYKES	"	" 14,286
* JOSEPH LYKES	"	" 14,286
* LESLIE LYKES	"	" 14,286
* LETITIA LYKES	"	C4-S-66a 14,662
* LOUISE LYKES	"	" 14,662

(Continued next page)



COUNCIL (AMERICAN-FLAG SHIP OPERAT S

TONNAGE STATEMENT
AS OF JANUARY 1, 1978

NAME OF REPORTING COMPANY: LYKES BROS. STEAMSHIP CO., INC.

VESSELS OWNED AND BAREBOATED (IN)

Name of Vessel (Mark Vessel Included under Operating Differential Subsidy Agreement)	Type of Vessel (Tanker/Freighter/ Passenger/Dry Bulk/ LASH/Container)	Deadweight Tonnage (TOTAL)
* MALLORY LYKES	Freighter	C4-S-66a 14,662
* MARGARET LYKES	"	C3-S-37c 12,684
* MARJORIE LYKES	"	C5-S-37f 14,286
* MASON LYKES	"	C4-S-66a 14,662
* MAYO LYKES	"	C3-S-37c 12,684
* NANCY LYKES	"	C5-S-37e 14,286
* RUTH LYKES	"	C4-S-66a 14,662
* SHELDON LYKES	"	C3-S-37c 12,684
* SHIRLEY LYKES	"	C5-S-37f 14,286
* SOLON TURMAN	"	C5-S-37e 14,286
* STELLA LYKES	"	C4-S-66a 14,662
* THOMPSON LYKES	"	C5-S-37e 14,286
* TILLIE LYKES	Seabee	C8-S-82a 38,410
* VELMA LYKES	Freighter	C4-S-66a 14,662
* ZOELLA LYKES	"	C5-S-37e 14,286
* All vessels included under Operating-Differential Subsidy Agreement.		
TOTAL:		344 H. 641,949

By: E. F. Mc Cormick, Jr.
 Title: Assistant Vice President-Finance
 Date: January 9, 1978

COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

TONNAGE STATEMENT
AS OF JANUARY 1, 1978

NAME OF REPORTING COMPANY: UNITED STATES LINES, INC.

VESSELS OWNED AND BAREBOATED (IN)

Name of Vessel (Mark Vessel Included under Operating Differential Subsidy Agreement)	Type of Vessel (Tanker/Freighter/ Passenger/Dry Bulk/ LASH/Container)	Deadweight Tonnage (TOTAL)
American Accord	Container	15,311
American Ace	Container	15,208
American Alliance	Container	15,237
American Apollo	Container	20,015
American Aquarius	Container	20,015
American Archer	Container	15,444
American Argosy	Container	15,444
American Astronaut	Container	20,484
American Lancer	Container	22,225
American Lark	Container	20,529
American Leader	Container	15,525
American Legacy	Container	15,525
American Legend	Container	15,525
American Legion	Container	22,225
American Liberty	Container	21,665
American Lynx	Container	20,574
American Challenger	Freighter	13,563
American Champion	Freighter	13,563
American Charger	Freighter	13,563
American Chieftain	Freighter	13,578
American Corsair	Freighter	13,578
American Courier	Freighter	13,532
American Racer	Freighter	13,264
American Ranger	Freighter	13,264
American Reliance	Freighter	13,264

COUNCIL OF AMERICAN-FLAG SHIP OPERATORSTONNAGE STATEMENT
AS OF DECEMBER 1, 1977NAME OF REPORTING COMPANY: UNITED STATES LINES, INC.VESSELS OWNED AND BAREBOATED (IN)

<u>Name of Vessel</u> (Mark Vessel included under Operating Differential Subsidy Agreement)	<u>Type of Vessel</u> (Tanker/Freighter/ Passenger/Dry Bulk/ LASH/Container)	<u>Deadweight Tonnage</u> (TOTAL)
Pioneer Commander	Freighter	13,535
Pioneer Contender	Freighter	13,535
Pioneer Contractor	Freighter	13,578
Pioneer Crusader	Freighter	13,540
Pioneer Moon	Freighter	13,583
TOTAL:		479,891

By: J. F. Robinson
 Title: Vice President and Comptroller
 Date: December 1, 1977

COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

TONNAGE STATEMENT
AS OF DECEMBER 1, 1977NAME OF REPORTING COMPANY: PARRELL LINES INCORPORATED

VESSELS OWNED AND BAREBOATED (IN)

Name of Vessel (Mark Vessel included under Operating Differential Subsidy Agreement)	Type of Vessel (Tanker/Freighter/ Passenger/Dry Bulk/ LASH/Container)	Deadweight Tonnage (TOTAL)
SS AFRICAN COMET	Freighter	12,933
SS AFRICAN DAWN	Freighter	12,939
SS AFRICAN MERCURY	Freighter	12,918
SS AFRICAN METEOR	Freighter	12,846
SS AFRICAN NEPTUNE	Freighter	12,854
SS AFRICAN SUN	Freighter	12,998
SS AUSTRAL ENDURANCE	Container	19,521
SS AUSTRAL ENSIGN	Container	19,521
SS AUSTRAL GLADE	Freighter	12,248
SS AUSTRAL GLEN	Freighter	12,248
SS AUSTRAL LIGHTNING	LASH	29,820
SS AUSTRAL MOON	LASH	29,820
SS AUSTRAL PATRIOT	Freighter	13,264
SS AUSTRAL PILGRIM	Freighter	13,161
SS AUSTRAL PILOT	Freighter	13,264
SS AUSTRAL RAINBOW	LASH	29,749
SS AUSTRAL ENTENTE	Container	28,207
SS AUSTRAL ENVOY*	Container	28,207
*Under reconstruction - redelivery scheduled week of December 5/9.		
All vessels included under Operating-Differential Subsidy Agreement		
TOTAL:		326,518

By: Elizabeth A. Long
 Title: Corporate Secretary
 Date: December 1, 1977

COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

TONNAGE STATEMENT
AS OF DECEMBER 1, 1977NAME OF REPORTING COMPANY: AMERICAN EXPORT LINES, INC.VESSELS OWNED AND BAREBOATED (IN)

Name of Vessel (Mark Vessel included under Operating Differential Subsidy Agreement)	Type of Vessel (Tanker/Freighter/ Passenger/Dry Bulk/ LASH/Container)	Deadweight Tonnage (TOTAL)
Export Adventurer	Freighter	10,967
Export Agent	"	11,089
Export Aide	"	11,021
Export Ambassador	"	11,020
Export Banner	"	12,629
Export Bay	"	12,556
Export Builder	"	12,485
Export Buyer	"	12,529
Export Challenger	"	10,985
Export Champion	"	10,990
Export Commerce	"	10,937
Export Courier	"	11,092
Export Lightning	Cellular Containership	16,233
Export Lag Hound	"	16,306
Export Freedom	"	16,230
Export Leader	"	16,334
Export Patriot	"	16,345
Defiance	Roll-on/Roll-off Containership	15,694
Great Republic	"	15,687
Red Jacket	"	15,697
Young America	"	15,686
Export Democracy	Freighter	14,013
Export Defender	"	13,462
Export Diplomat	"	13,462
All vessels included under Operating-Differential Subsidy Agreement		
TOTAL: 24		323,449

By: H.G. BORGER
 Title: Vice President-Treasurer
 Date: December 1, 1977

COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

TONNAGE STATEMENT
AS OF DECEMBER 1, 1977

NAME OF REPORTING COMPANY: PRUDENTIAL LINES, INC.

VESSELS OWNED AND BAREBOATED (IN)

Name of Vessel (Mark Vessel included under Operating Differential Subsidy Agreement)	Type of Vessel (Tanker/Freighter/ Passenger/Dry Bulk/ LASH/Container)	Deadweight Tonnage (TOTAL)
LASH ITALIA	LASH	39,564
LASH ATLANTICO	"	39,564
LASH PACIFICO	"	39,564
LASH TURKIYE	"	39,564
SANTA BARBARA	FREIGHTER (12 passenger)	12,693
SANTA CLARA	" "	12,693
SANTA CRUZ	" "	12,693
SANTA LUCIA	" "	12,693
SANTA ELENA	" "	12,693
SANTA ISABEL	" "	12,693
SANTA MARIA	PASSENGER/FREIGHTER	9,376
SANTA MARIANA	" "	9,376
SANTA MERCEDES	" "	9,376
SANTA MAGDALENA	" "	9,376
SS PRUDENTIAL SEAJET	FREIGHTER	13,695
SS PRUDENTIAL OCEANJET	"	13,695
All vessels included under Operating-Differential Subsidy Agreement		
TOTAL: 16		299,308

By: Martin F. Ytuarte

Title: Executive Vice President-Fin

Date: January 9, 1978

COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

TONNAGE STATEMENT
AS OF DECEMBER 1, 1977

(NAME OF REPORTING COMPANY: MOORE-McCORMACK LINES, INCORPORATED

VESSELS OWNED AND BAREBOATED (IN)

Name of Vessel (Mark Vessel included under Operating Differential Subsidy Agreement)	Type of Vessel (Tanker/Freighter/ Passenger/Dry Bulk/ LASH/Container)	Deadweight Tonnage (TOTAL)
MormacALTAIR	FREIGHTER	16,183
MormacARGO	FREIGHTER	11,975
MormacCAPE	FREIGHTER	11,961
MormacDRACO	FREIGHTER	16,183
MormacGLEN	FREIGHTER	11,898
MormacLYNX	FREIGHTER	11,975
MormacRIGEL	FREIGHTER	11,975
MormacSAGA	FREIGHTER	14,467
MormacSEA	FREIGHTER	14,328
MormacTIDE	FREIGHTER	14,389
MormacTRADE	FREIGHTER	12,050
MormacVEGA	FREIGHTER	11,975
MormacWAVE	FREIGHTER	14,361
All vessels included under Operating-Differential Subsidy Agreement		
TOTAL:		173,720

By: V. Fiorenza

Title: Asst't Vice President

Date: January 11, 1978

COUNCIL 7 AMERICAN-FLAG SHIP OPERATORS

TONNAGE STATEMENT
AS OF JANUARY 1, 1978(NAME OF REPORTING COMPANY: American President Lines, Ltd.)

VESSELS OWNED AND BAREBOATED (IN)

Name of Vessel (Mark Vessel Included under Operating Differential Subsidy Agreement)	Type of Vessel (Tanker/Freighter/ Passenger/Dry Bulk/ LASH/Container)	Deadweight Tonnage (TOTAL)
PRESIDENT LINCOLN	CONTAINERSHIP	13,245
PRESIDENT TYLER	"	13,245
PRESIDENT POLK	"	17,449
PRESIDENT MONROE	"	17,449
PRESIDENT HARRISON	"	17,449
PRESIDENT VAN BUREN	"	17,477
PRESIDENT TAFT	"	17,477
PRESIDENT McKINLEY	"	17,477
PRESIDENT FILLMORE	"	17,477
PRESIDENT JEFFERSON	"	18,995
PRESIDENT MADISON	"	18,995
PRESIDENT PIERCE	"	18,995
PRESIDENT JOHNSON	"	18,995
PRESIDENT ROOSEVELT	"	19,555
PRESIDENT TRUMAN	"	19,015
PRESIDENT EISENHOWER	"	19,555
PRESIDENT KENNEDY	"	19,286
ALASKAN MAIL	FREIGHTER (C-5)	22,208
INDIAN MAIL	"	22,208
KOREAN MAIL	"	22,208
HONG KONG MAIL	"	22,208
AMERICAN MAIL	"	22,208
11 vessels included under Operating-Differential Subsidy Agreement		
TOTAL:		413,176

By: T. W. SaltonTitle: TreasurerDate: DECEMBER 9, 1977

COUNCIL AMERICAN-FLAG SHIP OPER RSTONNAGE STATEMENT
AS OF JANUARY 1, 1978NAME OF REPORTING COMPANY: STATES STEAMSHIP COMPANYVESSELS OWNED AND BAREBOATED (IN)

Name of Vessel (Mark Vessel included under Operating Differential Subsidy Agreement)	Type of Vessel (Tanker/Freighter/ Passenger/Dry Bulk/ LASH/Container)	Deadweight Tonnage (TOTAL)
COLORADO	Freighter	13,075
IDAHO	Freighter	13,075
MICHIGAN	Freighter	13,075
MONTANA	Freighter	13,075
WYOMING	Freighter	13,075
MAINE	RO-RO	19,856
ARIZONA	RO-RO	19,856
NEVADA	RO-RO	19,856
ILLINOIS	RO-RO	19,856
All vessels included under Operating-Differential Subsidy Agreement		
TOTAL:		144,799

By: Raymond J. DonohueTitle: Secretary-TreasurerDate: December 7, 1977

Mr. MAY. I would like to point out that all of the ships that we represent are U.S.-flag ships, and they were all built in the United States, and are citizen manned. We will certainly supply that information.

CASO is funded by a process in which our board of directors, which consists of the presidents of member companies, agree upon an operating budget for the year. We then take the total dead-weight tonnage of all the vessels in the organization, with a floor of 100,000, and a ceiling of 500,000, and divide that into the budget and come up with a per ton figure. That per ton figure is then multiplied by each company's dues paying tonnage, to come up with the number of dollars of the total budget which they pay.

The CHAIRMAN. That formula is not unlike the formula for funding other transportation entities in this industry?

Mr. MAY. Very similar to those used by all modes.

The CHAIRMAN. Do you operate a political action committee?

Mr. MAY. We do not.

The CHAIRMAN. Do you make political contributions?

Mr. MAY. As an organization, we make none whatsoever. As far as I know, none are made by my associates, but I have never inquired into that. I am certain that they are very modest.

In my own case, I make several purely personal contributions every year. These have never aggregated over \$500 in any calendar year.

The CHAIRMAN. What is your assessment of the financial condition, and future prospects of your eight-member company?

Mr. MAY. Mr. Chairman, I have read the testimony of Mr. Blackwell, and his dialogue with members of this committee on Tuesday. I would like to comment on that, and then perhaps ask some of the members of the panel to speak for their own companies.

I do not see the operating numbers of Caso companies until somewhat after the fact. However, I would like to make several points. There seems to be an underlying assumption in the discussions of last Tuesday, that subsidy somehow guarantees a profit, and, therefore, it was surprising, that some of the subsidized lines were less healthy than others.

I think it is important to keep in mind that this subsidy is paid to permit the American operator, with regard to some costs, to get in the game and compete with the foreigners. Operating subsidy is paid only to offset the actual difference, as calculated by the Maritime Administration, between certain wage related costs of U.S. carriers and their foreign competitors. It is not paid on all of these costs, and I would emphasize that there is no subsidy on any overhead item.

Now, as American resident companies, we have large staffs of American citizens particularly in marketing, and intermodalism which, just like our seamen, are very properly paid at competitive American wage rates.

Our foreign competitor—an Italian, an Indian—primarily employs citizens from his nation who he pays their competitive rates which are very much lower than ours. We are not guaranteed a profit in any way whatsoever. We are increasingly competing with

foreign-owned fleets, many of which are operating below cost in our trades because of government subsidies.

I think it is rather remarkable that our companies are all still able to compete.

From a national point of view, I think they are sound, and I think they have accomplished just what the Nation wanted them to. They have built the American merchant marine that exists today, that which was built in the United States. They own virtually all of the new ships that are in our liner fleet.

From the point of view of stockholders results have been extraordinarily modest—averaging almost the worst in our industrial sector. Three or 4 percent has been the rate of return for most of the companies over the past 10 years.

Basically, however, I think the companies are sound, earnings, as I understand them in 1977 were fair. Most of the companies, indeed virtually all, have completed the initial phases of long-term replacement programs. They now have ships, services, terminals, barges, containers and all the ancillary equipment that is necessary to compete. Their market share is good, and I think their financial prospects as a group are excellent—although I seriously question whether, unless more cargo is available, and perhaps some restructuring of the Government programs, they can earn enough to replace their present fleets given the staggering expense of new ships.

The CHAIRMAN. What market share is good?

Mr. MAY. It is not, Mr. Chairman, in my mind, so much the fact that we have to increase the market share. I think we ought to get it up to at least 40 percent overall, and we have it in some trades. But I think what we have to recognize is, that the only place in the world where you can dump an excess liner ship is in the United States trades. We alone have the open conference system. When the issue of open conferences came up at Unctad in Geneva in 1974, the U.S. State Department had spent 5 years trying to convince all of the rest of the Unctad countries—some 86 nations—that the U.N. liner code should require open conferences. Only one country voted with the United States, and that was Switzerland.

The result of our open conference policy is that things are getting much worse. Years ago it was relatively easy to lay up a ship, because a ship did not cost very much. The typical liner vessel in early 1960's cost \$10 million. That was the full U.S. cost before any shipyard subsidy. Today these ships are coming in anywhere from \$50 million to \$85 million a copy. As we get more capital intensive, it is much harder to lay a ship up, because when insurance, principle, interest are the primary cost that the operator is faced with, he is going to be induced, indeed he must keep running a ship until the losses of running it exceed the very high losses of laying it up. This applies to the foreigners also.

Thus, they, as well as we, tend to keep ships running longer than in the past. When a foreigner has a ship that is surplus to a trade, there is only one place that he can freely put it, and that is to dump it in a U.S. trade. This is encouraged by government subsidy, as with the Comecon nations, or by a dumping incentive from the fact that layup costs so much, it is cheaper to keep it running, even if it is half empty.

Thus, we have constant pressure on the freight rates, and the carriers are not able to get the utilization that they generally need to be sufficiently profitable.

I think we need to get the utilization up to at least 40 percent overall, and I think that we have to have a reduction of competition from people who are dumping low cost or subsidized services in our trades. We do not permit it any place else.

The CHAIRMAN. Forty percent of nonobligated cargo?

Mr. MAY. Forty percent of nonobligated, yes, sir.

The CHAIRMAN. In other words, 55 percent then?

Mr. MAY. If the figures we discussed earlier are correct, yes, sir.

I might point out in that regard, Mr. Chairman, there is not a single foreign nation that has a merchant marine that moves a pound of its cargo on anything but its own ships, where they are available. Our 50-50 laws are generous in the extreme if we judge them against the international norm.

The CHAIRMAN. Well, a substantial share would be 50 percent; do you agree with that?

Mr. MAY. Yes, sir.

The CHAIRMAN. Mr. Emery.

Mr. EMERY. No questions at the present time.

The CHAIRMAN. Secretary Blackwell testified with respect to the elimination of certain elements of operating differential subsidy when recent long-term contracts were renewed.

What is your position with respect to eliminating these elements of ODS?

Mr. MAY. I think, frankly, it is a whittling away by the OMB, of the parity system that was developed by the Congress. I think it is harmful. That is bottom line money. It is desperately needed, not to go into stockholders' pockets, but to build new ships. We operate subject to rules on the distribution of dividends. We are required to put away money in reserve funds to build new ships.

We have, without exception, built those ships. This whittling away is going to undermine, in my opinion, the ability of the companies, not so much to survive, but to accumulate the money necessary to replace the ships.

I would like to ask other people here who have been much more involved in this if they would comment.

Mr. WILLIAMS. Speaking for American President Lines, we just recently concluded negotiations with MarAd on a 20-year contract effective the first of this year. We commenced negotiations with the idea of achieving full parity in all areas of subsidy on all items of expense. We did not succeed entirely. We did obtain full subsidy on the break bulk ships, but we were limited pretty much to P. & I. on five containerships for a 1-year period, and essentially the program is for wage subsidy only, on what they term high-technology ships, and hereafter, as our new vessels come into being, I think that the contracts will include only wage subsidy.

We did not like it, but it was the best contract we could negotiate.

Mr. BLOCKLIN. We had a similar case that became rather controversial.

Secretary Blackwell alluded to the fact, in his testimony 2 days ago, that Lykes and Prudential, or Lykes and States Steam argued

vigorously and objected to the program. What we were objecting to was the fact that the reduction in subsidy was post facto.

We had an agreement; we had ships built with the understanding that there would be parity, and these ships still have 12, 14 years to run, and any reduction after the fact came as quite a shock. If it—parity reduction—is prospective and we have an opportunity to perhaps consider its effect, we can goldplate the engineroom so to speak, and cut repair costs in that manner; we can introduce very high technology equipment in the engineroom to reduce crew cost, and thereby reduce P. & I., but when it is done post facto, there is nothing left to you; no way to make an adjustment to recapture these items that are taken away from you.

So that has been the basis. We signed a 1-year contract. We have before MarAd an application for a 20-year contract that we will discuss this year.

Captain FORD. We are currently in the third year of a 20-year contract, negotiated without M. & R., which presents certain obvious difficulties.

However, we are, on the overall, quite satisfied with the conditions that we presently have.

The CHAIRMAN. Mr. Crowley.

Mr. CROWLEY. We, too, are long into our current contract. When it was negotiated and signed, approximately 3 years ago, the subsidy on maintenance and repair was taken out of it. Certainly we feel it was hurt.

We continue to repair and maintain our ships in American yards, at American labor prices, and American material prices. We are at a great disadvantage, I think, with our competitors who can do it much cheaper.

To the extent that M. & R. was subsidized before, and is not now, I think that the parity that was intended that we should have with our foreign competitors has been knocked out. It is not there for us. We do not achieve it.

The CHAIRMAN. We see this R. & D. line item which is pretty substantial each year. What are some of the recent benefits that you got from research and development programs with MarAd?

Mr. MAY. Mr. Chairman, most of those are conducted with the cooperation of individual companies. I do not have detailed knowledge of many of them.

However, I am the contracting officer for the International Data Communications System, which five of our member companies are participating in, on a shared cost basis, under a MarAd R. & D. contract. The companies pay half, and MarAd pays half. We have completed phase I which the companies have reviewed it in exhaustive detail. They are completely convinced that this is a very worthwhile project designed to develop a shared-time, computer-assisted means of transmitting manifests, which today often do not arrive in the foreign port, even if you fly messengers, until the ship itself arrives.

The ship cannot dock, or if it does, it is heavily fined if the manifest is not there. It is also necessary for the management of large container operations, and many other things. We feel this has a great deal of merit.

It is one of those things that, given the small size of the companies, they almost certainly could not have undertaken alone. We feel it will almost certainly lead to a not-for-profit operating entity in about 1979, when we finish the tests.

I made a tour, as I know some of the members of this committee did, over to Sparrows Point with the shipbuilders council several years ago. We saw some remarkable programs with regard to flux welding, one-side welding, that sort, which has saved a great deal of money and given us better ships.

A lot of good work has been done with regard to availability of cargoes.

Some good work has been done on gas turbine engines for a number of ships. They have been in operation for a good while, these came directly out of the MarAd program.

I really have not thought much about this question. I will give you a more comprehensive answer in writing. Perhaps the members of the panel have additional thoughts.

The CHAIRMAN. Perhaps you could canvass all of your companies and give us a written response to that.

Mr. MAY. I would be happy to.

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

The CHAIRMAN. Mr. Lent.

Mr. LENT. I have no questions.

The CHAIRMAN. Mr. Emery.

Mr. EMERY. No questions.

The CHAIRMAN. On page 8 of your statement, you recommend that the National Defense Reserve Fleet element of the authorization request be substantially increased so that the Government can purchase vessels of high military utility from private operators for layup.

How many vessels would be available for purchase in fiscal year 1979, and 1980?

Mr. MAY. Mr. Chairman, there are probably between 45 and 60 break-bulk and RO/RO vessels in the liner fleet today that would have particular military utility. Many of those, of course, will continue to have commercial utility for many years.

On the other hand, I do know, from talking to members of the panel, and other companies, that a number of these will be surplus, not primarily because of age—they are relatively new ships—but because of competitive situations, even newer vessels are needed. I do not know how many of these will be available this year or next. That depends upon the execution of the remainder of the 20-year contract. Because until those are in place, no one could get financing for building new ships.

Mr. WILLIAMS. If I might inject here, Mr. Chairman, APL intends to trade in two vessels in 1979. Perhaps as our building program furthers itself, we will, of course, be trading in other suitable tonnage. The two we have this year are combination breakbulk-containerships that were self-sustaining, and the other containerships will be traded, are self-sustaining. So they do have a good military utility.

The CHAIRMAN. What would be the value of those ships—the fair market value?

Mr. WILLIAMS. I would say on our two, less than \$10, and probably more than \$5 million a copy. They are approximately 15 years old.

The CHAIRMAN. What speed?

Mr. WILLIAMS. Twenty.

The CHAIRMAN. Twenty knots?

Mr. WILLIAMS. Yes, sir.

The CHAIRMAN. That is all the questions I have.

Any other questions?

Thank you very much, gentlemen.

Mr. MAY. Thank you.

[The following material was received for the record:]

COUNCIL OF AMERICAN-FLAG SHIP OPERATORS,
Washington, D.C., March 10, 1978.

HON. JOHN M. MURPHY,

*U.S. House of Representatives, Committee on Merchant Marine and Fisheries,
Longworth House Office Building, Washington, D.C.*

DEAR MR. CHAIRMAN: Thank you for your letter of February 15 requesting CASO's views on seven questions relative to the Marad Authorization Bill for FY 1979. The following is our response to these questions.

1. Question: With respect to the members of the Council of American-Flag Ship Operators, would you please furnish the following information:

a. The name, address, and name of the chief executive officer of each member company.

b. The number and types of U.S.-flag vessels operated by each member company. Please indicate whether such vessels are subsidized or nonsubsidized.

c. The number of types of foreign-flag vessels operated by each member company.

Answer: A detailed answer to this question was attached to the corrected transcript returned to your committee staff in late February.

2. Question: How is the Council of American-Flag Ship Operators funded?

Answer: As I stated at the hearing, CASO is funded through dues paid by its member companies. The specific provisions of our bylaws dealing with this matter are as follows:

Article V, Section 502. Schedule of Dues: The schedule of dues prepared on the basis of the budget adopted by the Directors shall make provision so that each member's dues shall be based on his Assessed Tonnage as of January 1 of the year for which such dues are payable, calculated pursuant to Section 503 of the Article, provided that, for the purposes of dues and special assessments, the minimum tonnage of a member shall be one hundred thousand (100,000) tons and the maximum tonnage of a member shall be five hundred thousand tons.

3. Question: What is your assessment of the financial condition and future prospects of your eight member companies?

Answer: CASO does not collect operating or financial data on a current basis. Accordingly, I can only answer this question in general terms.

Basically the eight companies comprising CASO are all sound, although some are more profitable than others. Some individuals have expressed concern that subsidized U.S. carriers are not uniformly profitable despite government aid. However, this viewpoint ignores the fact that operating subsidies authorized under the Merchant Marine Act in 1936 are based on the parity principle. Thus, they simply permit the U.S. operator to compete with his foreign competitor on a relatively equal cost basis with regard to several items, principally crew wages. There is no guarantee of a profit and no subsidy for overhead, fuel or other major costs.

However, as I emphasized at the hearings, these carriers have rebuilt their World War II fleets with the world's most modern and innovative vessels and all have been constructed in U.S. shipyards. In fact, with less than ten exceptions, all of the liner vessels built in the U.S. since World War II have been contracted for by companies with operating differential subsidy agreements. Without these carriers, the United States would not have an effective liner fleet or indeed much of its existing ship building capacity.

4. Question: Secretary Blackwell testified with respect to the elimination of certain elements of Operating-differential Subsidy when recent long-term contracts were renewed:

- a. What is your position with respect to eliminating these elements of ODS?
- b. Did this reduction of ODS have an adverse affect on the financial conditions of these operators?

Answer: 4.a. Operating subsidy is based on a parity system and simply equalizes certain costs of the U.S. operator with those of his foreign competitor. When the operator is forced to give up portions of his subsidy such as M&R and P&I, it means that he is at an increasing cost disadvantage because the subsidy is paid only when there is a differential. As Mr. Blocklin and others pointed out during the hearing, this is particularly unfair with regard to existing vessels that were built with the belief that these elements of subsidy would be available throughout their economic life.

4.b. Yes, it does have an adverse effect. Since subsidy simply equalizes cost differentials, its denial has the effect of increasing costs and, therefore, reducing profits on a dollar per dollar basis. This weakens the financial structure or liner companies; reduces their attractiveness as investments; and reduces their ability to accumulate the ever larger sums needed for vessel replacement.

5. Question: On page 3 you inform that the ODS Program for fiscal year 1979 is expected to be sufficient to meet anticipated ODS payments for the fiscal year. Is it adequate or is it inadequate? Do you support this element of the authorization request? Do you strongly support the overall request of the Maritime Administration for fiscal year 1979?

5. Answer: Discussions with officials of our member companies and Marad indicate that the amounts requested in the Marad budget for ODS payments during FY 1979 are adequate. We strongly support this element of the authorization request as well as the overall request of Marad for FY 1979.

6. Question: What recent benefits have you derived from Marad's Research and Development Program?

Answer: During the hearing, I indicated several aspects of the Marad R&D program which I believe have been particularly beneficial. I have written to the CASO member companies asking for their views on this matter and will submit them as soon as possible.

7. Question: On page 8 of your statement, you recommend that the National Defense Reserve Fleet element of the authorization request be substantially increased so that the government can purchase "vessels of high military utility" from private operators for lay-up.

a. How many vessels would be available for purchase in fiscal year 1979? 1980?

b. Could you give us a ball park figure as what the "fair market value" of these vessels would be?

Answer: We know that there are substantial numbers of relatively modern, i.e. post World War II, vessels of high military utility in the fleets of our member companies. Many of these vessels, particularly those of the breakbulk type, will be replaced during the 1980's. However, we do not know exactly how many will be replaced in any given year. We have written to our member companies for this information and the fair market value of the vessels they identify. We will file this for the record as soon as it is obtained.

Again, may I thank you and your colleagues for the opportunity to testify in support of the Marad Authorization bill for FY 1979.

Best wishes,
Sincerely,

ALBERT E. MAY,
Executive Vice President.

The CHAIRMAN. Our next witness is Mr. Ed Hood, president and board chairman, Shipbuilders Council of America.

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

Mr. Hood. Good morning, Mr. Chairman.
I have a very brief statement.

Mr. Chairman and members of the subcommittee, responding to your invitation, I appear here this morning on behalf of the Shipbuilders Council of America, composed of principal shipbuilders, ship repairers and ship component manufacturers in all sections of the country, to urge approval of the fiscal year 1979 budget authorization request for \$157 million in funding to cover construction differential subsidy projects coming within the purview of the Merchant Marine Act of 1936 as amended by the Merchant Marine Act of 1970. We believe this amount with the available carryover of \$122 million will sufficiently cover market opportunities presently perceived.

In light of the current state of merchant shipbuilding throughout the world, our support should not be construed as an equivocal position. Trade and commerce throughout the world is projected to increase steadily, and in this sense, shipping and shipbuilding actions, it seems to us, must be predicated on a logical assumption that additional ships will be incrementally needed, and that existing ships will outlive a normal cost-effective expectancy, and must necessarily be replaced by newly built vessels.

Given a natural environment for shipbuilding—something with far more realism than that which now prevails—there can also be a reasonable expectancy that U.S. shipbuilders will share in any demand for new merchant ships which might develop in the short or long term. To be prepared for this likelihood should be a consideration in any rearrangements of maritime policy and in any budgeting for CDS funds.

It must be remembered that prior to the economic upheaval which followed the 1973 Mideast oil embargo, the differential in cost between U.S.-built and foreign-built merchant vessels was perceptibly closing. CDS on tankers was down from 50 percent to 33.38 percent. CDS on liquefied natural gas (LNG) carriers was down to 16.5 percent. These changes in comparative economic positioning were a reflection of the technological and operational progress which has taken place within the U.S. shipyard industry in recent years.

More than \$1 billion has been invested in facilities and capital improvements. At today's prices for real estate, construction and equipment, this figure equates to the cost of about four brand new shipyards. By these investments, every principal yard in the United States has a capability greater than a decade ago.

Virtually every technical advance presently in the foremost foreign yards is also in use in U.S. yards. Some equipment and techniques developed here have been copied abroad, and vice versa. Shipyard management and information systems as well as computer technology in the United States are equal to many abroad and more advanced than most. In addition, U.S. shipbuilders have a high degree of flexibility in capability to build different types of ships.

In a relative sense, any economic betterments deriving from this substantial progress, however, have been negated by the latterday disposition of many shipbuilders abroad to tender or quote prices which have no relationship to true costs. This contradiction of basic economic principles is now more frequently taking place with either overt or implicit blessing by involved governments. The declared

rationale is to uphold essential national activities and to minimize the social costs of unemployment.

Before this subcommittee on November 5, 1975, I stated:

The pattern of shipbuilding economics in other countries—has a sensitive relationship to the level of subsidy in this country. As prices move upward in Europe or Japan, for whatever reasons, the amount of CDS paid in this country is reduced. Conversely, as prices are decreased abroad, the CDS rate is increased.

I also made the following statements at those same "oversight" hearings more than 2 years ago:

The price cost scenario is being distorted by the decline in market opportunities worldwide. There have been reports of desperation price cutting among certain foreign builders in an effort to obtain ongoing contracts.

A distinction between shipbuilding selling prices and shipyard costs needs to be made in this context. With threatened disequilibrium, however, it can be reasonably assumed that ship construction subsidies—either direct or indirect—will continue to be made available by other countries, if necessary, in greater abundance.

These forebodings have since become very real. Artificial prices and Government motivations today control the economics of world shipbuilding. An increasing number of foreign shipbuilders, openly indemnified against losses by their governments, are presently chasing a decreasing volume of market opportunities by offering prices below real costs—well below real costs.

These "bargains" and the boomerang effect of raising the CDS level to the statutory ceiling of 50 percent or beyond have no doubt discouraged certain new building in this country by some U.S. owner/operators.

Last year, for example, though only 13 new merchant vessels were ordered here, U.S. companies or their affiliates placed contracts with Japanese shipbuilders for at least 25 ships.

A return to normalcy, however, cannot and should not be ruled out. As said before, world trade is not diminishing. Shipping experts perceive a glimmer of positive change beginning in the early 1980's. We hope they are correct.

In any event, we should therefore look forward. It is not too soon to be thinking about merchant ships to be built and delivered after 1980. Approval of CDS funds requested as a part of the fiscal year 1979 budget will thus support the promotional efforts of the Maritime Administration and encourage marketing endeavors by individual shipbuilders.

Meanwhile, Mr. Chairman, the members of this subcommittee should be aware of a letter I addressed to you on November 15, 1977 concerning the severity of the near term drop in shipyard employment.

[The following letter was received for the record:]

SHIPBUILDERS COUNCIL OF AMERICA,
Washington, D.C., November 15, 1977.

Hon. JOHN M. MURPHY,
Chairman, Committee on Merchant Marine and Fisheries, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The trauma of the rejection of cargo preference legislation will have a lingering effect on our industry which is difficult to quantify.

Not only does a spreading cloud of uncertainty surround the future direction of U.S. maritime policy as a consequence, but merchant shipbuilding prospects for U.S. shipyards, now scarce, will hardly be enhanced by this development. In addition, there are increasing inferences that the five-year naval shipbuilding program will be substantially reduced, and there is no movement whatsoever toward bringing the Virgin Islands within the purview of the Jones Act.

Needless to say, this outlook does not entice overwhelming interest on the part of the investment community: in a competitive capital market, there are other propositions more attractive in terms of stability and yield.

In combination, these negative influences will result in a significant downturn in employment in U.S. shipyards. You may recall we provided you with a forecast of the severity of the expected workload decline in 12 tanker building yards with our letter of June 24, 1977 (copy enclosed) on the eve of one of your many visits to The White House dealing with HR-1037.

We have since refined this forecast to include the present and projected work load in the 27 yards which compose the total shipbuilding resource base as currently defined by the Maritime Administration. As can be quickly discerned from the attached chart, an overall decline in employment of approximately 45,000 persons, about 30,000 of which will be production workers, is unavoidable after 1978.

With nearly 30 percent of the U.S. shipyard workforce composed of persons from minority groups employed as a result of latter-day equal opportunity programs, it is obvious that these disadvantaged workers will be firstly affected. To the best of our knowledge, no estimate of eventual social costs to the public treasury has yet been prepared. We doubt very much that there has been any serious official cognizance of this whole situation despite our formal notification to the Secretary of Labor on July 29, 1977 and a number of public speeches on the subject.

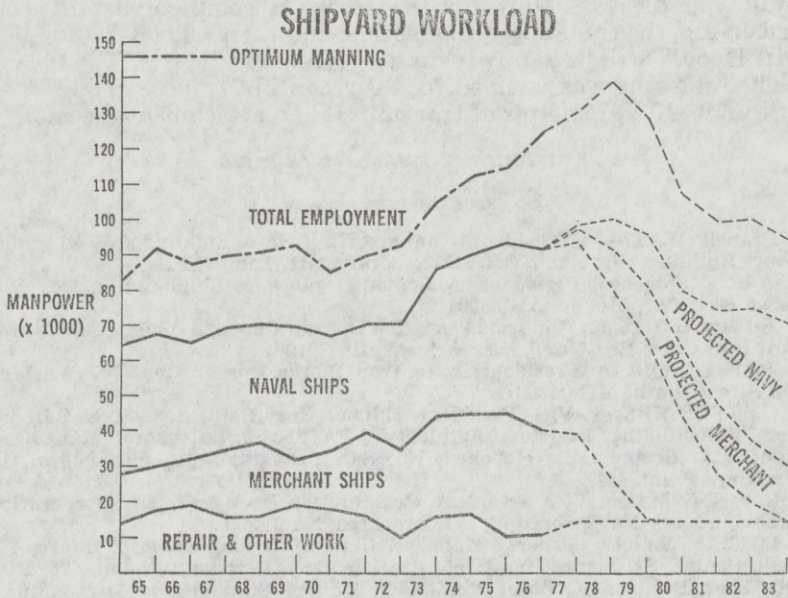
Another point needs to be emphasized. About 50 percent of the cost of a U.S.-built ship consists of purchased materials and components which come in part from all States of the Union. With respect to some naval vessels, as much as 70 percent of the cost may involve purchased items. These purchases spread throughout the entire U.S. economy, and with the usual multiplier effect of three to one, a 45,000 decrease in shipyard employment equates to the loss of at least another 135,000 jobs in the private sector.

Assuming a 9.5 percent share of oil imports (at 10 million barrels per day) for American bottoms, we estimated that approximately 2.3 million dwt of new tanker tonnage would have had to have been built in U.S. shipyards by 1983. This potential would have meant about 38,500 manyears of shipyard employment or the equivalent of 7,700 jobs over a five-year period. Again, taking into account the multiplier effect, an additional 23,000 non-shipyard jobs, in supplier and related industries, would have been sustained. In other words, passage of HR-1037 would have saved better than 17 percent of the jobs projected to be lost after 1978.

These comments are in reply to your letter of November 7, 1977. We stand ready to provide any further elaboration you may desire.

Cordially,

EDWIN M. HOOD, *President.*



Mr. Hood. Taking into account the present and projected workload in the 27 U.S. yards which currently compose the U.S. shipbuilding resource base, an overall decline in employment of approximately 45,000 persons, about 30,000 of which will be production workers, seems highly probable over the next 5 years.

With nearly 30 percent of the U.S. private shipyard workforce, of approximately 176,000 persons at the close of 1977, composed of minority groups employed as a result of latterday equal opportunity programs, it is obvious that these disadvantaged workers will be sensitively affected.

Since 1970, the number of minority workers employed in shipyards has increased by more than 75 percent, and greatest gains have been posted in black employment in urban areas of chronic unemployment. The eventual social cost of the expected downturn in shipyard employment to the public Treasury could thereby be substantial.

Thank you.

The CHAIRMAN. Thank you, Mr. Hood.

On page 5, where you mention minority employment being on the increase, what about women?

Mr. Hood. I believe the correct figure for employment of women is a 17 percent increase since 1970.

The CHAIRMAN. I understand there is a very substantial increase in employment of women in shipping yards.

Mr. Hood. That is correct, sir.

The CHAIRMAN. On page 1 you inform that the Shipbuilders Council of America is composed of principal shipbuilders, ship-repairers and ship component manufacturers in all sections of the country.

Will you please submit for the record a complete list of your membership, the chief operating officers, and their address?

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

[The following was received for the record:]

[See Feb. 10, 1978, letter of transmittal and attachment thereto.]

SHIPBUILDERS COUNCIL OF AMERICA

REGULAR MEMBERS

- Mr. Francis W. Theis, President, The American Ship Building Co., 911 Bond Court Building, Cleveland, OH 44114, Lorain, OH, Tampa, FL.
- Mr. J. R. Maumenee, President, Alabama Drydock & Shipbuilding Co., Post Office Box 1507, Mobile, AL 33601.
- Mr. Edwin Hartzman, Chairman of the Board, Ogden/Avondale Shipyards, Inc., Post Office Box 50280, New Orleans, LA 70150.
- Mr. John F. Sullivan, President, Bath Iron Works Corporation, 700 Washington Street, Bath, ME 04530.
- Mr. David H. Klinges, Vice President/Shipbuilding, Bethlehem Steel Corporation, Shipbuilding Division, Bethlehem, PA 18016, Baltimore, MD, Beaumont, TX, Boston, MA, Hoboken, NJ, San Francisco, CA, San Pedro, CA, Sparrows Point, MD.
- Mr. Robert L. Massa, Vice President, Coastal Dry Dock & Repair Corporation, Brooklyn Navy Yard, Building 131, Brooklyn, NY 11205.
- Mr. P. Takis Veliotis, General Manager, General Dynamics Corp., Pierre Laclède Center, St. Louis, MO 63105, Electric Boat Division, Groton, CT, Electric Boat Division, Quonset Point, RI, Quincy Shipbuilding Div., Quincy, MA.
- Mr. James J. Sugrue, Vice President, Jacksonville Shipyards, Inc., 750 East Bay Street, P. O. Box 2347, Jacksonville, FL 32203.
- Mr. Leonard Erb, President, Litton/Ingalls Shipbuilding Division, Post Office Box 149, Pascagoula, MS 39567.
- Mr. G. Graham Whipple, President, Lockheed Shipbuilding & Construction Company, 2929 Sixteenth Avenue, SW, Seattle, WA 98134.
- Mr. Richard G. Seitz, Chief Naval Architect, Maryland Shipbuilding & Drydock Co., P. O. Box 537, Baltimore, MD 21203.
- Mr. C. Larry French, President, National Steel & Shipbuilding Company, P. O. Box 80278, San Diego, CA 92138.
- Mr. Ralph W. Cousins, President, Tenneco/Newport News Shipbuilding, Newport News, VA 23607.
- Mr. John L. Roper, III, President, Norfolk Shipbuilding & Drydock Corporation, Post Office Box 2100, Norfolk, VA 23501, Norfolk, VA (2 plants), Berkeley, VA.
- Mr. Filfred G. Eggington, President, Rohr Marine, Inc., P. O. Box 2300, Chula Vista, CA 92012.
- Mr. Robert F. Sherman, President, Savannah Machine & Shipyard Co., Post Office Box 787, Savannah, GA 31402.
- Mr. John A. Serrie, Jr., President, Seatrain Shipbuilding Corp., Brooklyn Navy Yard, Bldg. 292, Brooklyn, NY 11205.
- Mr. Peter S. Hepp, President, Sun Shipbuilding & Dry Dock Co., Foot of Morton Avenue, Chester, PA 19013.
- Mr. John T. Gilbride, Chairman of the Board and Chief Executive Officer, Todd Shipyards Corporation, One State Street Plaza, New York, NY 10004, Alameda, CA (San Francisco Div.), Brooklyn, NY, Galveston, TX, Houston, TX, Los Angeles, CA, New Orleans, LA, Seattle, WA.

ALLIED INDUSTRIES MEMBERS

- Mr. Charles W. Wilson, Manager, Marine Sales, The Babcock & Wilcox Company, New York, NY.
- Mr. John W. Chandler, Manager, Marine, Military & Government Department, Borg-Warner Corp., York Division, York, PA.
- Mr. Blair Bolles, Vice President, Colt Industries, Inc., Washington, D.C.
- Mr. Robert B. Hedges, General Manager, CE Marine Div., Combustion Engineering, Inc., Windsor, CT.

Mr. B. B. Cook, Jr., Vice President & General Manager, DeLaval Turbine, Inc., Trenton, NJ.
 Mr. George R. Sloan, Manager, Marine & Defense Sales Operation, General Electric Co., Schenectady, NY.
 Mr. A. A. Hopeman, President, Hopeman Brothers, Inc., Waynesboro, VA.
 Mr. Carmen Guide, Jr., Vice President, Lakeshore, Inc., Iron Mountain, MI.
 Mr. John V. Walsh, Vice President & General Manager, Sperry Rand Corp., New York, NY.
 Mr. Bernard J. Bannan, Chairman, Western Gear Corp., Everett, WA.
 Mr. John S. Jacox, Manager, Market Development, Westinghouse Electric Corp., Pittsburgh, PA.
 Mr. P. D. Gold, Commercial Vice President, Worthington Corp., Harrison, NJ.

ASSOCIATION MEMBERS

Mr. Herman Molzahn, Director of Specialized Marine Operations, The American Waterways Operators, Inc., 1600 Wilson Boulevard, Arlington, VA 22209.
 Mr. George S. Hamilton, President, New England Ship Repair Yard Association, 256 Marginal Street, East Boston, MA 02128.
 Mr. Robert L. Massa, President, New York New Jersey Dry Dock Association, 161 William Street, New York, NY 10038.
 Mr. A. J. Maloney, President, Western Shipbuilding Association, P. O. Box 3976, San Francisco, CA 94119.

The CHAIRMAN. How is the Shipbuilders Council of America funded?

Mr. HOOD. Our funds are derived from the membership in the form of dues and assessment established semiannually and annually by the board of directors.

The CHAIRMAN. Do you have a formula for size?

Mr. HOOD. With respect to shipyards, we receive our income on the basis of numbers of people employed.

The CHAIRMAN. You operate a political action committee?

Mr. HOOD. No, sir, we do not at this time.

The CHAIRMAN. Do you make political contributions? I am talking about the Shipbuilders Council.

Mr. HOOD. As a matter of policy, the Shipbuilders Council does not, and has never.

The CHAIRMAN. You urge approval of the \$279 million ship construction program for fiscal year 1979. Tell me, if the Congress was successful in increasing this amount of construction differential subsidy funds, do you believe it would result in any additional vessel construction?

Mr. HOOD. Yes, sir, I do, although I would have to qualify that comment by saying that some of the additional prospects I see are contingent upon the administration's expected policy on LNG imports, which I understand will not be available now for another 3 or 4 months.

The CHAIRMAN. April, I think—

Mr. HOOD. Yes, sir.

The CHAIRMAN [continuing]. Is the figure that Secretary Blackwell mentioned on Tuesday. I think the LNG figure was 15 percent of total energy requirement.

Mr. HOOD. Yes, sir.

The CHAIRMAN. So that would involve a substantial construction program?

Mr. HOOD. Pending projects, Mr. Chairman, involve as many as 18 new LNG vessels to be constructed in American shipyards.

The CHAIRMAN. What is your assessment of the current financial condition and future prospects of our major commercial shipyards?

Mr. HOOD. Earnings in recent years, I would have to say, have left much to be desired. A sampling of the industry, as a part of Profit '76 Study, conducted by the Department of Defense, indicated that in the previous 5 years the level of profits for shipbuilders had been about 2.9 percent on sales before taxes.

With the uncertainties now facing the industry, I would hesitate to make a prediction about future earnings.

The CHAIRMAN. What percentage of employment for our major commercial shipyards is provided by military construction and repair work?

Mr. HOOD. Military construction and repair work, I would estimate, accounts for about 70 percent of the workforce.

The CHAIRMAN. Subsidized construction?

Mr. HOOD. About 15 percent, and the balance would be nonsubsidized, commercial work.

The CHAIRMAN. And nonsubsidized construction?

Mr. HOOD. Right.

The CHAIRMAN. Would be 15, also?

Mr. HOOD. Yes, sir. The percentages, Mr. Chairman, differ, however, on the basis of dollar volume—roughly 50-50 military versus commercial.

[The following material was received for the record:]

SHIPBUILDERS COUNCIL OF AMERICA,
Washington, D.C., February 15, 1978.

HON. JOHN M. MURPHY,
Chairman, Subcommittee on Merchant Marine, Committee on Merchant Marine and Fisheries, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: At the February 9, 1978 hearing of the Subcommittee on Merchant Marine, reference was made to the research and development programs conducted by the Maritime Administration.

Though I was not specifically asked to comment on this aspect of the Maritime Administration's (MARAD) FY '79 Budget request, I should like to point out that U.S. shipyards have been the beneficiaries of the results of many joint industry-government sponsored and funded shipbuilding research projects. These have covered a wide spectrum of problems and techniques.

Industry and MARAD work closely together in defining those avenues of both software and hardware research which are considered potentially useful to a reduction of costs and eventually contributing to an improvement in the competitive position of U.S. shipbuilding generally. MARAD receives lists of recommended projects from the Ship Production Committee of The Society of Naval Architects and Marine Engineers (SNAME) which is comprised of many members of the Shipbuilders Council of America. Individual yards contract directly with MARAD for award of these projects.

The industry has implemented better than 50 percent of the research projects started as production improvements. Successful joint efforts have included automated welding, improved surface preparations and coatings, automated manufacturing functions, the integration of ship design and production processes, simplified standards for outfitting and many others.

During the period 1971-77, MARAD has funded \$23 million for shipbuilding research, and industry has contributed \$12 million in kind. The \$17.5 million FY '79 appropriations request includes \$2.6 million for shipbuilding. It would be our view that this funding level should definitely include intensive attention to the cost impacts of Federal regulatory requirements and procedures as they pertain to shipyard overhead. Many Federal agencies are issuing rules, reporting and inspection requirements, which are unnecessary, duplicative and often conflicting. These regulations delay delivery schedules and add to the cost of

production far in excess to what is being experienced in shipbuilding countries abroad. MARAD should, in our judgment, take the lead in identifying and encouraging reduction of such costs.

Since 1970, our industry has invested over \$1.3 billion in new facilities, capital improvements and advanced technology. As I stated to the Subcommittee last week: "Virtually every technical advance presently in the foremost foreign yards is also in use in U.S. yards. Some equipment and techniques developed here have been copied abroad, and vice versa. Shipyard management and information systems as well as computer technology in the United States are equal to many abroad and more advanced than most. In addition, U.S. shipbuilders have a high degree of flexibility in capability to build different types of ships." In this sense, we would certainly oppose, most strenuously, as unnecessary, any attempt to use public funds to underwrite shipbuilding research by foreign shipyards or to employ foreign consultants whose sole motivations are pecuniary.

Otherwise, we believe the MARAD shipbuilding research program to be well-purposed, well-managed and well-coordinated with industry needs, and we hope your distinguished Subcommittee will approve the pending request for FY '79.

We most respectfully request that this letter be included in the record of your current hearings.

Cordially,

EDWIN M. HOOD, *President.*

The CHAIRMAN. Our next witness is Mr. Alfred Maskin of the American Maritime Association.

STATEMENT OF ALFRED MASKIN, EXECUTIVE DIRECTOR, AMERICAN MARITIME ASSOCIATION

Mr. MASKIN. Mr. Chairman, I am Alfred Maskin, the executive director of the American Maritime Association, and I appreciate the opportunity to appear here today to present the views of our members on the maritime authorization bill to continue the programs of the Maritime Administration through fiscal year 1979.

The American Maritime Association, as shown by the attached membership roster, consists of 35 companies operating 98 U.S.-flag merchant ships in the foreign and domestic commerce of the United States.

These vessels include 55 liners, all built without construction differential subsidy, and being operated without operating differential subsidy; also 43 tankers and dry bulk carriers, built without CDS and operated without ODS, except for the special subsidy being paid by the Government for the carriage of Russian grain.

The moneys sought for construction subsidy in the present bill, added to the carryover funds of previous years, as we understand it, would support the construction in the 1978-79 time frame of 13 new ships, none of which is earmarked for an AMA members.

Thus, neither the CDS authorization, nor the ODS authorization of the present bill would, except for those funds for the Russian grain movements, be of immediate or direct benefit to our members.

As American citizens, and as members of the maritime community, however, we are committed to the maintenance and promotion of an effective and viable American merchant marine and shipbuilding industry; and we recognize that direct subsidies, such as are provided for by this bill, can contribute to the attainment of that goal, particularly by aiding American shipyards to construct

ship for U.S. citizens at prices which are comparable to the prices which would be paid for the same construction in a foreign yard.

On the operating side, we recognize that subsidies help their recipients to reduce the cost differential between their operations and those of their foreign-flag counterparts, and may be necessary in order to assist U.S.-flag operators to compete in certain foreign trades.

We also believe, however, that administration of the operating subsidy could be tightened, particularly with respect to the carriage of Government-sponsored preference cargoes for which there is no foreign flag competition, and with respect to the servicing of U.S. trades in which unsubsidized American operators have demonstrated that they can compete successfully without such Government aid.

More stringent restrictions on the disbursement of subsidy under these circumstances would not only create a healthier competitive climate for unsubsidized operators, vis-a-vis the subsidized ones, but could result in a savings to the Government and a reduction in the amount of subsidy needed for this purpose.

In any event, the provision of direct subsidy by itself, of course, will not solve the problems of the American merchant marine, nor sustain the U.S.-flag merchant fleet. Certainly, subsidy of itself will not put cargo into the holds and tanks of our ships, and the need to find means of providing payloads for American-flag vessels remains acute.

But the Energy Transportation Security Act of 1977, which would have provided oil cargoes for U.S. tankers, was defeated in the House during the last session, and so far our Government has not committed itself aggressively to the promotion of bilateral agreements, pooling arrangements, or other cargo-sharing devices.

Thus, the subsidy program stands as one of the few tools we have available to maintain at least a segment of our merchant fleet, and at least until such time as other policies and programs are developed to promote its future growth.

The CHAIRMAN. We are going to recess for this rollcall until 11:30.

[Short recess.]

Mr. BONKER [presiding]. The committee will reconvene.

Mr. Maskin, I believe you were on page three. Do you want to pick up where you left off?

Mr. MASKIN. Thank you, Mr. Chairman.

Further, there are other provisions of the authorization bill which would benefit unsubsidized as well as subsidized operators. The research and development program, to make both the U.S. shipbuilding and ship operating industries more efficient, productive and competitive, is of benefit to all, as would be the authorizations for operating expense which relate to maintenance of the Reserve Fleets, and to the development and promotion of waterborne transportation systems—a project which, among other things, has as one of its objectives an increase in U.S. flag participation in the foreign trades together with a reduction or elimination of operating subsidies when no longer required to sustain a viable shipping operation.

Finally, although apparently no authorization of funds will be needed for the coming year, there are two other programs administered by the Maritime Administration to which I would refer before

ending this part of my presentation—the Federal ship financing program and the war risk insurance program.

The Federal Ship Financing Fund, through which the Government guarantees ship construction loans and mortgages under title XI of the Merchant Marine Act, has, particularly in the absence of construction subsidy, been of extremely valuable assistance to unsubsidized operators, and has encouraged them to invest nearly \$4.5 billion of private funds in new American flag ship construction and reconstruction during the past decade.

I understand that legislation is to be introduced to raise the present \$7 billion ceiling on such guarantees, and we would strongly support such legislation.

The other program which must be maintained is the war risk insurance program which, as you know, insures vessels against loss or damage by marine war risks when it is found that commercial insurance cannot be obtained on reasonable terms and conditions.

Unfortunately, from our point of view, there have been recent efforts to deal with various problems confronting the merchant marine through amendments to the authorization bill. For example, last year's bill, as it was finally enacted into Public Law 95-173, as you are aware, provides that after 8 months from enactment no ODS may be paid unless the chief executive officers of companies receiving such subsidy certify that during the period these funds will be received no one in the company will pay any illegal rebates and will cooperate fully with the Federal Maritime Commission in its investigations of rebating and in its efforts to end rebating.

More recently there have been reports in the press and elsewhere indicating that amendments of a similar nature may be appended to this year's authorization bill.

I have no wish to downplay or minimize the gravity of the issues with which these amendments seek to deal. But efforts are being made at this very moment, as you well know, to fashion legislation to deal effectively with the rebating problem. And as this session of the Congress advances, I would expect that the Congress could come to grips with other problems besetting the industry.

The Authorization bill, however, is intended simply to continue the present programs of the Maritime Administration for the coming fiscal year; its enactment is necessary in order for the Maritime Administration to meet its contractual obligations, and it is not the vehicle, in our view, for dealing with the other complex issues with which we are concerned, and which will require much time and effort satisfactorily to resolve.

Accordingly, I would hope that the bill will not be encumbered by amendments of the nature I have cited, but will be reported out of this Committee expeditiously, and enacted by the Congress, so that we can proceed to the task of giving our other concerns their due and full consideration.

Thank you.

Mr. BONKER. Thank you, Mr. Maskin, for your presentation.

On page 2 of your prepared statement, you say:

We also believe, however, that administration of the operating subsidy could be tightened, particularly with respect to the carriage of Government sponsored preference cargoes, for which there is no foreign flag competition, and with

respect to the servicing of U.S. trades in which unsubsidized American operators have demonstrated that they can compete successfully without such Government aid.

I wonder if you could elaborate on this statement.

Mr. MASKIN. Yes; Mr. Chairman, as you have indicated, I have cited two circumstances under which I believe that the administration of the operating subsidy program could be tightened up.

Now, as you probably are aware, the subsidized liners, in addition to carrying commercial cargoes in foreign trade, also carry substantial volumes of Government sponsored cargoes.

Mr. BONKER. Excuse me, Government sponsored—

Mr. MASKIN. Government sponsored aid cargoes, for which there is no foreign flag competition, because they are reserved by law to American flag ships.

Now, it has long been the position of our Association that operating subsidy should not be paid to the extent that these liner companies carry these protected cargoes, and further, that there should be a remission, or repayment of construction subsidy on a pro rata basis.

We have been dealing with this situation for some years, and while the Maritime Administration has taken some steps to deal with the matter and provide a fairer competitive climate for unsubsidized operators, I do not believe that it has gone as far, or been as effective as it could be in dealing with the situation, and I think that there could be a considerable tightening up of the restrictions against the carriage of protected cargoes by the subsidized carriers.

The other circumstance I would refer to is the payment of operating subsidy for carrying commercial cargoes in those trades where unsubsidized operators have demonstrated that they can do the job without subsidy.

Now, as you know, virtually all of the long-term operating subsidy contracts of the liner companies are up for renewal. In fact, a number of them were renewed last year, and most of the rest are up for renewal this year, and I am simply saying at this point that in extending or in deciding whether or not to extend these long-term subsidy contracts, especially in trades where we do have unsubsidized liners—members of our association are operating very effectively, I think, in the Atlantic and the Pacific and the Mediterranean—the Maritime Administration should weigh these considerations very long, and very hard, and particularly since we are thinking and talking in terms of operating subsidy contracts which are going to extend over the next 20 years.

Mr. BONKER. Switching from operating to construction subsidies, on page 4 of your statement you say that the Federal ship financing fund, under title XI, particularly in the absence of construction subsidy, has been of extremely valuable assistance to unsubsidized operators, and has encouraged them to invest nearly \$4.5 billion of private funds in new American-flag vessels.

Now, how does the absence of subsidy to the industry result in greater stimulation or more healthy investment?

Mr. MASKIN. Well, it is not the absence of the subsidy which stimulates greater investment in the merchant marine. I am simply saying that our operators have all chosen to build without subsidy, which

means that they must finance, or seek financing for 100 percent of the cost of the vessel, since the Government contributes nothing to it; and therefore, having the Government insure that financing through the title XI program is of inestimable help to them in going to the bank and getting the necessary financing.

Mr. BONKER. You probably know that \$3.7 million has been earmarked for the Russian grain program in fiscal year 1979. Do you believe this amount to be adequate for the U.S.-flag vessels engaged in this trade?

Mr. MASKIN. Well, my recollection is that Mr. Blackwell stated in his testimony that it was \$5 million. I may be mistaken about that. I think the point is that the Russian grain subsidy is a subsidy which has assisted our tanker operators. Liners have not participated. It has been the tankers.

At the present time virtually all of our tankers, based on expectations of the movement of the Alaskan oil, have been put under charter to the major oil companies, and those charters will extend into late 1979 or early 1980. The few tankers which are not under charter to the oil companies should be able to find employment in the ordinary coastwise movement of oil from the gulf to the Northeast regions, in the strategic petroleum reserve program, in carrying military cargoes, and possibly in carrying some Public Law 480 cargoes.

The Russian grain movement, as Mr. Blackwell explained to the committee on Tuesday, has never provided American tankers with more than marginal business. It has been strictly a break-even proposition, and the subsidy which is developed by the Government, together with a rate for the carriage of the cargoes, which is developed by negotiations between our Government and the Russians, have never produced more than a break-even situation for the American operator, and that has been done deliberately, because there has never been any intention, as Mr. Blackwell stated, to make the Russian grain movement do anything more than prevent the possible layup of American-flag ships.

So it is virtually the lowest cargo on the totem pole that an American operator will seek, and I think that very few ships will be available for that movement, at least in the coming year.

Now, as far as the numbers, or the amount of subsidy that will be needed, I can only see the situation from the standpoint of AMA operators.

Mr. Blackwell is in a better position to evaluate the state of the entire market, and to tell how much money would be needed to sustain American-flag participation, and I would rely on his assessment.

Mr. BONKER. I have no further questions, but I would like to ask the chairman if he wishes to ask any.

The CHAIRMAN [presiding]. If the question comes up on the Russian grain subsidy, the fact that the U.S. pays an increment on the transportation cost, is that in effect a subsidy for Russian grain on a price basis? Is it because of the negotiation between MarAd and the Russians on what rate that grain will go at?

Perhaps you could enlarge on that a bit.

Mr. MASKIN. Well, you know that under the Public Law 480 program, Mr. Murphy, the rates are supposed to be fair and reasonable, based on unsubsidized costs of American flag operation. They are

supposed to cover the cost of unsubsidized American flag operation, and provide, hopefully, a fair profit to the operator.

Now, in the case of the Russian grain, we have established a rate to carry the cargo which is pegged to the commercial rate of carrying cargoes between the United States and Russia. Actually we do not have a commercial rate, so they are using an index, the rate for carrying those cargoes to the lowlands; and in order to enable American operators to carry the cargoes at that rate, which would be a loss rate for them, they pay a subsidy which is a cost-based subsidy.

The subsidy is adjusted so that if the rate climbs up a little bit, the subsidy declines. But I think it is fair to say that through this kind of an arrangement we are enabling the Russians to obtain the cargo virtually at world rates.

The CHAIRMAN. Does the American Maritime Association operate a political action committee?

Mr. MASKIN. No, we have none.

The CHAIRMAN. Do you make any political contributions as an association?

Mr. MASKIN. Not as an association. I have done some personally, and so have individual members of my association, but not as an association, no.

The CHAIRMAN. Thank you.

Mr. BONKER. Thank you, Mr. Maskin.

Mr. MASKIN. Thank you.

[The following material was received for the record:]

AMERICAN MARITIME ASSOCIATION,
Washington, D.C., March 10, 1978.

HON. JOHN M. MURPHY,
Chairman, Subcommittee on Merchant Marine, Committee on Merchant Marine and Fisheries, Longworth House Building, Washington, D.C.

DEAR MR. CHAIRMAN: I have your letter of February 23 regarding my recent testimony on the maritime authorization bill, and respond in the order of your inquiries:

1. a. The names, addresses and chief executive officers of the parent companies making up the AMA are enclosed. (Enclosure No. 1).

b. The numbers and types of U.S.-flag vessels operated by each member company, grouped according to parent companies and their affiliates, also are enclosed. (Enclosure No. 2).

As I stated in my oral testimony before the Subcommittee, all of these vessels were built without construction-differential subsidy and are being operated without operating-differential subsidy, except for the special ODS being paid to tankers and bulk carriers for the carriage of Russian grain.

c. All the vessels operated by AMA member companies, as shown on Enclosure No. 2, are American-flag ships. While some AMA companies may operate foreign-flag tonnage, or be related to companies which do, such vessels are not enrolled within our Association and we maintain no records of foreign-flag affiliations.

2. The American Maritime Association is funded by annual dues based upon the gross registered tonnage of the vessels enrolled by each member company in the Association.

3. Yes, with the caveat regarding operating-differential subsidy as set forth at page 38 of the transcript. Our views regarding this matter are expressed in greater detail in our response to question No. 5.

4. Assistant Secretary Blackwell, in the prepared statement which he submitted to the Subcommittee on February 7, requested \$5 million a year for the Russian grain program for 1978-79 and said this would enable U.S.-flag ships

to carry about 500,000 tons of grain each year or about 3 percent of the total movement.

As I stated in my oral testimony, nearly all of the AMA tankers, which have been the vessels participating in the Russian grain movement, now are under charter to the oil companies and these charters for the most part extend into late 1979 or early 1980, so that insofar as our operators are concerned, few vessels will be available for Russian grain which, as I explained orally, is a marginal cargo at best.

While we cannot pinpoint the precise supply and demand figures, we have no reason to believe that Mr. Blackwell's assessment of the tonnage that will be carried by American vessels, or the subsidy needed for this purpose is incorrect.

5. With respect to the payment of subsidy for the carriage of Government-sponsored cargoes, the AMA long has maintained that subsidies should not be paid for such carriage since the subsidies are designed to enable American carriers to compete with their foreign counterparts and Government-sponsored cargoes are insulated against foreign competition.

As a result of opposition by AMA, the Maritime Administration has moved to restrict the carriage of Government-sponsored cargoes by subsidized liners. But under MarAd's regulation, subsidized liners still are permitted to carry substantial amounts of Government-sponsored cargoes, often at the expense of unsubsidized carriers, and it is our view that the present restrictions could be considerably tightened.

Moreover, with respect to subsidized tankers and bulk carriers built under the 1970 Act, it may be noted that those vessels which have been awarded ODS under the Act originally were totally prohibited by the terms of their contracts from carrying Government cargoes subject to the cargo preference laws, but that MarAd recently has taken a number of actions to ease those restrictions; and again we believe there should be a tightening up of the procedures.

With regard to the payment of subsidy for commercial liner trades in which unsubsidized operators have demonstrated that they can compete successfully, I might note again, as I did during my oral testimony, that the long-term operating-differential subsidy contracts of virtually all the subsidized liners are up for renewal and that a number of them have indeed already been renewed during the past year.

While, in considering these renewals, the Maritime Administration has been concerned with the adequacy of service on the various trade routes, it has not, in our view, given sufficient weight to economic factors which should determine whether or not it makes sense economically to award subsidy to a particular operator, and to what extent.

Moreover, MarAd has followed a practice of considering ODS renewals on a case-by-case basis, rather than consolidating the cases for an entire trade. The trans-Pacific trades, for example, presently are serviced by three subsidized operators and two unsubsidized ones, all competing with each other. And it seems to us that the consolidation of applications would enable MarAd to achieve a better perspective regarding the need for subsidy in the trade as a whole, rather than on an individual company basis.

I trust the foregoing is responsive to your inquiry.

Sincerely,

ALFRED MASKIN,
Executive Director.

Enclosures.

ENCLOSURE No. 1

AMERICAN MARITIME ASSOCIATION

PARENT COMPANIES

Alton Steamship Co., Inc., 17 Battery Place North, New York, New York 10004,
C. Di Pierro.

American Foreign Steamship Corp., 80 Broad Street, New York, New York
10004, Morris Ginsberg

Cove Shipping, Inc., 88 Pine Street, New York, New York 10005, Andrew Garbis

Hudson Waterways Corp., 1 Chase Manhattan Plaza, New York, New York
10005, Joseph Kahn

Ogden Marine, Inc., 280 Park Avenue, New York, New York 10017, Michael Klebanoff
 OSG Bulk Ships, Inc., 511 Fifth Avenue, New York, New York 10017, Ran Hettena
 Puerto Rico Marine Mgmt., Inc., P.O. Box 1910, Elizabeth, New Jersey 07207, Gerald P. Toomey
 Sea-Land Service, Inc., P.O. Box 900, Edison, New Jersey 08817, Charles I. Hiltzheimer
 Sea Transport Corp., 250 Park Avenue, New York, New York 10017, John P. Coakley
 Transport Commercial Corp., 1 World Trade Building, New York, New York 10048, Ira Guilden
 Vantage Steamship Corp., 11 Broadway, New York, New York 10004, Philip Corletta
 Victory Carriers, Inc., 645 Fifth Avenue, New York, New York 10022, William J. Hogan

ENCLOSURE NO. 2

AMERICAN MARITIME ASSOCIATION—DRY CARGO, CONTAINER, AND TANK VESSELS, BY GROUPINGS AND AS REGISTERED BY MEMBER COMPANIES—JAN. 1, 1978

Group	Dry cargo	Container	Tanker	Total	Gross rate tonnage	Deadweight tons
1. Sea-Land Service Inc. (1).....		43		43	816, 173	687, 418
2. O.S.G. Bulk Ships Inc. (9):						
First Shipmor.....			1			
Globe Seaways Inc.....			1			
Intercontinental Bulk Tank Corp.....			1			
Ocean Clippers Inc.....	1					
Ocean Tankships Corp.....			2			
Ocean Transportation Co. Inc.....			2			
Overseas Bulk Tank Corp.....			2			
Overseas Oil Carriers Inc.....			1			
Sea Tankers Inc.....			2	13	391, 937	725, 248
Total.....	1		12			
3. Ogden Marine Inc. (10):						
Connecticut Transport Inc.....			1			
Empire Transport Inc.....	1					
James River Transport Inc.....	1					
Mohawk Shipping Inc.....	1					
Ogden Merrimac Transport Inc.....	1					
Ogden Sea Transport Inc.....	1					
Penn Tanker Co.....			2			
Rio Grande Transport Inc.....	1					
Wabash Transport Inc.....			1			
Willamette Transport Inc.....			1	11	182, 282	303, 582
Total.....	6	0	5			
4. Puerto Rico Marine Management/Operating Co. Inc.....		11		11	161, 477	160, 432
5. Hudson Waterways Corp. (3):						
Albatross Tanker Corp.....			1			
Hudson Waterways Corp.....	2	1				
Manhattan Tanker Corp.....			1	5	116, 508	184, 442
Total.....	2	1	2			
6. Victory Carriers Group (4):						
Monticello Tanker Co.....			1			
Montpelier Tank Co.....			1			
Mount Vernon Tanker Co.....			1			
Mount Washington Tanker Co.....			1	4	113, 987	197, 461
Total.....	0	0	4			
7. Cove Shipping Inc. (1).....	0	0	4	4	80, 596	137, 769
8. Sea Transport Corp. (1).....	0	0	2	2	38, 582	67, 411
9. American Foreign S/S Group (2):						
American Eagle Tanker Corp.....			1			
American Foreign S/S Corp.....			1	2	36, 229	61, 378
Total.....	0	0	2			

AMERICAN MARITIME ASSOCIATION—DRY CARGO, CONTAINER, AND TANK VESSELS, BY GROUPINGS AND AS REGISTERED BY MEMBER COMPANIES—JAN. 1, 1978—Continued

Group	Dry cargo	Container	Tanker	Total	Gross rate tonnage	Deadweight tons
10. Vantage Steamship Corp. (1): Vancor S/S Corp.	0	0	1	1	19,308	33,761
11. Transport Commercial Co. (1)	1	0	0	1	15,035	23,800
12. Alton Steamship Co. Inc. (1)	1	0	0	1	10,933	23,709
35 companies:						
11 dry cargo vessels					137,651	215,626
55 container vessels					991,139	862,308
32 tankers					854,257	1,533,827
Grand Totals					1,983,047	2,611,761

The CHAIRMAN. Our next witness is Mr. Herbert Brand, president of the Transportation Institute.

**STATEMENT OF HERBERT BRAND, PRESIDENT,
TRANSPORTATION INSTITUTE**

Mr. BRAND. Good morning.

The CHAIRMAN. You may proceed.

Mr. BRAND. Mr. Chairman and members of the committee, I have a very brief statement, and it will not take me but a couple of minutes.

Mr. Chairman and distinguished members of the committee, my name is Herbert Brand. I am president of the Transportation Institute, a private nonprofit research and educational organization whose major efforts are directed toward promotion of a strong and viable American marine transportation capability.

I appreciate the opportunity to participate in today's hearings, which will help this committee to determine maritime authorizations for fiscal year 1979.

The budget proposals which you are analyzing in these hearings are the result of substantial work of a highly technical and complex nature and represent the concerted efforts of many experts in the Maritime Administration, the Department of Commerce and the Office of Management and Budget.

The Transportation Institute does not have the benefit of the substantial data inputs and technical expertise that were required to prepare the budget proposal. That that reason we feel that we could contribute very little to your deliberations by attempting to analyze the authorization request line by line.

I believe it is appropriate, however, to address the overall policy issues to which this authorization request is germane.

A strong maritime fleet is absolutely critical to the well being and survival of the United States. In time of war, the merchant fleet must serve both as a naval auxiliary and as the primary vehicle for resupplying U.S. forces, and those of our allies. That same merchant fleet must also, in wartime, maintain the flow of essential products and raw materials that keep the U.S. economy and those of our allies in operation.

In peacetime, the capabilities of a strong U.S. merchant fleet serve as a deterrent to many hostile actions of foreign powers, and provide this country with a measure of control over those imports and exports that are vital to the U.S. economy.

In a more general way, a strong U.S. merchant fleet is an important and integral part of an efficient domestic economy and national transportation system. In this regard, a particularly productive way to help achieve this objective is through an expansion in the ceiling of the title XI insurance program, although it is not mentioned in the authorization request.

We think this is a very valid step.

Regrettably, the United States today does not possess a fleet with the capabilities I have just described. If we are ever to attain such a fleet, it will certainly require continued Federal commitment of the kind you are being asked to authorize. The budget request before you is minimal when compared with the national needs it must serve.

It is both necessary and appropriate.

At the same time, however, it is clear, I believe, to most observers that the program you are asked to authorize must be judged as part of the larger context. These expenditures can do only part of the job that is necessary to restore the U.S. merchant fleet to the capability that is required in the national interest, and until this country can develop a comprehensive maritime policy, one that addresses the real problems faced by the U.S. merchant marine, we will never have a merchant fleet adequate to serve this Nation's needs. The program you are being asked to authorize is an important and necessary step toward such a policy.

I urge you to adopt it and proceed to development of the policies that are required.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Brand.

You state that the Transportation Institute is a private, nonprofit research and educational organization.

Mr. BRAND. Yes, sir.

The CHAIRMAN. In this regard, with respect to the member companies of the Transportation Institute, please furnish the following information:

One, the name and address of the chief executive officer of each member company.

Two, the number and types of U.S.-flag vessels operated by each member company, and indicate whether such vessels are subsidized or nonsubsidized, and

Three, the number and types of foreign flag vessels operated by each member company.

Mr. BRAND. I will be glad to do that.

Mr. Chairman, with respect to foreign flag operations, we do not keep any record of the member companies' foreign flag vessels. I am aware, however, that there are a very, very few companies which have some foreign flag operations. We do not maintain that kind of information, but I presume it is available.

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1400 Provident Towers
P.O. Box 1460 (mailings)
Cincinnati, OH 45202
(513) 721-4000

S

Craig Stevenson, President
SABINE TOWING & TRANSPORTATION
P.O. Box 1528
Groves, TX 77619
(713) 962-0201

Leonard A. Swann, Jr., President
SAVANNAH RIVER TOWING CO.
Chesapeake-Norfolk, VA Div.
130 Presidential Blvd.
Bala Synwyd, PA 19004

Captain Earl Self, President
SELF TOWING COMPANY
P.O. Box 9210
Mobile, AL 36609
(205) 432-5615
(205) 479-9941
(205) 661-7289

A.J. Tordella, President
SHERIDAN TRANSPORTATION COMPANY
P.S.F.S. Building
12 South 12th Street
Philadelphia, PA 19107
(215) 925-0451

SLADE, INC.
c/o Higman Towing
P.O. Box 908
Orange, TX 77630

William R. Saul, President
STEUART TRANSPORTATION COMPANY
Star Route Box 227
Piney Point, MD 20674
(301) 994-2222

R. D. Stone, President
STONE TOWING LINE
Four South Water Street
Wilmington, NC 28401
(919) 762-2451

T

George H. Anderson, President
TAYLOR & ANDERSON TOWING & LIGHTERAGE COMPANY
The Mall Building
325 Chestnut Street
Philadelphia, PA 19106
(215) 925-5865

Albert J. Tordella, President
TUG MANAGEMENT CORPORATION
12 South 12th Street
Philadelphia, PA 19107
(215) 925-0451

U

John Santani, President
UNION BOAT SERVICE
P.O. Box 432
Gretna, LA 70053
(504) 368-2210

V

R. L. Counselman, President
VIRGINIA PILOT ASSOCIATION
425 West Bute Street
Norfolk, VA 23510
(804) 627-5435

W

J. M. Miller, President
WAYNE TERMINAL & DOCK CO.
1640 Penfield Road
Rochester, NY 14625

W. P. Hunt, President
W.P. HUNT COMPANY
800 Armstead Avenue
Hampton, VA 23309
(804) 722-2543

J. D. d'Hemecourt, President
WESTERN TOWING COMPANY
1616 W. Loop South
Houston, TX 77027
(713) 622-5771 (d)
(713) 452-4555 (n)

Z

Howard T. Hagen, President
ZENITH DREDGE COMPANY
P.O. Box 6568 (mailings)
200 South Central Avenue
Duluth, MN 55806
(218) 624-5725

A & S TRANSPORTATION

Modern Transportation Co.

3 barges

1 barge

ALTON STEAMSHIP CO.

Altair Steamship Co.

1 bulk cargo

Asbury Steamship Co., Inc.

1 bulk cargo

Alpine Steamship Co.

1 general cargo

1 general cargo

APEX MARINE CORP.

1 tanker

MARITIME OPERATIONS, INC.

1 research

MARITIME OVERSEAS CORP.

First Shipmor Assoc.

1 steamship

Globe Seaways, Inc.

1 steamship

Intercontinental Bulk Co.

2 steamships

Ocean Clipper, Inc.

1 bulk cargo

Natalie Tankship Corp.

1 tanker

Ocean Transport, Inc.

2 steamships

Overseas Bulk Tank Corp.

1 tanker, 1 steamship

Overseas Oil Carriers, Inc.

1 steamship

Sea Tankers, Inc.

1 steamship

MOUNT SHIPPING, INC.

1 steamship

Cove Tankers Corp.

3 tankers

Mount Shipping

6 tankers

NEWPORT TANKERS CORP.

1 steamship

OGDEN MARINE CORP.

Connecticut Transportation, Inc.

1 steamship

Empire Transport Co.

1 bulk cargo

James River Transport

1 container

Mohawk Shipping, Inc.

1 container

Ogden Merrimac Transport

1 bulk cargo

Ogden Sea Transport, Inc.

1 bulk cargo

Penn Tanker Co.

1 tanker, 1 steamship

Rio Grande Transportation, Inc.	1 bulk cargo
Webash Transportation, Inc.	1 tanker
Williamette Transportation, Inc.	1 steamship
 <u>PACIFIC GULF MARINE, INC.</u>	 1 bulk carrier
 <u>POINT SHIPPING CORP.</u>	
Birch Shipping Corp.	1 tanker
Point Venture	1 bulk carrier
 <u>PUERTO RICO MARINE OPERATIONS</u>	
	5 containers, 3 dry cargo, 3 roll on-roll-off
Puerto Rico Marine Operating Co., Inc.	5 containers
 <u>REYNOLDS METAL COMPANY</u>	
	2 bulk carriers
 <u>STEAMSHIP SERVICE CORP.</u>	
	1 steamship
 <u>SEALAND SERVICE, INC.</u>	
	40 containers, 11 dry cargos
 <u>TRANSOCEANIC CABLE SHIPS CO.</u>	
	1 cable
 <u>T. M. MCQUILLING AND CO.</u>	
	1 steamship
 <u>TRANSPORT COMMERCIAL</u>	
	1 bulk cargo
 <u>UNITED MARITIME CORP.</u>	
	1 steamship
 <u>U.S. STEEL CORP.</u>	
	1 dry cargo

VANTAGE STEAMSHIP

National Transport, Inc.
Vancor Steamship

1 steamship
1 tanker

VICTORY STEAMSHIP

Monticello Tanker Co.
Montpelier Tanker Co.
Mt. Vernon Tanker
Mt. Washington Tanker Co.

1 steamship
1 steamship
1 steamship
1 steamship

WATERMAN STEAMSHIP

14 dry cargo, 1 freighter,
3 lash

WESTCHESTER MARINE SHIPPING CO.

2 oil bulk carriers,
4 steamships, 5 tankers

ZAPATA BULK TRANSPORT, INC.

4 tankers

<u>ALLIED TOWING COMPANY</u>	17 tugs
<u>AMERICAN COMMERCIAL BARGE LINE</u>	18 tugs
<u>BACON TOWING COMPANY</u>	6 tugs
<u>BAKER-WHITELY TOWING CO.</u>	6 tugs
<u>BALTIMORE TOWAGE & LIGHTERAGE COMPANY</u>	1 tug
<u>BARGE HARBOR TOWING CO., INC.</u>	5 tugs
<u>BERG TOWING COMPANY OF DELAWARE, LTD.</u>	1 tug
<u>BIGANE VESSEL REFUELING</u>	1 oil tanker
<u>BLUM TOWING SERVICE</u>	1 tug
<u>C. G. WILLIS, INC.</u>	4 tugs
<u>CAPE FEAR TOWING CO., INC.</u>	5 tugs
<u>CARIBE TUG BOAT COMPANY</u>	14 tugs
<u>CARIBE TUG BOAT COMPANY</u>	10 tugs
<u>CHARLES H. HARPER ASSOCIATES, INC.</u>	2 tugs
<u>COAL TERMINAL TOWING</u>	1 tug
<u>CONSTRUCTION AGGREGATES</u>	3 tugs
<u>CRESCENT TOWING & SALVAGE CO.</u>	12 tugs

<u>CURTIS BAY TOWING OF MARYLAND</u>	9 tugs
<u>CURTIS BAY TOWING OF PENNSYLVANIA</u>	8 tugs
<u>CURTIS BAY TOWING OF VIRGINIA</u>	8 tugs
<u>DELAWARE RIVER BARGE COMPANY</u>	1 tug
<u>DELTA QUEEN STEAMBOAT COMPANY</u>	2 riverboats
<u>DIXIE CARRIERS, INC.</u>	30 tugs
<u>DUNBAR & SULLIVAN DREDGING CO.</u>	5 tugs, 2 launchers, 4 cranes, 2 dredges
<u>EAST COAST SALVAGE CO., INC.</u>	1 tug
<u>ENERGY COOPERATIVE, INC.</u>	1 motor vessel
<u>EXPRESS MARINE, INC.</u>	5 tugs
<u>FITZSIMMONS & CONNEL DREDGE & DOCK</u>	1 tug
<u>G & H TOWING COMPANY</u>	30 tugs
<u>GEORGE W. WHITEMAN TOWING, INC.</u>	5 tugs
<u>GREAT LAKES DREDGE & DOCK CO.</u>	2 tugs
<u>GREAT LAKES TOWING COMPANY</u>	45 tugs
<u>GULF ATLANTIC TRANSPORT CO.</u>	1 tug
<u>GULF-CANAL LINES, INC.</u>	6 tugs

<u>GULF MARINE, DIV. OF IDEAL CEMENT</u>	1 tug
<u>HANNAH INLAND WATERWAYS CORP.</u>	6 tugs
<u>HARBOR TOWING CO.</u>	4 tugs
<u>INDEPENDENT LIGHTERAGE COMPANY</u>	4 tugs
<u>INDEPENDENT TOWING COMPANY</u>	7 tugs
<u>INLAND TUGS, INC.</u>	10 tugs
<u>INTER-CITIES NAVIGATION CORP.</u>	1 tug
<u>INTERNATIONAL BULK TRANSPORTATION CO.</u>	1 tug
<u>INTERNATIONAL UNDERWATER CONTRACTORS</u>	1 tugs
<u>INTERSTATE BARGE COMPANY (I.B.C.)</u>	4 tugs
<u>INTERSTATE OIL TRANSPORT CO.</u>	12 tugs
<u>LUEDTKE ENGINEERING COMPANY</u>	6 tugs
<u>MARINE CONTRACTING AND TOWING CO.</u>	7 tugs
<u>MARINE FUELING SERVICE, INC.</u>	4 tugs
<u>MARINE OIL SERVICE, INC.</u>	2 tankers
<u>MARINE TOWING AND TRANSPORTATION CO.</u>	3 tugs
<u>MARINER TOWING COMPANY</u>	11 tugs
<u>MOBILE TOWING COMPANY</u>	4 tugs

<u>MONROE CONTRACTORS EQUIPMENT, INC.</u>	3 tugs
<u>MORAN TOWING OF TEXAS, INC.</u>	6 tugs
<u>MCALLISTER BROTHERS, INC.</u>	9 tugs
<u>MCALLISTER BROTHERS, INC.</u>	9 tugs
<u>N. L. INDUSTRIES, INC.</u>	1 tug
<u>NATIONAL MARINE SERVICES, INC.</u>	17 tugs
<u>NORFOLK, BALTIMORE AND CAROLINA LINES, INC.</u>	4 tugs, 2 motor vessels
<u>NORFOLK BARGE COMPANY</u>	3 tugs
<u>NORTHEAST TOWING, INC.</u>	2 tugs
<u>NORTHERN TOWING COMPANY</u>	10 tugs
<u>OCEAN TOWING, INC.</u>	5 tugs
<u>ORGULF TRANSPORT COMPANY</u>	4 tugs
<u>OZARK MARINE SERVICE, INC.</u>	1 tug, 2 motor vessels
<u>PETER KIEWIT SONS' COMPANY</u>	2 tugs
<u>RADCLIFF MATERIALS, INC.</u>	11 tugs
<u>RED CIRCLE TRANSPORT COMPANY</u>	3 tugs
<u>SABINE TOWING & TRANSPORTATION</u>	14 tugs, 5 motor vessels
<u>SAVANNAH RIVER TOWING CO.</u>	2 tugs

<u>SELF TOWING COMPANY</u>	4 tugs
<u>SLADE, INC.</u>	9 tugs
<u>STEUART TRANSPORTATION COMPANY</u>	7 tugs
<u>STONE TOWING LINE</u>	3 tugs
<u>TAYLOR & ANDERSON TOWING & LIGHTERAGE CO.</u>	4 tugs
<u>TUG MANAGEMENT CORPORATION</u>	5 tugs
<u>UNION BOAT SERVICE</u>	1 motor vessel
<u>VIRGINIA PILOT ASSOCIATION</u>	1 motor vessel
<u>W. P. HUNT COMPANY</u>	2 tugs
<u>WESTERN TOWING COMPANY</u>	5 tugs

MEMBER COMPANY VESSELS UNDER SUBSIDY IN 1977

Robert Toombs	Delta Uruguay
Alex Stephens	Delta Mexico
J. B. Waterman	Delta Mar
John Tyler	Delta Norte
Thomas Lynch	Delta Sud
George Walton	Patriot
Arthur Middleton	Ranger
Joseph Hewes	Rover
Stonewall Jackson	Courier
Sam Houston	Ultramar
Jeff Davis	Ultrasea
Thomas Nelson	Golden Dolphin
Del Oro	Golden Endeavor
Del Rio	Golden Monarch
Del Sol	Beaver State
Delta Argentina	American Heritage
Delta Brasil	Rose City
Delta Paraguay	Worth

The CHAIRMAN. If you will inquire of your member companies. Then furnish the name and addresses of each member of the board of trustees of the Transportation Institute.

Mr. BRAND. Yes, sir.

[The following material was received for the record:]

ENCLOSURE IV

TRANSPORTATION INSTITUTE

BOARD OF TRUSTEES

Joseph Kahn, Chairman of the Board, Seatrains Lines, Incorporated, Port Seatrains, Weehawken, New Jersey 07087.
 David B. Ballash, President, Foss Launch and Tug Company, 660 W. Ewing, Seattle, Washington 98119.
 Capt. J. W. Clark, President, Delta Steamship Lines, Incorporated, P. O. Box 50250, New Orleans, Louisiana 70150.
 Thomas Crowley, President, Crowley Maritime Corporation, Spear Street Tower, One Market Plaza, San Francisco, California 94105.
 Ran Hettner, President, Maritime Overseas Corporation, 511 Fifth Avenue, New York, New York 10017.
 Rear Admiral Charles R. Khoury, USN (Ret.), President and Chief Executive Officer, Great Lakes Towing Company, 1800 Terminal Tower Building, Cleveland, Ohio 44113.
 Michael Klebanoff, President, Ogden Marine, Incorporated, 280 Park Avenue, New York, New York 10017.
 David MacKenzie, Vice President, Victory Carriers, Incorporated, 645 Fifth Avenue, New York, New York 10022.
 Harrison Glennon, Zapata Bulk Transport, Incorporated, 342 Madison Avenue, Suite 720, New York, New York 10017.
 Charles Hiltzheimer, Chairman, Sea-Land Service, Incorporated, P. O. Box 900, Edison, New Jersey 08817.
 S. M. Moodie, Vice President, Bethlehem Steel Corporation, Great Lakes Marine Division, 25 Broadway, New York, New York 10004.
 Edward P. Walsh, President, Waterman Steamship Corporation, 120 Wall Street, New York, New York 10005.
 Herbert Brand, President, Transportation Institute, 923 15th Street, N.W., Washington, D.C. 20005.

The CHAIRMAN. How is the Transportation Institute funded?

Mr. BRAND. It is funded by contributions by each of the operator-member companies.

The CHAIRMAN. Is there a formula for—

Mr. BRAND. Yes, on the basis of the manpower aboard each vessel, of the member companies. I might point out that while manpower is the basis for the contributions, that as a result of that, our income shrinks in direct relationship to the unions' and management's agreements to reduce the sizes of crews.

So, I might point out that the operators who are members of the Transportation Institute, and the unions with whom they have collective bargaining relationships, were the innovators, if you will, of the move to reduce the size of crews to enable our American flag operations to become more competitive with foreign fleets, beginning with the 1970 period, when the new Merchant Marine Act sought to improve the position of the U.S. flag fleet.

The CHAIRMAN. Does the Transportation Institute operate a political action committee?

Mr. BRAND. No, sir.

The CHAIRMAN. Does it make campaign contributions?

Mr. BRAND. No, sir.

The CHAIRMAN. Do you support this authorization request for Marad?

Mr. BRAND. Yes, sir, I do. I think it is minimal, as I said.

The CHAIRMAN. I do not believe that the authorization request calls for increasing the ceiling of the title XI guarantee program—

Mr. BRAND. No, sir; that was a typographical error, and I corrected it in my reading, saying that although it is not mentioned, I think there will be some effort to increase the ceiling. I think it is necessary.

The CHAIRMAN. You talked about the development of a comprehensive long-term maritime policy. Will you elaborate on that statement?

Mr. BRAND. Yes, sir, I think that beginning with the 1970 act, we attempted—all of us in the industry, the Congress, and the Federal Government, attempted to draw up plans, and produce a policy that would answer the industry's problems. It was necessary to provide a fair share of our foreign commerce for American flag ships that would thus assure us of a substantial interocean capability.

The objectives did not happen, and it did not happen for a range of reasons. And we are confronted now again with the fact that, diminution of the U.S. flag fleet, in addition to the fact that other flag fleets of the world are increasing. We were unable to foresee at that time the development of the fleets of the emerging and developing nations to the extent that this is now occurring.

We had no anticipation of what the Arabs would be doing in developing their fleets. We certainly did not see any signs, at least none that caused us to act accordingly, of the Soviet Union's massive interest in a seapower posture that includes a very, very strong, and perhaps dominant, merchant marine fleet. And so whatever the 1970 act sought to produce was unavailable of its purpose, and it behooves us now to provide some strength to the merchant marine, to provide some support for it, especially since the earlier efforts have failed.

I am referring to things like cargo preference, and other efforts to bolster the merchant marine to insure its continued viability have been unsuccessful. They failed, and consequently, we are still confronted with the problem of how to have what is an essential component of American life—and that is a merchant marine, and an adequate inter-ocean transportation capability.

We think, therefore, that the time is now, to try to develop a comprehensive policy, rather than "a baling wire and chewing gum approach," a maritime policy that would assure us of a minimal participation in the carriage of our foreign trade, and would provide us with sufficient backup for our military forces, for those in Europe. It will be this country's responsibility, and no one else, I think in the event of any need, in Europe or anywhere else, to provide the means of transportation for military backup.

We think that it is time now, therefore, for the total approach to the problem, and it must be done, it seems to me, in concert by the industry, by the legislature, and by the national administration. Otherwise we are not going to get it. It must be an effort that everybody is coordinated in developing.

The CHAIRMAN. Mr. Bonker.

Mr. BONKER. I have no questions, Mr. Chairman.

The CHAIRMAN. Counsel.

Mr. CORRADO. No questions, Mr. Chairman.

The CHAIRMAN. Minority Counsel.

Mr. SANDS. No questions.

The CHAIRMAN. Thank you very much, Mr. Brand.

We have at this point statements from Mr. Edward Walsh, president of the Waterman Steamship Corp.

Without objection, it will be placed in the record at this time.

A statement by the American Institute of Merchant Shipping, which we will place in the record at this time, without objection.

A statement of the Labor-Management Maritime Committee, which we will place in the record at this time, without objection.

The CHAIRMAN. The subcommittee will stand adjourned subject to the call of the Chair.

[The following material was submitted for the record:]

STATEMENT OF THE AMERICAN INSTITUTE OF MERCHANT SHIPPING

The American Institute of Merchant Shipping (AIMS), a national trade association which represents the interests of U.S. flag shipowners, greatly appreciates this opportunity to indicate its support for H.R. 10729, a bill to authorize the appropriation of funds requested by the administration for its fiscal year 1979 maritime programs. AIMS is comprised of 23 member companies which own and operate tankers and other types of vessels in this Nation's foreign and domestic trades.

It is our view that the administration's proposed funding level of \$494,628,000 is generally adequate in light of the current state of the maritime industry. Of particular interest to us of course are the funds programed for construction differential subsidy (CDS) and operating differential subsidy (ODS). These total \$419,800,000, and will, in conjunction with carry-over funding from the present fiscal year, assist in the building of 13 new vessels in American yards, and in the operation of about 200 vessels—liners and bulkers—in foreign commerce. Additionally the ODS funds will assist some U.S. flag vessels participating in the Russian grain trade.

We as an industry are regularly confronted with accusations and allegations about subsidies, and about various governmental maritime assistance programs in general. The ODS and CDS programs are simply intended to achieve parity, to place the American owner and operator on a par with his foreign flag competitors. Study after study—the recent report prepared for the Maritime Administration (MARAD) by Temple, Barker and Sloane and the Chase Econometric Associates comes most quickly to mind—have detailed the very extensive assistance and incentive programs conducted by our major foreign trading partners and competitors to bolster their own merchant fleets.

Our programs happen to be conducted in the full light of day, or perhaps sunshine would be a more appropriate term. They are modest in scope. The benefits which are returned to the national economy, the national defense and the Federal Treasury are most demonstrable and more than offset their costs. They merit far more support than they receive.

Secretary Blackwell's February 7 statement to this Subcommittee provides an excellent review of MARAD's various programs, and there is certainly little we might add to it. Rather than reiterate facts already presented, I would like to comment on questions which have been raised in the past as to the desirability of extending subsidy to energy carriers. There are, as you know, 5 liquefied natural gas vessels among the total of 13 encompassed by the construction program before you.

The cornerstone of these programs is the Declaration of Policy set forth in section 101 of the Merchant Marine Act of 1936, as amended. That section sets forth the national defense and commercial considerations which make the act and hence these programs necessary. Unfortunately, these considerations occasionally are misinterpreted to read "Department of Defense", thus giving rise to the contention that if a vessel does not have an immediate and compelling

military wartime use, it should not be in the program. I suspect relatively few U.S. flag ships would meet such a rigid and limited criterion.

AIMS has testified on this issue in the past, most recently at the oversight hearings conducted by this subcommittee during 1975 and 1976. However, a more current and I suspect more persuasive statement was presented to you on July 13, 1977 by Vice Adm. C.R. Bryan, Commander of the Navy's Sea Systems Command. Admiral Bryan noted that every vessel built with CDS has been certified either as suitable for conversion to naval auxiliary status, or otherwise as useful to the Government in time of war or national emergency. I am sure the Admiral would agree that a wide range of vessels are required to meet our needs and LNG ships, which are readily convertible into oil tankers, are no exception to the rule.

On behalf of our members, AIMS wishes to reiterate its support for the prompt enactment of H.R. 10729. We do appreciate the opportunity to have presented our views and thank you for your consideration.

STATEMENT OF EDWARD P. WALSH, PRESIDENT, WATERMAN STEAMSHIP CORP.

My name is Edward P. Walsh. I am President of Waterman Steamship Corp., 120 Wall Street, New York, N.Y., 10005.

Waterman Steamship Corporation, now one of the oldest U.S.-flag shipping companies, was organized in Mobile, Ala., in 1919 and commenced its operations at that time with a vessel allocated to the company by the United States Shipping Board. By early 1931, Waterman was operating 14 vessels for the Shipping Board, and, later that year, purchased the vessels when the Board decided to sell its vessels to private operators.

By 1938, Waterman owned and operated 37 vessels in the foreign and domestic commerce of the United States, in services to the United Kingdom, Continental Europe, the Far East, Puerto Rico, and in coastwise and inter-coastal trades. During World War II, Waterman built and operated a large fleet of vessels for our Government, and, after the war, purchased 55 vessels from the Government under the provisions of the Ship Sales Act of 1946, with which the pre-war services were resumed and additional services initiated to the Mediterranean, Red Sea, Persian Gulf, and Indian Ocean ports.

Following World War II, Waterman was able to profitably operate its relatively low capital cost vessels acquired under the Ship Sales Act of 1946, due in part to the large volume of cargo moving in our foreign commerce under the programs for world reconstruction and relief following the war, and in part to the relative absence of foreign-flag competition, particularly from the Japanese-flag lines, because of their heavy war losses of vessels.

Waterman Steamship Corp. was acquired in 1955 by McLean Industries, Inc. In 1957, Waterman, while owned by McLean Industries, applied for operating differential subsidy contracts for its services, including its service between U.S. Atlantic and gulf ports and Far East ports (TR 12 and 22), apparently in recognition of the fact that it would be unable to continue to compete successfully without operating differential subsidy as other countries built their new vessels, brought them into service in the liner trades in the foreign commerce of the United States in increasing numbers and took a strong hand with their government agencies, banks and merchants in channeling the best paying commodities to their national-flag vessels. In 1963, Waterman's Far East service was suspended due to substantial losses incurred in the unsuccessful effort to continue to compete with foreign-flag vessels.

In 1965, 100 percent of the stock of Waterman Steamship Corp. and its 15 war-built vessels remaining at that time were acquired by Waterman Industries Corp., a holding company owned by members of my family group. In 1966, United States Freight Co. (now Transway International Corp.) acquired 50 percent of the stock of Waterman Steamship Corp.

Upon acquiring Waterman and its 15 vessels, we recognized the then existing block obsolescence of the war-built vessels and the fact that while the company had the background and ability to operate profitably, it could not do so under U.S.-flag for the long term future without operating differential subsidy assistance. In no other way could the needed reserves be accumulated to purchase new equipment.

Today, Waterman maintains service to three essential trade areas. They are the Middle East, the Far East, and Europe. On Trade Route 18 we serve between U.S. Atlantic and gulf ports and ports in Southwest Asia from Suez to Burma, and in Africa in the Red Sea and Gulf of Aden with a maximum of 40 sailings annually. In addition to four C-4 type vessels operated on this route, we operate three (3) LASH vessels with a complement of 425 lighters. For Waterman this represents an investment of \$52 million in LASH vessels and \$29 million in lighters. For the future we are obligated to contract for two (2) additional LASH vessels between 1980 and 1984. Conservatively, we estimate that our investment for this obligation will be \$100 million for the LASH vessels and \$32 million for the necessary lighters.

In addition, we also have the option of building two more LASH vessels in 1984 to serve Trade Route 18. These vessels we estimate will involve an investment of \$137 million in vessels and \$44 million in lighters.

In order to provide the level of service we believe is necessary on Trade Route 18 Waterman has made application to the Maritime Administration to increase our annual number of sailings per year by 30 to a new maximum of 70 sailings per year. Upon approval of this application, if granted, it would be necessary for us to make an additional investment of \$200 million in vessels and \$64 million in lighters for four (4) additional LASH vessels.

Also, in connection with our service on Trade Route 18, we have made application for privilege calls between U.S. Great Lakes ports and ports in the Red Sea, Persian Gulf, India and Africa and for privilege calls at Mediterranean Egyptian and African ports from the U. S. gulf and Atlantic coast. These services would involve the acquisition of three additional breakbulk type vessels—undoubtedly from private sources—costing several million dollars, but in this case we are unable to talk with many precision regarding investment figures.

Our service on Trade Routes 12 and 22 is between U.S. Atlantic and gulf ports and ports in Japan, Korea, Taiwan, Hong Kong, Okinawa, Philippine Islands, Viet Nam, Cambodia, and Thailand with a maximum of 18 sailings annually. Pursuant to our commitment with the Maritime Administration, we have signed shipyard contracts to build two new LASH vessels representing an investment of \$80 million with an additional investment of \$26 million for lighters. Currently we operate five (5) Mariner-type vessels on these routes.

Our European service is presently provided with four (4) of the Mariner-type vessels. We have proposed in applications to the Maritime Administration a service on essential Trade Routes 5-7-8-9-6, 11 and 21 between U. S. gulf and Atlantic ports and ports in Western Europe, Scandinavia, and Baltic countries.

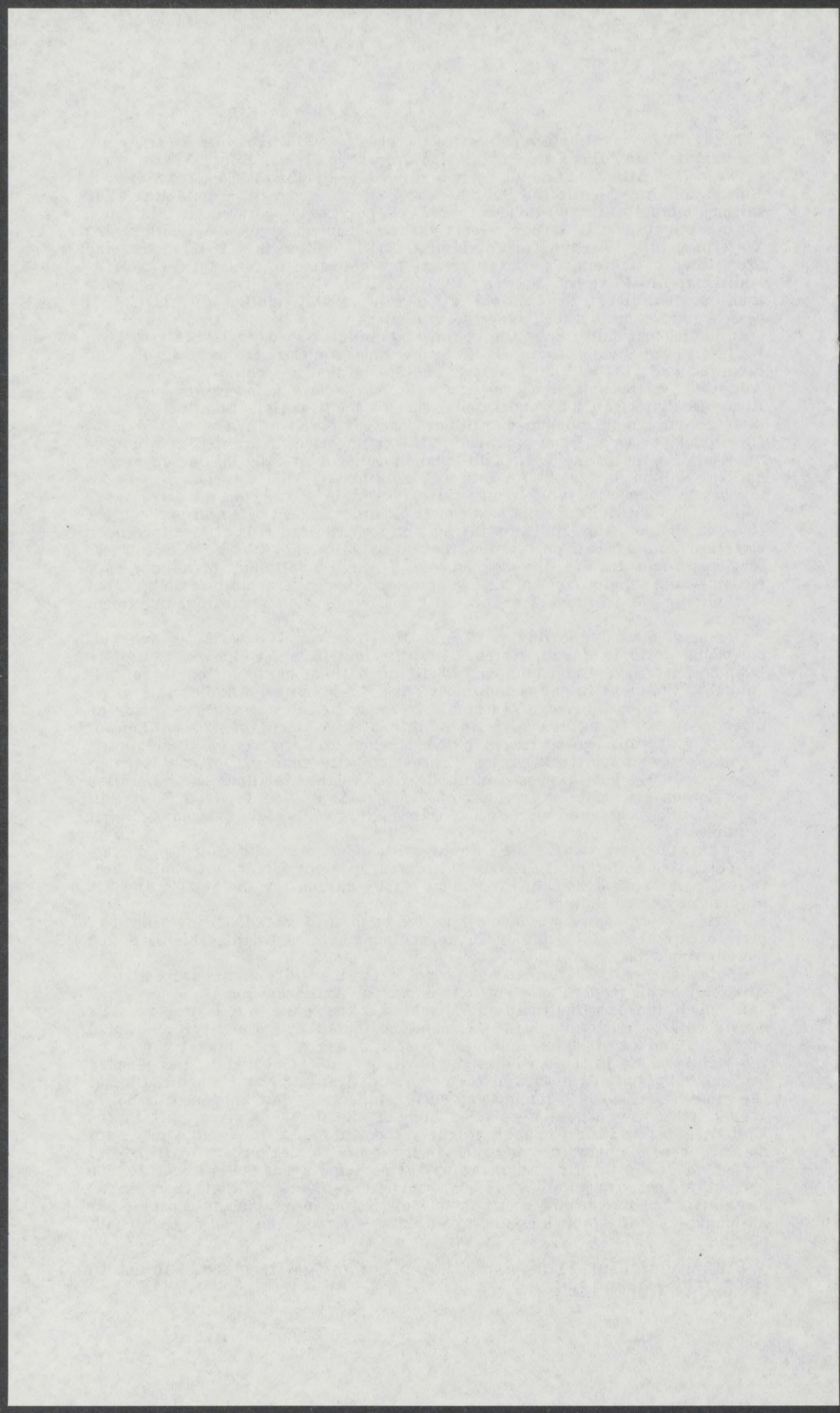
We presently are serving these routes without subsidy and if our application for Operating Differential Subsidy is granted, it is our intention to build three roll-on/roll-off vessels at an investment of \$98 million for the vessels and \$12 million for related equipment.

As this record shows, we have committed or plan to commit an investment of private capital of \$874 million to upgrading and modernizing the U. S.-flag merchant marine.

Gentlemen, we of Waterman are proud of the ingenuity and courage it took to establish this modern, efficient fleet under the American flag.

In conclusion, Mr. Chairman and Members of the committee, I am personally convinced after a lifetime in the steamship business that without full, undiluted operating and construction subsidies, American-flag ships cannot compete on the high seas. So to those who might have thoughts of abolishing our subsidy system, I say you might as well forget an American merchant marine. But, at the same time, I wish to remind any such thinkers of what happened in World War I when the cargoes were piled high on the docks of every port in the United States waiting for ships to carry them abroad. The foreign merchant marines were too busy carrying their own cargoes to destinations of their own choice and consequently freight rates sky-rocketed from 600 percent to 800 percent almost overnight. It is my conviction, therefore, that there is no alternative but to continue a strong subsidy system if we wish to continue our national policy of establishing and maintaining a strong American-flag merchant marine.

[Whereupon, at 11:58 a.m., the subcommittee recessed, subject to the call of the Chair.]



MARITIME AUTHORIZATION—1979

THURSDAY, FEBRUARY 23, 1978

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

The subcommittee met, pursuant to notice, at 10:18 a.m., in room 1334, Longworth House Office Building, Hon. John M. Murphy [chairman of the subcommittee] presiding.

The CHAIRMAN. The subcommittee will come to order.

Our first witness this morning is Hon. Robert J. Blackwell, the Assistant Secretary of Commerce for Maritime Affairs, Maritime Administration.

We know that you have no formal statement, Mr. Blackwell, but I think there is some elaboration on our previous record that you wanted to make at this time. We would be happy to recognize you for that purpose.

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

Mr. BLACKWELL. Thank you, Mr. Chairman, and members of the committee.

There are several comments I would like to make to have a clearer and better record.

In a response to a question at my first appearance before this authorization committee I testified that the U.S. shipbuilding backlog was 59 vessels. In the 2 weeks that has elapsed between that testimony and today, four additional vessels have been scheduled from U.S. shipyards; three from the Sun Yard in Pennsylvania and one from the Lorain American Shipbuilding Works in Lorain, Ohio.

The Lorain ship is a thousand-foot pellet carrier and the other three vessels—the vessels to be built at Sun—are a \$75 million container ship for Matsan, to be used between Hawaii and the west coast, and two product carriers being built for the parent of Sun Shipbuilding, Sun Oil. Approximately \$200 million are involved in those contracts, Mr. Chairman.

The reason I thought it was important to amend the record is that both the Sun Yard in Pennsylvania and the Lorain Yard were on the list at the Maritime Administration, which indicated that those yards needed contracts immediately in order to avert significant unemployment.

ment. So, to a limited extent, there has been some respite there for the workers in those two yards.

I would also like to respond to some undertakings that I made to questions put to me by Congressman McCloskey. Mr. McCloskey asked about the authority for pursuing a maritime subsidy program on Russian grain back in 1972. I indicated that we were instructed by the administration at that time to prepare a rate formula as well as a subsidy arrangement which was essentially break even.

I would like to tender for the record a memorandum addressed to me from Secretary Pete Peterson, who was then the Secretary of Commerce, addressed to Robert J. Blackwell, Assistant Secretary, Maritime, dated October 17, 1972. This would be for the record, Mr. Chairman.

The CHAIRMAN. Without objection it will be placed in the record at this point.

[The following material was received for the record:]

Memorandum for : Mr. Robert J. Blackwell, Assistant Secretary, Maritime.
Subject: Subsidy for American vessels in U.S.-U.S.S.R. agricultural trade.

In devising the appropriate subsidy to be paid to U.S. bulk cargo vessels to be engaged in the carriage of grain between the United States and the Soviet Union under the Maritime Agreement, it is important to be sure that the subsidy is practical and will permit participation by American vessels. It is equally important that the subsidy be kept to the minimum amount necessary. As you know, our purpose has been to devise a subsidy which is basically on a break-even basis.

The vessel operators will naturally seek to obtain as high a subsidy as possible, but we should keep in mind that this is in itself a new type of subsidy and the American taxpayer should not be required to bear any more burden than is absolutely necessary.

The recent increase in world shipping rates for the route and cargo involved presents an opportunity to reduce the subsidy which will have to be paid and we should be sure that this is done. As the ship operators will be the ones negotiating for the freight rates we should give them an incentive to negotiate for as high a rate as possible but be sure that a major portion of any increase in freight rates accrues to the benefit of the taxpayer.

PETER G. PETERSON,
Secretary of Commerce.

Mr. BLACKWELL. In addition to that, there was a limited colloquy between myself and Mr. McCloskey concerning the identification of the subsidy program. There may have been some misconception as to whether subsidy would, in fact, be paid and whether the rates negotiated would be able to avoid subsidy.

I would like to offer as well a reprint from the Federal Register, dated October 21, 1972—just about the same time, or somewhat after Secretary Peterson's memo—which submits for public comment the first subsidy program for Russian grain in a very definitive manner, including the abatement formula that I mentioned in which there would be a return to the government of certain freight rates if they exceeded particular amounts. That is also available for the record.

In addition to that, and to avoid any further misunderstanding, I think it might be prudent to make available to the committee, for publication in the record, if the Chair so desires, a compendium of documents which include the White House fact sheet, dated October 14, and a—

The CHAIRMAN. Seventy-seven, seventy-eight?

Mr. BLACKWELL. Seventy-two, along with a verbatim transcript of a press conference that took place in the White House. The primary commentators on the agreement for the United States at the time were Secretary Peterson, Jim Lynn, and Mr. Gibson. There is a colloquy there which touches on some of the questions that were put to me by Congressman McCloskey.

In addition to that, it contains the Maritime agreement itself and all the pertinent exchanges of letters and memoranda that were, in fact, signed.

The CHAIRMAN. Without objection those documents will be made part of the record at this point.

[The following material was submitted for the record:]

AGREEMENT BETWEEN THE UNITED STATES AND THE SOVIET UNION ON COMMERCIAL
MARITIME RELATIONS

U.S. DEPARTMENT OF COMMERCE
Maritime Administration
Washington, D.C. 20235

FOREWORD

Attached herewith are copies of the documents representing the Agreement signed on October 14, 1972, by the United States and the Union of Soviet Socialist Republics concerning commercial maritime relations between the two nations. The documents appended include a fact sheet on the Agreement, which summarizes its provisions; a transcript of a press briefing on the Agreement by Secretary of Commerce Peter G. Peterson; the Agreement itself with annexes; and various letters pertaining to the specific implementation of the Agreement.

These documents are furnished for the convenience of the maritime industry, to enable interested parties to become fully informed of the Agreement's provisions as soon as possible. Because of our desire to make the Agreement available on a timely basis, unofficial translations of several documents were used. These may vary slightly from the official translations that will be forthcoming, although these discrepancies should be minor and insignificant. In any case, this version of the Agreement and supporting documents are not intended to replace the official copies that will appear in Treaties and Other International Agreements.

FOR IMMEDIATE RELEASE

OCTOBER 14, 1972

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

A major maritime agreement with the Soviet Union was signed today by U.S. Secretary of Commerce Peter G. Peterson and the Minister of Merchant Marine of the Union of Soviet Socialist Republics Timofey B. Guzhenko. This Agreement represents another necessary link in the establishment of an expanding commercial relationship with the Soviet Union.

The negotiations which culminated in this Agreement were initiated in the latter part of 1971, and have been the subject of a series of meetings in Washington and Moscow throughout 1972.

By providing a broad framework and a clear set of ground rules for maritime activities between the two countries, this Agreement is an important step toward normalizing and expanding maritime relationships between the United States and the Soviet Union.

OBJECTIVES

The Agreement has two basic objectives; first, to open the channels of maritime commerce between the two nations by opening major U.S. and Soviet commercial ports to calls by specified kinds of U.S. flag and Soviet-flag vessels; and, secondly, to afford to US-flag vessels and Soviet-flag vessels the opportunity to participate equally and substantially in the carriage of all cargoes moving by sea between the two nations.

SALIENT POINTS OF THE AGREEMENT

Port Access. The Agreement provides access to specified Soviet and United States ports to flag vessels of both countries engaged in commercial maritime shipping and merchant marine training activities. Under the Agreement, 40 ports in each

nation are open to access by vessels of the other nation upon four days' advance notice to the appropriate authorities. The selection of the ports was based on commercial considerations, reasonable reciprocity and protection of national security interests. The U.S. ports open to access by Soviet vessels are:

Astoria, Oregon	Los Angeles (including San
Baltimore, Maryland	Pedro, Wilmington, Terminal
Baton Rouge, Louisiana	Island), California
Bay City, Michigan	Milwaukee, Wisconsin
Beaumont, Texas	Mobile, Alabama
Bellingham, Washington	New Orleans, Louisiana
Brownsville, Texas	New York (New York and New
Burnside, Louisiana	Jersey parts of the Port
Chicago, Illinois	of New York Authority),
Cleveland, Ohio	New York
Coos Bay (including North	Olympia, Washington
Bend), Oregon	Philadelphia, Pennsylvania
Corpus Christi, Texas	(including Camden, New Jersey)
Duluth, Minnesota/	Ponce, Puerto Rico
Superior, Wisconsin	Port Arthur, Texas
Erie, Pennsylvania	Portland (including Vancouver,
Eureka, California	Washington), Oregon
Everett, Washington	Sacramento, California
Galveston/Texas City, Texas	San Francisco (including Alameda,
Honolulu, Hawaii	Oakland, Berkeley, Richmond),
Houston, Texas	California
Kenosha, Wisconsin	Savannah, Georgia
Long Beach, California	Seattle, Washington
Longview, Washington	Skagway, Alaska
	Tacoma, Washington
	Tampa, Florida
	Toledo, Ohio

While the four-day notice requirement is more than the normal 24-hour notice period applicable to commercial vessels, it is substantially less restrictive than the 14-day advance request requirement now applied by the United States to Soviet vessels and the 14-day advance request required by the U.S.S.R. for U.S. vessels. Entry of vessels to ports not specified in the Agreement will continue to be permitted in accordance with existing rules and regulations, i.e., the 14 day prior request provisions will still apply. Requests for entry by Soviet vessels to U.S. ports not specified in the Agreement must be made of the Department of State, Washington, D. C.; and must be accompanied by an itinerary complete with ports of call and dates. Maritime training vessels and hydrographic and other research vessels may enter the ports only for purposes of resupply, rest, crew changes, minor repairs and other services normally provided in such ports.

The Agreement does not involve any concessions in the policy of the United States with respect to ships which have called on Cuban, North Vietnam or North Korean ports. Soviet vessels which have called or will call on Cuba, North Vietnam, or North Korea will not be permitted to bunker in U.S. ports and Soviet vessels which have called on Cuba or North Vietnam will not be permitted to load or unload in U.S. ports government-financed cargoes such as grains sold on Commodity Credit Corporation credit terms.

In addition, the Agreement contemplates the access of initially 81 U.S. and 50 Soviet vessels engaged in hydrographic, oceanographic, meteorological or terrestrial magnetic field research of a civilian nature. The Agreement does not include vessels engaged in fishing or related activities since these matters are covered by separate agreements, nor does it include warships or vessels carrying out state functions other than those mentioned above. It is not intended to cover any liquefied natural gas trade which may develop between the nations.

TONNAGE DUTIES

Under the Agreement, neither nation shall charge vessels of the other tonnage duties which exceed duties charged to vessels of other nations in like situations.

EQUAL AND SUBSTANTIAL SHARING

The Agreement sets forth the intention of both governments that the national-flag vessels of each country will each carry equal and substantial shares of the oceanborne commerce between the two nations. At the same time the Agreement recognizes the policy of both the United States and the Soviet Union with respect to participation in its trade by third-flag vessels.

The intention that a substantial share of the trade between the two nations will be carried by each national flag merchant marine is defined as meaning that the national-flag vessels of each nation will have the opportunity to carry not less than one-third of all cargoes moving in whole or in part by sea between the two nations, whether by direct movement or by transshipment through third countries. In the case of grain shipments, the one-third requirement is to be applied retroactively to all shipments since July 1, 1972.

Equal share of the trade between the two nations is measured on the basis of U.S. dollar freight value of cargo carryings by the national-flag vessels of each party during each calendar

year accounting period. Special accounting procedures are established to determine on a uniform basis the U.S. dollar freight value of cargo carryings and to protect against the possibility of disparities caused by the undervaluing of freight rates to increase the volume of cargo carried. These procedures are also designed to permit continuous monitoring so as to maintain parity of carriage throughout the accounting period. Cargoes carried in liner vessels and bulk cargoes carried in nonliner service are accounted for separately under the Agreement due to the difference in the methods of establishing freight rates.

The opportunity for carriage of equal and substantial shares of the trade between the two nations by national-flag ships is to be assured by the routing of controlled cargoes, i.e., cargoes with respect to which entities of either government have the power to designate the carriage. On the U.S. side, this includes only those cargoes which are subject to U.S. government control under our cargo preference laws. On the Soviet side, all exports and imports for which entities of the U.S.S.R. have or could have the power at any time to designate the carrier are included.

Recognition has been given to the practical commercial consideration that vessels of either nation may not be available to carry the amount of cargo to which they are entitled under the principles of the Agreement. Under such circumstances, a limited variance from the equal and substantial sharing rules is provided. Such variance is permitted where the cargo was offered on reasonable terms and conditions and where the unavailability of national-flag carriers is certified by a representative of the U.S. Maritime Administration or U.S.S.R. Ministry of Merchant Marine, as the case may be. Even though unavailability has been certified by the appropriate representative, there is still an obligation to continue to offer controlled cargo to restore the one-third share if possible within the same calendar year.

Freight Rates. The matter of freight rates to be paid to U.S. vessels is an important provision of the Agreement. With respect to liner service, U.S.-flag carriers should face no significant problems because U.S. vessels can participate in this trade under the conference-rate system with the assistance of the U.S. operating subsidy program. Rates for shipment of bulk cargo, such as grain, however, present a different situation. Bulk cargo is shipped in world trade under charter rates which are set in competition with ships of nations with far lower costs than American ships. The United States has never before had a subsidy system which permit its vessels to compete

in the bulk grain trade, although such a subsidy system was legislatively authorized in 1970. In lieu of a subsidy system for bulk cargo, there were regulations which required shipments of grain to the Soviet Union to move 50% in U.S.-flag vessels. This, however, never resulted in significant carriage for U.S. vessels. Freight rates are a substantial part of the cost of grain and without subsidy the rates charged by U.S. flag carriers increased the cost of grain beyond the level buyers were willing to pay.

Under the Agreement, the two governments have worked out rate provisions for two categories of bulk cargo to be carried by U.S. vessels.

For nonagricultural bulk cargoes, the Agreement in essence provides that American vessels shall be paid in each year the average of the freight rate for that category of cargo on the route in question over the prior three calendar years.

The other and far more important category of charter rates is for agricultural commodities and products. With respect to these cargoes the Soviet Union will offer to United States vessels the higher of:

1. a rate computed on the 3-year average formula described above for the years 1969, 1970, and 1971. This rate for the route most expected to be used for the current grain sales is \$8.05 per ton for wheat and other heavy grains, or

2. 110 per cent of the current market rates for the shipment involved.

In addition to these provisions, for agricultural cargo the Soviet Union has also agreed to terms relating to unloading ships in the Soviet Union which are more favorable to United States vessels than would otherwise apply in this trade. Our maritime experts estimate these special terms represent a reduction from typical rates of at least \$1.75 per ton.

These special provisions for rates on agricultural cargo apply through June 30, 1973, by which time the parties will negotiate future rates. This will permit review of the actual workings of this rate system near the close of the current unusual grain shipment season.

TERM OF AGREEMENT

The Agreement remains in force through 1975, subject to earlier termination by either party on 90 days' notice.

UNITED STATES SUBSIDY

Although not part of the Agreement, a necessary part of achieving its objectives is that the United States pay a subsidy to its own vessels in the carriage of agricultural cargo. This is not a financial advantage to the Soviet Union since it could carry all this cargo in its own vessels or third-flag vessels at lower costs than it will pay United States vessels. The combination of higher than market charter rates, and favorable terms for unloading, afforded U.S.-flag vessels reduces the subsidy costs.

The subsidy system, to be published shortly, is authorized under the Merchant Marine Act of 1970. Because the ships which will be involved in this trade, unlike U.S.-flag vessels carrying freight in the liner trade, have not received United States construction subsidies, the subsidy to be provided will take into account the amount by which U.S. construction costs exceed foreign construction costs. In order to keep the subsidy at a minimum, it has basically been designed to create no more than a break even situation at \$8.05 for most ships which will be likely to participate. The estimated subsidy paid to vessels carrying agricultural cargo under the Agreement will be in the range of \$8.00 to \$10.00 a ton, if market rates stay in the range of \$9.00 to \$11.00 a ton, which compares to the current subsidy of about \$19.00 per ton on PL-480 grain shipments.

Among provisions limiting the subsidy paid for movements under the Agreement will be the following:

1. Where market rates exceed the \$8.05, all of the excess paid by the Soviet Union over market (i.e., 10% premium) is used to reduce the subsidy;
2. When the market rate is \$9.00 or more, a substantial part of the amount over \$9.00 will be used to reduce the subsidy;
3. Each subsidy contract will have a renegotiation clause to ensure that no excess profits are made.

The exact amount of subsidy which will be involved with respect to carrying the American share of the grain cargo is difficult to predict with precision because it depends on factors such as: (1) the volume of the Soviet grain trade actually carried by U.S. ships (which will be reduced to the extent that more attractive carriage is available (such as Pl-480 or oil); (2) the level of market rates, since the U.S. subsidy paid will be substantially reduced as market rates go up.

PUBLIC AVAILABILITY OF THE AGREEMENT

A copy of the Agreement, Annexes, and the exchange of letters with respect to the bulk commodity rates is publicly available.

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FOR IMMEDIATE RELEASE

OCTOBER 14, 1972

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF

SECRETARY OF COMMERCE PETER G. PETERSON

THE BRIEFING ROOM

12:20 P.M. EDT

MR. ZIEGLER: I believe you know that the President has just finished a meeting with the Minister of the Merchant Marine of the Soviet Union, Timofey Guzhenko, and the Secretary of Commerce, Pete Peterson.

Also sitting in the meeting was Ambassador Dobrynin and Peter Flanigan. We have given you the material regarding the agreement that was signed this morning by the Secretary and the Minister. Secretary Peterson is here to take your questions and discuss it with you.

Q How long was the meeting?

MR. ZIEGLER: The meeting lasted 33-1/2 minutes.

SECRETARY PETERSON: We signed, this morning, a three-year maritime agreement with the Soviet Union. We consider this an indispensable first step in beginning the new era of expanded commerce with the Soviet Union that President Nixon and General Secretary Brezhnev announced as a result of the Moscow Summit meetings.

I say it is an indispensable catalyst, of course, because it is obvious that if you cannot ship products, you cannot sell them and, therefore, trade. These discussions have been long and difficult-- they have lasted nearly a year -- particularly in recent weeks, with the very special problems brought about by the unprecedented volume of grain.

I believe we now have an agreement that not only recognizes these special problems in a fair way, but builds a foundation for the kind of comprehensive commercial agreements that we hope to have with the Soviet Union.

I would like to summarize very briefly the main provisions of the agreement. First of all, it provides for equal and substantial sharing of trade by American and Soviet ships. It is contemplated that each country will carry one-third of the total trade, leaving one-third for third countries.

The freight rates for grain will be \$8.05 a ton, or 110 percent of the market rate, whichever is higher. The Soviet Union has also agreed to reduce its normal unloading costs by what experts tell us is at least \$1.75 a ton.

I would like to say here that we appreciate the cooperative attitude of the Soviet Union in helping us share costs in what is clearly an unprecedented situation.

The agreement also provides access to 40 ports on each side, under substantially more favorable terms than previously. For example, much less advance notice is required; only four days. It provides for specific kinds of vessels and purposes, which are obviously commercial, research, and training; in short, peaceful purposes.

It is initially anticipated that some 81 U.S. ships and some 50 Soviet research and training vessels will have port access.

Quite beyond the very important contribution to the prospects for peace that we believe this indispensable first-step agreement provides, I think there are some very direct economic benefits to our country that I would like to briefly state.

First of all, it gives us the opportunity to realize some of the direct economic benefits from the unprecedented sale of grain. As the President indicated the other day, the Office of Management and Budget has demonstrated that already there are over \$200 million net savings to the taxpayers after considering the cost of export subsidies. For example, these savings to the taxpayer come about from reduction of storage surpluses, from reduction of storage costs. I have seen estimates of the increased job and employment opportunities that this particular maritime agreement offers in the maritime field. Experts tell me that we can expect that at least 5,000 American seamen, longshoremen, and shipyard workers now have expanded employment opportunities.

I would also like to say that without the cooperation of the maritime unions, this agreement would not have been possible. I think there are job effects, however, that go far beyond the maritime workers. We have done a number of estimates where we have projected the future structure of trade with the Soviet Union. It now seems clear that for a considerable period of time we will have a significant balance of trade surplus with the Soviet Union.

But in digging a little deeper into the precise structure of this trade, it also emerges that we will be exporting essentially job-intensive machinery and equipment of all types, and our imports will tend to be predominantly in the field of low job-intensive raw materials of various kinds. Thus, in addition to having a significant balance of trade surplus, we will also have a significant balance of job surplus, and the important economic benefits that that provides.

I would be happy now to take your questions.

Q Mr. Secretary, where it says that ships that have called at Cuba cannot have bunkering facilities, does that mean on that particular trip, or does it mean ever?

SECRETARY PETERSON: Any ship that has been to Cuba will not have bunkering possibilities offered to it in the United States. Is that right, Mr. Lynn?

MR. JAMES T. LYNN (Under Secretary of Commerce): These provisions with respect to bunkering are contained in the export control regulations. Under those regulations, there is no general license permitted for bunkering of vessels that have called or will call on the three countries mentioned.

Q At any time in their shipping life?

MR. LYNN: That is right.

Q Then how could a ship, a Soviet ship that has traded with Cuba, for instance, and is not picking up a Government-financed cargo, how would it go about picking up a cargo that is private in this country?

SECRETARY PETERSON: If it were Government-financed cargo, it would do its bunkering elsewhere.

Q As I understand the agreement, it could not pick up.

SECRETARY PETERSON: There are two issues; first, the bunkering issue, and I think we have already clarified that.

With regard to ships in our ports, what the agreement provides is for commercial cargo. To give an example of what is not a commercial cargo, for example, it is cargo that is financed by the Federal Government, as in the case of CCC credits.

Q But, in other words, a ship that has been to Cuba, for instance, could come into an American harbor simply to pick up a commercial cargo and have to turn around and go right back out?

SECRETARY PETERSON: I am not sure I get the question.

Q What I don't understand is the bunkering aspect. If a Soviet ship is coming from Cuba to an American port, it cannot be bunkered in an American port?

SECRETARY PETERSON: No, but it is feasible for a ship to be bunkered elsewhere.

Q In Cuba?

SECRETARY PETERSON: Countries outside of the United States. All we are saying is that they will get their bunkering taken care of there.

Q Has Mr. Gleason given his assent to you to load and unload such ships with commercial cargoes?

SECRETARY PETERSON: Yes. I have talked with Mr. Gleason as recently as yesterday. He has indicated that he does support this agreement. He thinks it is a constructive agreement in all respects.

Q Can you explain the problem that arose over the freight rates, and how you resolved that? Would you say that the Soviets have given in and made a concession on that point?

SECRETARY PETERSON: Let's review some of the history here.

In the earlier negotiations, we had discussed a freight rate that was based on a three-year moving average, which turned out to be \$8.05. At that time, the world market rates had been as low as \$5.00, \$5.25; more recently in the range of \$6.00 or \$6.50.

The unprecedented and, I think, unanticipated volume of business with the Soviet Union gave rise to some very sharp increases in those rates. They jumped precipitously, really, upward, if that is possible, from about \$6.50 pre-October to as much as \$9.05 or \$9.00 on two fixtures in early October. Therefore, had the other agreement prevailed, we would have been in a position of offering freight rates to the Soviet Union that would have been less than the market rates.

It seemed to us that this was a factor that I believe lawyers refer to as a force majeure, quite literally, perhaps an act of God brought about by the extraordinary combination of a poor winter crop and a poor summer crop. We felt that this was a sufficient change in the context, in the assumed environment of the deal, that it warranted its being renegotiated.

I would certainly not want to characterize the attitude of the Soviet Government as caving in. We are here at the beginning of what we believe will be a new era. This is simply a passing, and I think a quite unusual event. When we discussed with the Soviet Union the fact that there had been these extraordinary increases, and that we felt it was appropriate that there be a fair sharing, you might even call it a burden sharing of the unusual costs that it implied, they cooperated with us and we now have this agreement. But I would not want to characterize what they did as giving in.

Q Could you discuss the change in terms of subsidies? I notice in the Fact Sheet you stress the problems of calculating these, but can you give us any estimate on how the new rate agreement has changed the subsidy obligation?

SECRETARY PETERSON: Yes. Previously you will recall that there had been provisions providing for 50-50 sharing of cargoes. It turned out that this arrangement was more theoretical than a real arrangement, because the costs of shipping, using American bottoms, was substantially higher than third-flag bottoms.

We are dealing here, we all must remember, with a commodity, and, therefore, the practical effect of it was that virtually no shipping took place under that arrangement. The Merchant Marine Act of 1970 passed by the Congress provides the authority -- in fact, it encourages the notion -- for an expanded and stronger maritime industry, and provides authority for providing subsidies under bulk cargo conditions.

Now, under the arrangement that we now have, there are several factors that will determine that particular subsidy rate. All of this 10 percent premium that the Soviet

Union will be paying over market rate, for example, will obviously tend to reduce that subsidy, since all of that comes back to the United States Government.

Secondly, a substantial segment of the amounts above \$9.00 a share will come back to the Government, which will also reduce the subsidy.

Third, we have renegotiation contracts, provisions that will be put into the agreement which will assure us that there will be no excess profits.

It is difficult to tell you the exact amount of the subsidy for the simple reason that it depends, obviously, on the market rates that exist at the time. It is our best estimate at the present time that in the kind of range that we are now talking about on market rates, we have a subsidy per ton that is in the range of \$8.00 to \$10.00 if we assume the market rate stays in the \$9.00 to \$11.00 range.

That can be compared to the most recent current subsidies on the P.L. 480 wheat shipments of approximately \$19 per ton.

Q Can you define "substantial segment"?

SECRETARY PETERSON: Miss Berger, the actual operating agreements with the ship owners will be out shortly. We will have all of those provisions in there. Essentially, the concept is that when the rate gets above a certain figure, \$9.00 in this case, and then \$10.00, the "substantial", which is to say substantially over half of those amounts will be used to reduce the subsidy payments.

We will be announcing the details on that the early part of next week.

Q You have no dollar figures for the subsidy; in other words, how much it will cost?

SECRETARY PETERSON: There is no way of giving you a precise estimate on that, since it depends on the market rate. The higher the market rates, the lower the subsidy. It depends on how many ships end up taking the opportunity that is being offered to them to carry grain.

You can appreciate that if, for example, there are P.L. 480 shipments available, or oil shipments available, with a cold winter one would expect them to take that, which will reduce the ships that would be on this particular grain kind of shipment. So I think it is pretty hard to give you really a very good estimate on that.

Q Does the one-third agreement refer to non-bulk agricultural products such as machinery?

SECRETARY PETERSON: It refers to one-third of the total trade.

Q Is that shipping also subsidized? What is the rate on non-agricultural products at this time?

SECRETARY PETERSON: It varies by the kind of freight. This has, however, been in existence for some time now. We will be glad to provide that to you by category of ship. But it is in current operation.

Q Is the U.S. rate substantially above the world rate, or is this already subsidized by the previous U.S. Government subsidies?

SECRETARY PETERSON: Mr. Gibson, do you want to handle this?

MR. ANDREW E. GIBSON (Assistant Secretary of Commerce for Domestic and International Business): The general cargo is carried at world rates now. There is no differential. The previous subsidy programs were intended to give the American owner parity. So they were carried at world rates.

Q Mr. Secretary, how many ports were accessible on each side before this agreement; and secondly, why is there a four-day advance notice required in view of the fact that normally it is something like one day for all the other countries in the world?

SECRETARY PETERSON: Why don't we let Mr. Gibson answer this? He participated very actively in the earlier stages of this negotiation.

MR. GIBSON: The Soviet ports have always been available, as have the U.S. ports, on a request basis. It is impossible to carry on a commercial business unless you can be assured of entry.

The basic change here is that they are now assured of entry into these 40 ports with a mere notification, where before it was always on request, which had to be granted before they could enter. The difference between the four days and the 24 hours -- in other words, all ports have a requirement for notification. In the case of the ships of the various bloc countries, this is substantially a relaxation of the previous requirements. It acknowledges there is still some difference in these ships than some of the other Western European nations.

Q Mr. Secretary, how would you assess now the prospect for the overall trade pact?

SECRETARY PETERSON: We have been in very detailed, intensive, I would say fruitful negotiations for approximately three weeks now with the various work groups of our Joint Commission, and I think working very productively. I think it is always dangerous to predict timetables when there are items that remain open.

I am pleased to be able to report that the number of items that remain open has certainly been reduced substantially. There are, however, still a few items that must be resolved. In general, I am very encouraged by our progress, but I think it would be premature to put a date on the negotiations.

Q Are you still hopeful of meeting a deadline at the end of this year?

SECRETARY PETERSON: Yes. I have said, and after Dr. Kissinger's visit you will recall that he indicated that he thought that could be met or exceeded. I would say that the events of recent weeks have confirmed, I think, our joint view that the negotiations will be successful and that they will be successful prior to the end of the year, perhaps in the relatively near future. But until we actually negotiate these final items I think it would be unduly speculative to give you a date.

Q Mr. Secretary, in order to figure out how much subsidy is involved in the grain shipment, should one multiply \$8 to \$10 by the number of tons?

SECRETARY PETERSON: No. The reason that is not the case is two-fold: In the first place, there is the question of how many tons will actually be carried by American ships, which, of course, depends on the other alternatives or options that they have.

As I indicated earlier, if they have P.L. 480 options or oil options which would be considerably more profitable than these arrangements, which at \$8 are about at the break-even point, we would expect these ships not to carry grain but to move to those products.

The second very important variable here is the question of what the market rates are. For example, if the market rates are as high as \$12 -- and incidentally, there are some people who predict they could be in those ranges; I am not making any predictions on market rates, I am just telling you what is reported to us from outside experts -- the subsidy could go down in the range of \$7 or \$7.50. If the rates are in the \$9 to \$11 range the subsidy could be \$8 to \$10.

You must take into account two factors: how much shipping will take place and what the market rates will be, since we have devised a system to lower the market rates.

Q What if there are not enough ships available to take enough grain?

SECRETARY PETERSON: What the Maritime Agreement offers, Miss Berger, is the reasonable opportunity to our ships to carry one-third. The Maritime Administration office in our Department will audit the operational meaning of a "reasonable opportunity." There is a provision that suggests that if ships are not available at one point the opportunity will be made later, but if there has been full and reasonable opportunity given to American ships and they choose to take other options that they consider are more desirable, then there is not a minimum requirement of one-third, but only that there be full and reasonable opportunity to carry a third.

Q To pursue the point, if one-third of the grain is carried in American ships and if the subsidy averages, say \$9, what would the cost be?

SECRETARY PETERSON: Under those conditions, and you understand that I am not accepting all those assumptions of yours, but it would be a matter of multiplying something over five million tons by \$5, if that were to happen.

Q Is that a reasonable rough estimate?

SECRETARY PETERSON: You are trying to get me to make a projection of market rates. All I can give you is the range. I suppose a reasonable thing for you to do is assume high market rates and discount the amount that will be taken and multiply those two numbers and take the higher side number of the type you are talking about.

Q Then you will have to tell us how much the shippers are going to give back because until we know that we can't do the multiplication.

SECRETARY PETERSON: That is right. I want to have another day when I can have the opportunity of seeing you. I don't want to foreclose that option.

Q May I ask about the apportioning of cargoes which are under government control one way or another by each side? Is it fair to say that the Soviets have a great deal more control than the U. S?

SECRETARY PETERSON: Yes, that is right. This is why the agreement as now negotiated makes it very clear that cargoes in which the governments either do or could have the power to direct the cargoes shall be included in the total. In the case of the Soviet Union, given the nature of their system, of course, that is essentially all of the cargo.

Q Mr. Secretary, is it fair to say that the Soviet Union went back and renegotiated this mainly because they needed the wheat so badly?

SECRETARY PETERSON: I think it is always difficult to imagine why somebody else does something. I think in the discussion this morning with the President that it was clear that we have a long-term relationship that we are looking at with the Soviet Union. This is not just a one-time transaction on a particular commodity. It is truly a whole new era. It has enormous implications in terms of our political relationship.

I would imagine the Soviet Union took that longer-term, larger-view relationship as one reason they were willing to renegotiate and share some of these burden costs I referred to earlier. I would express again my appreciation to them for taking that attitude.

Q When was final agreement reached?

SECRETARY PETERSON: I would say the latter part of yesterday afternoon.

Q Do you feel, Mr. Secretary, that you have been schnookered on the rates, that you had been schnookered on some of the wheat deal, to use the President's phrase?

SECRETARY PETERSON: I don't see how anybody could say we have been schnookered in this arrangement. It provides for a premium over market rates, which I think is unprecedented. It provides for a reduction in normal shipping costs of \$1.75 a ton on top of that. I would have thought that most fair-minded people, which I am sure you are, would acknowledge that we adequately represented the interests of the American taxpayer.

Q Why didn't force majeure come into play on the question of the grain? Could there have been any kind of renegotiation on the grain deal?

SECRETARY PETERSON: After the fact? What we are talking about here, Marilyn, obviously is an agreement which looks prospectively. We thought we had an event here of sufficient magnitude that it affected the prognosis of the future.

Q And on grain it had been wrapped up first?

SECRETARY PETERSON: It was a fait accompli. It had been done. But we still think, as I tried to point out, I hope successfully, that there were very important economic benefits of the grain deal that I think many were largely unaware of.

Q The arbitration clause implies joint arbitration, but it doesn't specify a body. Is it just sort of joint negotiations? You said in your opening comments that you viewed this as laying the foundation for further agreements. Are we to assume that this is going to be the principle that is going to emerge in the trade arrangements? Is it going to be a joint arbitration, and if so, who is going to be the chairman?

SECRETARY PETERSON: I don't want to anticipate negotiations that are still underway. I have indicated on other occasions that one of the reasons the President has asked that we negotiate a comprehensive commercial agreement is to put in place the legal framework required to handle commercial disputes. Our view is that if we don't anticipate those disputes commercial problems could develop into political

problems. We are now in the active process of negotiating a longer term method of handling arbitration. Presumably that kind of an arrangement would be available to us in the commercial arena, but it is premature for me to describe that.

Q On the basis of the grain moving into Soviet ports, can you give me an estimate of how much we have saved on the \$1.75 per ton that is being reduced.

SECRETARY PETERSON: Again, you have to ask yourself how many tons are going to be shipped on American bottoms, if the full amount were shipped, something over 5 million tons, you would be looking at a number like \$8 to \$9 million, due to that item alone.

Q Does that money go into the subsidy bank?

SECRETARY PETERSON: We took this into account in reducing the subsidy, that is right.

Q Will this mean this is the first time Soviet ships can be loaded in East Coast ports or have they been loaded before?

SECRETARY PETERSON: There is a history background here that we should share with you. Mr. Gibson can tell you about it.

MR. GIBSON: There have been no Soviet ships in East Coast or Gulf ports since 1963. At that time President Kennedy, through an Executive Order, put in a provision that on any grain movements 50 percent would have to go on American ships, but no mechanism was provided to accomplish this. Inasmuch as the Soviets would not pay over world rates during that entire period, there has been no cargo moved from this country to the Soviet Union, let alone Soviet ships come in to carry it.

Q Mr. Secretary, do I understand that subsidy will not be available for such non-agriculture bulk commodities as oil, LNG, or ores?

SECRETARY PETERSON: We have specifically excluded LNG from this particular agreement. There are provisions that provide for non-agricultural commodities. Quite frankly, after exploring in depth with the Soviet Union what those particular commodities are, they turn out to be something approaching de minimis.

Q The subsidy would be available?

SECRETARY PETERSON: The subsidy would be available under the bulk cargo act, but we have not provided for one. But it is insignificant, really, just because of the lack of trade in that area. We are authorized to do so, but it is essentially an academic matter.

Q Is the prospect of oil also insignificant in this context?

SECRETARY PETERSON: At the present time. We don't see any prospect during the term of this agreement for oil or gas.

THE PRESS: Thank you, gentlemen.

END

(AT 12:47 P.M. EDT)

AGREEMENT BETWEEN
THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND
THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS
REGARDING CERTAIN MARITIME MATTERS

The Government of the United States of America and the Government of the Union of Soviet Socialist Republics:

Being desirous of improving maritime relations between the United States and the Soviet Union, particularly through arrangements regarding port access and cargo carriage by sea; and

Acting in accordance with Article Seven of the Basic Principles of Relations Between the United States of America and the Union of Soviet Socialist Republics, signed in Moscow on May 29, 1972,

Have agreed as follows:

ARTICLE 1

For purposes of this Agreement:

a. "Vessel" means a vessel sailing under the flag of a Party, registered in the territory of that Party, or which is an unregistered vessel belonging to the Government of such Party, and which is used for:

- (i) Commercial maritime shipping, or
- (ii) Merchant marine training purposes, or
- (iii) Hydrographic, oceanographic, meteorological, or terrestrial magnetic field research for civil application.

b. "Vessel" does not include:

- (i) Warships as defined in the 1958 Geneva Convention on the High Seas;
- (ii) Vessels carrying out any form of state function except for those mentioned under paragraph a of this Article.

ARTICLE 2

This Agreement does not apply to or affect the rights of fishing vessels, fishery research vessels, or fishery support vessels. This Agreement does not affect existing arrangements with respect to such vessels.

ARTICLE 3

The ports on the attached list of ports of each Party (Annexes I and II, which are a part of this Agreement) are open to access by all vessels of the other Party.

ARTICLE 4

Entry of all vessels of one Party into such ports of the other Party shall be permitted subject to four days' advance notice of the planned entry to the appropriate authority.

ARTICLE 5

Entry of all vessels referred to in subparagraphs a(ii) and a(iii) of Article 1 into the ports referred to in Article 3 will be to replenish ships' stores or fresh water, obtain bunkers, provide rest for or make changes in the personnel of such vessels, and obtain minor repairs and other services normally provided in such ports, all in accordance with applicable rules and regulations.

ARTICLE 6

Each Party undertakes to ensure that tonnage duties upon vessels of the other Party will not exceed the charges imposed in like situations with respect to vessels of any other country.

ARTICLE 7

While recognizing the policy of each Party concerning participation of third flags in its trade, each Party also recognizes the interest of the other in carrying a substantial part of its foreign trade in vessels of its own registry, and thus both Parties intend that their national flag vessels will each carry equal and substantial shares of the trade between the two nations in accordance with Annex III which is a part of this Agreement.

ARTICLE 8

Each Party agrees that, where it controls the selection of the carrier of its export and import cargoes, it will provide to vessels under the flag of the other Party participation equal to that of vessels under its own flag in accordance with the agreement in Annex III.

ARTICLE 9

The Parties shall enter into consultations within fourteen days from the date a request for consultation is received from either Party regarding any matter involving the application, interpretation, implementation, amendment, or renewal of this Agreement.

ARTICLE 10

This Agreement shall enter into force on January 1, 1973; provided that this date may be accelerated by mutual agreement of the Parties. The Agreement will remain in force for the period ending December 31, 1975, provided that the Agreement may be terminated by either Party. The termination shall be effective ninety days after the date on which written notice of termination has been received.

IN WITNESS WHEREOF, the undersigned, being duly authorized by their respective Governments, have signed this Agreement.

DONE at Washington this _____ day of _____
1972, in duplicate in the English and Russian languages, both equally authentic.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF THE UNION
OF SOVIET SOCIALIST REPUBLICS:

Peter G. Peterson
Secretary of Commerce

Timofey B. Guzenko
Minister of Merchant Marine

ANNEX I

PORTS OF THE UNITED STATES OF AMERICA
OPEN TO CALLS UPON NOTICE

1. Skagway, Alaska
2. Seattle, Washington
3. Longview, Washington
4. Corpus Christi, Texas
5. Port Arthur, Texas
6. Bellingham, Washington
7. Everett, Washington
8. Olympia, Washington
9. Tacoma, Washington
10. Coos Bay (including North Bend), Oregon
11. Portland (including Vancouver, Washington), Oregon
12. Astoria, Oregon
13. Sacramento, California
14. San Francisco (including Alameda, Oakland, Berkeley, Richmond), California
15. Long Beach, California
16. Los Angeles (including San Pedro, Wilmington, Terminal Island), California
17. Eureka, California
18. Honolulu, Hawaii
19. Galveston/Texas City, Texas
20. Burnside, Louisiana
21. New Orleans, Louisiana
22. Baton Rouge, Louisiana
23. Mobile, Alabama
24. Tampa, Florida
25. Houston, Texas
26. Beaumont, Texas
27. Brownsville, Texas
28. Ponce, Puerto Rico
29. New York (New York and New Jersey parts of the Port of New York Authority), New York
30. Philadelphia, Pennsylvania (including Camden, New Jersey)
31. Baltimore, Maryland
32. Savannah, Georgia
33. Erie, Pennsylvania
34. Duluth, Minnesota/Superior, Wisconsin
35. Chicago, Illinois
36. Milwaukee, Wisconsin
37. Kenosha, Wisconsin
38. Cleveland, Ohio
39. Toledo, Ohio
40. Bay City, Michigan

ANNEX II

PORTS OF THE UNION OF SOVIET SOCIALIST REPUBLICS
OPEN TO CALLS UPON NOTICE

1. Murmansk
2. Onega
3. Arkhangel'sk
4. Mezen'
5. Nar'yan-Mar
6. Igarka
7. Leningrad
8. Vyborg
9. Pyarnu
10. Riga
11. Ventspils
12. Klaipeda
13. Tallinn
14. Vysotsk
15. Reni
16. Izmail
17. Kiliya
18. Belgorod-Dnestrovskiy
19. Il'ichevsk
20. Odessa
21. Kherson
22. Novorossiysk
23. Tuapse
24. Poti
25. Batumi
26. Sochi
27. Sukhumi
28. Yalta
29. Zhdanov
30. Berdyansk
31. Nakhodka
32. Aleksandrovsk-Sakhalinskiy
33. Makarevskiy Roadstead (Roadstead Doue)
34. Oktyabr'skiy
35. Shakhtersk
36. Uglegorsk
37. Kholmsk
38. Nevel'sk
39. Makarov Roadstead
40. Poronaysk

ANNEX III

SUPPLEMENTAL AGREEMENT ON NATIONAL FLAG CARGO CARRIAGE

WHEREAS, each Party recognizes the policy of the other concerning the participation of third flags in its trade, each Party also recognizes the interest of the other in carrying a substantial part of its foreign trade in vessels of its own registry and thus both Parties intend that their national flag vessels will each carry equal and substantial shares of the trade between the two nations in accordance with this Annex, and

WHEREAS, each Party has agreed that, where it controls the selection of the carrier for its export and import cargoes, it will provide to vessels under the flag of the other Party participation equal to that of vessels under its own flag, it is agreed as follows:

1. DEFINITIONS

For the purpose of this Annex and the Agreement of which this Annex is a part:

a. "Substantial share of the trade between the two nations" means not less than one-third of bilateral cargoes.

b. "Bilateral cargo" means any cargo, the shipment of which originates in the territory of one Party and moves in whole or in part by sea to a destination in the territory of the other Party, whether by direct movement or by transshipment through third countries.

c. "Controlled cargo" means any bilateral cargo with respect to which a public authority or public entity of either Party or their agents has the power of designating the carrier or the flag of carriage at any time prior to such designation, and includes:

(i) on the United States side all bilateral cargo which a public authority or public entity of the United States has or could have the power at any time to designate the flag of carriage pursuant to cargo preference legislation, and

(ii) on the Soviet side all bilateral cargo imported into or exported from the territory of the USSR where a commercial body or other authority or entity of the USSR has or could have the power at any time to designate the carrier.

d. "Accountable liner share" means the U. S. dollar freight value of liner carryings of controlled cargo by vessels under the flag of each Party, computed for accounting purposes using the conference rates in effect at the time of carriage or, in the absence of such rates, using other rates to be agreed between the two Parties.

e. "Accountable charter share" means the U. S. dollar freight value of carrings under contracts or arrangements covering the carriage of controlled cargo by vessels under the flag of each Party, which are not in liner service, computed for accounting purposes at rates to be agreed between the Parties. Accountable charter share will not include movements of any bulk cargoes in shipload lots of 3,000 long tons or more from the Union of Soviet Socialist Republics to the United States that are carried by the national flag vessels of either Party provided the conditions stated in subparagraph b of paragraph 3 of this Annex have been complied with.

f. "Accounting period" means a calendar year or any portion of an incomplete calendar year during which this Agreement is in effect.

2. GENERAL OPERATING RULES

a. Each Party undertakes to ensure that its controlled cargo is directed in a manner which

(i) provides to vessels under the flag of the other Party an accountable liner share and an accountable charter share equal in each category to those of vessels under its flag, and which continually maintains parity during each accounting period, and

(ii) is consistent with the intention of the Parties that their national flag vessels will each carry not less than one-third of bilateral cargoes.

b. To the extent that bilateral cargo that is not controlled cargo is carried in a manner which does not maintain parity between national flag vessels, computed in accordance with the principles specified in subparagraphs d and e of paragraph 1 of this Annex, the excess of such carriage will be added to the accountable liner share or accountable charter share, as the case may be, of the overcarrier and will be offset to the extent possible by an entitlement of a compensating share of controlled cargo in the appropriate category to the undercarrier.

c. Whenever vessels under the flag of one Party are not available to carry controlled cargo offered for carriage between ports served by such vessels with reasonable notice and upon reasonable terms and conditions of carriage, the offering Party shall be free to direct such cargo to its national flag or to third flag vessels. Cargo so directed to the offering Party's national flag vessels will not be included in its accountable liner share or accountable charter share for purposes of subparagraph a(i) of paragraph 2 of this Annex, if the designated representative of the other Party certifies that its national flag vessels were in fact unavailable at the time of the offer.

d. Cargo not carried in the vessels of a Party because of nonavailability of a vessel shall nonetheless be included in bilateral cargo for purposes of subparagraph a (ii) of paragraph 2 of this Annex, and controlled cargo shall continue to be directed to meet the undertakings of said subparagraph. To the extent that deficiencies in meeting the undertakings in such subparagraph exist at the end of an accounting period because of unavailability of vessels of a Party which the representative of that Party has certified were unavailable as provided above in subparagraph c of paragraph 2, the other Party shall not be required to make up such deficiency in the following accounting period.

e. To the extent consistent with the foregoing provisions of this paragraph 2, each Party is free to utilize the services of third flag shipping for the carriage of controlled cargo.

3. SPECIAL BULK CARGO RULES

a. When controlled bulk cargo is carried from the United States to the Union of Soviet Socialist Republics by U.S.-flag vessels, such cargo shall be carried at a mutually acceptable rate, provided that this shall not prevent the offering and fixing of a lower rate if such lower rate is accepted by a U.S.-flag carrier at the time of offering.

b. It is recognized that movements of any bulk cargoes in ship-load lots of 8,000 long tons or more from the Union of Soviet Socialist Republics to the United States shall be carried at the then current market rates. In furtherance of this objective, an equivalent quantity of such controlled cargoes as are offered to Soviet-flag vessels will be offered to U.S.-flag vessels at the current charter market rate and with reasonable notice. Any offerings of such cargoes that are not accepted by U.S.-flag vessels may be carried by Soviet-flag vessels or other vessels.

4. IMPLEMENTATION

A. Each Party shall designate a representative for implementation of the principles and rules of this Annex, the representative of the United States being the Maritime Administration, Department of Commerce, and the representative of the Union of Soviet Socialist Republics being the Ministry of Merchant Marine. Each Party shall authorize its representative to take action under its laws and procedures, and in consultation with the designated representative of the other Party, to implement this Annex as well as to remedy any departures from the agreed operating rules.

b. The Parties further agree that the designated representatives shall:

(i) meet annually for a comprehensive review of the movement of bilateral cargo and for such other purposes related to the Agreement as may be desirable;

(ii) engage in such consultations, exchange such information and take such action as may be necessary to insure effective operation of this Annex and the Agreement of which this Annex is a part;

(iii) make mutually satisfactory arrangements or adjustments, including adjustments between accounting shares and accounting periods, to carry out at all times the objectives of this Annex and the Agreement of which this Annex is a part. Any departures from such objectives shall be accommodated on a calendar quarterly basis to the extent possible and in no event shall departures be permitted to continue beyond the first three months of the next accounting period; and

(iv) resolve any other problems in the implementation of this Annex and the Agreement of which this Annex is a part.

5. COMMERCIAL ARRANGEMENTS

a. The Parties recognize that, pursuant to their respective laws or policies, carriers under their flags may enter into commercial arrangements for the service and stabilization of the trade between them which shall not unduly prejudice the rights of third-flag carriers to compete for the carriage of controlled cargo between the territories of the Parties.

b. Such commercial arrangements shall not relieve the Parties of their obligations under this Annex and the Agreement of which this Annex is a part.

Washington, October 14, 1972

Dear Mr. Minister:

In connection with the signing today of the Agreement between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics concerning certain maritime matters, I have the honor to confirm the understandings set forth in your letter of even date that:

1. Under sub-paragraph a of paragraph 3 of Annex III of that Agreement, the term "mutually acceptable rate" means a rate equal to the average of the market charter rates for the three calendar years preceding the current accounting period for the relevant route and category of cargo. It is understood that such average market charter rate will apply irrespective of the current conditions of the freight market and may be higher or lower than the current market level. Market charter rates will be determined from published sources acceptable to both Parties. Where such published market charter rates do not exist for a relevant route or category of cargo, agreed adjustments will be made to published market charter rates for the most comparable route or category of cargo.

2. The provisions of the foregoing paragraph shall not apply to rates for shipments of raw or processed agricultural commodities. Under sub-paragraph a of paragraph 3 of Annex III of that Agreement the term "mutually acceptable rate" as applied to shipments of raw and processed agricultural commodities means:

- a. With respect to fixtures made prior to July 1, 1973 the higher of: (i) a rate for the cargo and route involved computed upon the formula of the average of market charter rates set forth in paragraph 1 of this letter for the years 1969, 1970 and 1971; or (ii) the current market charter rate for such cargo and route plus ten percent (10%) of such rate. Current market charter rates referred to above will be determined at the time of each fixture from

current sources acceptable to both Parties. Where such market charter rates do not exist for a relevant route or category of cargo, agreed adjustments will be made to current market charter rates for the most comparable route and category of cargo.

- b. With respect to fixtures made after June 30, 1973, rates based upon such amounts or formulas as the Parties may hereafter agree upon, and for that purpose the United States Maritime Administration and the Ministry of Merchant Marine of the Soviet Union shall convene prior to June 30, 1973 to discuss and reach agreement upon such rates.

Very truly yours,

Secretary of Commerce
of the United States of America

His Excellency
Timofey B. Guzhenko
Minister of Merchant Marine of the
Union of Soviet Socialist Republics

N. Zuev, President
SOVFRACHT
Moscow G-200
SMOLENSKAJA SQ., 32/34

Honorable Robert J. Blackwell
Assistant Secretary for Maritime Affairs
U. S. Department of Commerce
Washington, D. C. 20235
U. S. A.

October 14th, 1972.

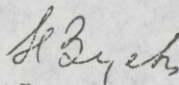
Dear Mr. Blackwell:

Enclosed is a copy of the letter which SOVFRACHT proposes to transmit to its chartering agents and which sets forth the charter party terms which we have agreed upon for fixtures made for the carriage of raw and processed agricultural commodities by American flag bulk cargo vessels under the Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Certain Maritime Matters executed today.

Also enclosed is the schedule of rates we have agreed upon for practical purposes to be used under that Agreement in place of a precise calculation of the three year average rate for 1969, 1970 and 1971 for the carriage of specified categories of raw and processed agricultural commodities by American flag bulk cargo vessels on the routes specified, for fixtures made prior to July 1, 1973.

With respect to Item 5 of the charter party terms, relating to cargo insurance, we hereby confirm our verbal advice to you that we will enter into discussions with officials of INCOSSTRAKH for the purpose of directing the placement of a portion of the marine cargo insurance coverage for shipments of raw and processed agricultural commodities with United States underwriters.

Very truly yours,



N. Zuev
President

Enclosures

Mr. N. Zhev, President
SOVFRACHT
Moscow G-200
SMOLENSKAJA SQ., 32/34

Dear Mr.

I wish to draw your attention to the following terms which have been agreed upon for the chartering of American flag tonnage for the carriage of grain to the Soviet Union:

1. The chartering of tankers is satisfactory to us.
2. The tonnage to be lifted by vessels will be limited only by draft limitations of the loading port since lightening down to the draft limitations of the discharge port is permitted.
3. Charterers guarantee 32/33 feet salt water draft at discharge port. Lighterage, if any, down to 32/33 feet salt water draft to be at receiver's risk and expense and time used to count as lay time, owner contributing to receivers \$3.50 per long ton of cargo lightened.
4. The rates for demurrage per day or prorata for part of a day are as follows:

for vessels loading less than 15,000 long tons	\$3,000 U.S. Ccy
for vessels loading between 15,000 and 30,000 long tons	\$4,000 U.S. Ccy
for vessels loading over 30,000 long tons	\$4,500 U.S. Ccy
with despatch rate being one-half of the demurrage rate.	

5. Any extra cargo insurance due to vessel's age to be for owner's account. The amount will be at the actual cost of such insurance, net of discount, but shall not exceed the following scale:

Liberties/Forts/Parks/Ocean vessels and Empire of 7/8000 GRT built 1940/1945 inclusive - 3 percent

Other dry cargo vessels built 1940/1945 inclusive in the countries which participated in the Second World War - 1 percent.

All other vessels	16/20 years old	0.1875 percent
"	" 21/25 " "	0.375 "
"	" 26/30 " "	0.50 "
"	" 31/35 " "	0.75 "
"	" over 35 " "	1.50 "

6. Receivers guarantee discharge at the rate of 2,000 metric tons alongside berth and 3,000 metric tons for lightening operations, per weather working day of twenty-four (24) consecutive hours, Sundays and official and local holidays and Saturdays after Noon (unless Saturday already a Holiday, in which case entire day not counting) excepted, whether used or not, provided vessel can deliver at such a rate. Days before holidays to count as three-quarters (3/4's) of a day. Discharge to be free of risk and expense to the Vessel and for account and risk of the Buyers or Receivers.
7. Cargo to be loaded, stowed and trimmed by Charter's stevedores free of expense to the vessel within the following weather working days of twenty-four (24) consecutive hours, Sundays and Holidays excepted:
- | | |
|--|----------|
| For vessels loading up to 25,000 long tons | - 5 days |
| " " " " 35,000 " " | - 6 days |
| " " " " 55,000 " " | - 7 days |
| " " " over 55,000 " " | - 9 days |
8. Ice clause to the effect that vessel is not required to force ice, but must follow ice-breaker.
9. Vacuators employed for discharge of the vessel, including lightening, will be provided by receivers free of risk and expense to the vessel.

10. Form C Approved Baltimore Berth Grain Charter Party will be used with terms similar to those used for the charter of the Italian-flag MS DONATELLA, dated August 8, 1972, with Rider Clauses, subject to the following:
- a. modified as necessary to provide for tankers as follows:
 - (i) Clause 16 - delete "holds" and insert "tanks"
 - (ii) Clause 19 to read "Separations, if any required, by tanks only"
 - (iii) Clause 25 to read "Owners guarantee tank top openings to be of sufficient size to permit unhindered loading as customary from elevator spouts and unhindered discharging as customary from suction pipes or vacuators."
 - (iv) Add Clause to read: "Vessel to be inspected and passed by National Cargo Bureau Surveyor, U.S. Department of Agriculture Grain Inspector and/or Board of Trade Surveyor or Charterer's surveyor as free of odor and in all respects suitable for loading grain cargo in bulk."
 - b. the rate for second discharge port, if used, to be negotiated with owner; but not exceeding \$.50 per long ton extra on the entire cargo. The owner's brokerage commission as agreed with owner.
 - c. modified to conform with the terms specified in items 1 through 9 above.

Sincerely,



N. Zuev
President

ATTACHMENT II

MINIMUM FREIGHT RATES FOR THE CARRIAGE
OF AGRICULTURAL BULK CARGO
WITH RESPECT TO FIXTURES
MADE PRIOR TO JULY 1, 1973

The following minimum freight rates have been agreed upon for the chartering of American-flag tonnage for the carriage of agricultural bulk cargo to the Soviet Union with respect to fixtures made prior to July 1, 1973:

<u>For Heavy Grains - corn, wheat, sorghums, milo, rye and soybeans</u>			
<u>Trade Area</u>	<u>Base Rate</u>	<u>Adjustment to</u>	
	<u>Per L/T</u>	<u>Base Rate Per L/T</u>	
U. S. Gulf Port/ Soviet Black Sea Port	\$8.05 F.I.O.T.	---	
U. S. Gulf Port/ Soviet Baltic Port		-\$.30	Plus \$1.00 per L/T F.I.O.T. if scheduled date of arrival is between Nov. 1 and Apr. 30
U. S. Gulf Port/ Soviet Pacific Port		+\$2.00	
U. S. N.H. Port/ Soviet Black Sea Port		-\$.50	
U. S. N.H. Port/ Soviet Baltic Port		-\$.50	Plus \$1.00 per L/T F.I.O.T. if scheduled date of arrival Baltic is between Nov. 1 and Apr. 30
U. S. North Pacific Port/ Soviet Pacific Port		+\$.50	

For Barley

For the carriage of barley, the freight rates provided above will be increased by \$.40 per long ton.

If vessel is directed by Charterers to trade outside of I.W.L. (Institute Warranty Limits) then any extra insurance premiums, if incurred, to be for Charterers' account.

Charter of American-flag ships for the carriage of raw and processed agricultural commodities involving trade areas or categories of cargo not provided for above will be established on the basis of the average market charter rates for the years 1969, 1970 and 1971. Where such market charter rates do not exist for a relevant route or category of cargo, agreed adjustments will be made to published current market charter rates for the most comparable route and category of cargo.



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

Honorable N. Zuev
President
SOVFRACHT
Moscow G-200
SMOLENSKAJA SQ. , 32/34

October 14, 1972

Dear Mr. Zuev:

This will acknowledge receipt of your letter of today transmitting a copy of the letter which you informed me SOVFRACHT proposes to transmit to its chartering agents and which sets forth the charter party terms which we have agreed upon for fixtures made for the carriage of raw and processed agricultural commodities by American flag bulk cargo vessels under the Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Certain Maritime Matters executed today.

Also enclosed with your letter was the schedule of rates we have agreed upon for practical purposes to be used under that Agreement in place of a precise calculation of the three year average rate for 1969, 1970 and 1971 for the carriage of specified categories of raw and processed agricultural commodities by American flag bulk cargo vessels on the routes specified, for fixtures made prior to July 1, 1973.

You also confirmed in your letter that with respect to Item 5 of the charter party terms, relating to cargo insurance, you will enter into discussions with officials of INGOSSTRAKH for the purpose of directing the placement of a portion of the marine cargo insurance coverage for shipments of raw and processed agricultural commodities with United States underwriters.

I am pleased to confirm that your letter and the enclosures reflect our agreement and understanding.

Very truly yours,

ROBERT J. BLACKWELL
Assistant Secretary
for Maritime Affairs



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

October 14, 1972

Mr. Igor Averin
Director of Department of Foreign Relations
of the Ministry of the Merchant Marine
Union of Soviet Socialist Republics
Moscow, Russia

Dear Mr. Averin:

This is to confirm our mutual agreement on the understanding that the total of all agricultural cargoes fixed or shipped on and after July 1, 1972, from the United States to the Soviet Union will be included in determining the Soviet and U. S. shares under Article 7 and Annex III of the Agreement between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics regarding certain maritime matters.

Sincerely,

ROBERT J. BLACKWELL
Assistant Secretary
for Maritime Affairs

Washington, October 14, 1972

Dear Mr. Minister:

With reference to the Agreement between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics, signed today, concerning certain maritime matters, I have the honor to confirm the understanding reached between us that the provisions of Articles 7 and 8 of the Agreement and the provisions of Annex III thereof are not intended to apply to the carriage of liquefied natural gas (LNG) from the Union of Soviet Socialist Republics to the United States. Arrangements for such carriage will be negotiated in connection with the development of projects for the sale of LNG for use in the United States.

Very truly yours,

Peter G. Peterson
Secretary of Commerce

His Excellency
Timofey B. Guzhenko
Minister of Merchant Marine of the
Union of Soviet Socialist Republics.

Washington, October 14, 1972

Dear Mr. Minister:

With reference to the Agreement between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics, signed today, concerning certain maritime matters, I wish by this letter to inform the Government of the Union of Soviet Socialist Republics of the following clarifications and interpretations of statements contained in such Agreement.

The phrase in paragraph a of Article 1 "registered in the territory of that Party" shall include unregistered vessels which are numbered under the laws of a state or political subdivision of the United States.

The phrase in paragraph a of Article 1 "an unregistered vessel belonging to the Government of such Party" refers to certain vessels which belong to the Government of the United States and which are not registered vessels.

I am appending a current list of major United States oceanographic, hydrographic, meteorological and magnetic field research vessels referred to in subparagraph a(iii) of Article 1 of the Agreement mentioned above.

Very truly yours,

Peter G. Peterson
Secretary of Commerce

Enclosure:

Current list of major United
States oceanographic, hydrographic,
meteorological and magnetic field
research vessels.

His Excellency

Timofey B. Guzhenko,
Minister of Merchant Marine of the
Union of Soviet Socialist Republics.

CURRENT LIST OF MAJOR U.S. OCEANOGRAPHIC, HYDROGRAPHIC, METEOROLOGICAL, AND
MAGNETIC FIELD VESSELS

Operating Agency	Ship Name and Designator	Owner	Ship Type	Year Built	Year Converted	Length (Feet)	Displacement (Tons)	Accommodations Crew	Scientists
Department of the Navy (Oceanographer of the Navy/ Navy Laboratories	Sands (T-AGOR 6)	Navy	AGOR 3 Cl.	1964	N/A	208	1,355	26	15
	Lynch (T-AGOR 7)	Navy	AGOR 3 Cl.	1965	N/A	208	1,355	26	15
	Mizar (T-AGOR 11)	Navy	ex-T-AK	1957	1964	266	3,886	41	19
	Desteiguer (T-AGOR 12)	Navy	AGOR 3 Cl.	1969	N/A	208	1,340	27	15
	Bartlett (T-AGOR 13)	Navy	AGOR 3 Cl.	1969	N/A	208	1,340	27	15
	Hayes (T-AGOR 16)	Navy	Catamaran	1971	N/A	246	3,100	44	25
	Bowditch (T-AGS 21)	Navy	ex-VC-2 Cargo	1945	1958	455	13,000	61	17
	Dutton (T-AGS 22)	Navy	ex-VC-2 Cargo	1944	1958	455	13,000	61	17
	Michelson (T-AGS 23)	Navy	ex-VC-2 Cargo	1944	1958	455	13,000	61	17

Operating Agency	Ship Name and Designator	Ship Type	Year Built	Year Converted	Length (Feet)	Displacement (Tons)	Accommodations Crew	Scientists
Department of Commerce (National Oceanic and Atmospheric Administration, National Ocean Survey) (cont.'d)	Mt. Mitchell (MSS 22)	NOAA MSS 20 Cl. (CL.II)	1967	N/A	231	1,798	57	19
	Pierce (CSS 28)	NOAA CSS 28 Cl. (CL.III)	1963	N/A	164	760	29	7
	Whiting (CSS 29)	NOAA CSS 28 Cl. (CL.III)	1963	N/A	164	760	29	7
	McArthur (CSS 30)	NOAA CSS 30 Cl. (CL.III)	1966	N/A	175	995	29	7
	Davidson (CSS 31)	NOAA CSS 30 Cl. (CL.III)	1967	N/A	175	995	29	7
	Rude (ASV 90)	NOAA ASV 90 Cl. (CL.IV)	1967	N/A	90	214	10	0
	Heck (ASV 91)	NOAA ASV 90 Cl. (CL.IV)	1967	N/A	90	214	10	0
	Ferrel (ASV 92)	NOAA ASV 92 Cl. (CL.IV)	1968	N/A	133	363	17	2
National Science Foundation	Eltanin (T-AGOR 8)	Navy ex-T-AK	1957	1962	266	3,886	48	38
	Hero	NSF -	1968	N/A	125	650	11	6
Department of Transportation (U.S. Coast Guard)	Acushnet (WAGO 167)	USCG ex-ARS	1943	1968	213	1,745	58	11
	Evergreen (WAGO 295)	USCG ex-Buoy Tender	1943	1948	180	1,025	52	8
	Rockaway (WAGO 377)	USCG ex-AVP	1942	1966	311	2,800	120	18
University of Alaska	Acona	Navy Trawler	1961	N/A	80	154	6	12

Operating Agency	Ship Name and Designator	Owner	Ship Type	Year Built	Year Converted	Length (Feet)	Displacement (Tons)	Accommodations Crew	Scientists
Columbia University (Lamont-Doherty Geological Observ.)	Conrad (AGOR 3)	Navy	AGOR 3 Cl.	1962	N/A	208	1,370	21	22
	Sir Horace Lamb	Navy	ex-YMS	1942	1960	136	320	15	8
	Erline	Navy	ex-Crew Boat	1965	1967	100	120	4	2
Columbia University (Crumbs School of Mines)	Manning (T-514)	Navy	ex-Army T-Boat	1953	1955	65	95	3	9
	T-441	Navy	ex-Army T-Boat	1953	1955	65	99	3	6
Duke University	Eastward	Univ.	-	1964	N/A	118	474	15	15
Florida University of Technology	T-426	Navy	ex-Army T-Boat	1953	1955	65	95	5	4
Florida State University	Tursiops	Navy	ex-Army T-Boat	1954	1968	65	95	3	5
University of Georgia	Kit Jones	Univ. Tug		1938	1958	64	90	3	4

Operating Agency	Ship Name and Designator	Owner	Ship Type	Year Built	Year Converted	Length (Feet)	Displacement (Tons)	Accommodations Crew	Scientists
University of Hawaii	Teritu	Univ.	ex-Yacht	1953	1964	90	136	9	6
Johns Hopkins University	Ridgely Warfield Maury	Univ.	Catamaran	1967	N/A	106	162	8	10
		Univ.	-	1950	N/A	65	40	3	4
University of Miami	Gilliss	Navy	T-AGOR 4	1962	N/A	208	1,570	26	15
	Gerda	Univ.	ex-Trawler	1947	1954	76	213	6	8
	Pillsbury	Univ.	ex-Army FS	1944	1963	176	935	22	14
	Calanus	Univ.	-	1970	N/A	64	90	2	6
New York University	Kyma	Navy	ex-Army T-Boat	1952	1962	65	102	3	6
Northwestern Michigan College	Allegheny	College	ex-ATA	1944	1969	143	860	40	6
Nova University	Gulfstream	Univ.	ex-Crew Boat	1963	1966	55	29	1	5
Oregon State University	Yaquina Cayuse	Univ.	ex-Army FS	1944	1964	180	865	17	18
		Univ.	-	1968	N/A	80	173	7	7

Operating Agency	Ship Name and Designator	Owner	Ship Type	Year Built	Year Converted	Length (Feet)	Displacement (Tons)	Accommodations Crew	Scientists
University of Rhode Island	Trident	Univ. ex-Army FS	FS	1944	1962	180	1,021	21	13
	Melville (AGOR 14)	Navy	AGOR 14 Cl.	1969	N/A	245	2,075	25	25
	Washington (AGOR 10)	Navy	AGOR 3 Cl.	1965	N/A	208	1,362	25	17
	Agassiz	Univ. ex-Army FS	FS	1944	1961	180	866	18	13
	Alpha Helix	Univ.	-	1966	N/A	133	512	12	10
	Oconostota	Navy	ex-YTM	1944	1962	102	328	8	6
University of Southern California	Ellen B. Scripps	Univ. Supply Boat	Boat	1965	N/A	95	234	5	8
	Velero IV	Univ. Tuna Clipper	Clipper	1948	N/A	110	580	11	9
Stanford University	Proteus	Univ. ex-Tuna Boat	Boat	1946	1969	100	186	6	9
Texas A & M University	Alaminos	Univ. ex-Army FS	FS	1945	1963	180	850	17	14
	Orea	Univ. ex-USCG Boat	Boat	1926	1970	98	205	7	9

Operating Agency	Ship Name and Designator	Owner	Ship Type	Year Built	Year Converted	Length (Feet)	Displacement (Tons)	Accommodations Crew	Scientists
University of Washington	Thompson (AGOR 9)	Navy	AGOR 3 Cl.	1965	N/A	208	1,362	23	18
	Hoh	Navy	ex-YT (Tug)	1943	1962	65	91	2	6
	Onar	Navy	ex-Army T-Boat	1954	1963	65	95	2	6
Woods Hole Oceanographic Institution	Knorr (AGOR 15)	Navy	AGOR 14 Cl.	1970	N/A	245	2,075	25	25
	Chain (AGOR 17)	Navy	ex-ARS	1944	1958	213	2,100	31	26
	Atlantis II	WHOI	-	1963	N/A	210	2,300	30	25
	Gosnold	WHOI	ex-Army F-Boat	1944	1961	99	300	9	8
	Lulu	Navy	ALVIN Support Ship	1964	N/A	96	450	9	15
Cape Fear	Advance II	Private	-	1944	N/A	185	975	21	7
Tech Institute	Undaunted	Private	ex-tug	1944	N/A	143	200	15	14
University of Hawaii	Kana Keoki	Univ.	supply boat	1971	N/A	156	298	14	15
University of Miami	Columbus Iselin	Univ.	supply boat	1972	N/A	170		12	13
State University of New York Maritime College	Empire State IV	State Univ. ex-USNS of N.Y.	H. Gibbins	1942	N/A	489	15,470	105	462

ABBREVIATIONS AND SYMBOLS

AGOR		oceanographic research ship
AGS		surveying ship
ASV		auxiliary survey vessel (NOS designation)
CSS		coastal survey ship (NOS designation)
MSS		medium survey ship (NOS designation)
NOAA		National Oceanic and Atmospheric Administration
NOS		National Ocean Survey (formerly the Coast and Geodetic Survey)
NSF		National Science Foundation
OSS		ocean survey ship (NOS designation)
T-AGOR		T denotes oceanographic research ship operated by the Department of the Navy
T-AGS		T denotes surveying ship operated by the Department of the Navy
USCG		United States Coast Guard
WAGO		oceanographic ship (USCG designation)

Washington, October 14, 1972

Dear Mr. Minister:

With reference to the Agreement between the Government of the Union of Soviet Socialist Republics and the Government of the United States of America, signed today, concerning certain maritime matters, I acknowledge receipt of your letter of today's date and confirm the following clarifications and interpretations of statements contained therein as representing the understanding by my Government.

The phrase in paragraph a of Article 1 "registered in the territory of that Party" shall include unregistered vessels which are numbered under the laws of a state or political subdivision of the United States.

The phrase in paragraph a of Article 1 "an unregistered vessel belonging to the Government of such party" refers to certain vessels which belong to the Government of the United States and which are not registered vessels.

I am appending a current list of major Soviet oceanographic, hydrographic, meteorological and magnetic field research vessels referred to in subparagraph a(iii) of Article 1 of the Agreement mentioned above.

Respectfully,

Timofey B. Guzhenko
Minister of Merchant Marine of the
Union of Soviet Socialist Republics

Enclosure:

Current list of major Soviet
oceanographic, hydrographic,
meteorological and magnetic field
research vessels.

Honorable Peter G. Peterson
Secretary of Commerce

SCIENTIFIC RESEARCH AND TRAINING VESSELS UNDER THE USSR FLAG

No.	Operator	Name of Ship	Owner	Type of Ship	Year of Construction	Length of Ship in Meters	Water Displacement *	Crew Size		
								Organic Crew	Probationers (Trainees)	Instructors/Scientists
1	2	3	4	5	6	7	8	9	10	11
1	Academy of Sciences/AS/USSR	"Akademik Kurchatov"	Oceanography Institute of The Academy of Sciences, USSR	Scientific Research	1966	124	6.828	84	--	84
2	"	"Dmitry Mendelyev"	"	"	1968	124	6.828	83	--	76
3	"	"Vityaz"	"	"	1939	109,4	5.710	72	--	63
4	"	"Akademik Vernadsky"	Marine Hydro-physical Institute of Ukrainian SSR	"	1968	124	6.828	82	--	77
5	"	"Mikhail Lomonosov"	"	"	1957	102	5.960	71	--	63
6	"	"Pegas"	Sakhalin Combined Scientific Research Institute of the Academy of Sciences, USSR	"	1963	79,8	2.435,7	39	--	41
7	Black Sea Steamship Line	"Horizont"	Odessa Higher Marine Engineering Institute	Dry Cargo	1961	105	6217	56	154	5

*For training ships, the displacement is included in the weight.

1	2	3	4	5	6	7	8	9	10	11
8	Black Sea Steamship Line	"Professor Kudravich"	Odessa Higher Marine Engine- ering Institute	Dry Cargo	1970	122	10005	55	170	15
9	"	"Professor Anichkov"	"	"	1971	122	10005	55	170	15
10	"	"Professor Minyayev"	"	"	1972	122	10005	55	155	15
11	"	"Tovarishch"	Khersonsk Navigation School	Sailing- Motorized	1933	68,5	1618	41	134	4
12	Baltic Steamship Line	"Zenit"	Leningrad Higher Marine Engineering Institute	Dry Cargo	1961	105	6217	52	154	6
13	"	"Professor Shchegolev"	"	"	1970	122	10002	55	170	15
14	"	"Professor Ribaltovsky"	"	"	1971	122	10005	55	170	15
15	Far Eastern Steamship Line	"Meridian"	Far East Higher Marine Engineering Institute	"	1962	105	6217	52	154	8
16	"	"Professor Yushehenko"	"	"	1970	122	10005	55	170	15
17	Main Adminis- tration of the Hydrometeoro- logical Service USSR	"Professor Zubov"	Arctic- Antarctic Scientific Research Institute	Scientific Research	1967	124,2	6935	86	--	80
18	"	"Professor 4'ize"	"	"	1966	124,2	6935	86	--	80

1	2	3	4	5	6	7	8	9	10	11
19	Main Administration of the Hydrometeorological Service, USSR	"Akademik Korolyev"	Far East Scientific Research Hydro-meteorological Institute	Scientific Research	1967	124,2	6935	86	--	80
20	"	"Akademik Shirshov"	"	"	1967	124,2	6935	86	--	80
21	"	"Volna"	"	"	1968	96,10	4146	59	--	51
22	"	"Priliv"	"	"	1969	96,85	4069	59	--	51
23	"	"Priboy"	"	"	"	96,35	4162	59	--	51
24	"	"Okean"	"	"	1969	96,92	4162	59	--	51
25	"	"A. I. Boyeykov"	"	"	1960	84,65	3503	56	--	52
26	"	"Yu. M. Shokal'Sky"	"	"	1960	85,15	3591	56	--	52
27	"	"Passat"	Administration of Hydro Meteorological Service Ukrainian, SSR	"	1968	97,10	4146	59	--	51
28	"	"Musson"	"	"	1968	97,10	4146	59	--	51
29	"	"Poriv"	"	"	1971	104,69	4469	59	--	51
30	"	"Shkval"	"	"	1971	104,69	4469	59	--	51
31	"	"Bikhr"	"	"	1971	104,69	4469	59	--	51
32	"	"Okeanograph"	Administration of Hydrometeorological Service, Lithuanian, SSR	"	1956	35,85	426	21	--	12

1	2	3	4	5	6	7	8	9	10	11
33	Main Administration of the Hydrometeorological Service USSR	"Polyarnik"	Murmansk Administration of Hydrometeorological Service	Scientific Research	1956	38,5	454,2	21	--	12
34	"	"Aisberg"	"	"	1956	39,15	432,75	21	--	12

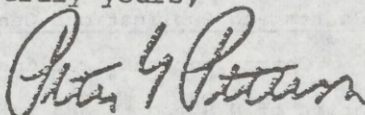
Washington, October 14, 1972

Dear Mr. Minister:

In connection with the Agreement signed today between the Government of the United States and the Government of the Union of Soviet Socialist Republics concerning certain maritime matters, we have agreed that we would exchange information describing our port procedures and other matters. Accordingly, enclosed is a Memorandum on U.S. Port Procedures and Other Matters.

This letter will also acknowledge receipt from you of your Memorandum on U.S.S.R. Port Procedures and Other Matters together with covering letter signed by you.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Peter G. Peterson". The signature is fluid and cursive, with the first and last names being more prominent.

Peter G. Peterson
Secretary of Commerce

Enclosure:

Memorandum on U.S. Port
Procedures and Other Matters.

His Excellency
Timofey B. Guzhenko
Minister of Merchant Marine of the
Union of Soviet Socialist Republics.

MEMORANDUM ON U.S. PORT PROCEDURES AND OTHER MATTERSI. Introduction

Access to U.S. ports by any foreign vessel is subject to compliance with applicable laws and regulations of the Federal Government and of state and local authorities in the areas wherein they have jurisdiction. The U.S. port procedures and applicable federal laws and regulations and certain other matters outlined below apply generally to foreign vessels. Specific mention is made of those limited instances where Soviet flag vessels might be treated differently from other foreign vessels.

II. Navigational AidsCharts and Publications Generally

Charts and publications necessary for proper navigation of U.S. ports and waters and available at any time at current prices are:

Tide Tables, Tidal Current Tables, Tidal Current Charts, U.S. Coast Pilots (these are sailing directions for U.S. waters), and Nautical Charts from National Ocean Survey, which are generally considered necessary for safe transit of United States coastal and port areas.

The U.S. Coast Pilot, published by the National Ocean Survey in eight volumes, includes navigational regulations, and information concerning outstanding landmarks, channel and anchorage peculiarities, dangers, weather, ice, freshets, routes, pilotage and port facilities. A list of other United States Government publications of navigational value is included in the Appendix to the U.S. Coast Pilot.

A. Supplemental Information:

Notices to Mariners; Weekly Notices; Local Notices

Local Notices

Corrections to charts and publications and important navigational safety information is contained in our Notices to Mariners. Weekly Notices to Mariners published by the U.S. Naval Oceanographic Office pertain to both foreign and domestic waters. Local Notices to Mariners published by each Coast Guard District Commander pertain primarily to domestic waters and also contain pertinent maritime legal public notices.

B. Safety Information

Marine safety information is broadcast over Coast Guard radio stations at scheduled intervals on specified frequencies. Broadcast schedules are published in U.S. Naval Oceanographic Office HO Publication No. 117.

C. Radio and Electronic Aids

Radio Aids to Navigation (Radio Beacons and Radio Direction Finders) are referenced in the Light List published by the U.S. Coast Guard and expanded in HO Publication No. 117B published by the U.S. Naval Oceanographic Office.

Light Lists describe aids to navigation including a list of lights, fog signals, buoys, daybeacons, and loran stations.

Special charts for electronic navigation, such as LORAN and CONSOLAN, are published by the National Ocean Survey.

Weather, facsimile (FAX), and ice broadcast schedules are published in Radio Weather Aids to Navigation, HO Publication No. 118.

D. Pilotage and Other Navigational Aids

Pilotage is usually compulsory for vessels in U.S. ports and waters. Pilotage requirements are uniform for all foreign flags but come under the purview of the pilotage laws of the local jurisdiction in which the port is located. Pilotage requirements may therefore vary from port to port.

Other normal navigational aids are available locally for any vessel entering a U.S. port.

III. Entry to U.S. Ports

A. Coast Guard

The general Coast Guard regulations for foreign vessels entering U.S. ports are contained in the Code of Federal Regulations, 33 CFR, Part 124. These regulations require such vessels to give at least 24 hours advance notice of arrival to the Coast Guard Captain of the Port. This requirement is independent of the advance notice requirement contained in the Agreement referred to above and the advance permission requirement for entry into all ports not on the list of ports open to calls upon notice attached to such Agreement, but can be accomplished in the same

time period. If the vessel is carrying explosives or certain specified dangerous cargo, this information must also be contained in the report. The regulations further require that the vessel give notice to the Captain of the Port as early as possible of any fire or other abnormal condition which could jeopardize the vessel's safety or the safety of other vessels or facilities in the port.

The statement delivered to the Soviet Government by Mr. T. R. Buchanan on August 27, 1971, will continue to govern access of all Soviet vessels to United States ports not on the list of ports open to calls upon notice. Any such vessel must submit an itinerary complete with ports of call and specific dates to the Department of State, Washington, D. C. via either the U.S. Embassy in Moscow or the Soviet Embassy in Washington. In addition, each Soviet vessel, except state-owned vessels, not in commercial service and except vessels involved in innocent passage, entering U.S. territorial waters will be boarded and searched by personnel of the U.S. Coast Guard.

Under the Agreement between the Government of the United States and the Government of the Union of Soviet Socialist Republics concerning certain maritime matters, notification of a visit to a U.S. port on the list of

ports open to calls upon notice must be received at least four days in advance of port entry. Notice of visits of commercial maritime vessels shall be forwarded to U.S. Coast Guard Headquarters, Washington, D. C. from a shipping agent (either (1) via Telex using address, "Commandant, U.S. Coast Guard, 400 7th Street, S. W., Washington, D. C., Telex number: 89-2427 or (2) by TWX using address, "Coast Guard Headquarters, 6th & D Streets, S. W., Washington, D. C., TWX number: 202-965-0660," or (3) via Western Union using either of the above addresses). Notice of visits of research and merchant marine training vessels shall be forwarded to the United States Department of State, Washington, D. C. through diplomatic channels.

B. Customs

All vessels arriving from foreign ports must report their arrival to Customs officers within 24 hours and make formal entry of the vessel at the custom house within 48 hours. Vessels are boarded by customs officers on arrival and may be, and sometimes are, searched (especially in connection with the Federal Government's present intensified narcotics enforcement program). For formal entry, a complete manifest of the cargo and all other items must be presented, vessel's register must be deposited, tonnage taxes must be paid, and permission must be obtained to lade or unlade cargo and passengers. In order to expedite

lading or unloading, preliminary entry may be made with the boarding officers.

C. Health and Agriculture

The U. S. Public Health Service administers foreign and domestic quarantine laws and conducts medical examinations of aliens. A vessel arriving at a U.S. port from a non-quarantine exempt area should undergo quarantine inspection (generally dockside) to determine the vessel's itinerary, deratting status (certificate current), whether there is illness aboard, whether crew members have been vaccinated for smallpox, whether personnel have been to any smallpox-infected countries, and whether the vessel has been to a plague-infected country. The inspection is to be held prior to disembarkation of any person, except with the permission of the quarantine officers, or the conduct of any business, unless exempted by Section 71.46 or 71.47 of Foreign Quarantine Regulations and supplemental provisions of the U.S. Public Health Service. A radio clearance may be obtained in lieu of the quarantine inspection if the above information is transmitted by radio to the Public Health Service representative via the vessel's agent.

Vessels arriving at a U.S. port shall be subject to sanitary inspection to ascertain whether

there exist rodent, insect, or other vermin infestation, contaminated food or water, or other unsanitary conditions requiring measures for the prevention of the introduction, transmission, or spread of communicable disease.

The U.S. Department of Agriculture administers quarantines to restrict the importation of plants, plant products, soil, injurious insects, and associated items that may introduce or spread plant pests or diseases new to or not widely distributed within the United States. Inspectors examine imports at ports of entry as well as the vessel, its stores, and crew or passenger baggage. A variance from the shipboard inspection requirement may be granted if the vessel's agent executes a "memorandum of understanding" agreeing to comply with certain requirements.

D. Research Vessels

U.S. calls of Soviet research vessels will be handled in the same manner as calls by other vessels under the Agreement referred to above. The procedures for entering U.S. ports are generally the same as for any other vessel.

IV. Documents and Forms

A. Ships Documents

The International Convention on Safety of Life at Sea, 1960, Part B, describes those documents,

surveys and certifications which will normally be required and accepted by the signatory nations. In addition to the SOLAS Convention requirements, a foreign vessel calling at a U.S. port will normally require a United States Coast Guard certification to safeguard life and property in U.S. ports if the vessel is: (i) carrying liquid bulk cargo involving potential unusual operating risks; or (ii) embarking passengers at a U.S. port. Such certification requires a submission of detailed vessel plans for technical review and an on-site inspection of the vessel by the United States Coast Guard to insure compliance with the submitted plans. USSR measurement certificates are acceptable to U.S. authorities as valid measurements of tonnage.

B. Certificates of Financial Responsibility

The Federal Water Pollution Control Act, as amended by the "Water Quality Improvement Act of 1970," requires evidence of financial responsibility regarding reimbursement for pollution damage caused by a vessel. The pertinent section of this Act states:

"Any vessel over three hundred gross tons, including any barge of equivalent size, using any port or place in the United States or the navigable waters of the United States for any purpose shall establish and maintain under regulations to be prescribed from time to time by the

President, evidence of financial responsibility of \$100 per gross ton, or \$14,000,000 whichever is the lesser, to meet the liability to the United States (to) which such vessel could be subjected under this section. In a case where an owner or operator owns, operates, or charters more than one such vessel, financial responsibility need only be established to meet the maximum liability to which the largest of such vessels could be subjected. Financial responsibility may be established by any of, or a combination of, the following methods acceptable to the President:

(a) evidence of insurance, (b) surety bonds, (c) qualification as a self-insurer, or (d) other evidence of financial responsibility. Any bond filed shall be issued by a bonding company authorized to do business in the United States."

The President has delegated to the Federal Maritime Commission (FMC) the responsibility for establishing and maintaining the regulations necessary to carry out these financial responsibility requirements. FMC General Order 27 (with amendments), which applies to vessels of all flags, states that the United States Government will consider a particular ship operating or owning company financially responsible only if that company can provide evidence of financial responsibility by one of the methods listed above. Any insurance company, regardless of nationality, which has a good reputation and sufficient resources to back up a reasonable claim is acceptable. Almost all Soviet vessels have been insured in this regard with Ingosstrakh in the USSR. There is a fee for the final certification by the FMC.

Title 46 U.S.C. Chapter 14 (Public Law 89-777)

requires the owners, operators or charterers of passenger vessels having berth or stateroom accommodations for 50 or more passengers and which embark passengers at United States ports to establish their financial responsibility to meet their liability for death or injury to passengers and other persons and to refund fares in the event that voyages or cruises are cancelled. These requirements extend uniformly to all such vessels regardless of flag. The Federal Maritime Commission sets forth the rules and regulations to comply with Public Law 89-777. Financial responsibility can be established with the Commission through insurance, surety bond, guaranty, escrow account or as a self-insurer. In any event, under FMC General Order 20, applicants, insurers, guarantors, sureties, escrow agents and self-insurers must have assets physically located in the United States to meet their commitments.

To qualify for a Performance Certificate, which is issued by the FMC as evidence of financial responsibility for the refunding of fares, the maximum amount required is \$5,000,000. Companies operating smaller

vessels or a small number of vessels may arrange with the FMC for a smaller bond depending upon the amount of deposits and fares collected, or expected to be collected, for planned voyages and cruises.

The FMC also issues a Casualty Certificate as evidence of financial responsibility to meet liability for death or injury. The amount required is computed from the schedule set forth in Public Law 89-777.

(1) \$20,000 for each passenger accommodation up to and including 500; plus

(2) \$15,000 for each additional passenger accommodation between 501 and 1,000; plus

(3) \$10,000 for each additional passenger accommodation between 1,001 and 1,500; plus

(4) \$5,000 for each passenger accommodation in excess of 1,500.

When more than one vessel is operated by the same owner or operator, the amount of evidence of financial responsibility required for a Casualty Certificate is based upon the number of passenger accommodations of the vessel having the largest number of passenger accommodations.

D. Trade Statistics

Within 30 days of entry into the first U.S. port and after clearing the last U.S. port, all vessels engaged in the foreign commerce of the U.S. must file vessel utilization and performance reports in accordance with Maritime Administration Regulations. These reports are of a strictly commercial nature and are compiled by the U.S. Government in order to maintain gross statistics related to the volume and nature of our exports and imports.

V. In-Port Treatment

A. Servicing of Vessels

Foreign vessels visiting U.S. ports can normally obtain bunkers, food, medical goods, other consumable supplies, and spare and replacement parts necessary for maintaining and operating a vessel. Vessels that have called at a port under Cuban control since January 1, 1963, or that have such a port on their current voyage itineraries (see 15 C.F.R. §371.9(b)(2)) and vessels which have called at a port under the control of North Vietnam or North Korea within 180 days or that will call at or carry cargo destined to such a port within 120 days (see 15 C.F.R. §371.9(b)(1)) cannot be bunkered at U.S. ports. Soviet vessels which have called in Cuba since January 1, 1963, or which have

called in North Vietnam since January 25, 1966, may call at U.S. ports and load or unload normal commercial cargoes. Validated export licenses are required for the sale of spare and replacement parts to visiting vessels under the flag of the USSR and various Eastern European countries and for the servicing of equipment of U.S. origin aboard these vessels. As licensing procedures are sometimes time-consuming, an arrangement with regard to spare parts for Soviet vessels will be provided similar to the one which now applies to Aeroflot in the United States. That is, either Soviet spare parts could be brought into the United States for later withdrawal from a customs bonded warehouse, or there could be a relaxation of rules regarding the purchase of certain spare parts from commercial suppliers in the U.S. for use in Soviet vessels. Such arrangements and relaxation of rules, of course, require reciprocity.

B. Fees and Taxes

The payment of fees and taxes is a complex problem under United States laws, but it is a problem encountered by all foreign shipowners and handled by them with little practical difficulty.

1. Tonnage Taxes

Tonnage taxes are collected by the U.S. Bureau

of Customs. The tonnage tax payments are assessed upon the net tonnage as stated in the vessel's document or as stated in an appendix attached to the vessel's document showing a net tonnage ascertained under rules of a foreign country which are substantially in accord with the rules of the United States. If the net tonnage stated in the vessel's document is manifestly incorrect, taxes may be assessed on the tonnage reported for the vessel by any recognized classification society, or may be leveled on the basis of an estimated tonnage pending admeasurement.

Vessels exempt from tonnage tax include vessels arriving solely for bunkers or stores and departing within 24 hours as well as vessels arriving in distress or not engaged in trade.

2. Other Port Charges

Other port charges, including charges for services such as wharfage, refuse disposal, fresh water, line handling and the like, are made by the owner of the pier to which the ship moors. This could be a private firm, a municipal or state government, or a port authority. These vary from port to port, and within each port depending on where the vessel is moored. Pilot fees and the cost of tugs

vary according to schedules available at each port. In all cases, these various duties and charges are uniformly applied to all vessels regardless of flag.

3. Taxes on Operating Revenues

Many political subdivisions in the United States impose taxes upon profits earned within their geographic jurisdictions. Under general principles of United States constitutional law, however, these subdivisions may not levy taxes on profits which unduly burden international trade. The present practice of the political subdivisions is not to levy income taxes on vessels or shipping companies, as long as their activities in U.S. ports are limited to the loading and discharging of cargoes moving in international commerce.

VI. Visa and Immigration Requirements

In order that a crew member of any foreign country may be allowed shore leave in the United States, he must have a passport or an acceptable document in lieu thereof, and an appropriate visa (an individual crew member visa or be included on a visaed crewlist) issued by a United States consular officer. No exit visas are required in order to leave the U.S. A Soviet crew member's passport will be considered adequate personal identification by the U.S. Government.

In order for a Soviet crew member to obtain a visa for entry into the U.S., a crewlist on Form I-418 showing the names of all crew members and certain personal data, including passport numbers, must be submitted to a U.S. Consulate 7 days before the arrival of the vessel in a U.S. port. The master or agent of every vessel arriving in the United States from any foreign place or from an outlying possession of the United States is required to present to the immigration officer at the port of first arrival a manifest of all crew members on board on Form I-418 with an appropriate visa.

Immigration and Naturalization Service regulations require that every alien crew member applying for landing privileges in the United States must make his application in person before an immigration officer and present his passport or acceptable document in lieu thereof. A crew member who is properly manifested on a visaed Form I-418 and is found admissible by the immigration officer is issued an authorization on Form I-95 valid for a period not exceeding 29 days from the date of issuance to land temporarily in the United States for shore leave during the period of time the vessel is in the port of arrival or in other ports in the United States to which it proceeds directly without touching at a foreign port or place. Soviet crew members

who are admitted are limited to the area of the port city in which their vessel is located.

Once granted shore leave, any foreign crew member must surrender his passport for safekeeping to the master of the vessel. The crew member should keep with him the Form I-95 which has been given to him by the immigration officer and which is evidence to show the date, place and type of admission.

In order that any foreign crew member may meet a vessel in a U.S. port, he must be issued a transit visa by the U.S. Government indicating both his port of arrival and his destination in the U.S. With regard to requests for any type of visa or application for entry for a citizen of any nationality, the United States Government maintains the right to judge an individual undesirable for entry into the U.S.

The master or agent of every vessel carrying passengers arriving in the United States from a foreign place or from an outlying possession of the United States must present a manifest of all alien passengers on board to the immigration officer at the first port of arrival. The manifest must be submitted on a Form I-418 with a completely executed Form I-94 in duplicate prepared for and presented by each alien passenger. All alien passengers must be documented with valid passports and visas issued by

a United States consul abroad.

Any vessel departing a United States port must present to the Immigration and Naturalization Service a manifest on Form I-418 covering the crew and any passengers aboard. All Forms I-95 shall be surrendered and the crew shall be mustered if required by the immigration officer in charge. Also to be surrendered are Forms I-94 issued to each alien passenger on arrival or prepared for each alien passenger who does not have one issued at time of entry.

VII. Jurisdiction Over Legal Causes

Under the prevailing U.S. view, a local political entity will not exercise criminal jurisdiction over acts committed on a vessel entering one of its ports unless the consequences of the crime extend to such entity or the crime is such that it disturbs the "peace of the port." In such instances, the local political entity consents to the exercise of jurisdiction by the foreign state to detain the person charged with the crime on board the vessel. Traditionally, crimes disturbing the "peace of the port" have been those of such gravity, such as murder, that the local political entity felt compelled to act. Local, rather than federal, courts have jurisdiction

over most criminal matters and the extent to which they adhere to the prevailing view may vary.

Under U.S. law, a foreign seaman may generally bring a claim for his wages against his employer in any court having jurisdiction.

The United States doctrine of sovereign immunity was explained in detail in the Aide-Memoire presented by the United States Government to the Embassy of the Soviet Union on July 16, 1971. Appointment of an agent for service of process in those jurisdictions wherein lawsuits appear most likely should eliminate the necessity of attachment of vessels in quasi in rem proceedings for purposes of obtaining jurisdiction. Attachment in in rem proceedings might be avoided, or the period of arrest connected therewith minimized, through appointment of an agent to post the requisite security in individual cases through general bonding procedures available under Supplemental Rule E(5)(b) of the Federal Rules of Civil Procedure or through purchase of appropriate protection and indemnity insurance.

VIII. Departure from U.S. Ports

A vessel departing a U.S. port with cargo or passengers for a foreign port or ports must clear

for such port or ports by presenting to the Bureau of Customs a manifest and export declarations for all cargo laden at that port and by complying with the other requirements set forth in Title 19 CFR §.61. While the completed outward manifest and associated export declarations may otherwise be filed up to the fourth business day after clearance, a vessel may not be cleared for any port in certain countries until the complete manifest and required export declarations have been filed. These countries are specified in Treasury Decisions summarized in 19 CFR 4.75.

IX. Pollution Control

The Federal Water Pollution Control Act, as amended, prohibits discharging of oil into United States navigable waters in amounts which cause a film or sheen upon or discoloration of the surface of the water or adjoining shorelines or causes a sludge or emulsion to be deposited beneath the surface of the water or upon adjoining shorelines. For each offense, not more than \$10,000 can be assessed for knowingly discharging harmful quantities of oil as defined above. The Federal Water Pollution Control Act, as amended, also requires any person in charge of a vessel which makes such a discharge to immediately

notify the Coast Guard. Failure to make immediate notification can result in a fine of not more than \$10,000 or imprisonment for not more than one year or both. Pollution control generally is a subject of great interest in the United States Congress and additional legislation in this area may be expected. Additional international agreements in this field may also be expected which, when ratified, will become part of United States law.

The Refuse Act, 1899, prohibits the throwing, discharging, or depositing of any refuse matter of any kind or description whatever from vessels into any navigable water of the United States or into any tributary of any navigable water or on any bank of these waters. Refuse includes garbage, oil or cargo, whether or not it has commercial value. Maximum penalty for violation of this Act is a fine of \$2,500 and a period of imprisonment of one year. The federal regulations implementing the Refuse Act of 1899 exempt vessel sewage. However, local or state requirements may, in some areas, require sewage treatment or discharge ashore. At this time the areas covered by such requirements are few. This matter

should be determined for each port on a planned itinerary by the vessel's agent.

X. Vessels in Distress

Assistance to distressed vessels, regardless of nationality, is provided by the United States Coast Guard and is well known to the worldwide maritime community. This assistance does not, however, routinely include salvage. Salvage is conducted as private enterprise by a number of United States salvage firms.

Should a marine casualty result in shipwreck in United States territorial waters, several actions must be taken by the owner of the vessel.

(a) Immediately mark the location of the wreck to conform to the lateral system of buoyage. Such marking must be maintained until the obstruction is removed or the right of the owner to abandon is legally established and has been exercised.

(b) Promptly report the fact and intention to mark to the nearest United States Coast Guard Marine Inspection Office and the District Engineer, Corps of Engineers, U.S. Army.

(c) Should abandonment be decided upon, the intention to abandon should be addressed to the District Engineer, Corps of Engineers, U.S. Army, within whose district the vessel is located. A request

for abandonment is not automatically granted, and until it is accepted, the owner remains responsible for all civil liability.

(d) Additionally, marine casualties in general are subject to the following:

(1) Notice of marine casualty.

The Owner, agent, master, or person in charge of a vessel involved in a marine casualty shall give notice as soon as possible to the nearest Marine Inspection Office of the Coast Guard whenever the casualty results in any of the following:

- (i) Actual physical damage to property in excess of \$1,500.00.
- (ii) Material damage affecting the seaworthiness or efficiency of a vessel.
- (iii) Stranding or grounding.
- (iv) Loss of life.
- (v) Injury causing any persons to remain incapacitated for a period in excess of 72 hours; except injury to harbor workers not resulting in death and not resulting from vessel casualty or vessel equipment casualty.

- (2) Substance of marine casualty notice. The notice required shall show the name and official number of the vessel involved, the owner or agent thereof, and insofar as is practicable, the nature and probable occasion of the casualty, the locality in which it occurred, the nature and extent of injury to personnel and the damage to property.

- (3) Marine casualty or accident. The term "marine casualty or accident" shall mean any casualty or accident involving any vessel if such casualty or accident occurs upon the navigable waters of the United States, its territories or possessions, or any casualty or accident wherever such casualty or accident may occur involving any United States vessel which is not a public vessel.

It should be noted that, as a delegate state to the International Association of Lighthouse Authorities (IALA), the United States is participating in the drafting of international recommendations

concerning the marking of shipwrecks. The landing ashore in the U.S. of cargoes salvaged from a wrecked vessel is subject to customs entry. Application should be made to local officials of the United States Bureau of Customs for details.

XI. Domestic Commerce

Foreign vessels must obtain permits to proceed between United States ports. Foreign vessels may not engage in any of the following activities while in the United States.

1. Domestic trade (cabotage), meaning the transportation between points in the United States of merchandise or passengers laded at one point in the U.S. and unladed in another.

2. Towing any vessel between points in the United States except a vessel of foreign registry or a vessel in distress.

3. Salvage operations, unless the Commissioner of Customs is satisfied that no suitable United States vessel is available.

4. Dredging (if foreign-built).

One exception to the exclusion of foreign vessels from the United States domestic trade is that vessels of countries which extend reciprocal privileges to vessels of the United States may, under certain conditions, transport between ports in the United States

empty cargo containers, equipment for such containers, empty barges designed to be carried aboard an ocean-going vessel, empty instruments of international traffic, and stevedoring equipment and material.

At this time the Soviet Union and the United States have not made arrangements to extend such privileges to the other nation's vessels.

Washington, October 14, 1972

Dear Mr. Minister:

In connection with the Agreement signed today between the Government of the Union of Soviet Socialist Republics and the Government of the United States concerning certain maritime matters, we have agreed that we would exchange information describing our port procedures and other matters. Accordingly, enclosed is a Memorandum of U. S. S. R. Port Procedures and Other Matters.

This letter will also acknowledge receipt from you of your Memorandum on U. S. Port Procedures and Other Matters together with covering letter signed by you.

Respectfully,

Timofey B. Guzhenko
Minister of Merchant Marine of the
Union of Soviet Socialist Republics

Enclosure:

Memorandum on U. S. S. R. Port
Procedures and Other Matters

Honorable Peter G. Peterson
Secretary of Commerce

MEMORANDUM ON USSR PORT PROCEDURES AND OTHER MATTERSINTRODUCTION

Access to USSR ports by any foreign vessel is subject to compliance with applicable laws and regulations of the Government of the USSR, the governments of the respective Soviet Republics and local municipal and port authorities in the areas wherein they have their jurisdiction. The USSR port procedures and applicable laws and regulations and certain other matters outlined below apply generally to all foreign vessels. Specific mention is made of those limited instances where U.S. flag vessels might be treated differently from other foreign vessels.

I. NAVIGATIONAL AIDS

Charts and other publications necessary for proper navigation of USSR ports and waters are listed in the "Catalog of Charts and Publications" (Department of Hydrography, USSR Ministry of Defense), and are available at current prices through the Inflat port agency for the port where entry is to be made.

Notifications to mariners are issued each week. Marine safety information is broadcast at scheduled intervals on specific frequencies as provided for by international regulations.

II. ENTRY TO USSR PORTS

Under the Agreement between the Government of the United States and the Government of the Union of Soviet Socialist Republics concerning certain maritime matters, notification of a visit by a vessel under the flag of the U.S. to a USSR port on the list of ports open to calls upon notice must be received at least four days in advance of port entry. Notice of visits of commercial maritime vessels shall be forwarded to the USSR Ministry of Merchant Marine, 1/4 Zhdanov Street, Moscow, from the relevant "Inflot" shipping agent. Notice of visits of research and merchant marine training vessels shall be forwarded to the USSR Ministry of Foreign Affairs, Moscow, through diplomatic channels.

For commercial purposes and notwithstanding the information required to be given under a contract of affreightment, it is advisable that all foreign merchant vessels communicate to the relevant "Inflot" shipping agents reasonably in advance the purpose of arrival, the flag, registered net tonnage, length of the vessel, cargo in each hold, requests for supplies and other services, and in addition the updated expected time of arrival 48, 24 and 4 hours in advance of arrival.

Foreign vessels can normally obtain bunkers, food, medical goods, other consumable supplies and spare and replacement parts necessary for maintaining and operating a vessel. It is recommended that bunker requests be made through the "Inflot" agency not less than 10 days in advance of proposed bunkering.

III. PILOTAGE AND OTHER NAVIGATIONAL AIDS

Pilotage is compulsory for foreign-flag vessels in USSR ports and waters. Pilotage requirements are uniform for all foreign flags but come under the purview of the pilotage laws of the local jurisdiction in which the port is located. Pilotage requirements may therefore vary from port to port.

In the majority of ports, entry and departure of vessels take place around the clock. In some ports pilotage is carried out with the aid of tugboats. In others shore radar and radio direction-finding stations are used.

Other normal navigational aids are available locally for any vessel entering a Soviet port.

IV. ENTRY TO USSR PORTS

Foreign vessels which have arrived in port are not allowed to have contact with shore before receiving permission for this from the port authorities. On arrival in port, a commission composed of representatives of the following authorities boards the vessel:

Border Control;

Customs;

Health;

Agriculture.

The captain fills out separate declarations for each of the above authorities, presents the vessel's documents, passports, and muster roll to the commission, and delivers:

A crew list (six copies);

A passenger list (six copies);

A list of the vessel's provisions (two copies);

A list of currency and valuables with an indication of the names of the owners and the amounts of each currency each possesses (two copies);

Cargo documents (four copies).

Upon completion of the work of the commission, the captain is informed that permission is granted for contact with shore (free pratique granted to the vessel).

Customs

A customs official examines the vessel, checks the accuracy of the lists of currency and valuables, and seals any compartment containing arms, narcotics and cargo intended for other ports. Taking Soviet currency out of the USSR and bringing it into the USSR is forbidden. Any dealings involving foreign currency, except through the agencies of the USSR State Bank are punishable by law as a criminal offense.

Border Control

Border control officials examine the ship's rolls, passports, and seaman's identity cards, issued in place of passports, and examine the vessel. Crew members and passengers are given passes for going ashore. These passes are shown to the border official on duty at the pier.

Health (Quarantine and Sanitary Control)

The medical officer of the health authorities ascertains the satisfactory sanitary condition of the vessel and the health of the crew and passengers. All crew members must have certificates of smallpox vaccination, and in certain cases, of other epidemic diseases as well. Persons not having such certification must obtain the necessary (free) vaccinations before going ashore.

The master of the vessel must present to the health authorities a deratization certificate or a certificate on release from deratization. If no certificate is available, the vessel must be examined and, if necessary, deratized.

Agricultural Quarantine Control

The State Agricultural Quarantine inspector examines the storeroom and holds of the ship. Upon finding agricultural pests on the vessel or in its cargo, he prohibits the use of foodstuffs infested by such pests as well as discharging or loading until disinfection of the vessel's compartments is carried out. The cost of disinfection is borne by the vessel. The current rate may be obtained from the "Inflot" agency at the port concerned.

V. VISAS

To obtain permission for crew members of a U.S. vessel in a USSR port to go ashore, it is necessary to present a list of the crew members to a USSR consular establishment not less than 7 days before the date of intended arrival in port. Persons who are found undesirable and who do not receive visas can, nevertheless, remain on board the vessel without the right of going ashore in a Soviet port.

Persons not included on the list of crew members of the vessel must have a Soviet visa, duly issued by a USSR consular establishment, for going ashore.

Crew members on the crew list of the U.S. vessel who have received the indicated visa have the right to visit the port city. Crew members, with the exception of the vessel's master, must return to the vessel not later than 2400 hours on each day of the vessel's stay. Going or remaining ashore at night is permitted for crew members only on official and other urgent business.

If for any reason a crew member must leave his ship in a Soviet port and travel to another city or leave the USSR, he must receive a visa for this in his passport or seaman's document of identity at the Department of Visas and Registration of the port city, or at the nearest such institution. A crew member entering the USSR to join a crew must also obtain an entry visa. All alien passengers desiring shore leave must be documented with valid national passports and visas issued by a Soviet consul abroad.

VI. SERVICING OF VESSELS. FEES.

Servicing of foreign vessels in Soviet ports is conducted through the "Inflot" agency at the port concerned. An estimate of all likely expenses of each vessel must be worked out in advance by the shipowner with the "Inflot" agency at the given port and payment guaranteed before departure of the vessel from port. Otherwise, the foreign vessel may be detained in port until the expenses are paid or payment guaranteed in some other way.

The rates of charges and payments for services rendered to vessels in USSR ports are applied uniformly to all foreign vessels regardless of flag and are published in the "Inflot" service booklet for each port. The "Inflot" agency at each port arranges certain other services which are paid for according to local prices or a contract.

Vessels calling at port (a) solely for bunkers, fresh water, provisions or health needs, or (b) in cases of emergency, are exempt from paying tonnage dues.

VII. JURISDICTION IN SOVIET PORTS

Foreign merchant vessels in USSR ports, as well as their crews, fall under Soviet jurisdiction. The USSR authorities will not, however, except at the request or with the consent of the competent consular officer, exercise such jurisdiction or intervene (as the case may be) in respect of any matter occurring on board a foreign vessel, except in connection with

a criminal offense affecting citizens of the USSR or any other person not a national of the vessel's flag, not a member of the crew, or not otherwise attached to the ship, or affecting the security of the USSR or the peace or good order of the port, and except in connection with an offense which constitutes a grave offense under the law of the USSR.

The authorities have the right to make arrests on board foreign merchant ships in cases when the crime has been committed wholly or partially on shore or when the consequences of these crimes may cause serious complications on shore, and also at the request of the captain of the foreign vessel or if this appears necessary to prevent traffic in narcotics.

Under Soviet law, sovereign immunity is accorded only to state-owned vessels, which therefore are not subject to attachment in connection with civil suits. However, vessels which are the property of a foreign state can be denied sovereign immunity under Soviet law to the same extent such foreign state does not accord immunity to Soviet-owned vessels.

VIII. POLLUTION CONTROL OF MARINE AND INLAND WATERS

Pollution control in marine and inland waters generally is a subject of great concern in the USSR. New rules aimed at introduction of more effective measures preventing pollution of internal as well as territorial waters are now being prepared.

Present regulations providing for a fine amounting to two rubles per kilo of spilled oil products are applicable in case of pollution of internal and territorial waters by discharging, dumping or spilling of oil or oil products from a vessel. In addition, the vessel is liable for the actual damages caused by such pollution.

Discharging of garbage overboard is strictly prohibited. Upon request of the master, the port administration ensures the disinfection of garbage and removal of same from the vessel at the expense of the vessel.

IX. DEPARTURE OF FOREIGN VESSELS FROM USSR PORTS

After completing cargo operations or other operations in port, a vessel must receive permission of the authorities to depart. The port authorities do not permit departure from port if the vessel is overloaded beyond the load lines established by the International Convention on Load Lines of 1966 or is unseaworthy, or has not paid port expenses, or if the vessel's documents have expired.

All cargo documents should be signed by the master before the departure. At the request of the master presented through the "Inflot" agency, a Commission composed of officials from border control, customs and port authorities boards the vessel and upon examination of the vessel, its crew and ship's papers clears the vessel for departure from port.

X. ASSISTANCE TO VESSELS IN DISTRESS

In the USSR, an emergency rescue service is available for rescuing those who are shipwrecked, as well as for salvage and towing into ports of refuge, etc., to vessels of all nationalities. Requests for assistance are received by radio on frequencies allotted for distress signals, or through "Inflot" agencies.

XI. COASTAL TRADE BETWEEN USSR PORTS

Foreign vessels may not engage in any of the following activities while in USSR waters:

- (1) Coastal trade (cabotage), meaning the transportation between points in the USSR of merchandise or passengers loaded at one point in the USSR and discharged in another;
- (2) Towing any vessel between points in the USSR;
- (3) Salvage operations.

XII. ACCEPTANCE OF VESSELS' DOCUMENTS

The International Convention on Safety of Life at Sea, 1960, Part B, describes those documents, surveys and certifications which will normally be required and accepted by the signatory nations. U.S. measurement certificates are acceptable to USSR authorities as valid measurements of tonnage.

When visiting a Soviet port, a foreign vessel may be subjected to a technical survey if a similar survey is required in ports of that vessel's state in relation to USSR-flag ships.

XIII. INVESTIGATION OF ACCIDENTS

Investigation of accidents is conducted by the captain of a Soviet port. Such investigation involving foreign vessels is obligatory for accidents which have occurred within the territorial and port waters of the USSR and have affected the interests of the USSR or its citizens. Such investigation is also carried out with respect to accidents occurring beyond the limits of USSR territorial and port waters and involving death or injury to Soviet citizens or damage to property belonging to the USSR, its citizens, or its entities.

Other accidents are subject to such investigation if the master of a vessel, shipowner, or consul of the country of the vessel's flag so requests.



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

October 14, 1972

Mr. N. Zuev
President
SOVFRACHT
Moscow, Russia

Dear Mr. Zuev:

This letter will serve to confirm to you our understanding that the Maritime Administration, U. S. Department of Commerce, will use its good offices and influence with U. S. shipowners in assisting the Soviet Union in procuring vacuvators for grain discharging operations.

Additionally, we confirm our understanding that tankers can only be discharged by vacuvators and that in order to fulfill the terms agreed upon it will be necessary either for receivers to purchase vacuvators directly or for tanker owners and/or the receivers to come to some arrangement for providing a means of discharge.

Sincerely,

A handwritten signature in cursive script, reading "Robert J. Blackwell", is written over the typed name.

ROBERT J. BLACKWELL
Assistant Secretary
for Maritime Affairs

MEMORANDUM OF UNDERSTANDING

Acting on behalf of the designated representatives under Annex III of the Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Certain Maritime Matters, and pursuant to Paragraph 2a of the letters exchanged by the Secretary of Commerce of the United States of America and the Minister of Merchant Marine of the Union of Soviet Socialist Republics dated October 14, 1972, in connection with the Agreement and relating to the understanding of the Parties concerning "mutually acceptable rates," we have agreed that the charter rates specified in Paragraphs 2(a)(ii) for shipments of raw and processed agricultural commodities shall be as set forth below for the carriage of heavy grains from U. S. Gulf of Mexico ports to Soviet Black Sea ports, for vessels fixed for loading and tendered by 4:00 p. m. on or before:

December 15, 1972	\$9.40 U. S. Ccy. per long ton F. I. O. T.
December 25, 1972	\$9.20 U. S. Ccy. per long ton F. I. O. T.
January 25, 1973	\$9.00 U. S. Ccy. per long ton F. I. O. T.

plus 10 percent of such rates.

It is our intention to expedite and effectuate to the fullest extent practicable the carriage by U. S. -flag vessels of such raw or processed agricultural commodities under the Agreement consistent with the availability of U. S. vessels.

DONE at Washington, D. C., this 22d day of November, 1972.

Ministry of Merchant Marine
of the Union of Soviet Socialist
Republics

Maritime Administration
Department of Commerce of
the United States of America

N. Zuev

N. ZUEV

Robert J. Blackwell

ROBERT J. BLACKWELL

22 Nov - 72



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

November 22, 1972

Honorable N. Zuev
President
SOVFRACHT
Ministry of the Merchant Marine
Union of Soviet Socialist Republics
Moscow, Russia

Dear Mr. Zuev:

On behalf of the United States designated representative for implementation under the Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Certain Maritime Matters, I propose the following:

1. That pursuant to Article 10 of that Agreement we mutually agree to accelerate the effective date of the Agreement; and
2. That we mutually agree pursuant to paragraph 4(b)(iii) of Annex III to the Agreement to an adjustment to the accounting periods so that calendar year 1972 not be regarded as a separate accounting period but that calendar year 1972 and calendar year 1973 be combined for accounting purposes into a single accounting period which shall end on December 31, 1973, or upon termination of the Agreement as provided for in Article 10, whichever occurs first.

Should you concur in the proposal of paragraphs 1 and 2 above, I further propose that the Agreement shall enter into force upon my receipt of your concurrence.

Sincerely,

ROBERT J. BLACKWELL
Assistant Secretary
for Maritime Affairs

November 22, 1972

Honorable Robert J. Blackwell
Assistant Secretary of Commerce
for Maritime Affairs
U. S. Department of Commerce
Maritime Administration
Washington, D. C. 20235

Dear Mr. Blackwell:

I acknowledge receipt of your letter of November 22, 1972, concerning implementation of the Agreement Between the Government of the United States and the Government of the Union of Soviet Socialist Republics Regarding Certain Maritime Matters, which stated:

"On behalf of the United States designated representative for implementation under the Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Certain Maritime Matters, I propose the following:

1. That pursuant to Article 10 of that Agreement we mutually agree to accelerate the effective date of the Agreement; and
2. That we mutually agree pursuant to paragraph 4(b)(iii) of Annex III to the Agreement to an adjustment to the accounting periods so that calendar year 1972 not be regarded as a separate accounting period but that calendar year 1972 and calendar year 1973 be combined for accounting purposes into a single accounting period which shall end on December 31, 1973, or upon termination of the Agreement as provided for in Article 10, whichever occurs first!"

On behalf of the Union of Soviet Socialist Republics designated representative for implementation I agree with the proposal set forth in paragraphs 1 and 2 of your letter, and in your proposal that the Agreement shall enter into force upon your receipt of this concurrence.

Sincerely,

A. B. L.
22/11 - 72.

MEMORANDUM OF UNDERSTANDING

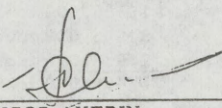
Acting as the designated representatives under Annex III of the Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Certain Maritime Matters, and pursuant to Paragraph 2a of the letters exchanged by the Secretary of Commerce of the United States of America and the Minister of Merchant Marine of the Union of Soviet Socialist Republics dated October 14, 1972, in connection with the Agreement and relating to the understanding of the Parties concerning "mutually acceptable rates," we have agreed that the charter rates specified in Paragraphs 2(a)(ii) for fixtures made prior to July 1, 1973 for shipments of raw and processed agricultural commodities shall be as set forth below for the carriage of heavy grains from U. S. Gulf of Mexico ports to Soviet Black Sea ports, for vessels tendered after 4:00 p.m. on January 25, 1973:

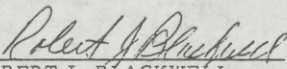
\$9.40 U. S. Ccy. per long ton F.I.O.T.
plus 10 percent of such rate.

DONE at Washington, D. C., this 15th day of December, 1972.

Ministry of Merchant Marine
of the Union of Soviet Socialist
Republics

Maritime Administration
Department of Commerce of
the United States of America

15/12-72 
IGOR AVERIN


ROBERT J. BLACKWELL

MEMORANDUM OF UNDERSTANDING

Procedure for Certification that U.S. -Flag Vessels are not Available to Carry Raw or Processed Agricultural Commodities Offered for Carriage Between Ports Served by Such Vessels With Reasonable Notice and Upon Reasonable Terms and Conditions Pursuant to Paragraph 2c of Annex III of Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Certain Maritime Matters

The designated representative of the Government of the U. S. S. R. has advised that the total volume of raw and processed agricultural commodities expected to be fixed or shipped from the U. S. to the U. S. S. R. on and after July 1, 1972, and through June 30, 1973, for purposes of determining the Soviet and U. S. shares under Article 7 and Annex III of the Agreement will be 19,200,000 long tons. The U. S. share, therefore, is established at 6,400,000 long tons.

The designated representative of the Government of the U. S. S. R. and the designated representative of the U. S. A. have mutually agreed that the cargoes have been offered or will be offered for the carriage of this share to U.S. -flag vessels on reasonable notice and upon reasonable terms and conditions with loading periods as follows:

Nov. 22, 1972 through Jan. 25, 1973	1,266,000 tons
Jan. 26, 1973 through Apr. 30, 1973	3,096,000 tons
May 1, 1973 through June 30, 1973	2,038,000 tons
TOTAL	6,400,000 tons

On December 15, 1972, the designated representative of the Government of the U. S. A. will make a determination of (1) the number of tons which will have been loaded by January 25, 1973, on U.S. -flag vessels which have actually been fixed from the date of implementation of the Agreement through December 15, 1972, and (2) the estimated number of additional tons of capacity available for this trade on U.S. -flag vessels for fixture and tender for loading by January 25, 1973. If the sum of categories (1) and (2) in the preceding sentence is less than 1,266,000 tons, the designated representative of the U. S. A., pursuant to Paragraph 2c of Annex III of the Agreement, will certify on December 15, 1972, that U. S. -flag vessels are not available to carry the difference between the sum of categories (1) and (2) and 1,266,000 tons.

On March 1, 1973, the designated representative of the Government of the U. S. A. will make a determination of (1) the number of tons which will have been loaded by April 30, 1973, on U. S. -flag vessels which have actually been fixed from the date of implementation of the Agreement through March 1, 1973, and (2) the estimated number of additional tons of capacity available for this trade on U. S. -flag vessels for fixture and tender for loading by April 30, 1973. If the sum of categories (1) and (2) in the preceding sentence plus the number of tons covered by the previous certification is less than 4,362,000 tons, the designated representative of the U. S. A., pursuant to Paragraph 2c of Annex III of the Agreement, will certify on March 1, 1973 that U. S. -flag vessels are not available to carry the difference between the sum of categories (1) and (2) plus the number of tons covered by the previous certification and 4,362,000 tons.

On April 15, 1973, the designated representative of the Government of the U. S. A. will make a determination of (1) the number of tons which will have been loaded by June 30, 1973 on U. S. -flag vessels which have actually been fixed from the date of implementation of the Agreement through April 15, 1973 and (2) the estimated number of additional tons of capacity available for this trade on U. S. -flag vessels for fixture and tender for loading by June 30, 1973. If the sum of categories (1) and (2) in the preceding sentence plus the number of tons covered by the previous certifications is less than 6,400,000 tons, the designated representative of the U. S. A., pursuant to Paragraph 2c of Annex III of the Agreement, will certify on April 15, 1973, that U. S. -flag vessels are not available to carry the difference between the sum of categories (1) and (2) plus the number of tons covered by previous certifications and 6,400,000 tons.

At ten-day intervals commencing December 26, 1972, through June 30, 1973, the designated representative of the Government of the U. S. A. will provide to designated representatives of SOVFRACHT located in the United States informal reports of the estimated grain tonnage that is expected to be carried by U. S. -flag

vessels that have not actually been fixed as of the date of the report, but is expected to be loaded on U. S. -flag vessels during the remainder of the then current period of the following three periods:

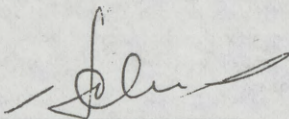
November 22, 1972 through January 25, 1973

January 26, 1973 through April 30, 1973

May 1, 1973 through June 30, 1973

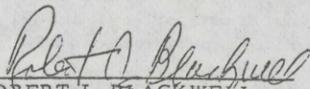
DONE at Washington, D. C., this 15th day of December, 1972.

15th Dec-72



IGOR AVERIN

Ministry of Merchant Marine
of the Union of Soviet Socialist
Republics



ROBERT J. BLACKWELL

Maritime Administration
Department of Commerce of
the United States of America



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D. C. 20530

December 15, 1972

Mr. Igor Averin
Director of Department of Foreign Relations
of the Ministry of the Merchant Marine
Union of Soviet Socialist Republics
Moscow, Russia

Dear Mr. Averin:

Your telegram dated December 4, 1972 is accepted as an offer of carriage by U. S. flag ships of 1,266,000 tons of raw and processed agricultural commodities for loading during the period November 22, 1972 through January 25, 1973 with reasonable notice and upon reasonable terms and conditions of carriage.

As the United States designated representative and pursuant to Paragraph 2c of Annex III of the aforementioned Agreement, I hereby certify that U. S. flag vessels are unavailable to carry 570,000 tons of the cargo offering described in Paragraph 1 above.

Very truly yours,

Robert J. Blackwell
ROBERT J. BLACKWELL
Assistant Secretary
for Maritime Affairs

Mr. BLACKWELL. I would like to make one other—two other corrections to the record.

In a question that Congressman McCloskey asked me two weeks ago at this authorization hearing, he made an inquiry about what happened to the funds that Pacific Far East Lines obtained from the sale of its trade route 17 service in Australia and New Zealand to Farrell Lines.

I misspoke and indicated that some of those proceeds went to pay for the four Lash conversions that were undertaken at the Bethlehem Shipyard in San Francisco. I was mistaken. The money was actually used for a down payment and working capital for the acquisition of the RO/RO ship from Sun Shipyards. I am sorry that I made that mistake but I am glad I have an opportunity to correct it.

We have, as you know, Mr. Chairman, certain license in correcting transcripts. I thought that was just a little bit beyond the license.

There is one other correction for the record that I would like to make and it is in response to a letter of February 8, 1978, addressed to me from Congressman McCloskey. Thirteen questions were put to the Maritime Administration. We worked diligently in order to give the best and most complete answers that we could. However, I noticed late last evening, actually after this letter was delivered to Congressman McCloskey's staff, that there was an error in it.

The error is in response to question 13, if you would like to have reference to that. I would like to read the paragraph as we sent it to Congressman McCloskey and then make the necessary correction.

The second paragraph on that page states:

On this basis, the Transportation Institute would have received an estimated \$302,700 in calendar year 1977 from operators receiving operating differential subsidy, or about 13 percent of the total from all operators, \$2,269,000. At a 73 percent average subsidy rate, the amount attributable to operating differential subsidy from the subsidized operators would be \$221,000 or less than 10 percent of the total received by the Transportation Institute from all operators.

That should be corrected to read thusly: The \$221,000 should be about \$100,000, and the "less than 10 percent" should be corrected to read, "less than 5 percent." I would like to explain that to the committee.

We do not have the actual payments, so what we did in response to Congressman McCloskey's request is to go back to the collective bargaining agreement and, as best we could, construct the payments that would have been made from the members of the SIU who would make payments to TI, and as well, for the subsidized operators.

This was done in our Policy and Plans Office. However, when I checked with our rate subsidy people, and last night, when I was going over this testimony, I discovered that in 1962 the Maritime Administration had, in fact, disapproved some million dollars or so of payment to the Transportation Institute, payments that were made, I believe, by Delta Steamship Company and Waterman Steamship Co.

That decision of the Maritime Subsidy Board was not appealed. Consequently, when the 1970 Act went into effect, those costs would not have been—or any cost of TI—in those original rates. However, as the base years in the index system started to go to work a portion

of those costs would have been picked up in the subsidy system. Consequently, the calculation to derive the \$221,000 is too high.

I should explain, however, to the committee, as time passes and as the index system begins to work and as we go into differing base years, the amounts of the money that would be subsidized will increase from 35 to 50 to 65 and out on indefinitely so that a larger proportion of this will, in fact, be picked up in the subsidy program. But that statement I gave to the Congressman is in error and I am glad to have the opportunity to correct it.

Mr. McCLOSKEY. Mr. Chairman, I ask unanimous consent that it be placed in the record.

The CHAIRMAN. Is there objection?

The Chair hears none. It will be placed in the record at this point.

[The following was submitted:]

QUESTIONS OF MR. McCLOSKEY AND ANSWERS BY THE MARITIME ADMINISTRATION

Question 1: Pacific Far East Lines, one of the 10 subsidized liner companies, has recently filed for bankruptcy after receiving a last minute 1 million dollar loan from the Maritime Administration. Would you explain the basic causes of the PFEL failure and what specific steps, if any MarAd took to avoid it?

Under what authority was the \$1 million loan given and what has happened to that money?

Soon after changing management PFEL sold several of its vessels to Farrell Lines at a substantial profit. What has happened to that money?

Answer: The basic causes of PFEL's present status in Chapter XI of bankruptcy are several, but probably the most important factors were the company's decision to utilize the LASH design on Trade Route 29 (U.S. West Coast to Far East) and its decision to enter the U.S. East Coast to Persian Gulf service. Although both of these services met the test of economic viability at the time they were initiated, various trade considerations and competitive factors caused these services to deteriorate. These factors included alleged Soviet rate cutting, overtonnaging and port congestion. In addition, PFEL suffered continuous losses in the operation of the U.S. merchant marine's last passenger vessels.

MarAd took a number of actions during 1977 relative to PFEL including (1) the approval of PFEL's applications for Title XI and CDS in April 1977 to aid in the reconstruction of its four remaining LASH vessels to container vessels in order to make these vessels more economical; (2) the consent of MarAd to the sale (for \$28 million) and leaseback of one of the converted LASH vessels (PACIFIC BEAR) to United California Bank, as owner trustee on September 9, 1977; (3) the consent of MarAd to the

sale of the AMERICAN BEAR by a wholly owned subsidiary of PFEL for \$1.7 million on December 9, 1977; and (4) the advance of \$1 million to PFEL on December 23, 1977 out of the Title XI Revolving Fund to pay the semi-annual principal payment on the ATLANTIC BEAR. In addition to the above, MarAd finalized a number of claims and made several final subsidy determinations and final actual cost determinations which released monies due to PFEL from MarAd. MarAd took further steps to expedite the processing of subsidy vouchers as voyages terminated to assure up to date payments of subsidy to PFEL as it was earned.

The advance of \$1 million to PFEL was made pursuant to the provisions of Section 207 of the Merchant Marine Act, 1936, as amended, which states:

"The Commission may enter into such contracts, upon behalf of the United States, and may make such disbursements as may, in its discretion, be necessary to carry on the activities authorized by this Act, or to protect, preserve, or improve the collateral held by the Commission to secure indebtedness, in the same manner that a private corporation may contract within the scope of the authority conferred by its charter."

The \$1 million advance was used to pay the semi-annual installment of principal on a Title XI guaranteed bond issue in the original amount of \$39.7 million on the ATLANTIC BEAR, which is owned by PFEL. The semi-annual interest payment of approximately \$1.5 million was also made on the ATLANTIC BEAR Title XI bonds at the same time as the \$1 million principal payment.

PFEL reported a \$9.9 million gain in 1975 and a \$9.1 million gain in 1976 from the sale of certain vessels and services to Farrell Lines. The majority of the \$19 million profit (approximately \$12 million) was used for its equity in the ATLANTIC BEAR, (a RO/RO vessel purchased from Sun Shipbuilding) and for working capital to establish the U.S. East Coast to Persian Gulf service. The remaining profit of approximately \$7 million was utilized to reduce old accounts payable.

Question 2: Section 212(g) of the Merchant Marine Act, 1936, gives the Maritime Administration authority to make legislative recommendations to Congress. You recently testified that this authority was not broad enough to authorize recommendations in the regulatory field. What recommendations, under Section 212(g), do you have for promoting the U.S.-flag merchant marine?

Answer: As stated in Section 212(g), the Secretary of Commerce is directed to recommend legislation to Congress in order to effectuate better the purpose and policy of the Merchant Marine Act, 1936 which is, in short, to promote the U.S. Merchant Marine. However, as a member of the executive branch, the Secretary is obligated to follow the legitimate and proper process whereby legislative recommendations are reviewed by other Federal agencies before submission to Congress. When the established procedures have been completed, we will promptly forward our recommendations to the Congress.

Question 3: What actions have you taken pursuant to Section 210 of the Act to "study, perfect, and adopt a long-range program for replacements and additions to the American merchant marine. . .?"

Answer: Maritime Administration report, An Adequate and Well-Balanced Merchant Fleet, December 1977, defines the objective fleet that is required to serve the identified needs of national security and U.S. foreign trade. A copy of the report is forwarded under separate cover.

The composition of the U.S. merchant fleet is determined by commercial demand, which is a function of the foreign trade of the United States and foreign competition in shipping service. The report reflects known commercial plans and projections of new buildings. It projects that additional ships will be needed to meet the adequate and well-balanced fleet objective. We shall continue our promotional efforts to bring about construction of the required additional ships.

Question 4: How many seamen are supported by operating differential subsidy funds in FY 1979? What percentage of the total ODS package is represented by seamen's wages? What is the average federal cost per seaman on a subsidized vessel? What is the average federal cost per billet? Please provide a full explanation of the costs derived.

Answer: We estimate that in FY 1979 there will be 7,797 billets aboard 194 subsidized cargo liners, providing employment to a total of 16,374 seafarers. This is based on the most recent available information of the ratio of actively sailing seafarers to actual billets (2.1 to 1).

Total operating differential subsidy payments in FY 1979 are budgeted at \$300,540,000 of which 91.7 percent, or \$275,542,000, represents the portion allocated to seafarer employment costs, including base wages, fringe benefits, overtime and so forth. This represents \$16,828 per seafarer and \$35,339 per billet.

ODS budget estimates are based on carefully made projections of U.S. and foreign costs, and in the case of seafarer employment costs, on projections of the effect of the wage index system on subsidizable U.S. wage costs.

Question 5: In testimony during the FY 1978 authorization, you indicated that MarAd was having a study of the dry bulk shipping market done. The Committee was provided with a summary. Is the full report of the study available yet? Have any other studies or reports been completed by the Maritime Administration in the last year? If so, could a copy of each be provided?

Answer: The study referred to on page 102 of FY 1978 authorization hearings is an analysis of the non-military requirements for dry bulk commodities. The results are included in Annex B of "An Adequate and Well Balanced Fleet," the paper which has been provided in answer to question 3.

In addition, two documents are attached which are the result of other dry bulk shipping studies which MarAd has completed in the last year. The first is the final report of the National Assessment and Planning Conference on U.S.-Flag Bulk Shipping. The second is a preliminary feasibility study of steam coal slurry marine transportation systems.

At present MarAd has a contract study in process to develop a standardized design for a U.S.-flag dry bulk carrier. Its purpose is to select, from existing standardized designs, the dry bulk vessel which best meets U.S. requirements. The results of the study will be available early in 1979.

Question 6: The Maritime Administration operates a Computer Aided Operations Research Facility (CAORF) at Kings Point, New York. What did this facility cost? What are its annual operating expenses? To what use is it put? Would you provide a complete listing of the number of people trained with this facility and the other uses to which it has been put?

Answer:

Initial and Annual Costs of CAORF

CAORF initially cost \$12 million to build including construction as well as renovation costs of part of Samuels Hall at the National Maritime Research Center at Kings Point, New York. Subsequently, approximately \$1 million has been spent to enhance its capability and to make it applicable to a wide variety of research experiments for the Government as well as industry. Additional planned funding to improve the facility's equipment and to provide the software for the computer programs will involve procurement totaling \$1,185,000 in 1978, \$870,000 in 1979, and \$300,000 in 1980.

The net annual Government operating expenses in 1978 are projected to be \$2,730,000 million after deducting payments made by industry, other government agencies such as U.S. Coast Guard, and ports or cities for cost of operating the facility to conduct research on their specific projects. The CAORF facility is operated for the Government by contractors. Funds are assigned to the contractors who perform the functions of engineering and maintenance, experimentation, data gathering and analysis.

Utilization of CAORF

CAORF experimentation considers ship operations as a complex set of interactions between the human operator, the bridge, the ship and the outside world. By studying the interactions between these elements, especially the human factors, a better understanding of mariners' operating decisions and the factors that influence them will be obtained. The aim of the experiments is to increase vessel productivity and safety. Research problems which are carried out on CAORF include those involving development of standards and requirements for the selection and training of ships' personnel, design of efficient bridge equipment, studying ships' maneuvering and handling characteristics for safer ship control and navigation; the design of such external features as ports and waterways, vessel traffic systems, and rules of the road. All of these factors can be evaluated before commitment to actual implementation at relatively little cost in money and time and completely without the danger or risk of at-sea testing to ship, crew and cargo.

The relationship of CAORF objectives to training is in the development of standards and requirements rather than training itself. In the experiments conducted to develop data for these purposes, subject pilots are made to go through maneuvers in specific harbor areas, such as Valdez or New York. These subject pilots automatically gain experience in

the specified waters and they are, in a sense "trained". However, the real purpose of the experiments and the use of the subject pilots is to gather human factors data for the development of pilot performance standards.

A fallout of CAORF technology has been the development of training simulators such as the one at LaGuardia airport in New York. These are less sophisticated systems which are suitable for training but inadequate for research work.

The experiments conducted on CAORF since its acceptance in 1976 are as follows:

Collision Avoidance

- Exp. 1. Developing operating procedures for avoiding collisions on open sea with only visual aids.
- Exp. 2. Developing operating procedures for avoiding collisions on open sea under conditions of limited visibility.
- Exp. 3. Developing operating procedures for avoiding collisions on open sea without digital displays.
- Exp. 4. Developing operating procedures for avoiding collisions on open sea with transponder capability.

Navigation in Harbors and Restricted Waterways

- Exp. 5. Developing piloting procedures for safe passage in and out of Valdez Harbor under various sea and weather environmental conditions.

- Exp. 6. Studying reactions and effectiveness of subject pilots in passing through Valdez Harbor in order to measure performance against the developed safety procedures. These operational exercises (7 in all) were participated in by oil company pilots and paid for by the oil companies.
- Exp. 7. Investigating and developing "Rules of the Road" for U.S. Coast Guard relative to ships passing one another in restricted waterways.
- Exp. 8. Investigating the feasibility of Point Conception, California as an LNG site, including simulation of terminal approaches through traffic under various weather conditions and with various tug arrangements and simulation of the docking process.

Question 7: Would you explain the details of the Russian grain subsidy program? What percentage of the cost of carrying grain to Russia on U.S.-flag ships is subsidized by the taxpayer? How many ships will participate in FY 79? What is the average age of the ships?

Answer: The U.S.-U.S.S.R. Maritime Agreement signed in October 1972, afforded U.S.-flag bulk vessels an opportunity to carry one-third of bulk agricultural commodities moving from the United States to the Soviet Union. Bulk cargo is shipped in world trade under charter rates which are set in competition with ships of nations with far lower costs than U.S.-flag ships. Therefore, the Agreement provides for the negotiation of an adjusted freight rate to be paid to U.S.-flag ships in recognition of their higher operating costs. However, freight rates are a substantial part of the cost of grain and, without subsidy, the rates required by U.S.-flag ships would increase the cost of grain beyond the level buyers are willing to pay.

In order to allow U.S.-flag ships to carry the grain cargo at approximately world rates, they have been subsidized under a program of short term ODS contracts. Under this program, subsidy is paid on the wage costs, insurance costs, maintenance costs and the cost of repairs not compensated by insurance, as well as for:

- subsistence costs of officers and crews;
- costs of stores, supplies and expendable equipment;
- fuel cost (includes a differential attributable to the difference in the propulsion system of U.S.-flag ships and the competitive foreign-flag ship);
- other expenses directly incident to the management and maintenance of the ship;

- ° vessel depreciation; and
- ° interest expenses directly attributable to the subsidized ship.

In all cases, except for vessel depreciation and interest expense, the amount of subsidy is the difference between the costs of operating the subsidized ship and the costs of operating a similar foreign-flag ship which has actually participated in this trade.

The subsidy payable to U.S.-flag ships operating in this trade is subject to abatement on a voyage-by-voyage basis to ensure that participation in this trade does not result in excessive profits to the subsidized operators.

During the period 1974-1976, the majority of voyages were made by vessels in the 30,000 DWT to 40,000 DWT class. The total operating costs of all participating vessels, weighted by their size distribution, was found to be about \$14,754 per day, while subsidy payments represented an average of \$5,547 per day, or about 38 percent.

Current projections of 1979 program activity indicate that alternatives to participation in the U.S./Soviet grain trade-- such as participation in the Alaska oil or Strategic Petroleum Reserve Project trades--will continue to attract a substantial proportion of the bulk carrier fleet. Only a minimum number of ships---approximately 10 U.S.-flag bulk carriers---are projected to participate in the 1979 U.S./Soviet grain trade.

The average age of ships currently approved for participation in the U.S./Soviet grain trade is 17.85 years.

Question 8: An Inter-Agency Task Force has recently been formed to determine policy regarding importation of liquefied natural gas. When will that task force be making its recommendation? I understand that one issue is whether a certain percentage of these gas imports should be administratively required to be carried in U.S. flag ships? Has MarAd supported cargo preference for LNG? Suggestions have been made that MarAd has indicated to companies interested in getting LNG import applications approved that chances would be better if U.S. flag ships were specified. Has this happened? If so, on how many occasions?

Answer: A Federal Inter-Agency Task Force is at present conducting an in-depth review of LNG import policy. The current study covers the full range of issues relating to LNG importation. Among the most important are pricing, reliability of exporting country, U.S. dependency both nationally and regionally, contingency planning and safety and siting. The effort is well underway, with public hearings held recently to elicit the opinions of representatives of various interests from industry, government and the public. The Department of Energy is preparing a programmatic environmental impact statement on LNG importation. Its purpose is to determine the environmental consequences of alternative Federal LNG import policies. It will focus on LNG imports in general, not on specific projects. Following its completion (estimated to be within eight months), the Task Force will make its policy recommendations to the Secretary of Energy.

Imposition of cargo preference for LNG imports, whether implemented legislatively or administratively, is not under consideration, either by the Task Force or the Maritime Administration. The Maritime Administration has no authority to impose

such a requirement administratively. In 1972 the Maritime Administration did support the decision of an FPC examiner who in the Columbia LNG case had imposed a condition that certain vessels importing LNG be constructed in the United States. Ultimately, this condition was not imposed by the FPC in that case. At no time since then has the Maritime Administration suggested that U.S. vessels be a condition for regulatory agency approval.

The Maritime Administration does encourage the building and operating of U.S.-flag LNG vessels, and we believe that when a substantial portion of the total vessels in LNG import projects are U.S.-built, significant economic and national security benefits to the United States result. Four major shipyards are now building 16 LNG carriers, with orders for up to 16 more subject to pending decisions by the Energy Regulatory Administration, which are expected this year. The first two U.S.-flag LNG vessels were delivered recently. Construction of each ship generates 5-6 million man-hours of shipyard labor. This means 900 direct shipyard jobs each year, and another 700 in secondary supplier industries.

U.S. involvement in the transportation segment of these projects enhances the security of supply in three ways: First, gas in transit in U.S. ships would be landed even in the event of a supplier country cutoff. Second, the ships would be unavailable to producers to move LNG to alternative markets.

Third, U.S. tankers restricted from normal supplies might be able to augment shipment of LNG supplies - either from another producer or to overcome supply difficulties. The availability of U.S. vessels in wartime would add critical flexibility in obtaining energy supplies in an uncertain supply situation.

In summary, it is the position of the Maritime Administration that from both the business and national policy standpoints, LNG ships built in U.S. yards and operated under the U.S.-flag make good sense. However, we do not support any requirement that a given percentage of ships used to import LNG to the U.S. be U.S. built and operated. Without any such requirement, importing companies have chosen that an average of 50 percent of the vessels for approved or pending projects be U.S. built and operated. Once their decision has been made to build U.S., the Maritime Administration can make available the financial aids at its disposal to enable U.S. shipyards to offer delivery prices competitive with those of foreign shipyards.

Question 9: One of the recommendations made in the Maritime Policy Oversight hearings in the last Congress was that MarAd make more "lump sum" operating subsidy payments so that the government wouldn't be locked into 20-year contracts to provide subsidy. One such payment was made to American Export Lines. Have any more been signed? If not, why not?

Answer: There have not been any additional contracts signed that are similar to the American Export Lines short term contract on Trade Routes 5-7-8-9. This arrangement was unique in that there were only three years left on the American Export Lines' 20-year contract and no replacement of obsolete ships was required during this period. The Maritime Subsidy Board determined that American Export Lines could operate on the North Atlantic trade route for a short time period at substantially less than the full parity allowed by section 603(b) of the Merchant Marine Act. The fixed dollar subsidy for American Export was about 60 percent of subsidy otherwise payable under the Act. This fixed dollar amount was determined by calculating that amount of subsidy which would normally be payable under the parity principle and then negotiating with American Export Lines for a lesser amount, as authorized by the Act. Disbursement of the subsidy has been carried out in the normal fashion.

The reason we have not signed additional contracts similar to the American Export contract is that the Government seeks to maintain reliable service in efficient and productive U.S.-flag vessels over long periods of time. In order to accomplish this we require that obsolete vessels be replaced. This requires

a long term commitment on the part of the Government so that the operators can obtain the necessary financing for the substantial capital investment required for replacement vessels. American Export Lines' contract expires December 31, 1979, and it is likely that a long term contract will be entered into after negotiations with the Government. This contract will provide for a replacement program and the amount of subsidy to be paid will be negotiated.

Question 10: Another issue discussed at last year's authorization hearing was whether all subsidized U.S.-flag ships should be required to participate in the Sealift Readiness Program, a program designed to make commercial vessels available to the military in time of national emergency. Do you have the authority to require this? If so, do you intend to use the authority? If not, why not?

Answer: The basic standing authority under which commercial vessels would be made available for governmental, including military, use in time of national emergency is the requisitioning authority provided for in Section 902 of the Merchant Marine Act, 1936. It is this authority, which covers the entire U.S.-flag commercial fleet plus certain foreign-flag ships, that lies at the heart of Department of Commerce and Department of Defense planning for military sealift in the event of a U.S. mobilization. Under the Act, ship requisitioning is subject to Presidential decision. It is assumed that a U.S. decision to deploy significant forces to overseas destinations would be accompanied by a decision to requisition shipping if this were considered necessary to accomplish the deployment.

The Sealift Readiness Program (SRP), on the other hand, is a contractual arrangement under which carriers who share in the movement of DoD cargo in peacetime agree to make half their ships available to the Military Sealift Command in a non-mobilization contingency. The program is conceived as an alternative to requisitioning. However, the SRP cannot be considered as unrelated to requisitioning, because, even in the case of relatively minor non-mobilization contingencies,

it would be the potential alternative of requisitioning that would give most force to contractual SPP commitments.

There is neither express statutory authority for nor express prohibition against requiring that all subsidized U.S.-flag ships participate in the SRP, and it is our opinion that the SRP requirement could be included in new subsidy contracts and, by mutual agreement, incorporated by amendment in existing contracts.

Requirements for ships with particular capabilities not provided by the National Defense Reserve Fleet (NDRF) or the present SRP probably could be met effectively by contractual arrangements on the SRP model or, if necessary, by selective requisitioning, as in the Lebanon crisis when two ships were requisitioned to evacuate U.S. citizens.

Various potential non-mobilization contingency requirements for support shipping are now being reviewed in the Pentagon. If it appears, as this review progresses, that there are needs that can be accommodated better under an extension of the SRP than under existing arrangements we shall take action to include SRP provisions in ODS contracts with operators who do not participate in the SRP as it is presently constituted.

Question 11: About 35 percent of this year's ship construction program will be for LNG ships. The Budget Appendix states: "The 1979 program will emphasize the production of ships with national defense utility and will include several ships built as part of subsidized operators' replacement obligations. Although funding will continue for the construction of liquefied natural gas (LNG) carrier ships, this policy will be reviewed when the current interagency study of LNG import policy has been completed." Is it your view that LNG vessels have high national defense utility? When will the policy review be completed?

Answer: The current Federal policy review on LNG importation is expected to be completed by mid to late 1978. At this point, a good deal of uncertainty plagues U.S. LNG import projects. We expect that this uncertainty will be resolved with the completion of the import policy review, and the Maritime Administration's budget planning is based on that expectation.

The national defense utility of LNG ships varies with the designs. Ships are being built in the U.S. to three different designs. The three ships built by Newport News (MarAd design LG9-S-940) use a membrane containment system. That system is not suitable for use in carriage of Navy petroleum products because the large size of the tanks, coupled with the high density of liquid fuels as compared with LNG, invites membrane damage from liquid sloshing.

The Avondale Conch Tank LNG (MarAd design LG9-S-107a) is well suited to carriage of liquid cargo. A full study of conversion of these vessels to product carriers for naval support was prepared under the supervision of MarAd. The

three ships being built to this design have certain national defense features (NDF) installed in them in the "as built" condition, other NDF stored on the vessels for use in naval auxiliary service, and extensive working plans and operating manuals have been developed to detail future conversion and employment of the ships as product carriers.

The equipment included as part of the "as built" vessels, in addition to the general exclusion of grey cast iron in vital propulsion auxiliaries, includes hose saddles for use in future fueling at sea (FAS) stations, padeyes for highline transfer, and underdeck stiffening for future FAS stations. Future conversion of the ships is facilitated by storing pump conversion kits and special ullage covers aboard the vessels along with copies of the conversion manual and conversion working plans.

A cargo pump was modified and given an extensive test on naval fuel. The test proved that LNG pumps could be used to pump naval petroleum products. With the developmental work accomplished for this design, in less than three weeks ships could be converted into naval auxiliaries with a liquid product capacity of 57,600 tons. The tanks are permanently clean and would not require tank cleaning before handling jet fuels or other military petroleum products. The individual cargo tanks are segregated systems. This offers the potential for carriage of as many types of cargoes as the ship has tanks.

Two ships have been delivered, and ten more are now on order at the General Dynamics yard in Quincy, Massachusetts. The spherical tank design used (MarAd design LG8-S-102a) was given a concept study for conversion into a naval petroleum carrier. These ships would require the same kinds of modifications required for the Avondale design (and would have the same capacity). The pump test mentioned above applies to this design as well, and the GD ships would be candidates for naval auxiliary employment.

The service speed of the Avondale design is 19.75 knots, of the General Dynamics design 20.4 knots, at 80 percent power. These speeds would enable the ships to carry out underway replenishment of escort ships for 18 knot convoys. No other commercial tankers are as fast as the LNG carriers.

The speed, size and multi-product capability of the LNG carriers, when converted to product carriers, make them potentially very valuable in point-to-point carriage of military petroleum products, in fleet resupply, and in underway replenishment service.

We anticipate, however, that these ships would not be used for direct naval support unless a shortage of product tankers developed or the speed of the LNG carriers was required for specific military operations. In many emergency situations, it would be important that they remain in their regular service delivering needed energy supplies to the United States.

Question 12: Recently, international efforts have been made to reduce the huge tanker surplus and world shipyard overcapacity. A November 1977, CIA report states: "A major obstacle to the principal IMIF (International Maritime Industry Forum) proposals is the U.S. Antitrust Act. Cartel arrangements - potentially the most effective means of adjusting tanker supply and raising charter rates - cannot succeed without the cooperation of American tanker owners and oil companies and the relaxation of U.S. Antitrust laws." What has MarAd done about solving this shipyard problem? Have you participated in the deliberations of the IMIF? Have you had discussions with the Justice Department on the point raised in the study? Are our Antitrust laws a serious impediment to solving the tanker surplus problem?

Answer: To date, MarAd has not become involved in the problem of foreign shipyard overcapacity. U.S. shipyards are not presently experiencing the same degree of difficulty that many foreign yards are. Neither do we expect U.S. industry to be faced with the prospect of the drastic cutbacks that confront the major foreign shipbuilding industries. As you know, our promotional mission, to the extent that it concerns shipyards, concerns only U.S. shipyards.

The U.S.-flag fleet, like U.S. shipyards, has fared much better than its foreign counterparts. There is currently no U.S.-flag tanker surplus and we anticipate full employment of all such tankers in the immediate future. Consequently, MarAd has not participated in the IMIF deliberations nor in discussions with the Justice Department on the issue raised by the CIA study.

With respect to the applicability of the antitrust laws to any solutions to the problem of surplus tankers, we defer to the Justice Department, which has the relevant expertise in antitrust law.

Question 13: The Joint Maritime Congress and the Transportation Institute made \$100,000 and \$50,000 contributions, respectively, to the U.S. Maritime Committee, an organization formed to promote H.R. 1037, the oil cargo preference bill. What percentage of the funds contributed to these two organizations by subsidized liner companies is paid, directly or indirectly, through the operating differential subsidy? What is the rationale for allowing taxpayer funds to be used for such purposes? Does MarAd have any control over how funds going to these two organizations are spent?

Answer: We do not have actual financial statements detailing monies received from liner companies from either the Joint Maritime Congress or the Transportation Institute. We have, however, made some estimates based on the number of shipboard billets on oceangoing ships of over 1,000 gross tons which are subject to the per-man-day contributions specified in the collective bargaining agreements which pertain to these funds.

On this basis, the Transportation Institute would have received an estimated \$302,700 in calendar year 1977 from operators receiving operating differential subsidy or about 13 percent of a total from all operators of \$2,269,000. At a 73 percent average subsidy rate, the amount attributable to operating differential subsidy from the subsidized operators would be about \$221,000 or less than ten percent of the total received by the Transportation Institute from all operators.

For the Joint Maritime Congress, our estimates for their calendar year 1977 receipts based on ocean-going ships of over 1,000 gross tons, is that 60 percent, or about \$649,000 was paid on behalf of non-subsidized ships and 40 percent, or

\$431,000 was paid on behalf of subsidized ships. The operating differential subsidy component would be about \$315,000 or 29 percent of the total receipts of \$1,080,000.

Clearly both organizations have sufficient funds from non-subsidized sources to have made the transfers to the U.S. Maritime Committee: in the case of the Transportation Institute, about forty times the amount, and for the Joint Maritime Congress, more than six times the amount, based on these estimates.

We are not aware of any law which prohibits these contributions to the U.S. Maritime Committee. If we were to find any apparent violations of law, we would immediately refer the matter to the Department of Justice. (The Maritime Administration has no direct control over the activities of either the Transportation Institute or the Joint Maritime Congress). However, it is important to bear in mind that the receipt of a federal subsidy whether by the maritime industry, airlines, agriculture, or any other of a long list of industries, does not bring with it a prohibition from the freedom to engage in legitimate political activities.

The CHAIRMAN. Mr. Blackwell, while we are going through your preliminary remarks, will you please comment and elaborate on some remarks of yours that I read after your last appearance here in response to a question from the committee in regard to the question of whether or not the management of a subsidized operator, is equivalent to, or as capable as or less than that of a non-subsidized operator?

I believe it was in the Journal of Commerce that I read a speech of yours after your response to that question here that elaborated quite a bit more on your answer. I would appreciate it if you would enlighten us at this point.

Mr. BLACKWELL. Yes; I would be glad to. The response came to a question from Congressman McCloskey, which made a general inquiry into the profitability and the ability of some operators to operate without subsidy and why some operators apparently need subsidy. He asked the question, I recall, about the respective management of subsidized and unsubsidized operators.

I indicated that perhaps if I were receiving a grant I might not work as hard as if I were not receiving that grant. Actually, the subject of management of a company is a rather subjective one. Generally speaking, whether you are in the private sector or in the Government sector, if things seem to be going well, whether you are responsible for them or not you are considered a good manager. If things go to pot, even though you have had no control over them, you are considered to be a poor manager.

We think that there is very substantial and good management in the subsidized sector of the fleet as well as in the nonsubsidized sector of the fleet.

As I mentioned to a reporter in New Orleans, I think that there is very significant and good management in the subsidized fleet. I mentioned some of the operators that I have had an opportunity to talk to very recently where I have had exposure not only to the chief executive officers but the people who are the critical decisionmakers in those companies, and I was extremely impressed. I was also impressed by the gentlemen who run the unsubsidized fleet.

But, the bigger question, and I think the thrust of Congressman McCloskey's question, was why do some operators operate profitably without subsidy as against subsidized operators, some of which are losing money?

First of all, the unsubsidized operators, because of the type of operation that they generally have, which is a high technology, capital intensive container operation, generally, have to operate on trades where the cargo is extremely heavy. Consequently, on our two most important trades, the North Atlantic and trans-Pacific, where the cargo is, in fact, susceptible to packaging in containers, you find the nonsubsidized operator operating with most of his equipment and doing rather well whether on a volume basis or a dollar basis. There just aren't that many trades in which the choice can be made as between subsidy and nonsubsidy.

In most of the other trades, they are, in one form or another, a break bulk operation. While we put new equipment in those trades they tend to be oriented toward labor intensive, not so much on the vessel but more on the loading and discharging of the vessel. And

there is not the flow of cargo to justify the great high technology investment that is made in the ships. You don't see this proliferation of nonsubsidized operators being so successful in our other trades. You don't see them in the Australian trade. We don't see them in the—up until Sealand's interest in Brazil—South American trade. We don't see that in the African trade simply because the trades are not generating enough cargo to justify the huge capital investment which they then can use to offset their slightly higher operating cost.

The other element, Mr. Chairman, is that there is a thrust and a purpose to the Merchant Marine Acts of 1936 and 1970, and that concerns the commitment to the trade and it is a commitment essentially to the Government that operators are going to operate on a long-term basis with predictable, scheduled, regular and dependable service on a route determined to be essential by the United States. It is not something that was devised by the Maritime Administration. It was devised by the makers of the 1936 act, and I think it is a very sound principle.

Consequently, where a subsidized operator is committed to serve a route and doesn't have the flexibility—he has a limited amount of flexibility—nevertheless he has to serve that route. And to a large extent we require him to serve that route in good times and in bad times. That is part of the reason for the payment of subsidy. We permit flexibility in terms of his maximum and minimum sailing, but nevertheless, day in and day out in 99 percent of the cases, regardless of the condition, we feel that the U.S. trader, the importer, the exporter, requires a degree of service and that is what the act provided and that is what we try to do.

A nonsubsidized operator, on the other hand, does not have to do that. He can move into a trade, like the Mediterranean, with American flagships. If things go poorly he can pull them off and go someplace else. There is a benefit in that type of flexibility. There is no commitment to the trade and there is no assurance that American exporters and importers next year are going to have American ships to move their cargo on, which is what the act was designed for.

There also is a general theme spelled out in every provision of the 1970 act and the 1936 act toward U.S.—U.S. citizenship, U.S. flag, U.S. building, U.S. shipyard. The subsidized operator is essentially committed to operate U.S. flagships. That is not true of a nonsubsidized operator. Some of them have gone into trades with U.S.-flag ships; abandoned them; gone into the trades with foreign flag ships; and re-entered with U.S.-flag ships.

The critical fact is that, on some of these trades, by certain types of capital investment, you can reduce the operating cost differentials between American crews and foreign crews. It has to be made up with the application of technology, capital and the concomitant efficiency that should come from that.

However, you can't make up those operating costs in these other trades that I mentioned, so many of which require smaller vessels, conventional gear and they are basically labor intensive operations both on the vessel, but more likely on shore, which is more difficult. These are the ships that are break bulk.

We would require service on any route. A nonsubsidized vessel operator can simply go out of business. And if we could make the finding at the Maritime Administration under sections 9 and 37 of the Shipping Act that that vessel wasn't needed for national defense, all those nonsubsidized ships that were not built with CDS could actually be sold foreign.

I might say in addition that if you look at the relative age of the fleet, the liner subsidized fleet in this country has been subjected to a tremendous amount of abuse. It is very unfair to characterize our liner fleet as a "bunch of rust buckets and old ships." As a matter of fact, the average age of the subsidized liner fleet is about 10 to 12 years old and the average age of our unsubsidized liner fleet is about 20 years old. This is the other critical factor.

Under our program, one of the reasons we pay the subsidy and have a capital construction fund, and before that, a capital reserve fund, is to maintain a modern U.S.-flag merchant marine. In addition, we have written into our contract replacement obligations so that these operators, over periods of time within that long-term contract, are committed to build modern efficient vessels. We don't have that power with nonsubsidized operators and, consequently, there is a difference in the technology of their vessels, except for the vessels that Sealand built—the SL-7's that they built in Germany and in Holland, except for those vessels—in that they are basically old ships.

The CHAIRMAN. On the question of U.S. subsidized operators competing against the Norwegians, evidence was submitted that the Norwegian competitor is paying his seamen a 15-percent higher wage rate than the Americans. What was the necessity for subsidy in that situation? Could you clarify that?

Mr. BLACKWELL. My recollection is that Congressman McCloskey and I have gone round and round on this, not so much in terms of that specific situation but the general tenor of the question.

I recall—I believe it was in Congressman McCloskey's minority views on either the 1977 or 1978 authorization. Perhaps it was the oversight hearing where he wondered, and I think the query was well taken—why should we be paying subsidy when we compete in the liner business against Norwegians for whom the index that was referred to showed, I believe, that the industrial wage on an average basis in Norway was 15 cents higher, or 15 percent higher. It was higher than, I assume, a comparable index in the United States. I wondered about it myself.

I have had an opportunity to take a look at it, and what we found was that the Norwegian seamen in the social, political, and economic system of Norway is treated differently than other wage earners and other elements of the population. The reason for that, I think, is that for years Norway was a very poor country, it exported its population, many of them to here, but most importantly, there was really very little work that could be done in that country and men were simply forced or driven to go to sea. It became a very significant hard currency earner for the Norwegian economy as well as a source for employment of their sailors.

What we found out was that there is a very significant tax advantage that accrues to Norwegian seamen as against the general popu-

lation in Norway. They have a special low tax. Consequently, they have a lower wage per hour, or they have a lower wage on Norwegian ships than is indicated by the rest of the population in Norway. Consequently, when we are competing with the Norwegians, we are not competing against the higher industrial wage standard in Norway, we are competing against a very carved out niche of the population which is afforded special tax consideration, and as a result is paid less money at sea.

The other part of that question is, why haven't we been making a reduction in the subsidizable wage cost vis-a-vis foreign competitors? What we found there are two phenomena. First of all, it is a fact that many of our subsidized vessels, the older vessels, have manning levels in excess of comparable vessels that they are being compared with on certain world trade routes. That has been proved for some time.

With the cooperation of management and the unions, we have made, I think, rather astounding progress in getting U.S. manning competitive and comparable. The record in the bulk program indicates that we have levels of manning quite low, in every respect as low as the Japanese and the Norwegians and others.

We haven't been able to make that type of progress in the subsidized liner fleet because, as I indicated in my testimony to the committee the last time I appeared, we have only had the opportunity to replace 16 liner vessels. In those vessels that represented new technology—for instance, on those larger Delta and Waterman and also the States Roll On/Roll Off—I think our levels are actually comparable with foreign manning. But on these other vessels that have been in the fleet since the 1950's and the 1960's, and where we haven't had an opportunity through the new building process to get the cost down, that is reflected in this differential.

That ultimately will change for two reasons. The crew sizes on the new ships will be smaller, and also, one ship will be replacing two or three ships, thereby cutting the subsidy.

What we have also seen, in an analysis of our competition throughout the world, is that, where we used to have the Norwegians and the Japanese as primary competitors, with relatively high crews, what we now have is a very dramatic shift occurring in the makeup, the composite, of our major foreign competition. There is a declining percentage of the higher cost countries because they are being replaced by Greek and Panamanian liner vessels with Chinese crews, which are paid very, very small amounts of money. It is very difficult for us.

If we were competing against the Western Europeans, given their rates of inflation and their demands from their shipowners, we would be closing that gap. It is very difficult to close it because of that phenomenon that I mentioned.

The CHAIRMAN. Mr. Anderson.

Mr. ANDERSON of California. My feeling is your original answer to that was probably not well thought out. If we were to ask you today the same question that you originally were asked about the management of subsidized companies trying as hard to compete as the unsubsidized lines do, would you give the same answer today?

Mr. BLACKWELL. Probably, because I was talking about myself. I know my character, and I probably would; yes. I think it is a subjective determination, but as I have seen that manifested in the subsidized shipping industry, I think they are a different breed of cats. In other words, they work hard. They work very hard. They are very aggressive.

After all, to some extent the subsidy is merely a passthrough. The subsidy that we are paying is either passed through to the shipyards, to the seamen, or to the marine repair industry, to the P. & I. Club, or the Hull and Indemnity Insurance Clubs. Subsidy is really a misnomer. We should use the term the farmers use—parity. It is essentially a parity payment except that the concept of parity in terms of farmers, in terms of pricing, is different. But, it is basically a parity system.

And the fact that we pay subsidy doesn't insure anyone a profit. We can see that with the case of *Pacific Far East Line* which entered a Chapter 11 bankruptcy status just several weeks ago, so there is every reason to work as hard as a nonsubsidized operation.

Mr. ANDERSON. I still don't follow you entirely! I agree with your answer this morning. However, I respectfully disagree with your original answer of the other day.

Mr. BLACKWELL. Then you know more about me than I do.

Mr. ANDERSON. And, now you say you would give the same answer, but you would be using yourself as the example. Again, I think that is wrong. I don't know too much about you, but I don't know anyone that has worked harder at their job than you have. I think you have done a reasonably good job, and I don't think you would have worked any harder if you had been holding an unsubsidized job than you do today. I think your appraisal on this is wrong. I think you are trying to make a simple answer when you compare the management of subsidized versus nonsubsidized companies. It's just not that simple.

I think it is a terribly complicated subject, and I think your answer this morning was good.

Mr. BLACKWELL. Congressman, I think to some extent your remarks are well taken. I don't particularly like to do meaculpas, but I would say that in retrospect my response is probably facetious.

Mr. ANDERSON. I would think, if you were managing—

Mr. McCloskey. What was that?

Mr. BLACKWELL. Facetious.

Mr. ANDERSON. I think, if you were managing a subsidized or a nonsubsidized business today, you would be the same person, your abilities would be the same, and I would think you would try just as hard in one as you would the other. And so, to say that you wouldn't try as hard in a subsidized job as you would in a nonsubsidized one, I think gives the wrong feeling toward this whole subject.

I have supported subsidizing our merchant marine in many ways for the very reasons you mentioned this morning and not because one group tried harder than the other. I think you should correct that impression.

That is all, Mr. Chairman.

The CHAIRMAN. The gentleman from California, Mr. McCloskey.

Mr. McCLOSKEY. Mr. Chairman, I would like unanimous consent to insert in the record, at this point, the article from the Journal of Commerce, dated February 16, 1978, entitled "Blackwell Clarifies Views, Attempts to Clear Air on Value of Subsidies," from an interview with Mr. Blackwell by Miss Anita Schrodt of the Journal of Commerce, apparently on February 15 or 16.

The CHAIRMAN. Is there objection?

The Chair hears none. The article will be placed in the record at this point.

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

Mr. McCLOSKEY. Mr. Blackwell, when you were before this committee before with respect to recommendations for legislation to help the merchant marine you testified, if I recall correctly, that you had no such recommendations; that following the failure of the cargo preference proposal which you had recommended, the administration deferred making any new recommendations to help the troubled American maritime industry.

In this article which has just been put in the record, you are quoted as saying in New Orleans:

The problem is that government policy has created an environment in international trade deleterious not only to the U.S. merchant marine but to other established and reputable foreign flag carriers.

What is that government policy to which you refer? Is it the 1936 act, the 1970 act, or the 1916 act?

Mr. BLACKWELL. I was referring to the regulatory limitations of the Shipping Act of 1916.

Mr. McCLOSKEY. The regulatory limitations of the 1916 act. When you testified before this committee in 1974, on cargo preference which you opposed, you stated, if I may paraphrase it, that to adopt cargo preference would be to concede the failure of the 1970 act. Am I correct?

Mr. BLACKWELL. That is true.

Mr. McCLOSKEY. Your answer is not facetious in this respect, is it?

Mr. BLACKWELL. No.

Mr. McCLOSKEY. So, by proposing cargo preference in 1977, you were conceding, were you not, that the 1970 act has failed?

Mr. BLACKWELL. The difference—

Mr. McCLOSKEY. Can you answer that question?

Mr. BLACKWELL. I wasn't conceding that.

Mr. McCLOSKEY. Has the 1970 act failed, Mr. Blackwell?

Mr. BLACKWELL. No, it has not failed. It hasn't been as successful as we anticipated.

Mr. McCLOSKEY. What recommendations are you prepared to make to this committee to change the government policy, which in your opinion is destroying the U.S.-flag merchant marine?

Mr. BLACKWELL. You know very well, Congressman, I am a member of the executive branch of the government and that I—

Mr. McCLOSKEY. You have been their spokesman in maritime affairs.

Mr. BLACKWELL. I cannot sit here—and you know this very well—and give you answers—

Mr. McCLOSKEY. You can give me facetious answers though, can't you?

Mr. BLACKWELL. I can't give you legislative proposals without going through the clearance process of the government.

Mr. McCLOSKEY. How am I going to tell when your answers are facetious and when they are not, Mr. Blackwell? You gave a very serious answer here on February 7 about subsidized lines. You have now taken that statement back and said that it was facetious. At no time between February 7 and today have you advised this committee that it was facetious, have you?

Mr. BLACKWELL. No, but if you had given me an opportunity, Congressman McCloskey, to really respond to your question after I made that remark I would have made the same remark as I made here this morning.

The CHAIRMAN. Thank you, Mr. Blackwell.

The next witness is Mr. Jesse Calhoon, President of the National Marine Engineers Beneficial Association.

If you will proceed, Mr. Calhoon.

STATEMENT OF JESSEE CALHOON, PRESIDENT, THE NATIONAL MARITIME ENGINEERS BENEFICIAL ASSOCIATION

Mr. CALHOON. Mr. Chairman, I do not have a prepared statement. I am appearing here at the request of the ranking minority member in a letter dated February 10 to myself.

On February 10, I talked to, I guess, the minority counsel and told him I was not an expert on authorization or appropriation hearings and we did not normally testify on them, but if the minority member wanted to ask me questions, I would be willing to come over and try to answer his questions.

I have read the testimony of the previous hearings and, generally, support the authorization request. We don't think it is going to do much to change this industry. We think it is a minimum request.

I am not prepared to urge any more because I don't think the business atmosphere in this industry now would use any more money if it were appropriated because over the last couple of years the Maritime Administration had carryover funds that were not requested.

I will be glad to answer any questions.

The CHAIRMAN. Thank you, Mr. Calhoon. We certainly appreciate you being here. I have no questions.

I will yield to the gentleman from New York now, Mr. Zeferetti.

Mr. ZEFERETTI. I have no questions.

The CHAIRMAN. The gentleman from California.

Mr. McCLOSKEY. Mr. Calhoon, the Delta Line is a profitable subsidized operation—

Mr. CALHOON. Which line?

Mr. McCLOSKEY. The Delta Line. It operates Lash ships at a manning level of 32 crew members. A comparable foreign-flag Lash ship has a crew level of 31. The Coast Guard requires a minimum manning level for that type of ship of 22. The same ship operated by Pacific Far East Lines has a manning level of 40 as compared to the Delta manning level of 32 and the foreign manning level of 31.

Can you discuss and enlighten the committee on what would require Pacific Far East Lines to have eight more crew members, this is roughly a 20 percent larger crew size on the PFEL vessel than the Delta vessel.

Mr. CALHOON. I am not familiar with those specific figures. May I ask you, are the engineers the same number on all three ships you are talking about?

Mr. McCLOSKEY. I am not sure. I do not know.

Mr. CALHOON. I think they are.

But there could be general differences in the crew manning because of the type of operation in which a specific ship is engaged.

Mr. McCLOSKEY. In your experience, would an operation in the Pacific require a 20 percent higher crew size than a gulf coast operation?

Mr. CALHOON. Yes, in certain instances where there are large amounts of refrigerated cargo that takes a lot of attention while the vessel is at sea.

Mr. McCLOSKEY. The matter of crew size is a matter of negotiation between management and labor; is it not?

Mr. CALHOON. That is one aspect of the crew size. The U.S. Coast Guard is charged by the Congress with the responsibility of setting a crew, the number of crew.

Mr. McCLOSKEY. In this specific case, the Coast Guard set a level of 22 crew members. The unions have apparently been able to negotiate a substantially higher crew size. This is a matter of union bargaining. You negotiate the manning levels with management?

Mr. CALHOON. Yes, we do. I don't know of any ship which operates with a Coast Guard minimum crew size. There may be, but we have just had a three-ring circus in the Port of Long Beach on a ship that was operating on exactly the Coast Guard minimum in the engine department.

Mr. McCLOSKEY. Let me try to frame this series of questions to you against this background.

Under the operating differential subsidy, the Maritime Administration pays the difference that it costs to run a U.S. ship competing with, say, a Norwegian ship. The measure of the operating differential subsidy is based on the difference in wages and wage benefits paid U.S. seamen on comparable ships.

When those wage contracts are negotiated by your union with management, is there any limiting factor on the wage benefits you can negotiate based on what the Federal Government will subsidize?

Mr. CALHOON. Mr. McCloskey, I have been the chief negotiator for this union since 1955. I have never allowed any discussion of subsidy or subsidy payment in any set of negotiations I have ever attended. I have no interest in the subsidy arrangement between a steamship company and the Federal Government.

Mr. McCLOSKEY. Would you object if we attached to an authorization bill an amendment that said that the Federal Government will subsidize only that portion of the wages of U.S. seamen that actually go to the seamen themselves and cut out the money that goes for the training fund or the money that goes to operate the Marine Engineers Beneficial School, for example, or for political contributions?

Mr. CALHOON. Mr. McCloskey, when you speak of the American merchant marine you are, I think, using a very narrow view of the American merchant marine in that you are just thinking of the commercial operation.

When I think of the American merchant marine, I think of it in a much, much broader aspect. We negotiate with the military sealift command with X number of vessels with civil service crews on them.

We negotiate with the Bureau of Indian Affairs. We just completed a contract with them on a vessel to supply the Indians up in the Alaska regions.

We negotiate in the commercial end with subsidized operators, non-subsidized operators, tramp operators—and when we enter into negotiations, the payment of subsidy does not enter my mind.

Mr. McCLOSKEY. Let me go back then.

Mr. Blackwell's testimony before us earlier this month was to the effect that the American taxpayer pays roughly 83½ percent of the total wage package that American maritime unions negotiate with management. There is no limit on that negotiating process because if you negotiate another \$5,000 per year per seaman, that is borne by the Government. It is not borne by the management. Whatever the result, it is paid by the U.S. taxpayer.

I want to read to you comparable figures for political contributions in 1976 that came from other unions. I want you to compare these with the amounts that came from the wages of your union.

The AFL-CIO paid an average of 11 cents per member for political contributions.

The American Federation of Teachers paid \$1.37 per person for contributions.

The International Ladies Garment Workers Unions per capita contribution was \$1.28 per person.

Amalgamated Clothing and Textile Workers; 48 cents per person.

Brotherhood of Railway, Airline and Steamship Clerks; 79 cents per person.

Amalgamated Meat Cutters and Butcher Workmen; 32 cents per person.

United Transportation union; \$2.52 per person.

American Federation of State, County and Municipal Employees; 20 cents per person.

Seafarer's International Union of North America; \$29.06 per person and the National Marine Engineers Beneficial Association; \$56.81 per member.

The total contribution in that respect, by a relatively small union, National Marine Engineers Beneficial Association, amounted to \$539,771.25. That came out of the wages of your members; did it not?

Mr. CALHOON. I would think so.

Mr. McCLOSKEY. So those wages, of which 83 or 84 percent were paid by the Government, go from the Treasury to your union and then come back for political contributions which are more than 500 times as high as the AFL-CIO union members in America contribute to political campaigns.

My question to you is this: Would you have any objection if we attached an amendment to the authorization bill saying that no sub-

sidy go toward the payment of union contributions for political action or for the creation of your school?

The CHAIRMAN. The gentleman has consumed 10 minutes.

He is recognized for an additional 10 minutes.

Mr. CALHOON. I would oppose any amendment that would take my rights as a free citizen in this country away or the rights of any of our members.

Mr. McCLOSKEY. This does not take a right away. It simply prohibits the Government from paying for the political contributions which you make.

Mr. CALHOON. The Government is paying for no political contributions. I disagree with your figures that you just gave. I completely and totally disagree with them. I think you are on the wrong concept.

Mr. McCLOSKEY. Let me have you submit your figures.

What did your union contribute to candidates for Federal office in 1976?

Mr. CALHOON. I think the total figure is correct, but we have 35,000 members. If you divide the 35,000 into the total figure, it does not come out to the 50 some dollars.

The CHAIRMAN. Would the gentleman yield?

Mr. McCLOSKEY. Yes.

The CHAIRMAN. What percentage of your membership is employed by subsidized carriers?

Mr. CALHOON. About 12½ percent and that is off the top.

The CHAIRMAN. So the remainder, the company they work for receive no subsidy, and they make the contribution to a political action committee or a political action fund; so they make their own contributions?

Mr. CALHOON. Yes.

Mr. McCLOSKEY. Mr. Calhoon, what portion of the wages paid to MEBA members on the subsidized liners goes to political contributions?

Mr. CALHOON. I don't know.

Mr. McCLOSKEY. Do the subsidized companies also contribute to the maintenance and operation of your school in Maryland?

Mr. CALHOON. Yes, sir.

Mr. McCLOSKEY. What is that amount per year that is contributed by the 10 subsidized liner companies to the MEBA training fund?

Mr. CALHOON. I don't know. But we have an accountant working on an inquiry from the adhoc committee to break those figures down.

Mr. McCLOSKEY. It is over \$4 million a year?

Mr. CALHOON. I don't know, but I don't think so.

Mr. McCLOSKEY. You do not think so.

Do you have an estimate?

What ad hoc committee?

The CHAIRMAN. Our ad hoc committee.

Mr. McCLOSKEY. Which one?

The CHAIRMAN. The Ad Hoc Select Committee on Maritime Education and Training.

Mr. McCLOSKEY. I have the estimate of \$4 million. Can you make an estimate?

The CHAIRMAN. That report will include those figures when they make that report.

Mr. CALHOON. I do know our accountant is working on it at this time.

Mr. McCLOSKEY. Mr. Calhoon, can you describe the benefit package that you have negotiated for your members with the subsidized liners? What does it include in addition to payroll benefits?

Besides the paycheck, what additional benefits do you negotiate for your union?

Mr. CALHOON. I don't think we have the time.

Mr. McCLOSKEY. Well, are you able to furnish this committee with a copy of your last negotiated contract with anyone of the subsidized liner companies?

Mr. CALHOON. I will be glad to.

Mr. McCLOSKEY. Can you lay that out?

Mr. CALHOON. I will be glad to.

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

Mr. McCLOSKEY. Can you furnish the committee with a list of the value of those benefits on an annual basis that you have negotiated?

Mr. CALHOON. No.

Mr. McCLOSKEY. I am trying to get the precise figure out of the \$400 million subsidy that goes for salaries and other benefits for the members of your union.

I was in error. The figure we have from the Maritime Administration dated April 13, 1976, was that the payments to the MEBA Training Fund made by subsidized companies for 1976 totaled \$2.89 million.

Would you have any objection to an amendment to the Maritime authorization bill that would limit the subsidy to the wages that were paid to your members as opposed to the training benefits and the political contributions?

Mr. CALHOON. Mr. McCloskey, I said at the outset that we did not normally testify on authorization or appropriation. I think this is the first time that MEBA has ever testified on authorization. I do not know what we would support and what we would oppose. We run a very democratic organization. We would submit it to our membership. We would discuss it in membership meetings. From those membership meetings, it would be referred to our executive committee. Our executive committee would then discuss it. I would discuss it with the other maritime unions. I would discuss it with our employers and we would come to a conclusion to either oppose or support.

That is the process that works in our organization.

Mr. McCLOSKEY. Thank you. I have no other questions.

The CHAIRMAN. Mr. Zeferetti.

Mr. ZEFERETTI. You did not negotiate differently with subsidized carriers than you do with normal carriers?

Mr. CALHOON. We have to negotiate much harder. For some reason, the subsidized carriers are much tighter and much cheaper than an unsubsidized carrier.

Mr. McCLOSKEY. Could I follow up with one question?

The CHAIRMAN. Yes.

Mr. McCLOSKEY. Why are all the unsubsidized carriers making money while three of the subsidized carriers are in a desperate financial position?

Mr. CALHOON. That is a very long answer.

Mr. McCLOSKEY. Please try.

Mr. CALHOON. I'll try to do it briefly.

This is just an opinion and without the proper research or study. I suspect the subsidized carriers are overregulated. I suspect that they have to file too many pieces of paper. I suspect that they have to answer too many questions. I don't think the Maritime Administration or the Coast Guard or the Federal Maritime Commission is being overzealous. I think they are doing a job that is assigned to them.

We have never taken an overall view of what this industry is and where it is going. We have laws on the books that have been there for 150 years that serve no useful purpose whatsoever, but those laws are still the laws of the land and they are still being enforced.

I think procedures that went in maybe in the thirties are still being applied in the seventies but may no longer be applicable.

By having a subsidy, a company gives up present flexibility. If a cargo is available at a very high rate, by the time they get through an exception to their trade route, by and large the cargo is gone.

I am not so sure that the subsidized operators are making any less money than the nonsubsidized operator. From my history in this industry, I have not seen a company that could operate its business and pay profits or pay a dividend to a stockholder and replace its fleet.

I have seen this argument made for many, many years, but to this date no company has ever done that.

Where you see nonsubsidized ships built in this country, they are not being built for foreign commerce. They are being built for the protected trades—Jones Act—and I don't know of any dry cargo ship that has been built in this country since World War I, with maybe two or three exceptions, that was built for foreign commerce. I don't know of any company that was nonsubsidized in foreign commerce that has ever replaced its fleet under the American flag. So even though they can make a profit for a given period of time, and I am thinking of companies like Isthmian Steamship Co. that was a wholly owned subsidiary of the United States Steel; I'm thinking of States Marine Steamship Co. I am thinking of Bull Line. They all went by the boards because when it came to the hard financial decision of whether they would start replacing the ships or not, they decided not.

Mr. McCLOSKEY. Mr. Calhoon, you have a preeminent reputation in the maritime field and you are one of the few people in the United States to have received a letter from the President of the United States specifically promising what his goals would be if he were elected.

Now we are in February, 1978, 13 months after the President took office. This committee has been trying for the last few months to get the administration to take positions on the legal changes in our law to try to promote a sound, effective and efficient American merchant marine.

I want to read to you from the letter President Carter sent to you dated May 25, 1976.

I want to read the four statements he made and ask you if, in your judgment, the administration has met this commitment to you.

My approach is to achieve a Maritime program which will return us to the seapower status we deserve and need. I intend to work for the following objectives:

1. Assure continuing Presidential attention to the objective of having our Nation achieve and maintain the desired U.S.-flag merchant marine.

Has the President met that commitment to you, Mr. Calhoon?

Mr. CALHOON. At this point, Mr. McCloskey, I think about it as a basketball game. We have just started.

Mr. McCLOSKEY. The second quarter?

Mr. CALHOON. I am not going to pass judgment on the President of the United States until we get to the fourth quarter.

Mr. McCLOSKEY. I would be honored if you would suggest that he expedite his schedule to get testimony before this committee.

Three days ago, we were informed by the Office of Management and Budget that they saw no hope in sight on giving us advice on what our positions ought to be.

2. Dedicate ourselves to a program which would result in a United States flag merchant marine with ships that are competitive with foreign-flag ships in original costs, operating costs and productivity.

Has he met that commitment?

Mr. CALHOON. Mr. McCloskey, on all three points, I am going to hold my judgment until the fourth quarter.

Mr. McCLOSKEY. You mean 1980?

Mr. CALHOON. Yes, sir.

Mr. McCLOSKEY. I will read for the record the next two points.

3. Enact in the developing national cargo policy which would assure our U.S.-flag merchant marine a fair share of all types of cargo.

4. Continue to enforce our American cabotage laws, such as the Jones Act, which require that U.S.-flag ships trade between our U. S. domestic ports.

Incidentally, there is a bill extending the Jones Act to ships trading with the Virgin Islands. Are you in favor?

Mr. CALHOON. We have discussed that bill. We have not taken any final position. Generally speaking, yes, we have supported the principle of that bill.

Mr. McCLOSKEY. Thank you for your courtesy in coming. I hope it was not an inconvenience. I would like the privilege to submit some questions to you in writing to try to get some specific answers on the dollar figures.

Mr. CALHOON. Thank you.

Mr. McCLOSKEY. Thank you, and thank you, Mr. Chairman.

Mr. CALHOON. Thank you.

[Nothing was received for the record.]

The CHAIRMAN. Mr. Talmage Simpkins, executive director, AFL-CIO Maritime Committee.

STATEMENTS OF TALMAGE SIMPKINS, EXECUTIVE DIRECTOR, AFL-CIO MARITIME COMMITTEE, AND EUGENE SPECTOR, RESEARCH DIRECTOR, NATIONAL MARITIME UNION, ACCOMPANIED BY MEL BARISIC, SECRETARY-TREASURER, NATIONAL MARITIME UNION

Mr. SIMPKINS. My name is Tal Simpkins. I am executive director of the AFL-CIO Maritime Committee. With me is Mel Barisic,

secretary-treasurer and Eugene Spector, the research director of the National Maritime Union of America.

The CHAIRMAN. Mr. Barisic is also an officer of the union?

Mr. SIMPKINS. He is secretary-treasurer of the National Maritime Union. Because the request to testify was directed to the National Maritime Union, Mr. Barisic and Mr. Spector will carry the testimony.

We have no formal statement except for the resubmission of our statement which we submitted on the seventh of February.

We are here to answer any questions.

[The following statement was received for the record:]

STATEMENT OF THE LABOR-MANAGEMENT MARITIME COMMITTEE, SUBMITTED BY CO-DIRECTORS EARL W. CLARK AND TALMADGE E. SIMPKINS, LABOR-MANAGEMENT MARITIME COMMITTEE

The Labor-Management Maritime Committee, composed of ocean-going steamship lines and maritime labor, appreciates the opportunity to present this statement in support of H.R. 10729, a bill to authorize appropriations for the Maritime Administration for fiscal year 1979.

Provision for \$157,000,000 for ship construction over the next fiscal year represents an amount only \$22,000,000 in excess of that requested last year. However, a carry-over of some \$122,000,000 from previous years would total \$279,000,000 available for expenditure on a programmed basis. It is our understanding that the Administration holds this to be adequate for current and anticipated shipbuilding orders applicable to fiscal year 1979, and we support it. It, nevertheless, falls far short of the shipbuilding program envisaged by the 1970 Merchant Marine Act of 300 ships over a 10 year period. Nor does it address the unoptimistic commercial shipbuilding forecast now openly advanced by the Shipbuilders' Council of America. It is obvious, therefore, that meeting the objectives of the Merchant Marine Acts of 1936 and 1970 and predecessor legislative enactments must await solutions emanating from other fields of action aside from authorizations for appropriations.

As to the \$262,800,000 requested for operating differential subsidy, it is considered adequate to cover billings for fiscal year 1979 when a carry-over of some \$73,000,000 is added, and we support an authorization of this amount. This total of some \$336,000,000 is moderately less on a comparative basis than amounts available for such purpose in fiscal year 1978.

We understand the authorization of \$17,500,000 for Research and Development and \$22,483,000 for Education and Training are consonant with requested funds submitted by the Maritime Administration and, therefore, assume they meet the needs for such programs for fiscal year 1979. We support authorization for such funds.

Today in the operating field we carry, overall, only about 4.8 percent of our total waterborne foreign commerce; however, in the liner trade we transport some 30.9 percent of our import and export commerce, a considerable portion of which falls under operating-differential subsidy, which proves the efficacy of that program. It should be noted, however, that at the middle of this century U. S. flag ships carried overall over 40 percent of our import-export commerce compared to the current 4.8 percent. Today's situation, therefore, calls also for more affirmative action in fields other than authorizations for appropriations, as crucial as the latter may be.

What is needed encompasses a gamut of considerations including commercial cargo preference legislation for the bulk trade, both liquid and dry; promotion of cargo equity for all segments of the U.S. flag fleets; an end to the Jones Act exemption for the Virgin Islands for oil and petroleum products; anti-trust exemption covering rate considerations in inter-modal transportation; legislative enactment governing rate-cutting by state controlled lines in the ocean trade; greater equality in administering the 1916 Act as between foreign and U.S. flag steamship companies with legislation as necessary to achieve that purpose; and full implementation of existing cargo preference laws in the transport of government-engendered cargoes. A combination of these elements

would start our merchant marine on the road to recovery of its former greatness.

The Merchant Marine and Fisheries Committee has already addressed itself to certain of these areas and we commend the Committee for its foresight in doing so. Meanwhile, the provisions of H.R. 10729 appear to cover identifiable authorization needs for fiscal year 1979, and we support this legislation as currently introduced.

The CHAIRMAN. We appreciate you coming on such short notice.

I would like to congratulate Mr. Spector for his efforts at the International Consultative Organization meeting in London on Ship Design Standards to Prevent Pollution at Sea. His contribution was vital to the success of that conference and we certainly appreciate the expertise and, of course, the longstanding commitment that the union itself has to resolving those problems of pollution at sea.

Mr. Zeferetti.

Mr. ZEFERETTI. I have no questions.

The CHAIRMAN. Mr. McCloskey.

Mr. McCLOSKEY. Mr. Spector, I want to direct your attention back to June, 1976, and the statement of Peter Bocher, vice-president of the National Maritime Union, accompanied by Talmage Simpkins, executive director and Eugene Spector, research director of the National Maritime Union.

We were considering the operating subsidy program, the testimony we had from Mr. Blackwell was that the average operating subsidy per ocean-going vessel in the U.S. trades was \$1,330,000 and that roughly 86 percent of that cost was in wage costs to American seamen.

I take it that those figures are roughly close to what it would be in this year in the proposed ODS that Congress is being asked to support.

In your testimony in 1976, actually I am referring to the testimony of Peter Bocher who was accompanied by you and Mr. Simpkins, he stated the following, and let me quote his statement to you:

The National Maritime Union recognizes the value of the vessel to the Nation and we pledge our full support and assistance in its reactivation.

This testimony concerned the *United States* which was then up for sale and to be taken out of operation. I want to quote the testimony and ask you about it with respect to the present manning levels on the domestic lines which we are subsidizing.

As we testified in 1971 and 1972, crew reductions of up to 50 percent are possible. Our labor agreements recognize the need of ships in the coastways and noncontiguous trades and we are prepared to make necessary adaptations in fringe benefits, work rules, et cetera, to allow for the economical operation of the vessel.

I can only assume from that testimony that if crew reductions of 50 percent could be made on the *United States*, this indicated that the Union had negotiated a higher level of manning than was actually required for the economic operation of the *United States*.

Can you comment on it?

Mr. SPECTOR. Mr. McCloskey, the crew sizes on the passenger ships were negotiated between labor and management. However, the operating exigencies at the time in 1952 when they began operating were different.

Today, a passenger ship operates on a cruising basis. These vessels in 1952 and in 1969 when laid up were engaged in transportation. By law, I believe 4 months a year, it had to stay in an area for point-to-point transportation. It was the evolution of the passenger ship in terms of a tremendously increasing cruise market that made it difficult to continue to operate.

The cruise market, for example, would have a 900-passenger capacity on the S.S. *United States* as opposed to 18 or 19 hundred full capacity in point-to-point transportation. This necessitated a variation in crew levels and service which would affect the crew size.

Mr. McCLOSKEY. But in 1971 and 1972, you were willing to reduce the crew size by 50 percent if the Government would continue its subsidy, were you not?

Mr. SPECTOR. No. We testified in 1971 and 1972 that we did not agree with the company's estimate of operation. I believe if my memory serves me, representatives of the United States Lines testified it would cost \$23 million in labor cost to continue to operate the SS *United States*.

Mr. McCLOSKEY. I understand that.

"As we have testified in 1971 and 1972, crew reductions of up to 50 percent are possible."

That was your testimony, wasn't it?

Mr. SPECTOR. Yes, sir.

Mr. McCLOSKEY. I would like to ask you about the Pacific Far East Line situation where the Pacific Far East Line requires a crew of 40 as compared to Delta requiring a crew of 32 on the same ship.

Can you tell me why PFEL should have a 25 percent larger crew on a LASH ship than Delta?

Before I ask for that, you are the operating union with the Delta Line; are you not?

Mr. SPECTOR. No.

Mr. McCLOSKEY. Are you the operating Union with Pacific Far East?

Mr. SPECTOR. No, sir.

Mr. McCLOSKEY. Neither one?

Mr. SPECTOR. No.

Mr. McCLOSKEY. How does that difference occur?

Mr. SPECTOR. We have a multiplicity of unions. People would be surprised at all of the various labor unions that represent seamen in one form or another. I have a list here of 10 representing unlicensed seamen and boatmen that are affiliated with the AFL-CIO alone.

There are others—nine representing vessel personnel and there are nine independent unions. The National Maritime Union represents about 40 percent of the unlicensed seamen.

The Seafarers International Union, and their west coast affiliates which are independent represent deck, engine and steward's department personnel.

Mr. McCLOSKEY. Can you comment why there would be this difference between PFEL and Delta on the same kind of ship?

We have been trying to find out what has been the cause of PFEL having to file bankruptcy. It appears that much higher crew levels

have been imposed on them as a result of their labor negotiations than Delta.

Can you comment on that?

Mr. SPECTOR. I can only speculate as to why. I am not familiar with that particular operation and the labor requirements on those types of vessels.

Mr. McCLOSKEY. Would you object to an amendment to the authorization bill this year which required that Federal subsidies be limited to the manning level set by the Maritime Administration?

Mr. SPECTOR. I heard the same question asked of Mr. Calhoun. Perhaps I would give you a different answer.

I would advise strongly against it for a number of reasons. We have lost roughly four out of every five offshore jobs between 1966 and 1976. A good part was due to increased efficiencies. We are moving cargo 300 or 400 percent more efficiently than we were some 10 years ago. We believe the new technology requires higher skills. That invokes training. We believe that Seafarers should have the right to be upgraded and retrained in the new technology, if you will. That is something that should be done and the responsibility we feel rests as much with the government as the industry.

We also would look to our fringe benefit programs. Our current pension liabilities or cost would be roughly \$4.5 a man-day if we had the level of employment today that we had in 1966.

The actual cost is between \$15.5 and \$16 per man per day. The difference represents the loss of jobs to NMU Seafarers. Substantial pension liabilities arose from World War II. It came from the Korean war. It came from the Vietnam war.

When the Seafarers were asked to increase their work force to meet Government needs, that is when it came.

After the emergencies were over, nobody did anything for the Seafarer except reduce his job opportunity and squeeze him out of the industry. Those who were able to stay on gained pensions.

Mr. McCLOSKEY. Let me give the other side of the coin because we have had this come up at least on three occasions in the last few years. The *United States* went out of operation. Jobs were lost. The *Mariposa* and the *Monterrey* will go out of operation because the Maritime Administration says they won't subsidize them any longer. If they go out of operation, jobs are lost.

Part of the reasons these companies say your jobs are lost is that we have, in effect, priced ourselves out of the competitive market because of the negotiated wage benefits by the unions. We are caught in a dilemma to increase the Federal subsidy to pay more for new jobs.

Mr. SPECTOR. Straight-time wage rates for an able-bodied seaman, a man who takes 5 or 6 years to get a green certificate, he is paid \$4.64 an hour, sir. His average hourly earnings are \$5.50 an hour. We contend today in the American economy these are not overpaid individuals. They are underpaid individuals and overworked individuals.

Mr. McCLOSKEY. There's not enough manpower on these ships?

Mr. SPECTOR. That is one of our positions.

I looked at the transportation and public utility figures published by the Department of Labor and in January of 1978, they were paid

\$7.25 an hour. That is an average. Our A.B. is a good representative of the average for the unlicensed seamen at \$5.50 an hour. Subsidies paid to Seafarers are not excessive. We believe it is the opposite. Our A.B. would work 63 hours a week to achieve \$5.50 as opposed to 39.8 hours for transportation and public utility. I can go through a number of industry groups.

Mr. McCLOSKEY. But those industries are not subsidized by the U.S. Government.

Mr. SPECTOR. I look at railroads where there are billions of dollars of subsidies going to them and it is going to the workers as well in other areas, but it is billions of dollars to the railroads. We are talking about substantially less amounts of money. We think the Seafarer has reacted to modern technology. We could have tried to stop it and didn't. We acceded to it and lost substantial job opportunity. We think that should be recognized and something done for the Seafarer and not put the blame on them for the decline of the industry.

Let us not have the tail wagging the dog. We are not responsible for pricing us out of the market. We are highly productive. The cost per ton-mile of cargo movement is substantially less today than it was 10 or 20 years ago.

Mr. McCLOSKEY. Let me go to this point.

This year we are going to be paying an average of \$16,828 for each Seafarer at sea under Federal subsidy.

Mr. SPECTOR. Sir, you are taking a fork force that consists of roughly 70 percent unlicensed and 30 percent licensed where the ratio of cost is about $2\frac{1}{2}$ to 1. You are lumping us together. I represent unlicensed Seafarers. That figure is nowhere near reality, plus the fact that your question introduces the thought that we should be working 12 months a year on a 63-hour week in order for us, as individuals, to make that kind of money.

The job actually supports two or two and one-half people. There are a lot of factors that go into it. The straight mathematical calculation of taking the total operating subsidy and divide it by jobs is an erroneous way of looking at the question with regard to unlicensed seamen.

Mr. McCLOSKEY. The Transportation Institute describes itself as a nonprofit educational research organization. It had made a substantial contribution to campaigns in the recent cargo preference fight.

One aspect of the Institute is that it gets a portion of its funds from Maritime subsidies through its union.

Mr. SPECTOR. No. It has no relationship to the National Maritime Union.

Mr. McCLOSKEY. I stand corrected. It is Paul Hall's union, the Seafarers. Operators of 42 SIU-crewed ships receiving operating subsidy are permitted by the Maritime Administration to include the daily contribution to the management trust fund of Transportation Institute as a crew cost. So the taxpayer pays the cost of the Transportation Institute which uses the money to argue for more subsidies or preferences or benefits for the merchant marine.

We have denied campaign contributions in other respects. Is this a proper use of the Maritime subsidy?

Mr. SPECTOR. Mr. McCloskey, I think we will all admit the welfare of the Seafarer depends upon the degree of support that our Government gives the American merchant marine. That means the action is here in Washington. If we are to properly represent our people, it would have to be here in Washington.

We did not take——

Mr. McCLOSKEY. I do not question that you properly represent your people. You are one of the most effective representatives of your people in Washington.

I am questioning the Transportation Institute, being paid out of the Federal subsidy should be allowed to turn around and pay out a portion of those funds in campaign contributions.

Mr. SPECTOR. I have no comment on that. It is beyond my purview or knowledge.

Mr. McCLOSKEY. I have no further questions.

I want to thank the witnesses for their cooperation.

I would like the privilege of talking to you at length. Maybe we can do it over dinner some evening.

The CHAIRMAN. Mr. Zeferetti.

Mr. ZEFERETTI. No questions.

The CHAIRMAN. We will stand adjourned subject to the call of the Chair.

[The following material was submitted for the record:]

STATEMENT OF FRANK T. SCAVO, PRESIDENT, INTERNATIONAL ORGANIZATION OF MASTERS, MATES AND PILOTS, THE MARINE DIVISION OF THE INTERNATIONAL LONGSHOREMEN ASSOCIATION

As a long time advocate of a strong and viable U.S.-flag merchant fleet, the International Organization of Masters, Mates and Pilots appreciates the opportunity to submit this statement for the record in support of H.R. 10729, a bill, "To authorize appropriations for the fiscal year 1979 for certain maritime programs of the Department of Commerce, and for other purposes."

The Bill would authorize appropriations in the total amount of \$494,628,000; a decrease of about \$59 million from the amount authorized last year.

Very briefly, Section 2(1) of the bill would authorize \$157 million for Construction-differential Subsidy. This is \$22 million more than was authorized last year. The request amount, together with carry-forward funds of \$122 million would provide a construction program level of \$279 million for the construction of two containerships for American President Lines; two Roll-on/Roll-off ships for American Export Lines, and Two LNG vessels for El Paso Gas.

Section 2(2) would authorize \$262,800,000 for Operating-differential Subsidy. This is \$109,309,000 less than was authorized last year. This requested amount would provide for the subsidized operation of 173 liner vessels, 21 bulk vessels, and participation in the Russian grain trade by about 10 U.S.-flag vessels.

Section 2(3) would authorize \$17.5 million for the Research and Development activities of the Maritime Administration. This is about \$3.2 million less than the amount authorized for fiscal year 1978.

Section 2(4) of the bill pertains to maritime education and training expenses, and Section 2(5) pertains to operating expenses. In this regard, the Members will note that the format of the bill is slightly different from previous years. This change has been made to accommodate the requirement of Public Law 95-173 (the Marad authorization bill for fiscal year 1978)—that henceforth the annual authorization bill will cover "expenses necessary for extension and correspondence courses authorized under section 216(c) of this Act", and "other operations and training expenses related to the development of waterborne transportation systems, the use of waterborne transportation systems, or general administration."

Section 2(4) of the bill would authorize \$22,483,000 for maritime education and training expenses. Of this amount:

a. \$15,359,000 would be for the continued operation of the Federal Maritime Academy at Kings Point, New York—an increase of \$703,000 over the amount authorized last year.

b. \$5,220,000 would be for financial assistance to the six State Marine Schools—a decrease of \$750,000 over the amount authorized last year.

c. \$1,904,000 would be for supplementary training courses for which we have authorization authority, for the first time this year.

Section 2(5) of the bill would authorize \$34,845,000 for operating expenses. Of this amount:

a. \$5,516,000 would be for the continued maintenance of the National Defense Reserve Fleet—an increase of \$379,000 over the amount authorized last year, and

b. \$29,329,000 would be for other operating expenses of the Maritime Administration for which we have authorization authority, for the first time this year.

The need for government assistance Mr. Chairman, as provided in H. R. 10729 is as great now as it was when it was first provided in the virginal Merchant Marine Act of 1936. The carrying out of the stated intent of the legislation creating the 1936 Merchant Marine Act enacted by the 74th Congress, has a direct relationship to the subsidies provided.

The 1936 and the amendatory 1970 Acts were designed to meet our national maritime needs and goals. Lack of cargo, mostly dry and wet bulk for U.S.-flag vessels, has frustrated our avowed national maritime policy.

This National Maritime Policy in Title I, "Declaration of Policy" of the Merchant Marine Act of 1936, is as follows:

"Section 101. It is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine (a) sufficient to carry its domestic water-borne export and import foreign commerce of the United States and to provide shipping service essential for maintaining the flow of such domestic and foreign water-borne commerce at all times, (b) capable of serving as a naval and military auxiliary in time of war or national emergency, (c) owned and operated under the United States flag by citizens of the United States insofar as may be practicable, (d) composed of the best-equipped, safest, and most suitable types of vessels constructed in the United States and manned with a trained and efficient citizen personnel, and (e) supplemented by efficient facilities for shipbuilding and ship repair. It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a merchant marine."

This is basically the same as the policy originally in the Merchant Marine Act of 1920 and reaffirmed in the Merchant Marine Act of 1928.

If the National Maritime Policy enumerated in the 1936 Act has any deficiency, it is in the fact that it does not more specifically define or reserve a definite share of our waterborne imports and exports for our merchant marine. We say, that along with our subsidy program set out in the 1936 Act, as amended, and provided in H.R. 10729, we also need a Federal program or policy for cargo for U.S.-flag vessels and this program as policy must be adhered to and implemented by the administration.

As of January 1, 1978, Mr. Chairman, the privately owned deep-draft fleet of the U.S. merchant marine totaled 744 ships, of some 20.4 million deadweight tons. The total deadweight tonnage increased by 1.7 million tons over the level of January 1, 1977, while the number of ships decreased by four. These fluctuations reflect the larger size of the additions and the small size of the old ships that left the fleet.

Almost all the net gain in tonnage was in the oceangoing segment of the fleet, which increased from 16 million deadweight tons and 577 ships at the start of 1977 to 17.5 million deadweight tons and 578 ships in January of 1978. This 1978 oceangoing ship total was well below the 1970 total of 825 vessels, but the deadweight tonnage had increased significantly from the 1970 level of 14.9 million. This increase in tonnage is attributable to the growth of tanker tonnage and the decrease in numbers is ascribed primarily to the post-Viet Nam shrinkage of the general cargo fleet.

The subsidized liner portion of our fleet, while falling from 215 ships in 1970 to 166 at the end of 1977, increased marginally in deadweight tonnage. Moreover, as progressively more modern and innovative intermodal vessels were

brought into the subsidized fleet, its delivery capability increased significantly and, despite inflation, the operating subsidy cost per unit of carrying capacity offered in subsidized service declined by more than 10 percent since 1970. The U.S.-flag share of liner cargoes in U.S.-foreign trade increased from slightly over 20 percent in 1970 to more than 30 percent today.

As to the oceangoing tanker fleet, while it declined in numbers, it increased in deadweight tonnage from 7.4 million tons in 1970 to 12 million tons at the end of last year. Also, the number of U.S.-flag tankers in layup, which exceeded 40 in 1975 and numbered 20 in mid-1977, is now down to two, both of which we all hope will have early employment.

With the decline in the number of ships in the U.S.-flag fleet, seagoing employment has decreased from approximately 70,000 in 1970 to a current level of about 46,000, counting active seafarers afloat and ashore. This is a substantial and tragic decline in the numbers of seafaring jobs. Needless to say, this is bread and butter for the maritime unions. In a related development, I am told that afloat employment prospects for graduates of the Federal and State maritime academies have improved significantly, and apparently will continue to improve. Despite what some may think, this is a matter of some importance to us.

Shipyard employment increased from a total of 60,000 production workers in the major private yards (yards with facilities to build ships at least 475 by 68 feet) as of 1970 to about 100,000 late last year. However, all indications are that there will be a sharp drop in shipbuilding employment within the next two years as current order books are completed. Unfortunately, few if any, new shipbuilding contracts are being entered into. As of now, the outlook is bleak beyond 1980.

Provision for \$157,000,000 for ship construction for fiscal year 1979 is only \$22,000,000 in excess of that requested last year. However, a carry over of almost \$122,000,000 from previous years totals some \$279,000,000 available for expenditure on a programmed basis. We understand that the Administration feels that this is adequate for current and anticipated shipbuilding orders applicable to fiscal year 1979, and we, of course, support it. However, it falls far short of the shipbuilding program envisaged by the 1970 Merchant Marine Act of 300 ships over a 10 year period, and it does not address the unoptimistic commercial shipbuilding forecast now openly advanced by the Shipbuilders' Council of America. It is obvious, therefore, that meeting some of the objectives of the Merchant Marine Acts of 1936 and 1970 must await solutions from other fields of action aside from authorizations of appropriations.

As to the \$262,800,000 requested for operating differential subsidy, it is considered adequate to cover billings for fiscal year 1979 with a carry over of approximately \$73,000,000, and we support an authorization of this amount.

It is our understanding that the authorization of \$17,500,000 for Research and Development and \$22,483,000 for Education and Training are in line with the fund requests submitted by the Maritime Administration. We, therefore, assume that they meet the needs for such programs for fiscal year 1979 and support authorization for such funds.

Today we carry, overall, only about 4.8 percent of our total waterborne foreign commerce. However, in the liner trades we carry some 30.9 percent of our import and export commerce, a considerable portion of which falls under operating-differential subsidy, and which we think proves the efficacy of that program. It should be noted, however, that in the middle of this century U.S. flag ships carried overall over 40 percent of our import-export commerce compared to the current 4.8 percent. Obviously, then, the present maritime situation calls also for more affirmative action in fields other than authorizations for appropriations, as crucial as the latter may be.

Among the matters which should be considered and which are needed is commercial cargo preference legislation for the liquid and dry bulk trades; promotion of cargo equity for all segments of the U.S.-flag fleet; an end to the Jones Act exemption for the Virgin Islands for oil and petroleum products; extension of the anti-trust exemption for land and water agreements in inter-modal transportation; legislative enactment governing rate-cutting by the Socialist bloc nations; and legislation aimed at the pernicious practice of rebating. All or a combination of these matters would be a great help in rehabilitating our maritime posture and restoring our balance on the world-wide maritime scene.

We think the Committee and the industry will address themselves to these critical matters in a positive manner in the coming year. Meanwhile we endorse and support the provisions of H.R. 10729 and hope that it will be enacted expeditiously without a host of extraneous issues being added on to encumber this necessary maritime funding legislation.

As we begin in the beginning, Mr. Chairman, we are grateful for this opportunity to submit our views for the record.

STATEMENT OF SHANNON J. WALL, CHAIRMAN, AFL-CIO MARITIME COMMITTEE

The AFL-CIO Maritime Committee representing the National Maritime Union of America, AFL-CIO; the American Radio Association, AFL-CIO; and the United Steelworkers of America, District 4, AFL-CIO, submits the following statement in support of H.R. 10729, a bill to authorize appropriations for the Maritime Administration for fiscal year 1979.

The need for government assistance as provided in this legislation is as great today as it was when it was first provided in the Merchant Marine Act of 1936. The carrying out of the stated intent of the legislation creating the 1936 Merchant Marine Act enacted by the 74th Congress, "... to develop a strong American Merchant Marine, to promote the commerce of the United States, to aid national defense ..." has a direct relationship to the amount of subsidies provided.

The 1936 and 1970 Acts were designed to meet our national maritime goals. Lack of cargo, mainly dry and wet bulk for U.S. flag ships, has frustrated our avowed national policy.

Our National Maritime Policy is in Title I, "Declaration of Policy" of the Merchant Marine Act of 1936. This is basically the same as the policy originally in the Merchant Marine Act of 1920 and reaffirmed in the Merchant Marine Act of 1928.

If the National Maritime Policy enumerated in the 1936 Act has a shortcoming it is in the fact that it does not more specifically define or reserve a definite share of our waterborne imports and exports for our merchant marine. In our opinion, the Declaration, "... it is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine (a) sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States ..." is sufficient and implies that more than 50 percent of our foreign trade be carried in U.S. flag ships.

The fact that we do not have a merchant marine as envisioned by the 1936 Act cannot be blamed on the Act but rather on outside policies such as the tax shelters that permit the "runaway" operations, the continued bargaining away of our merchant marine by some branches of government, and the fact that we do not have a high-level coordination of the diverse government activities involved in maritime matters and policy. The shortcoming of the 1970 Act, which amended the 1936 Act, is also in its failure to reserve or define a share of cargo for our ships.

With respect to our foreign trade, it is essential that we need a more-clearly defined maritime policy that would include:

(a) A continued commitment to the Declaration of Policy and programs of the 1936 Merchant Marine Act;

(b) Supplementing the programs of the 1936 Act with a national cargo policy that would allocate to our merchant vessels that part of the imports and exports of the United States found necessary to develop and maintain the U.S. flag merchant marine required in peacetime and during periods of national emergency; and,

(c) A higher level coordination of the diverse government activities involved in maritime matters and policy through the appointment of a Presidential Assistant for Maritime Affairs.

The existing maritime programs have been successful and have made possible the building and operations we enjoy today. But, they do no more than offset part of the cost advantage enjoyed by our foreign flag competitors and do not begin to make a dent in the real problem and need—cargo.

The \$157,000,000 requested for construction-differential subsidy is \$22,000,000 more than the request for last year and with the anticipated carry over of \$122,000,000 from this year's budget and with the state of affairs of our U.S. flag merchant marine, should be adequate to meet the request for replacements

and new construction. It is not, however, adequate to fulfill the promises of the 1970 Act. It is also not adequate to continue to develop an adequate shipbuilding base or adequate to develop the merchant marine envisioned by the 1936 Merchant Marine Act.

The operating-differential subsidy request of \$262.8 million for fiscal year 1979 plus the carry over of \$73 million equates approximately with this fiscal year's budget. These funds, like those in the construction-differential subsidy category, are adequate to continue the existing program. They are, however, inadequate to develop an adequate merchant marine.

With respect to operating-differential subsidy, there have been direct and implied criticism of the cost of maritime labor. We believe the criticism to be unfounded.

Maritime labor has carried its full weight to accommodate the program and has made tremendous sacrifices to permit the vast crew reductions needed to make new containerships and the big new tankers pay off. Seagoing jobs have declined from 43,217 in 1968 to 20,747 in 1977. This reflects a great increase in efficiency, but tragically it also involves an incredible drop from 967 ships of 15,346,000 deadweight tons in 1968 to 578 U.S. ships in 1977 or 17,539,000 deadweight tons.

Twenty-five years ago seamen's wages represented approximately 30 percent of the steamship's total operating expense. This is compared with the labor cost of approximately 45 percent in the aviation industry, 65 percent in the railroad industry and 43 percent in the trucking industry.

Today seamen's wages represent less than 20 percent of the total operating expenses. The approximate labor cost in the railroad industry is 51 percent; airlines, 41 percent; and motor carriers is 50 percent.

Seamen's wages since 1968 have increased at a lesser percentage than those in the other modes of transportation.

The success of the maritime program can best be demonstrated by comparing the cargo carried by U.S. flag carriers in the liner trades—where the majority of the subsidized carriers operate—with the cargoes carried in U.S. flag ships in the nonlinear trades.

In 1968 U.S. flag ships carried 25 million tons or 6 percent of our total waterborne imports and exports. In the liner trades only, U.S. flag ships carried 11 million tons or 24 percent.

In 1976, the latest year figures are available, U.S. flag ships carried 34 million tons or 4.8% of our total waterborne trade, while in the liner trades U.S. flag ships carried 15 million tons or 30.9% of the cargo.

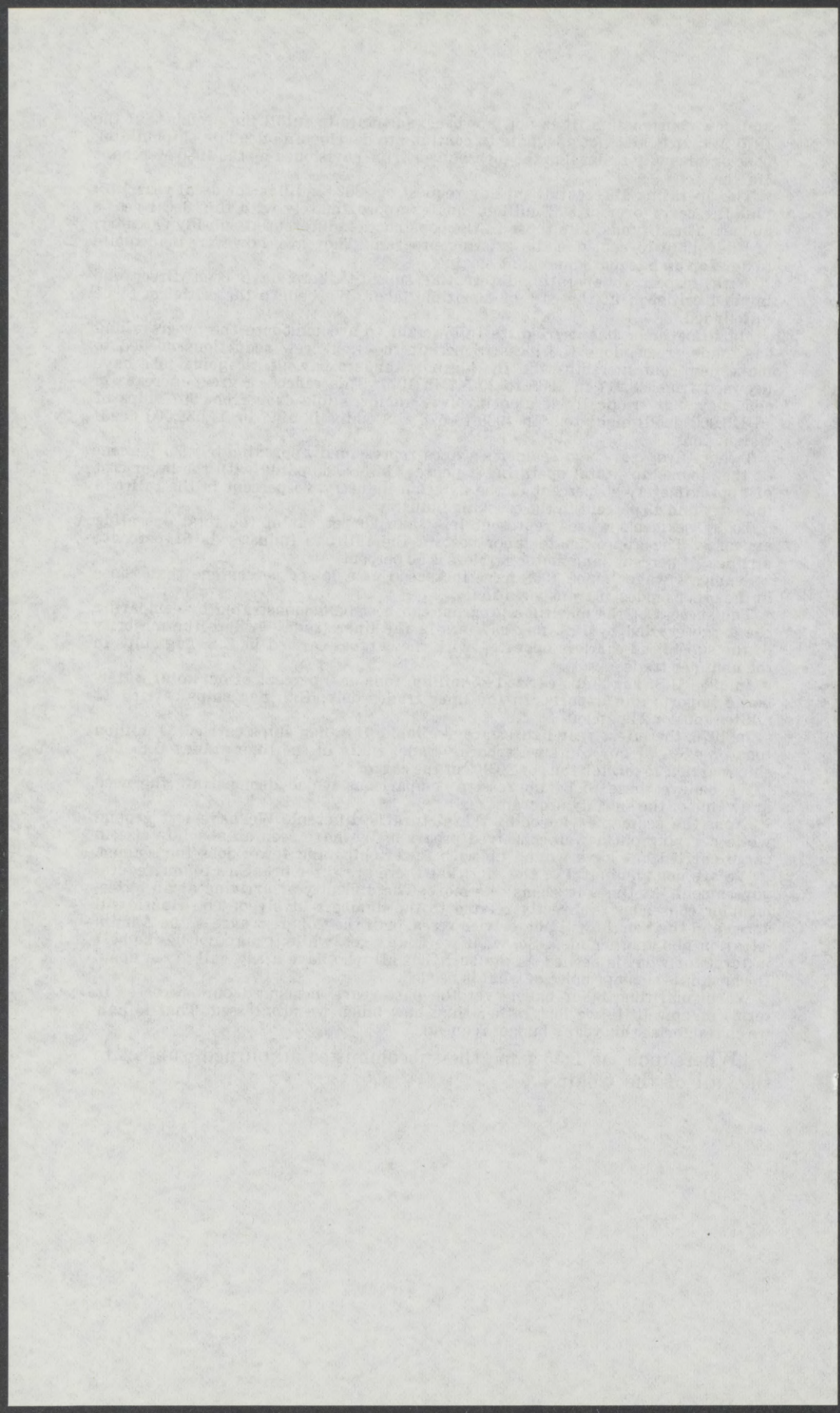
We believe these to be impressive comparisons which demonstrate the need and value of the subsidy program.

From the seaman's viewpoint the picture is different. We have lost ground while carrying out a well-conceived program. We have seen an absolute rise in cargo carried but have wound up with fewer ships and fewer jobs for seamen.

We are not unmindful of the fact that there are three branches to our federal government. At times it seems like more. The difficulty at arriving at an agreement or consensus is directly related to the numbers involved. The House will agree and the Senate will not, or vice versa, or if the Congress agrees, the Administration has another idea. So, what we finally get, while it may not be the best in terms of what is needed, is the best that all who have a say will agree upon. In short, it is a compromise of what is needed.

We in maritime labor have, over the past years, measured our successes in terms of how little we lost rather than how much we progressed. That is how we characterize this year's budget request.

[Whereupon, at 1:55 p.m., the subcommittee adjourned, subject to the call of the Chair.]



TITLE XI OVERSIGHT

THURSDAY, MAY 4, 1978

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

The subcommittee met, pursuant to notice, at 10:22 a.m., in room 1334, Longworth House Office Building, Hon. Ralph W. Metcalfe presiding.

Present: Representatives Metcalfe, McCloskey, Emery, and Ruppe.

Also present: Ernest Corrado, chief counsel; Leonard L. Sutter, Jr., counsel; and Jack E. Sands, deputy minority counsel.

Mr. METCALFE. Good morning. The Subcommittee on Merchant Marine will please come to order.

This morning, the subcommittee holds oversight hearings on the title XI guarantee program administered by the Maritime Administration.

Pursuant to title XI of the Merchant Marine Act of 1936, the Maritime Administration is authorized to guarantee commercial loans and mortgages to finance the cost of construction or reconstruction of U.S.-flag vessels. The title XI guarantee program has for many years been a very successful program, operates at no cost to the Government, and currently has a profit of about \$150 million in the Federal ship financing fund.

As the members will recall, during the 94th Congress, we amended the Maritime Administration authorization bill for fiscal year 1976, in order to increase the statutory ceiling from \$5 billion to \$7 billion. Since that time, the title XI Program has continued to be successful.

As a result, during the recent hearings on H.R. 10729, the authorization bill of the Maritime Administration for fiscal year 1979, the witnesses from private industry testified that additional title XI authority was required at this time. As Secretary Blackwell had already testified, Chairman Murphy wrote the Maritime Administration about the current status of the title XI program.

Based upon the written response of the Maritime Administration to this inquiry, one of the amendments adopted by the full committee was an amendment to section 1103(f) of the Merchant Marine Act, 1936, that increased the statutory ceiling of the title XI program from \$7 billion to \$10 billion. As so amended, H.R. 10729 was ordered reported on April 18, 1978.

Subsequently, the ranking minority member of the subcommittee requested a hearing on the title XI guarantee program. The majority

is always pleased to accommodate our colleague from California, and Chairman Murphy was happy to arrange for this hearing today.

We have as our witness, Mr. Roy Yowell, Assistant Administrator for Maritime Aids, Maritime Administration, for the Department of Commerce.

Mr. Yowell, if you will please take the witness stand.

STATEMENT OF ROY YOWELL, ASSISTANT ADMINISTRATOR FOR MARITIME AIDS, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE, ACCOMPANIED BY GERALD E. NEUMANN, DIRECTOR, OFFICE OF SHIP FINANCING GUARANTEES

Mr. YOWELL. Thank you, sir. Mr. Chairman, I have with me Jerry Neumann, who is in charge of the title XI program in my office.

Mr. METCALFE. Thank you very much. We welcome you, Mr. Neumann.

Mr. Yowell, as you don't have a statement, may I ask you a series of questions?

Mr. YOWELL. Yes, sir.

Mr. METCALFE. Would you give a brief description of the title XI guarantee program that is administered by your agency?

Mr. YOWELL. The Ship Financing Act is part of the 1936 act and is a program whereby the Government can guarantee private loans for the construction of ships owned by private individuals and companies. It enables the owner to get reasonable terms for financing. It gets good interest rates comparable to AAA corporates. It gets maturities of 20 to 25 years, depending on what is constructed. This program is available to all segments of the industry, the inland waterways, the foreign trade, the Great Lakes, and has been a very successful program financing over 5,500 ships over the past 20 years at no cost to the Government.

All the salaries, all of the administrative expenses, all the costs of the program, come out of the premiums and investigation fees which we charge to approve and guarantee an obligation. This program is self-sustaining and, as you mentioned, has over \$150 million in retained earnings.

Mr. METCALFE. Thank you.

What is the function of the title XI guarantee program?

Mr. YOWELL. I would say the basic purpose is to promote the growth of the American merchant marine. The American merchant marine is a very cyclical industry. It can make a lot of profits, and it can also lose substantial amounts. Without some stable guarantee program, it is doubtful the ships would be built to fly the American flag.

Mr. METCALFE. What are the eligibility requirements for title XI guarantee?

Mr. YOWELL. To be eligible for title XI, you must be a citizen of the United States. The vessel must be constructed in a U.S. shipyard and be documented under U.S. laws. It must to the extent practicable, for the cost of the components to be included in the "actual cost" or "depreciated actual cost," which is the basis for determining the

maximum amount of the guarantees. The owner must demonstrate to the satisfaction of the Maritime Administration and the Secretary of Commerce that he has the financial resources and the vessel operating ability, and that the venture is economically sound.

Mr. METCALFE. Thank you.

How many, and what type of vessels have been covered by the title XI program?

Mr. YOWELL. Since the inception of the program, there have been approximately 5,500 ships of all types financed under this program. About 2,500 of them have been ships, and over 3,000 of them have been lighters or barges, all covered by the title XI program. These ships include all types of ro/ro's, barges, scows, tugs, container ships, LNG's, virtually any ship that is built in an American shipyard and registered as a ship with the Bureau of Customs.

Mr. METCALFE. Thank you. Before I proceed with the next question, I see the gentleman from California is here, and I might apprise him that I am in a series of questions and, at any time, you may seek recognition on the questions I am posing.

Mr. McCLOSKEY. Thank you.

Mr. METCALFE. How is the title XI guarantee program funded?

Mr. YOWELL. We charge a fee for filing an application of \$1,000. We charge an investigation fee for processing the application, which normally runs around one-eighth of 1 percent of the amount asked for in the guarantee.

In addition to that, we charge an annual premium on the outstanding mortgage balance over the life of the contract, which amounts to one-half or three-quarters of 1 percent of the outstanding balance. This program, as I mentioned, is self-sustaining and self-supporting from this fund, and we have accumulated over \$150 million in this fund.

Mr. METCALFE. I have a series of questions to ask in regard to the major question, and that is with respect to losses under the title XI program.

The first question is, would you please explain what occurs where there is a default and the Government is forced to step in?

Mr. YOWELL. In a normal case when there is a default, and it is generally on the payment of principle and interest, we call a default, the marshal of the court takes possession of the ship; he forecloses and has an auction on the steps of the courthouse, and in normal cases we bid on the ship.

We then offer it for sale, generally under mortgage terms, and sell it, and over the entire life of the program there have been 10 defaults. We have had a net loss of \$14 million, all of which has been paid out of the revolving fund of title XI.

Mr. METCALFE. The next question, over all what has been your loss experience?

Mr. YOWELL. It has been about \$14.5 million on 10 ships. We haven't had a default that resulted in foreclosure for several years. The types of defaults have run from container ships to tankers to hydrofoils, but out of the 5,500 mortgages that we have guaranteed, we have had 10 losses.

Mr. METCALFE. Again, with respect to losses under the title XI program, what is the current balance in the Federal ship financing fund?

Mr. YOWELL. Approximately \$154 million.

Mr. METCALFE. Finally, under that question, does the current instability of Pacific Far East Lines represent a threat to the program?

Mr. YOWELL. Well, it is not something that we, of course, look forward to. We have never had a default as substantial as this. We have commitments outstanding of about \$98 million. I would expect that if we have to take these ships, that we would probably experience close to a \$30 million loss.

I would hasten to point out that the \$30 million loss is about equivalent to 1 year's income of this program.

So we can afford it, and the program will continue in spite of the fact that we would have a default of that magnitude.

Mr. METCALFE. With respect to the current statutory ceiling of \$7 billion, what are the current outstanding title XI commitments and contracts in force?

Mr. YOWELL. We have applications pending for 58 ships, a total of about \$3 billion, of which about 18 are LNG's. which would require mortgage guarantees of about \$2 billion.

Mr. McCLOSKEY. Mr. Chairman, may I interrupt?

Mr. METCALFE. The gentleman from California, Mr. McCloskey.

Mr. McCLOSKEY. Mr. Chairman, I want to apologize. We have the AID Administrator on the witness stand in the other committee room, and I have to get back.

Very briefly, I would ask unanimous consent, Mr. Chairman, to insert in the record at this point the letter that I sent and the response we received from the Office of Management and Budget with respect to the title XI program. The OMB letter is dated May 2, and the Chairman has a copy. But I think they should be in the record at this point.

Mr. METCALFE. Without objection, it is so ordered.

[The following information was received for the record:]

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C., April 25, 1978.

HON. JAMES T. MCINTYRE,

Director, Office of Management and Budget, Executive Office Building, Washington, D.C.

DEAR MR. MCINTYRE: During markup in the House Merchant Marine and Fisheries Committee on H.R. 10729, the Maritime Authorization bill, an amendment was offered and accepted increasing the Maritime Administration's mortgage guarantee authority under Title XI of the Merchant Marine Act, 1936 from 7 billion to \$10 billion.

This large increase in potential liability was adopted even though there was no testimony on the subject and no official Administration position. Does the Administration support increasing the Title XI authority by \$3 billion through the form of an amendment to the Maritime Authorization bill? Are there legitimate areas of conflict or concern in the Title XI program that should be addressed in hearings?

I would appreciate a prompt response to this inquiry since Chairman Murphy expects to bring the Authorization bill to the House Floor soon.

Sincerely,

PAUL N. McCLOSKEY, JR.,
*Ranking Minority Member,
Merchant Marine Subcommittee.*

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., May 2, 1978.

Hon. PAUL N. McCLOSKEY, JR.,
House of Representatives, Washington, D.C.

DEAR MR. McCLOSKEY: This is in response to your letter of April 25, 1978, in which you ask whether the Administration supports increasing the mortgage guarantee authority under Title XI of the Merchant Marine Act, from \$7 billion to \$10 billion, through the form of an amendment to the Maritime Authorization bill.

The Administration is opposed to this amendment. The President's Fiscal Year 1979 budget, which was transmitted to the Congress this past January, indicated the Administration's intention to propose budget-type controls over Federal direct loan and loan guarantee programs. It is Administration policy to recommend that new authorizations for loan guarantees include language requiring that the use of loan guarantee authority be subject to annual limitations provided in appropriation acts.

There are also a number of concerns with the Title XI mortgage guarantee program in particular which we believe need to be addressed. This loan guarantee program is one of the least restrictive Federal credit programs in terms of its criteria for eligibility, need for financial assistance and availability of alternative sources of credit. Our concern is underscored by the pending default of nearly \$103 million in guaranteed loans to a subsidized U.S. flag steamship company.

Finally, we question whether an increase in the ceiling of the amount proposed is even necessary at this time given the uncertainty surrounding contract negotiations involving 10 LNG carriers.

For the above reasons, and because the amendment is not a required part of the authorization bill, we would oppose such an amendment.

Sincerely,

JAMES T. McINTYRE, JR., *Director*,

Mr. McCLOSKEY. You are familiar with OMB's response?

Mr. YOWELL. Yes; I saw it.

Mr. McCLOSKEY. Chairman Murphy sent the written letter to the Maritime Administration, and we got back your response about title XI. While the language is not worded precisely to recommend an increase in title XI, I would certainly read your response to Chairman Murphy's question as recommending the increase from \$7 billion to \$10 billion. The committee later adopted this in markup.

We adopted that in markup because of what we thought was the Maritime Administration's recommendation that it be adopted. I take it your recommendation was made without clearance of OMB?

Mr. YOWELL. Well, I guess that can be assumed. I did not see this letter until late yesterday afternoon. I have not had an opportunity to discuss it. I gathered from the letter that the major concern is that we won't need this increase this year if we don't do the LNG's. The question in my mind is, if the LNG's do progress and do get the energy clearance, as to how we would handle the program.

Mr. McCLOSKEY. That is why I intervened at that point in the chairman's inquiry. If you got the LNG's, what kind of increase would you need in title XI to provide financing for those two LNG's? As I recall, the figure is \$102 million of LNG subsidy.

Mr. YOWELL. That would be CDS subsidy.

Mr. McCLOSKEY. What is the title XI figure for the two LNG carriers, should they be approved?

Mr. YOWELL. We have six applications for LNG's.

Mr. McCLOSKEY. Why would we want to provide construction subsidies for two of them, if we have six applications?

Mr. YOWELL. I don't know the two that you have reference to.

Mr. McCLOSKEY. The ones that are in the Maritime authorization bill.

This whole situation perplexes me. Last year, you came to us and you wanted funding for two LNG carriers. We asked for that and debated it on the floor, and the Full House upheld the Maritime Administration's construction subsidy for the two carriers last year.

Now you are asking for two more, even though you haven't started building the ones approved last year. It is our understanding that the Department of Energy has forbidden even you to start with the two that were approved last year.

Mr. YOWELL. No. I don't recall that the Department of Energy has forbidden us to construct any ships. The ones approved last year were the two for Larchmar, and they went to market last week for \$90 million in bonds.

Mr. McCLOSKEY. With subsidy?

Mr. YOWELL. The subsidy is there. The ships have been started. I could give you in the record—I don't know how much subsidy has been paid, but I am sure the engineering work and all is progressing on those ships.

Mr. McCLOSKEY. But the ones we approved for fiscal 1978 were two Pacific Lighting ships. My understanding is that the executive branch has prohibited proceeding with those two ships that we authorized not only title XI funding but subsidy in fiscal 1978. Am I incorrect?

Mr. YOWELL. That could be, but I have not gotten official word that they have done anything to hold this up. We have met with Pacific Lighting, and, as far as I am concerned, they intend to go with the project.

Mr. McCLOSKEY. With the construction subsidy or without?

Mr. YOWELL. I am going to testify before the energy people soon on the two Alaska ones. They would be without CDS, but, as far as I know, the six LNG's from Indonesia to California are still alive. I would be happy to check and make sure of my statement.

Mr. McCLOSKEY. But has final project approval been given?

Mr. YOWELL. No.

Mr. McCLOSKEY. It has not?

Mr. YOWELL. No.

Mr. McCLOSKEY. And those are the two which were funded last year.

What does the title XI money refer to that will exceed the present \$7 billion ceiling if the LNG's are approved this year?

Mr. YOWELL. They involve the ones we have not yet approved.

Mr. McCLOSKEY. Is that just the two for which construction subsidy is sought?

Mr. YOWELL. No; this is a total of 18 ships involving construction of over \$3 billion, of title XI, a little over \$2 billion, \$2.1 billion.

Mr. McCLOSKEY. That is 18 LNG ships?

Mr. YOWELL. Yes; two for Alaska and 16 CDS ships.

Mr. McCLOSKEY. Can you tell me why you need construction subsidies for some of the CDS ships but not others?

Mr. YOWELL. We don't think we will get them all this year.

Mr. McCLOSKEY. Those that are being built this year, some are being built without subsidy and some are not?

Mr. YOWELL. There are only two I know of contemplated to be built without subsidy, and they are the two to run from Alaska to California, for Pacific Lighting. The other one that is not going to be built with CDS is the Tenneco venture which involves four LNG's; that is, for Tenneco. They are going to bring gas from Algeria to Canada and pipe it through in the Northeastern States.

Mr. McCLOSKEY. If we did not give construction subsidy for those LNG ships that we contemplated giving it for, will they be built anyway?

Mr. YOWELL. That is a speculative question. These are big companies; they can build the ships foreign; they are building ships foreign. It is probably that if we didn't give CDS for these ships, they would build them all foreign.

Mr. McCLOSKEY. Do we understand that the National Defense Establishment does not want LNG ships enrolled in the sea lift readiness program because they have no military usefulness?

Mr. YOWELL. I don't know the answer to that question.

Mr. McCLOSKEY. Who does?

Mr. YOWELL. I can find an answer and put it in the record, or write you.

[The following material was received for the record:]

NATIONAL DEFENSE UTILITY OF LNG VESSELS

LNG ships can be adapted as product carriers for military support, and this might be necessary under certain full mobilization circumstances. However, under full mobilization, ships would be requisitioned, by the Federal government, pursuant to section 902 of the Merchant Marine Act, 1936, and the Sealift Readiness Program (SRP) would play no part. The SRP is a stopgap measure designed to assure the availability to DOD of some liner-type ships for relatively minor contingency operations when ships might not be requisitioned. There would be no requirement for LNGs in such operations. Under such conditions, the primary contribution of such ships to the national security would lie in the assured continued delivery of needed gas supplies. Further, the Navy has indicated that the LNGs' direct military utility is not sufficient to justify steel priorities, which must reflect direct military usefulness. In this light, we believe that LNGs would be considered inappropriate for enrollment in the SRP.

In consistently approving construction differential subsidy contracts for LNGs, the Navy has recognized their national security role. However, it does not view them as needed for the narrower defense mission of direct military support, and has so stipulated in its policy regarding steel priorities, criteria for which are narrowly structured in terms of direct military support.

Enactment into law of the amendments approved by the Committee that would prohibit the payment of subsidy for any vessel that will not be enrolled in the SRP would effectively eliminate subsidy for LNG vessels.

Mr. McCLOSKEY. The gentleman from Virginia, Mr. Tribble, mentioned to me the other day some concern about one amendment we adopted in subcommittee. We effectively shut out the support for LNG ships because we made as a condition for construction subsidy that they be available for enrolling in the sea lift readiness program.

Mr. YOWELL. Yes. Every application we receive for CDS goes to the military for their comments.

Mr. McCLOSKEY. Let me ask you as a factual matter, if we authorize CDS for LNG but have language that CDS will be available only

for ships enrolled in the sea lift readiness program, have we effectively and indirectly wiped out the construction subsidy for LGN ships?

Mr. YOWELL. I am not familiar with the sea lift requirements.

Mr. McCLOSKEY. Mr. Chairman, on these questions, I think they are important enough for our determination that we should ask the witness to submit answers in writing to these questions.

Mr. CORRADO. May I interject?

Mr. McCLOSKEY. Certainly.

Mr. CORRADO. Mr. Yowell, isn't it true that the sea lift readiness program has always been defined for liner vessels, and was not intended to apply to tankers or LNG vessels? And this wording, "offering or participation," of course, is something else, too, Mr. Chairman, that we had better look at carefully. The use of these words could be the key to these amendments.

Mr. McCLOSKEY. That is exactly my point. I don't want to defeat the LNG program indirectly because we have used language that shuts it out effectively. I think we should face the issue squarely.

Mr. CORRADO. I do not think it was intended to be an issue in the amendment, but, unfortunately, I am afraid it may have been the result.

Mr. McCLOSKEY. If it is, I think we should be prepared on the whole LNG issue to have a technical amendment to the bill. I don't want done indirectly what I seek to do directly.

Mr. CORRADO. If you want to face that issue, face it directly in the LNG amendment, but let's try to amend the other two SRP amendments so we make it clear that if the sea lift readiness program applies to liner vessels, which it has always been my understanding was the case, then the application to LNG vessels, as the amendment seems to do, would certainly be inappropriate, and perhaps we could clear that up.

Mr. YOWELL. I certainly will clear it up. It had been my thought it dealt with commercial vessels engaged in the liner service. That was the reason I had not thought of the involvement of LGN's.

Mr. McCLOSKEY. What about tankers? Don't they participate in the sea lift readiness program?

Mr. METCALFE. You have made a request.

Mr. McCLOSKEY. I have one last question.

Mr. Yowell, because of the state of our record on this title XI and LNG matter, could you, with OMB's approval, submit to the committee, hopefully this time for inclusion in our report on the Maritime authorization bill, a rather complete listing of the LNG ships, where they are being built, by whom, by whom they are being funded, and whether in any way you can predict whether those ships will be built or not, depending on whether construction subsidy is approved.

It seems to me that when we debate this issue on the floor, we need a rather comprehensive statement from the Maritime Administration that bears the stamp of administration approval, or at least OMB approval, on this question of LNG carriers and title XI. It may be I can support both the LNG carrier proposal and the title XI increase, but I think that the state of our record now is such that we would be remiss in approving a \$3 billion increase in title XI merely

because LNG carriers may require several hundred million dollars more than the present ceiling.

Mr. YOWELL. I would be happy to do that. Of course, whether it would be built or not would be speculative. The purpose of the CDS program is to get the ships built in American yards.

Mr. McCLOSKEY. It is also to get ships built in American yards that are suitable for national defense or security purposes. And that is the point that sticks a little when we have tankers in the sea lift readiness program, but apparently LNG tankers are not suitable for that program. And I think we should debate that squarely on the floor, if this is indeed the fact as I have speculated here.

Mr. Chairman, I really appreciate the courtesy.

Mr. METCALFE. First, you have made a request of Mr. Yowell to submit information. Hearing no objection, Mr. Yowell, if you will submit to the committee and to the Congressman the answer to those questions.

Mr. YOWELL. Yes.

[The following information was received for the record:]

CURRENT PROJECTS FOR LNG VESSEL, CONSTRUCTION WITH TITLE XI FINANCING

OGDEN MARINE INDONESIA, INC. (OGDEN)

Ogden is one of the shippers involved in the Pacific Indonesia project. The Pacific Indonesia project involves nine LNG vessels (6 U.S. and 3 foreign) to be used in the transportation of LNG from Indonesia to southern California. The three Ogden vessels will be time chartered to the Pacific Indonesia LNG Company for a period of twenty years.¹

Status with Marad : Pending Application.

	Actual cost	Guarantee (87½ percent)	Bonds outstanding
Vessel No. 1.....	\$140,000,000	\$122,500,000	.....
Vessel No. 2.....	140,000,000	122,500,000	.....
Vessel No. 3.....	140,000,000	122,500,000	.....
Total.....	420,000,000	367,000,000	.....

ZAPATA WESTERN LNG, INC. (ZAPATA)

Zapata is one of the shippers involved in the Pacific Indonesia project. The Pacific Indonesia project involves nine LNG vessels (six United States and three foreign) to be used in the transportation of LNG from Indonesia to southern California. The three Zapata vessels will be time chartered to the Pacific Indonesia LNG Company for a period of 20 years.²

Status with Marad : Pending application.

	Title XI			Estimated CDS		
	Actual cost net of CDS	Guarantee (75 pct)	Bonds outstanding	Actual cost before CDS	CDS to be committed	Dishursed
Vessel No. 1.....	\$134,200,000	\$100,649,250	.....	\$163,900,000	\$29,700,000	.....
Vessel No. 2.....	134,200,000	100,649,250	.....	163,900,000	29,700,000	.....
Vessel No. 3.....	134,200,000	100,649,250	.....	163,900,000	29,700,000	.....
Total.....	402,600,000	301,947,750	.....	491,700,000	89,100,000	.....

¹ Have not applied for CDS, Shipyard not determined.

² Shipyard not yet determined.

SHIPPING VENTURES I-IV

The Shipping Ventures LNG project involves the construction of four U.S. LNG vessels to transport LNG from Algeria to New Brunswick, Canada. The LNG would then be piped to various points in New York and Pennsylvania. These vessels are part of an eight vessel LNG project being undertaken by Tenneco, Inc.¹

Status with Marad—Pending application.

	Title XI		Bonds outstanding
	Actual cost	Guarantee (87½ pct)	
Vessel No. 1.....	\$185,711,000	\$162,497,000	-----
Vessel No. 2.....	191,271,000	167,362,000	-----
Vessel No. 3.....	196,346,000	171,802,000	-----
Vessel No. 4.....	201,372,000	176,200,000	-----
Total.....	774,700,000	677,861,000	-----

PACIFIC LIGHTING MARINE CO. (PACIFIC LIGHTING)

The Pacific Lighting LNG project involves two LNG carriers to be used in the carriage of LNG from Alaska to California. The vessels will be on a twenty year time charter to Pacific Alaska LNG Company. If sufficient gas supplies are not obtained from the Alaskan market, it is anticipated that one of the vessels will be employed transporting LNG from Indonesia to California in which case CDS could be utilized.²

Status with Marad: Pending application.

	Title XI		Bonds outstanding
	Actual cost	Guarantee (87½ pct)	
Vessel No. 1.....	\$135,000,000	\$118,000,000	-----
Vessel No. 2.....	135,000,000	118,000,000	-----
Total.....	270,000,000	236,000,000	-----

EL PASO II PROJECT

This project will involve the use of 12 vessels (6 U.S. and 6 foreign) to transport LNG from Algeria to Port O'Conner, Texas for a period of 20 years pursuant to a 20-year Transportation Agreement with Sonatrach. It is proposed that the vessels be built with the aid of CDS.³

Status with Marad: Pending application.

	Title XI		Bonds outstanding	Estimated CDS		Disbursed
	Actual cost net of CDS	Guarantee (75 pct)		Actual cost before CDS	CDS to be committed	
Vessel No. 1.....	\$127,500,000	\$95,625,000	-----	\$170,000,000	\$42,500,000	-----
Vessel No. 2.....	127,500,000	95,625,000	-----	170,000,000	42,500,000	-----
Vessel No. 3.....	127,500,000	95,625,000	-----	170,000,000	42,500,000	-----
Vessel No. 4.....	127,500,000	95,625,000	-----	170,000,000	42,500,000	-----
Vessel No. 5.....	127,500,000	95,625,000	-----	170,000,000	42,500,000	-----
Vessel No. 6.....	127,500,000	95,625,000	-----	170,000,000	42,500,000	-----
Total.....	765,000,000	573,750,000	-----	1,020,000,000	255,000,000	-----

¹ Have not applied for CDS; shipyard is Newport News.

² Shipyard—Sun Shipbuilding.

³ Shipyard not yet determined.

LACHMAR

The Lachmar project involves the transportation of LNG from Algeria to Lake Charles, Louisiana. The total project includes 5 vessels: 3 Algerian and 2 United States. The 2 U.S. vessels are owned by Lachmar and utilized under a Transportation Agreement with Trunkline Gas Company, a subsidiary of Panhandle Eastern Pipe Line Company.¹

Status with Marad: Commitment letter issued July 26, 1977, documentation executed.

	Title XI		CDS				
	Actual cost net of CDS	Guarantee (75 pct)	Bonds outstanding	Bonds in escrow	Actual cost before CDS	CDS committed	CDS disbursed
Hull 53.....	\$141,467,600	\$106,100,700	\$34,500,000	\$34,500,000	\$180,967,600	\$39,500,000	\$3,088,868
Hull 54.....	141,467,600	106,100,700	28,550,000	28,550,000	180,967,600	39,500,000	268,600
Total.....	282,935,200	212,201,400	63,050,000	63,050,000	361,935,200	79,000,000	3,357,468

CHEROKEE I-V (PATRIOT I-V) PROJECT

This project involves the use of a total of seven LNG vessels to be built at the General Dynamics (GD), Quincy, Mass., shipyard. The five Cherokee vessels will be owned by special purpose subsidiaries of GD to transport LNG from Indonesia to Japan pursuant to a 25 year Transportation Agreement between Pertamina (Indonesian oil and natural gas government owned company) and a subsidiary of the Burmah Oil Co. Ltd. of England. The Cherokee VI and VII vessel contracts were terminated for the project and replaced with two vessels originally utilized for the Eascogas project (see Escogas project). There is no CDS for the Vessels and the first Cherokee vessel is expected to be delivered in the fall 1978.

Status with Marad: Commitment letter issued January 19, 1977, documentation executed.

	Actual cost	Guarantee (87½ pct)	Bonds outstanding	Bonds in escrow
Cherokee I.....	\$109,338,000	\$95,670,000	\$90,000,000	\$3,854,255.49
Cherokee II.....	107,796,000	94,321,000	90,000,000	18,689,425.52
Cherokee III.....	106,746,000	93,402,000	90,000,000	47,158,723.25
Cherokee IV.....	110,468,000	96,659,000	90,500,000	69,362,457.57
Cherokee V.....	107,967,000	94,471,000	90,000,000	27,838,212.92
Cherokee VI ¹				
Cherokee VII ¹				
Total.....	542,315,000	474,523,000	460,500,000	166,903,074.75

¹ Terminated.

EASCO LNG PROJECT (EASCOGAS)

This project originally involved the use of three U.S. vessels and two foreign vessels with the U.S. vessels to be built at General Dynamics, Quincy, Massachusetts Shipyard (with CDS) to transport LNG from Algeria to Staten Island, New York and Narragansett Bay, Rhode Island. The project has since been terminated and the first vessel, LNG *Aquarius*, delivered June 7, 1977, is temporarily being utilized in the Cherokee trade. The second vessel, LNG *Aries*, was delivered on December 13, 1977 and was permanently dedicated into the Cherokee trade (CDS having been repaid at delivery with interest). The third vessel, LNG *Capricorn*, is expected to be delivered in June 1978 and will be permanently dedicated to the Cherokee trade with the CDS repayment on delivery with interest. The three vessels are being financed pursuant to leverage lease financing arrangements with First Chicago, Citibank, and GATX the owner participants.

Status with Marad: Commitment letter issued September 28, 1972, documentation executed.

¹ Shipyard—General Dynamics, Quincy, Mass. Estimated delivery dates are December 1979 and March 1980.

	Title XI				CDS		
	Actual cost	Guarantee (percent)	Bonds outstanding	Bonds escrowed	Actual cost before CDS	CDS committed	CDS disbursed
Aquarius (net of CDS)	\$81,704,834	\$61,000,000(75)	\$60,560,000.00	-----	\$103,483,466	\$21,778,592.00	\$21,778,592
Aries (net of CDS)	111,006,034	97,130,000(87½)	96,571,000.00	-----	111,006,034	21,904,401.08	(²)
Capricorn (net of CDS)	80,627,342	60,193,000(75)	55,861,677.73	-----	102,254,802	21,997,460.00	20,897,587
Capricorn	507,615,184	94,163,000(87½)	-----	-----	-----	-----	-----

¹Capricorn estimated amounts resulting from projected repayment of CDS on delivery with interest and revision to 87½ percent financing.

² All Repaid.

EL PASO I LNG PROJECT

This project involves the shipment of LNG for 20 years from Arzew, Algeria to Cove Point, Maryland and Elba Island, Savannah, Georgia. The project involves the use of six United States and three foreign vessels. Three U.S. vessels are under construction at Newport News and three at Avondale, all with the use of CDS funds. The first Newport News vessel (El Paso Southern) is expected to be delivered in May 1978, and the first Avondale vessel in December 1978. The U.S. vessels will each be owned by a subsidiary of the El Paso Natural Gas Company.

Status with Marad: Commitment Letters issued September 28, 1972 for the three Newport News Vessels and June 29, 1973 for the Avondale Vessels, documentation executed.

Title XI

CDS

	Actual cost net of CDS	Guarantee (75 percent)	Bonds outstanding	Bonds in escrow	CDS		CDS disbursed
					Actual cost before CDS	committed	
El Paso Southern.....	\$98,659,000	\$73,994,000	\$73,994,000	\$4,043,335.42	\$512,948,112	\$28,289,112	\$28,062,799.00
El Paso Arroyo.....	87,432,000	65,631,000	65,631,000	10,178,371.72	113,090,233	25,608,233	23,526,284.00
El Paso Howard Boyd.....	86,934,000	64,845,000	49,813,000	5,136,287.09	111,347,472	24,913,472	20,493,822.00
El Paso Columbia.....	116,936,000	87,702,000	73,527,000	7,727,685.13	134,755,954	17,819,954	16,501,277.40
El Paso Savannah.....	107,520,000	80,640,000	73,077,000	2,794,307.43	524,776,898	17,656,898	16,580,427.60
El Paso Cove Point.....	95,000,000	71,250,000	68,997,000	4,426,991.28	111,761,898	26,761,891	15,590,241.33
Total.....	592,031,000	444,022,000	405,019,000	28,307,578.07	722,680,567	530,649,567	120,754,851.33

Mr. METCALFE. I would now recognize Mr. Sutter.

Mr. SUTTER. Mr. Yowell, implicit in the ranking minority member's question is the assumption that the title XI increase was required because of the construction of LNG vessels in the United States. I think it should be brought out in your response whether this is the case or not.

Mr. YOWELL. All right. Basically, it is because of the LNG's that we would run over the \$7 billion ceiling.

Mr. McCLOSKEY. If the gentleman will yield, you are exactly right. That was my understanding from his former answer earlier in the testimony.

Mr. Chairman, I am sorry. I thank you for the courtesy. I wonder if minority counsel may have a chance, when everyone else has finished, to ask a question.

Mr. METCALFE. Sure. Thank you.

Mr. Yowell, referring back to the question with respect to the current statutory ceiling of \$7 billion, what is the current backlog of active pending title XI applications?

Mr. YOWELL. Mr. Chairman, we have applications pending for over \$3 billion worth of ships; 125 ships, to be exact, constitutes our backlog as of April 1, this year.

Mr. METCALFE. What is your judgment as to when the current \$7 billion ceiling will be reached?

Mr. YOWELL. At the end of the second quarter of 1978, we had about \$1.2 billion of outstanding authority. We expect to reach that \$7 billion ceiling this year, if we proceed with at least a billion dollars' worth of LNG's. So our statutory ceiling depends on whether or not we build LNG's. If we build LNG's, we will be short of authority in 1978.

Mr. SUTTER. Without title XI, these LNG's would be built foreign?

Mr. YOWELL. That would be my statement. If we don't provide CDS for LNG's, they will be built foreign. As you will note from what I said in the past, about half of all of these LNG's are being built foreign, anyway, and it wouldn't require a lot, and it would be perfectly legal for them to build all of them foreign, and bring the gas into this country, which would mean over \$3 billion worth of work would go to foreign shipyards instead of American shipyards, will all the labor and the high-capital-intensive construction of these ships would be lost to our industry completely.

Mr. METCALFE. Thank you very much, Mr. Sutter.

Mr. Yowell, as you know, this committee has amended your authorization request for fiscal year 1979 to increase title XI statutory ceiling from \$7 to \$10 billion. In this regard, what happens if the Congress does not raise the statutory ceiling at this time?

Mr. YOWELL. Well, I just read this letter from OMB yesterday afternoon. We would have to adopt some selective method of deciding who is going to get title XI and who isn't. I imagine a lot of this consideration would just depend on what our energy program is going to be.

But we would certainly have to cut out some of the business and a lot of these ships would not be built if the ceiling was not increased. I think the OMB position on this was that we don't need the increase

unless LNG's are going to be built, and that question has not been decided.

Mr. METCALFE. What is your judgment as to when the \$10 billion ceiling will be reached?

Mr. YOWELL. That is a very speculative question. It would be hard to say, but I would say if we continue with the construction as our applications are coming in and as the LNG applications are standing, by 1981, we would probably exceed the \$10 billion ceiling.

Mr. METCALFE. Yesterday, we received a copy of a letter dated May 2, 1978, from the Director of the Office of Management and Budget, to Mr. McCloskey. I understand that you are familiar with the contents of this letter. Is that correct?

Mr. YOWELL. Yes, sir.

Mr. METCALFE. Would you please comment on the various points set forth in this letter from OMB?

Mr. YOWELL. Well, in this letter, Mr. Chairman, the administration opposes the increase of the ceiling from \$7 billion to \$10 billion. They question whether such an increase is necessary at this time, given the uncertainty surrounding the construction of LNG's. That seems to be the prime basis. Whether or not our program is less restrictive than other Federal programs, I cannot say. I have not examined all of the other Federal programs.

I can only say that our program has commercial restrictions just as a bank would have, plus other restrictions, and I can only point to the record of the program as having been successful. I have not been able to discuss this point with anybody, but I expect that we will.

Mr. METCALFE. How does this letter from OMB square with your written response to questions set forth by Chairman Murphy's letter of February 21, 1978, to Secretary Blackwell?

Mr. YOWELL. I think it squares. Mr. McCloskey indicated that Mr. Blackwell's letter certainly did not discourage the increase; neither did it recommend the increase. It pointed out the statistics; it pointed out the facts of the matter, and pointed out the fact that if we did not have an increase, we would go over our ceiling. I think it squares fairly well.

Mr. METCALFE. Mr. Emery, do you have any questions?

Mr. EMERY. No questions at the present time.

Mr. METCALFE. I recognize the General Counsel for any questions he may ask.

Mr. CORRADO. Thank you, Mr. Chairman.

Mr. Yowell, let's take a look at the letter that was received from OMB yesterday. I would like to go through this letter point by point with you, if we might.

In the second paragraph, it says, "The administration is opposed to this amendment," and they then begin to give their reasons. At the bottom, it reads: "It is administration policy to recommend that new authorizations for loan guarantees include language requiring that the use of loan guarantee authority be subject to annual limitations provided in appropriation acts."

First, what does all that mean? Second, what are the "annual limitations"? And third, it is not really a reason for opposition, anyway.

The way I read it, it is a recommendation of language that, if necessary, we could add. But what does it mean, and what are these annual limitations?

Mr. YOWELL. Annual limitations, as I would gather from reading this, is that they look at our program every year and give us a ceiling for that particular year which would be very difficult actually, because we receive applications all year.

As you know, we are primarily a response-type agency. We respond to the needs of the industry. As I point out again, we have not discussed this letter with whoever wrote it, so I am not completely familiar with what they have in mind.

Mr. CORRADO. And, of course, does this apply to all the other loan guarantee programs they talk about, and, also, again, the language is, "It is our policy to recommend"; that is all it says, that it is a policy to recommend that this language be added. If need be, that could be done.

Mr. YOWELL. Yes.

Mr. CORRADO. The next thing, the letter states: "This loan guarantee program is one of the less restrictive Federal credit programs in terms of its criteria for eligibility, need for financial assistance and availability of alternative sources of credit."

In terms of eligibility requirements, if you look at the statute, section 1106, subsection (b) has seven big, long paragraphs of eligibility requirements, to say nothing of requirements that will probably be set out in the regulations.

Now, again, what is this compared to? Nobody knows, but it is patently unfair for them to send a letter like this, setting out unrelated criteria and not compare it to anything, and then when you look at the statute, you see two pages of statutory eligibility criteria.

Next they talk about, "Need for financial assistance and availability of alternative sources of credit." I daresay that is set out pretty clearly in the statute, too.

So I think that is patently unfair to put that in a letter as support for opposition to the title XI program.

Next, they write, "Our concern is underscored by the pending default of nearly \$103 million in guaranteed loans to a subsidized U.S.-flag steamship company." Is that figure \$103 million correct?

Mr. YOWELL. It is more like \$98 million, but it is close.

Mr. CORRADO. Right, because there has been \$4 million recovered on the barges to date. So, first, the figure is inaccurate and incorrect—the figure itself is wrong.

Mr. SUTTER. Will the chief counsel yield?

Mr. CORRADO. Certainly.

Mr. SUTTER. What would be the net loss? I think that is the figure Mr. Corrado mentioned.

Mr. YOWELL. I would think we probably would lose somewhere around \$30 million, and this, of course, is selling something like distressed merchandise at a fire sale-type thing. It is hard to tell what a ship being sold in a distressed market will bring. They are worth a lot one day and worth very little the next day. My guess would be we would lose around \$32 million.

Mr. CORRADO. That is the next thing I was getting to. First, the figure is incorrect, but after that, at this stage of the game, we don't

know whether the steamship line in question is going to default or not. That is undetermined at this time. So how can OMB send that in a letter and cite a figure and say this is so?

Second, there are, as I understand it, five vessels in question now. Surely nobody believes there is not going to be substantial recovery on each and every one of them.

Mr. YOWELL. We expect to recover on all the ships about \$65 million.

Mr. CORRADO. Of course. And who knows what the market might be. It might be even greater, so you know, your loss will be much less, and this is one of the few losses in the history of this program, if it should eventuate?

Mr. YOWELL. No, we have had 10 defaults in the past. We lost about \$14 million on the 10 ships. But we have not had any substantial default in the whole 25-year history of the program. Ten defaults out of 5,500 ships.

Mr. CORRADO. Thank you.

The next thing I would like to comment on is in the penultimate paragraph, where they talk about uncertainty surrounding contract negotiations involving 10 LNG carriers.

Mr. McCloskey has asked you to clarify that for the record, but one thing that is not completely clear in my mind, even now, is whether the additional \$3 billion that is being asked for is pegged only on LNG construction, or are there other possible constructions that this title XI funding can be used for?

Mr. YOWELL. Well, you know, we are getting amortization on our mortgages at an increasing rate, maybe \$300 million a year in principal payments, which goes back into our program and helps finance that many more ships.

I would say if we didn't build any LNG's, we would be safe for this year and possibly through next year.

Mr. CORRADO. The last thing, the last paragraph, states, "For the above reasons and because the amendment is not a required part of the authorization bill, we would oppose such an amendment."

What kind of reason is that, Mr. Yowell, because it is not a required part of the authorization bill they would oppose such an amendment?

Does that make any sense at all, if you oppose or support an amendment because it is part of the authorization bill? That presupposes in the history of the maritime authorization that we have never had amendments, or that one would not support them unless they were part of the authorization bill originally, which certainly clearly is not the case according to the record.

Mr. YOWELL. Yes.

Mr. CORRADO. Well, Mr. Chairman, I wanted to run through these points, because we have tried to move a number of programs. The chairman of this committee has been extremely active and vigorous in trying to help the merchant marine, and at every turn we are thwarted by our own administration and the OMB.

Just recently, we had a hearing on a bill, and the administration sent up the Department of Justice as the lead witness on a bill that amended the 1916 Shipping Act, and it was clearly a maritime regu-

latory matter. Every time we have asked for an administration witness, they say they are going to have an interagency study of the subject under consideration. Now we have this title XI amendment, and nobody can quarrel with the fact that the program has been a good program, and a highly successful program. I think that is clear, and now they come with this letter with all these reasons for opposition, and I submit, Mr. Chairman, there isn't a respectable reason among them.

Mr. METCALFE. Thank you very much, Counsel.

I recognize Mr. Sutter for a brief moment.

Mr. SUTTER. Mr. Chairman, in relation to the chief counsel's dialog on the \$103 million figure set forth in the letter from OMB, perhaps we can insert in the record a breakdown of the outstanding debt should that company go into bankruptcy and the possible loss that could occur therefrom.

Mr. METCALFE. Without objection, it will be submitted into the record.

[The following information was received for the record:]

PACIFIC FAR EAST LINES, INC., OUTSTANDING TITLE XI GUARANTEE DEBT, ESTIMATED
MARKET VALUE AND POTENTIAL RECOVERIES IN FORECLOSURE

[000 omitted]

Vessels	Outstanding title XI guaranteed debt	Market value		Potential recovery	
		Minimum	Maximum	Minimum	Maximum
Atlantic Bear.....	¹ \$38,561	\$22,500	² \$38,000	\$22,500	² \$38,000
Thomas E. Cuffe.....	8,821	22,000	30,000	8,821	8,821
Golden Bear.....	8,874	22,000	30,000	8,874	8,874
Japan Bear.....	9,055	22,000	30,000	9,055	9,055
01 LASH steel barges.....	32,412	20,000	32,000	18,000	32,040
18 LASH fiberglass barges.....	4,588				³ 4,588
Total.....	102,410	108,500	160,000	67,250	⁴ 101,378
Potential loss.....				⁴ 35,160	⁴ 1,032
Title XI revolving fund balance.....					152,270

¹ Includes \$1,000,000 advance of title XI principal payment made Dec. 9, 1977.

² Changed from prior submittal, base on latest high appraisal by contract appraiser.

³ Amount recoverable upon favorable settlement of pending litigation against barge manufacturer, Northrup Corp.

⁴ May be reduced slightly by any cost incurred in marshalling or administrative cost of disposing of assets.

Mr. METCALFE. The Chair recognizes the gentleman from Michigan, Mr. Ruppe.

Mr. RUPPE. Thank you, Mr. Chairman.

The President's budget message states, and I am stealing a quote:

The administration is proposing a process that would subject both direct loans and loan guarantees to greater budget discipline.

I would like to ask, is the present operation of the title XI ship mortgage guarantee program consistent, in your opinion, with this stated administration objective, and has there been discussion within the administration on making title XI subject to, and I quote again, "greater budget discipline"?

Mr. YOWELL. There has not been, to my knowledge, discussions with respect to title XI with the budget. We have had a number of discussions with Treasury with respect to the Federal financing bank.

We clear all of our interest rates through Treasury now. They do not overview our program, but we do consult with Treasury on a regular basis with respect to our interest rates.

Mr. RUPPE. When the Administration refers to greater budget discipline, what areas do they feel in the title XI program specifically need—and I suppose we could use the word—tightening up or reviewed? What specific areas of the title XI program are involved in that statement?

Mr. YOWELL. I could only say that the loan guarantee programs of the Government have increased at a great rate, and these are not budgetary items, and, therefore, they may feel they would like to look at these programs closer, to see what the overall credit exposure of the Government is. I can't answer that question, because I haven't been in any discussion concerning that.

Mr. RUPPE. As far as exerting budget discipline is concerned, that process has not been applied, to the best of your knowledge, to the title XI program?

Mr. YOWELL. No. We report to OMB regularly what the program is, what our applications pending are, and, to my knowledge, I have not discussed anything like this with the budget review, in my experience.

Mr. RUPPE. How do you feel about the general method of financing ship construction under title XI? For example, how do interest rates obtained under title XI compare with interest rates available under other types of financing, private and, say, through the Federal financing bank?

Mr. YOWELL. I think our interest rates are competitive. Our bonds have been well received in the industry. We have about \$6 billion worth of paper in the market today. We have compared our interest rates with those that would be available from the Federal financing bank, and we find that the largest spread that could exist in financing between our method and going through the Federal financing bank is about one-eighth of 1 percent.

Mr. RUPPE. The difference between your rates and the Federal financing bank is about an eighth of 1 percent; is that right?

Mr. YOWELL. Yes; between an eighth and a quarter.

Mr. RUPPE. How do your interest rates compare, say, to those available through private placement?

Mr. YOWELL. We figure our interest rates run 35 to 40 points above comparable long-term treasuries.

Mr. RUPPE. How about in the private sector?

Mr. YOWELL. Very competitive. We have a AAA rating, and we compete with the AAA—

Mr. RUPPE. How would your rates compare with those rates charged if the ship purchaser went to Chase Manhattan?

Mr. YOWELL. Our rates would be 3 or 4 percentage points less than he could get, if he could get it at all.

Mr. RUPPE. Can you give me a spread of numbers? What would your rates be, 5 to 6 percent?

Mr. YOWELL. No, our rates would be more like eight and a quarter. The private rates would be, say, 3 percent over prime, prime being 7, 7 $\frac{1}{4}$ percent.

Mr. RUPPE. So you are talking about maybe 8 to 8¼ in your interest and maybe 10 to 11½ in the private sector?

Mr. YOWELL. If they could get the loans at all.

Mr. RUPPE. I note in reference to loan availability, title XI doesn't carry the requirement that the guarantee be available only if commercial credit is not available, and I understand at the same time that in other Government guarantee programs operate only in terms of the government being the lender of last resort. Do you think title XI should ever carry that type of clause that you step into the picture only as a lender of last resort?

Mr. YOWELL. This subject has been discussed. I don't know why it should be the lender of last resort. I think it should be the lender who can give the best terms, the best maturities; the paper in the market, as we have seen, particularly on inland waters, is 7 to 8-year financing, interest rates of 2 percent or 3 percent over prime, over our rates. We feel if we gave 20 to 25 years on ships that will have an economic life of that loan, at fair and reasonable interest rates, we can get more ships built.

Whether a person can get financing someplace else, he wouldn't come to us if he could get terms as good as ours. We feel our terms are conducive and an incentive to build more ships.

Mr. RUPPE. I guess I should probably ask, do you feel you should offer the best terms to the industry, or do you feel you should offer credit when that credit is not available elsewhere?

Mr. YOWELL. Well, it is a debatable question. I don't say that it is all black and white. I happen to be working in this program. I think it has been a successful program. We have encouraged construction of ships with the program, and our record has been pretty good.

Mr. RUPPE. Is there any opposition as far as the administration is concerned, either the White House or OMB, on this aspect of title XI credit availability?

Mr. YOWELL. It has been brought up before, but I don't know whether there is opposition.

Mr. RUPPE. OMB has not come up with any type of suggestion or policy?

Mr. YOWELL. No, sir.

Mr. RUPPE. I think there was a May 2, 1978 letter opposing this amendment, and Budget Director McIntyre stated, and I quote again:

This loan guarantee program is one of the less restrictive Federal credit programs in terms of its criteria for eligibility, need for financial assistance and availability of alternative sources of credit.

How would you explain the statement, simply in terms that your agency feels that the goal of that agency is to make credit available when it is needed, and you don't really look at the terms of the credit.

Mr. YOWELL. We look at the terms of the credit very closely. We require that they demonstrate to us their financial ability to carry the project, that they have the operating ability to run the ship, that the venture is, in our opinion, economically sound. We require that a certain percentage of his earnings be put into a reserve fund for a rainy day.

All of these points have brought up many arguments over the years that our program is too restrictive. We also have in our program all

of the bank covenants that I know of with respect to net worth, working capital, payment of dividends, all types of restrictions, and I don't know, really, what this refers to. I would be happy to discuss it with whoever wrote the letter. We welcome any suggestions.

Mr. RUPPE. I wasn't going to do it, but maybe would you be willing to ask Mr. McIntyre to elucidate on that point and perhaps give us a written response back?

Mr. YOWELL. My superiors may.

Mr. RUPPE. Will you ask your superiors if they would care to get Mr. McIntyre to elucidate on that point, and perhaps along with that explanation, give us what I am sure would be a rebuttal or different point of view?

Mr. YOWELL. Yes.

Mr. RUPPE. I suppose we are down to the question of the additional money, and the LNG carrier program. The suggestion was made to increase the title XI ceiling to \$10 billion. Is that essentially to accommodate the LNG carrier program, and, if so, should we wait until the LNG program is somewhat more stabilized in terms of what is the administration's energy policy and particularly their LNG import policy?

Mr. YOWELL. It is keyed primarily to the requirements for the LNG program.

Mr. RUPPE. And the title XI ceiling probably would not have to be increased if the LNG program fails to materialize?

Mr. YOWELL. That is right, not this year, anyway, and possibly not next year.

Mr. RUPPE. The LNG policy is a difficult one for the administration to wrestle with in view of the fact it gives us reasonably assured availability with some political difficulties and certainly at rather horrendous costs. So I can understand the policy would be debated.

Mr. YOWELL. Yes.

Mr. RUPPE. Do you have any idea whether there will be a final resolution of the LNG policy within the administration that would perhaps suggest early action by this committee and by the Congress in terms of increasing the title XI ceiling?

Mr. YOWELL. I am sorry. I have no knowledge of what the energy program—

Mr. RUPPE. Well, since the House-Senate conferees haven't settled on an energy policy, it is safe to assume it is not that easily resolved, even within the administration.

Thank you very much.

Mr. METCALFE. Thank you very much, Mr. Ruppe.

The Chair asks unanimous consent that the committee and the staff be permitted to submit questions at any time.

Hearing no objection, it is so ordered.

Mr. Yowell, we thank you very much for being present with us and answering the questions.

The Subcommittee on Merchant Marine will now be recessed, subject to the call of the Chair.

[Whereupon, at 11:12 a.m., the subcommittee recessed, to reconvene upon the call of the Chair.]



