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FOR FISCAL YEARS 1979-80

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HEARING

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BEFORE THE

SUBCOMMITTEE ON

MERCHANT MARINE AND TOURISM

OF THE

COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 2553

TO AUTHORIZE APPROPRIATIONS FOR THE FISCAL YEAR
1979 FOR CERTAIN MARITIME PROGRAMS OF THE DEPART-
MENT OF COMMERCE, AND FOR OTHER PURPOSES

S. 2678

TO AUTHORIZE APPROPRIATIONS FOR THE FISCAL YEARS
1979 AND 1980 FOR CERTAIN MARITIME PROGRAMS OF THE
DEPARTMENT OF COMMERCE, AND FOR OTHER PURPOSES

MARCH 10, 1978

Serial No. 95-63

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AUTHORIZATIONS FOR CERTAIN MARITIME PROGRAMS FOR FISCAL YEARS 1979-80

FRIDAY, MARCH 10, 1978

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
SUBCOMMITTEE ON MERCHANT MARINE AND TOURISM,
Washington, D.C.

The committee met at 10:33 a.m., in room 235 Russell Senate Office Building, Hon. Daniel K. Inouye (chairman of the subcommittee) presiding.

OPENING STATEMENT OF SENATOR INOUE

Senator INOUE. This morning, the committee begins hearings on S. 2553 and S. 2678, bills to authorize appropriations for the fiscal year 1979 for certain maritime programs of the Department of Commerce.

S. 2678, which is the administration's proposal, would also authorize to be appropriated "such sums as may be necessary" in fiscal year 1980 for each of the programs as well as an open-ended supplemental appropriation for that year.

In all other respects, the bills are identical.

Section 209 of the Merchant Marine Act, 1936, provides that after December 31, 1967, there are authorized to be appropriated for certain maritime activities of the Department of Commerce only such sums as the Congress may specifically authorize by law. These bills authorize appropriation of those activities listed in section 209 for which the administration proposes to seek appropriations.

For the first time, in accordance with the Maritime Appropriation Authorization Act for fiscal year 1978, these bills would also authorize appropriations for the operating expenses of the Maritime Administration.

The requests in these bills for 1979 appropriations authority total \$494,628,000.

The requests by activity are:

\$517,000,000 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 assistance to State marine schools, and \$1,904,000 for supplementary training authorized under section 216(c) of the Merchant Marine Act, 1936; and,

\$34,845,000 for Maritime Administration operating expenses. 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.

Added to that amount is \$164,704,000 in carryover and deferral funds so that the program level for the Maritime Administration for fiscal year 1979 totals \$659,332,000.

The primary objective of the Maritime Administration and its programs is to assure a strong U.S. Merchant Marine by promoting the U.S.-flag merchant marine and private shipbuilding industry in our country in times of peace and to insure the defense readiness of both in the event of war or other national emergency.

In the judgment of many including myself, the money we spend on the programs of the Maritime Administration is money wisely spent in the national interest.

According to statistics, the United States is giving its maritime industry about \$2.47 a year per capita in total assistance and aid through operating differential subsidy, construction differential subsidy, and financing assistance.

Norway, on the other hand, gives assistance to its maritime industry equal to about \$78.86 per capita; Sweden spends about \$15.90; and Great Britain gives \$5.81 per capita in total assistance and aid.

Our program to promote the U.S. merchant fleet is vital to the Nation's economy and security.

As the committee considers whether the legislation before it is adequate to accomplish this objective, however, we will be remiss if we fail to recognize the existence of other circumstances and policies which may contradict and frustrate what we are trying to achieve.

It makes no sense, logically or financially, as a government to spend money to promote the merchant fleet on the one hand and to permit practices in our trades which undermine and weaken the fleet on the other.

[The bills follow:]

S. 2553

IN THE SENATE OF THE UNITED STATES

FEBRUARY 21 (legislative day, FEBRUARY 6), 1978

Mr. CANNON (for himself and Mr. PEARSON) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

A BILL

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

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Maritime Appropriation
4 Authorization Act for Fiscal Year 1979".

5 SEC. 2. Funds are authorized to be appropriated with-
6 out fiscal year limitation as the appropriation Act may pro-
7 vide for the use of the Department of Commerce, for the
8 fiscal year 1979, as follows:

9 (1) For acquisition, construction, or reconstruction of
10 vessels and construction-differential subsidy and cost of na-

1 tional defense features incident to the construction, recon-
2 struction, or reconditioning of ships, not to exceed \$157,-
3 000,000;

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

6 (3) For expenses necessary for research and develop-
7 ment activities, not to exceed \$17,500,000;

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

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

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

S. 2678

IN THE SENATE OF THE UNITED STATES

MARCH 7 (legislative day, FEBRUARY 6), 1978

Mr. CANNON (for himself and Mr. PEARSON) (by request) introduced the following bill; which was read twice, and referred to the Committee on Commerce, Science, and Transportation

A BILL

To authorize appropriations for the fiscal years 1979 and 1980 for certain maritime programs of the Department of Commerce, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Maritime Appropriation
4 Act for Fiscal Years 1979 and 1980".

5 SEC. 2. Funds are authorized to be appropriated without
6 fiscal year limitation as the appropriation Act may provide
7 for the use of the Department of Commerce, for the fiscal
8 years 1979 and 1980, as follows:

9 (1) for acquisition, construction, or reconstruction
10 of vessels and construction-differential subsidy and cost

II

1 of national defense features incident to the construction,
2 reconstruction, or reconditioning of ships not to exceed
3 \$157,000,000 for fiscal year 1979, and such sums as
4 may be necessary for fiscal year 1980;

5 (2) for payment of obligations incurred for operat-
6 ing-differential subsidy, not to exceed \$262,800,000 for
7 fiscal year 1979, and such sums as may be necessary for
8 fiscal year 1980;

9 (3) for expenses necessary for research and devel-
10 opment activities, not to exceed \$17,500,000 for fiscal
11 year 1979, and such sums as may be necessary for fiscal
12 year 1980;

13 (4) for maritime education and training expenses,
14 not to exceed \$22,483,000 for fiscal year 1979; including
15 not to exceed \$15,359,000 for maritime training at the
16 Merchant Marine Academy at Kings Point, New York;
17 \$5,220,000 for financial assistance to State marine
18 schools, and \$1,904,000 for supplementary training
19 courses authorized under section 216 (c) of the Mer-
20 chant Marine Act, 1936, and such sums as may be neces-
21 sary for fiscal year 1980; and

22 (5) for operating expenses, not to exceed \$34,845,-
23 000 for fiscal year 1979, including not to exceed \$5,-
24 516,000 for reserve fleet expenses, and \$29,329,000 for

1 other operating expenses, and such sums as may be
2 necessary for fiscal year 1980.

3. SEC. 3. There are authorized to be appropriated for the
4 fiscal years 1979 and 1980, in addition to the amounts au-
5 thorized by section 2 of this Act, such additional supple-
6 mental amounts for the activities for which appropriations are
7 authorized under section 2 of this Act, as may be necessary
8 for increases in salary, pay, retirement, or other employee
9 benefits authorized by law, and for increased costs for public
10 utilities, food service, and other expenses of the Merchant
11 Marine Academy at Kings Point, New York.

Senator INOUE. This morning, we have several witnesses. And the first witness is the Assistant Secretary for Maritime Affairs, Maritime Administration, the Honorable Robert J. Blackwell. Mr. Secretary, welcome here, sir.

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

Mr. BLACKWELL. Thank you, Mr. Chairman.

Senator INOUE. We have received your statement, and you may proceed as you wish, sir.

Mr. BLACKWELL. Thank you, Mr. Chairman.

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 for the committee 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. The total deadweight of that fleet has increased by 1.7 million over the level of January 1, 1977, while the number of ships had decreased by four.

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 this year.

This 1978 oceangoing fleet total was well below the 1970 total of 825, but the deadweight has increased markedly from the 1970 level. The increase in tonnage is attributable to the growth of the tanker

fleet and the decrease in numbers primarily to shrinkage of the general cargo fleet, caused particularly by vessel retirement after the Vietnam war.

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 10 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 more than 12 million at the end of last year. And I am particularly 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 the current level of about 46,000, which includes active seafarers both 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 schools have improved significantly, and we foresee continued improvement, at least for the next several years.

Shipyards employment increased from a total of 60,000 production workers in the major private yards 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 the current orderbooks are completed.

This near-term employment fall-off 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 somewhat since the contracting drought of 1975 and 1976, and the U.S. industry—that is, our shipbuilding industry—is not faced with the drastic retrenchment prospects that confront some foreign shipbuilding centers during this period of depression, particularly Norway, Sweden, and Japan.

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 very, very difficult time. As you mentioned in your opening statement, 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.

As you indicated in your statement, the Maritime Administration request for 1979 appropriations authority totals \$494,628,000. The requests by activity are:

\$157,000,000 for ship construction;
 \$262,800,000 for operating-differential subsidies;
 \$17,500,000 for research and development;

\$22,483,000 for maritime education and training. This includes \$15,359,000 for maritime training at the U.S. Merchant Marine Academy at Kings Point, N.Y., \$5,222,000 for assistance to State marine schools, and \$1,904,000 for supplementary training authorized under section 216(c) of the Merchant Marine Act, 1936; and

\$34,845,000 for Maritime Administration operating expenses, including \$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.

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 these funds, \$122 million, will be obtained through a proposed 1978 deferral. This excess in 1978 availability is attributable to:

The reduction of two ships from a construction contract with Waterman Steamship Corp.; and

The major recovery of funds associated with prior years' contracts.

As I have indicated, market demand for shipbuilding has made a limited recovery from the 1975/1976 levels. From June 1976 through September 1977 orders were placed for a total of 13 new vessels under six CDS contracts. The proposed 1978 and 1979 programs will support 7 contracts for a total of another 13 ships.

One anticipated 1978 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 ship construction contract 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 natural 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 by 1979.

Two contracts have already been awarded in 1978—a contract with Avondale Shipyard to construct two barge carriers for Waterman Steamship Co., and a contract with Seatrain Shipyard for construction of one roll-on, roll-off vessel.

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 also include \$6 million in each year to improve the pollution abatement features on tankers. These changes will conform to recommendations in the President's March 18, 1977, message to Congress.

The appropriation authority requested for 1979 operating-differential subsidies is \$262,800,000. This entails a decrease of \$109,309,000 from 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 outlay level for 1979 operating-differential subsidies is \$336,526,000. A projected carryover of 1978 funds will provide \$73,726,000 to support this level. The 1978 carryover 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 to be subsidized within months. Two other ships will be removed from subsidy during 1978. 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 U.S. and foreign costs for maintenance and repair, and hull and machinery insurance, it has become possible to make certain reductions in operating subsidies. During 1975 through 1977, four subsidized operators agreed to the elimination of subsidy for maintenance and repair and hull and machinery insurance. Just this past December, four other operators also agreed to reductions from full subsidy. The total estimated subsidy savings associated with these reductions is approximately \$6.6 million in 1978 and \$8 million in 1979.

The 1978 and 1979 subsidized bulk fleet engaged in worldwide trade consists of 21 ships. A total of \$22 million in 1978 and \$24 million in 1979 will provide for the operations of these ships.

I might add, the Department of Agriculture estimates that Soviet grain purchases this year will amount to 15 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, rather than the 30 percent we are guaranteed under the maritime agreement with the Soviet Union.

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 new market for U.S.-flag tankers previously in the Russian trade. Accordingly, a minimum program level of \$5 million in each year has been provided for the U.S./U.S.S.R. trade.

The 1979 appropriation authority requested for research and development activities is \$17,500,000. This involves a decrease of \$825,000 from 1978. 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.

The Maritime Administration and the Department of Energy are continuing their cooperative effort in the area of ocean thermal

energy conversion or so-called OTEC program. 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 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.

\$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 last of the main academic buildings, Fulton Hall.

\$5,220,000 is requested for the six State marine schools 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 in the authorization.

With respect to the State Academies and the U.S. Merchant Marine Academy, I should note that on June 15, 1977, the General Accounting Office issued a report on the Federal Role in Merchant Marine Officer Education.

The GAO recommended among other things that the Maritime Administration establish employment placement goals for the academies and minimum number of years that graduates should serve as ships' officers.

Instead, we propose to introduce a service obligation for graduates of the Federal and State academies, and we will transmit implementing legislation for this purpose to Congress by April 1, 1978.

This legislation will require graduates of the Merchant Marine Academy to serve as officers in the Merchant Marine of the U.S. Navy. In the case of the State schools, direct Federal assistance payments to cadets would be replaced by loans which would be forgiven if the graduate served in the Merchant Marine, in the maritime industry ashore, or in a branch of the military service.

\$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. The request for 1979 authority is made in accordance with the Maritime Appropriation Authorization Act for 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. We also have programs for 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. I wish to reiterate what I noted at this time last year, Mr. Chairman—namely, that the Federal Government is a "contributing and sharing partner with

local users," and that the Federal Government will not bear the full project cost of these schools. For example, local authorities might provide land to be leased to the project and bear part of the cost of improvements, with the Federal Government providing part of the cost of improvements and, for instance, all equipment. Indeed, in some cases, the contribution of local participants will be even larger than that of the Federal Government.

By the end of this year, we plan to have the gulf coast and Great Lakes facilities completed and ready to conduct training.

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 appropriation 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, in accordance with our authorization act of last year.

\$5,516,000 is requested for national defense reserve fleet activities. This entails an increase of \$379,000 over 1978. The Ready Reserve Fleet program which was begun in 1977 will be slightly expanded in 1979. This program involves a joint effort by the Marine Administration and the U.S. Navy. The program objective is to have ships with 340,000 measurement tons of cargo lift capacity 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.

\$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 just mentioned.

That concludes my statement, Mr. Chairman. I would be pleased to answer questions that you or other members of the committee might have.

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

As you are well aware, there are restrictions at the present time which prevent subsidized operators from operating in the domestic services. Do you believe that these restrictions are helpful in achieving the objectives of the subsidy program?

Mr. BLACKWELL. Yes. What we have had is a limited involvement, timely limited involvement of subsidized operators in certain trades that have been heretofore reserved exclusively for domestic operators. For instance, we have allowed in the Alaska trade several large supertanker type vessels built with subsidy for limited periods of 6 months, which is a procedure permitted by statute.

Senator INOUE. What is the rationale for restricting subsidized operators owning ships of both American and foreign registry?

Mr. BLACKWELL. That program or that issue is found in section 804 of the Merchant Marine Act as it was originally passed in 1936. The idea was to discourage U.S. citizen-owned companies from engaging in activities with foreign-flag vessels. The idea was that if they

could obtain operating subsidy in the United States for certain types of vessels, they would be forced by the statutory provision to divest themselves of foreign shipping. That has not happened.

To a large extent, the benefits of foreign shipping operations have been so significantly better than U.S.-flag operations that many U.S.-controlled companies prefer to operate with foreign-flagships and forego the receipt of subsidy in the United States.

The other element of that, Mr. Chairman, is that there was a fear expressed by Congress in 1936 as well as in 1979 when the Merchant Marine Act was substantially revised, as you know, that some of the subsidy funds payable to a company that was operating both U.S.-flagships and foreign-flagships, might be diverted from the U.S.-flag operation to the foreign-flag operation. I don't think that is a really legitimate issue because we can set up accounting procedures that would preclude that from having—

Senator INOUE. I gather from your response that you are not in favor of this policy.

Mr. BLACKWELL. We think that there is one area where it makes sense. And that is that our fleet is extremely deficient in dry bulk capacity. As a result of discussions that we have had in various symposia with shippers and shipbuilders and charterers, we have come to the conclusion that that provision probably makes little sense as it applies to U.S. dry bulk shipping operations. And we are attempting now to work out legislative language that would eliminate that requirement in the case of U.S. dry bulk ship operators.

Senator INOUE. When will the language be ready for consideration?

Mr. BLACKWELL. It is now being actively discussed in the Commerce Department. In fact, I have a meeting on that issue when I return from this hearing this morning.

Senator INOUE. Many subsidized shipping companies have complained that the dividend policy of MARAD is a bit too severe and conservative. Can you rationalize this?

Mr. BLACKWELL. Yes; I think that there is some justification in that complaint. Our present formula, unfortunately, penalizes subsidized lines that have extremely long voyages. And I think it has been unduly restrictive.

But you have to realize, Mr. Chairman, that the Government has a stake in the health and the vitality and the retention of earnings in some of these companies.

First of all, we are interested in having those companies replace their fleets. That is part and parcel of the subsidy program.

Second, the Government in many cases is the holder of guarantees on fleet mortgages on the ships that those subsidized companies own. We would not like to see an undue amount of dividends dissipated or provided to stockholders where that might tend to undermine the basic stability of the company and threaten Government security position in the company and its ships.

We think that as long as this is a program based on concepts of free enterprise and investment and return on capital, there should be a dividend policy that can reward stockholders and at the same time provide the various types of protection that the Government needs for its security interest, consistent with the purposes and policies of the act.

We published for comment about 6 weeks ago a fairly significantly revised so-called conservative dividend policy statement. We will be receiving comments from the industry about it. I think they will largely be favorable. I hope that we can make an appropriate compromise in the terms I have just indicated.

Senator INOUE. Do you believe that the present policy is a bit too extreme?

Mr. BLACKWELL. Yes; particularly with respect to vessels, companies, that operate very, very long trips.

Senator INOUE. Is the revision a significant revision?

Mr. BLACKWELL. I would think so; yes.

Senator INOUE. The courts are now deciding whether MARAD may accept paybacks of construction subsidy so that a tanker owner can move his ship built with a subsidy into the domestic trade.

As I understand it, you support this payback concept.

Mr. BLACKWELL. We supported it, sir, in a particular case that was presented to the Maritime Administration on the payback of subsidy on the *Stuyvesant* which is a vessel, supertanker, owned by Seatrain Steamship Co. And we allowed the vessel to be used in the Alaska trade with a payback of subsidy plus a requirement for full interest payments.

Senator INOUE. Should this be applied to liners also?

Mr. BLACKWELL. I think not; no. As the record in the court case shows, Mr. Chairman, the use of that vessel and the circumstances of that vessel and the company that built it were somewhat unique.

Senator INOUE. If the court should not uphold the position, will you seek legislative remedy?

Mr. BLACKWELL. We obviously think we have the power now. In fact, the court has upheld our authority in terms of legal and policy grounds.

The case was remanded to the Board to make a factual determination on the impact of the vessel on competitors in the trade. We have done that. It is now back. I think it will probably be in the court of appeals.

But as far as the legal authority for the Maritime Administration to pursue the type of activity it did, I think the judge's decision is quite clear that we operated within the purview of our authority under the statute.

Senator INOUE. Mr. Secretary, I would like to call a short recess. We have a vote pending. I will be back in about 5 minutes.

[Short recess.]

Senator INOUE. May we resume?

Mr. BLACKWELL. Yes, please.

Senator INOUE. You have said that MARAD is concerned that overtonnaging in our foreign trades may ruin U.S.-flag carriers. Just for the record, would you explain why?

Mr. BLACKWELL. Yes, sir. We spend a very significant amount of money on the liner segment of the fleet to promote our U.S. Merchant Marine, both in terms of ship construction dollars as well as operating subsidy dollars. In addition to that, we have a very healthy nonsubsidized liner fleet which exists without operating subsidy, although some of the ships in that fleet were built with construction subsidy. Many of these vessels operate in trades where there is a significant amount of traffic and which tend to attract shipping tonnage from

other nations. In many, many cases, the ships attracted to those trades don't fly the flag of either the exporting country or the importing country. They are so-called third-flag traders.

Most of the world, either on a direct basis or a sub-rosa basis, has essentially divided the traffic between its trading partners. There is a very significant amount of sharing of markets. It doesn't exist in the United States. Consequently, we have an open trade policy, an open admission policy, to conferences as well which attracts all this excess tonnage to our shores.

This Nation is a huge importer as well as a huge exporter. What is happening is that the type of stability that is required in a trade for a carrier to earn a fair return on his investment is being eroded by the fact that all these outsiders have come in and in many cases are cutting rates very substantially.

In addition to that, the problem is compounded by the fact of state-owned steamship companies coming in and in many cases and in many trades cutting rates again very substantially. I know, Mr. Chairman, you are particularly familiar with that fact.

The combination of these two, this inability to control the entry into our trades plus the predatory rate practices employed by some state-owned fleets, has created literal havoc in many of our trades. It has led to the rebating that is now an issue before Congress. It has caused some of our carriers to lose considerable amounts of money.

I think it is unwise for the Government to be pouring millions and millions of dollars into a program to support its linear companies while at the same time it tolerates a situation which threatens, in the competitive environment in those trades, the very existence of the fleet that the U.S. taxpayer is paying so much money for. And I think, now that it is finally recognized, that there is movement in both Houses of Congress to do something about that.

Senator INOUE. Are there any other countries that follow the American policy of open entry?

Mr. BLACKWELL. One would find it difficult, Mr. Chairman, to look to a statute or a set of laws and say that any particular country advocates open entry. But to my knowledge, every major trading partner either openly or in some type of surreptitious manner has in fact some cargo-sharing arrangement which is either blessed directly by the government or in fact is condoned by the government.

Senator INOUE. Do you support such a policy?

Mr. BLACKWELL. I think that a sensible policy could be adopted which would preserve competition in trades. I don't think that we at the Maritime Administration want to immunize our carriers from competition, but it is the level, the intensity, and the fairness of that competition that we worry about. And if some type of damper or some type of adjustment could be made on the ferociousness of that competition, we would think that would be good for the trade generally.

We think it would be good for the shippers. And we think it would be good for the U.S. merchant marine.

Senator INOUE. The Soviets, as indicated in a report from the Maritime Administration, are offering rates that are 40 percent below conference levels. Would you consider this to be predatory pricing?

Mr. BLACKWELL. You know, the word "predatory" in section 18(b)(5) of the Shipping Act has a particular meaning. I am not sure that that word is appropriate for application to the Soviet practices.

I think we can better put it this way, if I would be presumptuous enough to change your question: It is virtually impossible for an American company with or without subsidy, or a traditional European or Japanese company that has been established for a long time that operates modern vessels, to compete effectively with a State-owned steamship company that cuts the rates 40 percent.

I mean by "compete," that, given the very best and the most modern equipment, the most efficient terminal operations and the finest and most aggressive management and sales solicitation force, there is no effort that can be undertaken by a company, American or foreign, that can "compete" with a company that is cutting rates 40 percent. This is particularly true when you are not dealing with a competitor that operates in a market economy concept.

Senator INOUE. Well, the laws suggested FMC should make certain that the competition is fair. Is this fair competition?

Mr. BLACKWELL. I don't think that anyone could disagree that that was unfair competition. If in fact someone operating in a market economy was stupid enough to undercut the rate structure by 40 percent, one might say, "Well, let it continue, he will go out of business. He is only going in there on a short-term basis, and he is simply going to run out of money."

But that doesn't happen with the Soviet merchant marine.

Senator INOUE. What do you suggest we should do?

Mr. BLACKWELL. Well, I think there is a bill; I know you have been associated with it. I think we have to take a serious look at that. There is a meeting today.

Senator INOUE. Why has the administration opposed it?

Mr. BLACKWELL. I think that there have been some technical problems with the bill. And the State Department, I know, has made some suggestions to change it. There is a meeting today in the executive branch which we will be attending in which we will be discussing in terms of trying to formulate a government overall U.S. position, not only on that bill, but all the other bills in the regulatory area that are currently pending before the House or Senate.

Senator INOUE. Is the Justice Department involved in this meeting today?

Mr. BLACKWELL. They will be there, yes.

Senator INOUE. Because I sometimes have the feeling the Justice Department is not on the same team. Or do you disagree, sir?

Mr. BLACKWELL. I have stated that I think that sometimes they are a little bit too zealous in attempting to apply the antitrust laws to the international shipping business.

Senator INOUE. Have they applied it to foreign carriers?

Mr. BLACKWELL. Basically, no.

Senator INOUE. So we are the targets, Americans are the targets.

Mr. BLACKWELL. I don't think that anybody can disagree with the fact that the impact of the regulatory authority of the FMC falls most heavily on American common carriers by water and not their foreign competitors. This it is not the fault of the people who have been running the FMC because they are constrained by the statute and the realities of life that they have to operate under.

Senator INOUE. Do we have a shipping policy that is uniformly adhered to and interpreted by every agency of our Government?

Mr. BLACKWELL. I would say not, no. There are several different policies. There is a policy enunciated in the preamble of the Merchant Marine Acts of 1936 and 1970. And section 101 of the 1936 act, which was amended by the 1970 act, states what the intention of Congress was with respect to the policy for promoting the U.S. Merchant Marine.

I think that policy is generally accepted or acquiesced in by most Government agencies. There is also a policy in terms of the implementing of the Shipping Act of 1916, but we do have, between those two, certain legitimate antitrust considerations. There are some legitimate tax considerations. There are some foreign policy considerations. And it is in these areas where it is sometimes extremely difficult to work out a common position.

Senator INOUE. So your mandate to promote the merchant fleet of the United States is often frustrated by another policy?

Mr. BLACKWELL. I think that is a fair statement. I could agree with that. It is not so much that we are experiencing frustration as such, although that has happened, but the fact is that the goals for which the program was designed in terms of a healthy, viable, U.S. merchant marine are being frustrated by our inability to move in certain of these other areas.

Senator INOUE. I presume that the Justice Department, State Department, and FMC are aware of the pricing practice of the Soviet fleets, FESCO and Baltic. Have they done anything about it to the best of your knowledge?

Mr. BLACKWELL. I don't know what the Justice Department has done except object to the entry of FESCO into the North Atlantic Steamship Conference under an arrangement involving a two-tier rate system. They have objected to that, and they caused the application for that arrangement to be withdrawn. And now I understand it might be reconstituted.

As far as the FMC is concerned, I know that they have conducted a lot of internal investigation. They have a pretty good reading in terms of the precise quotations offered by the Soviet liner companies on given commodities. As a matter of fact, the rates are filed at the FMC. But I believe that they will testify that they are constrained in terms of moving more effectively against people who substantially cut rates, because of the lack of power that is in the act.

Senator INOUE. You are aware of the so-called blocking statutes. In fact you mentioned that in your New Orleans speech in February.

Mr. BLACKWELL. Yes.

Senator INOUE. I have an amendment which I am seriously considering presenting, not to this bill but to another bill, which would authorize FMC to suspend tariffs whenever a foreign carrier refuses to produce documents as requested in their investigations. Would you favor such an amendment?

Mr. BLACKWELL. That is one of the items being discussed at today's meeting. I really can't speak officially for the Government on that, Mr. Chairman. I think that something has to be done.

We have stated our position on that type of activity. It is internal. I don't think you would be disappointed with it.

Senator INOUE. According to your study, in 1971 the Soviets carried less than $\frac{1}{2}$ of 1 percent of our total U.S.-liner trade. And by 1985 you estimate that it will be 6.6 percent. Would this be detrimental to the viability and growth of the U.S. merchant fleet?

Mr. BLACKWELL. No; I don't think that the percentages per se are what we have to fear. I think that the U.S. merchant marine as well as the other established carriers are capable of competing with the Soviets or anyone else, provided that the rules are essentially the same. But there is basically unfair competition.

Senator INOUE. What was the reason given by Justice for objecting to Soviets joining the Conference?

Mr. BLACKWELL. I am not that familiar with it. I believe that they felt that that would be tantamount—that it would mean elimination of competition in the North Atlantic.

Senator INOUE. They preferred to be able to offer 40 percent less than Conference level?

Mr. BLACKWELL. They preferred them to operate outside the Conference and did not want a tiered rate arrangement is really what it was, because the Soviets would have entered that trade at a differentially lower rate than the other Conference lines. But I believe that they felt that they wanted the competition offered by the Soviets in the North Atlantic outside the Conference structure.

Senator INOUE. Even if it meant that U.S. carriers go down the drain?

Mr. BLACKWELL. I can't say that the amount of capacity offered by the Soviets would destroy U.S. or Western allied shipping fleets, but it certainly would have hurt them, no question about it.

Senator INOUE. Would it be consistent with your mandate to promote a merchant fleet of the United States?

Mr. BLACKWELL. We would prefer our carriers to operate in a more stable competitive environment for the purpose of obtaining cargo and obtaining better revenues. I think that would have occurred if the Soviets had entered that Conference even in a bifurcated rate structure.

Senator INOUE. Who is in charge of the shipping policy of the United States—your Administration or the Justice Department?

Mr. BLACKWELL. It depends on the issue, I guess, Mr. Chairman.

Senator INOUE. On this issue; on joining conferences.

Mr. BLACKWELL. I don't know whether anyone. You see, the Justice Department took a position in a litigated proceeding in an administrative hearing. And they had a right to try that case at the FMC.

The fact that the Justice Department intervened did not mean that the case was lost. All they had in that case, then, was an element of the Government arguing a position before an administrative tribunal. The FMC might have, on the basis of the record developed in that case—if in fact the application had not been withdrawn—overruled the Justice Department and might very likely have had their action upheld in court.

In that case, I would say that the FMC would have had the superior say in terms of regulatory policy.

Senator INOUE. Why are U.S.-flag ships carrying only 7 percent of the profitable United States-Canada dry bulk trade?

Mr. BLACKWELL. I really don't know. We have tried very hard to induce U.S. interest in the United States-Canadian business. In fact,

we went so far as to put one company on a temporary subsidy, something that had never been done before; experimental subsidy, if you will. And we were proceeding with plans to engage in another such effort.

I think the reason probably is a tax shelter situation in Canada that is much more attractive than we can offer here. I think also that some of the interests on the lakes have preferred to deal with Canadian unions, although I think that is not an appropriate consideration, because our maritime unions in the last 7 or 8 years have had an extremely good record in terms of not having work stoppages or strikes. I think that they compare with the best of American industry in that.

So we have heard that as an issue. I don't know what the answer is.

Senator INOUE. As you may be aware, the United States is self-sufficient in only three of seven strategic materials essential to national defense. For example, we import 87 percent of our bauxite, 89 percent of our chromium, and 98 percent of our manganese. And it goes on and on.

How many of these strategic commodities are carried on dry bulk ships?

Mr. BLACKWELL. Most of them would be carried on dry bulk vessels, but not American.

Senator INOUE. How many dry bulk ships do we have?

Mr. BLACKWELL. We have 18 vessels, of which 4 were built after World War II.

Senator INOUE. What percentage of that cargo would we be carrying?

Mr. BLACKWELL. Less than 1 percent, I would say.

Senator INOUE. Would that be desirable when one considers the security and national defense of the United States?

Mr. BLACKWELL. Yes; it is our opinion that it would be totally consistent with our national security interest to have a bigger, better, more modern dry bulk fleet; yes.

Senator INOUE. Do you think 1 percent is sufficient?

Mr. BLACKWELL. No, sir.

Senator INOUE. What do you think is reasonable?

Mr. BLACKWELL. Well, we had as an overall goal when the act was sent to Congress for substantial revision in 1970, an overall goal of about 17 percent. That included all types of cargo. It is virtually a tripling of where we stand now, just about a tripling of where we stood then.

It is my opinion that we should have a capability to handle at least 15 percent of our dry bulk business.

Senator INOUE. From your experience, would you say that there is a possibility of a shipping embargo?

Mr. BLACKWELL. Well, I would say that is a possibility, yes. We have had an oil embargo. It is not unlikely that in a certain type of political situation nations that have interests different than ours that control the substantial amount of tonnage might withhold shipping capacity that would ordinarily be used to move commodities to or from the United States.

Senator INOUE. Section 209(b) of the Merchant Marine Act of 1936 states as follows: That the Congress hereby finds and declares that the national policy set forth in section 101 of this act requires there should be authorized and appropriated for fiscal years 1971 through 1980 such sums as may be necessary to construct 300 ships

of such sizes, types and designs as the Secretary of Commerce may consider best suited to carry out the purposes and policy of this act.

Has the Congress kept its part of the bargain under this section?

Mr. BLACKWELL. I would say so, yes.

Senator INOUYE. Have the successive administrations kept their part of the bargain by requesting necessary funds and implementing that particular shipping policy which encourages ship building?

Mr. BLACKWELL. I would say yes.

Senator INOUYE. How many have been constructed so far?

Mr. BLACKWELL. We have contracted for the construction of 71 vessels and for the conversion of 37. Some of these vessels are yet to be delivered.

Senator INOUYE. By 1980, do you think we would have 300 ships?

Mr. BLACKWELL. No, sir.

Senator INOUYE. And you still think that we are maintaining and keeping our part of the bargain?

Mr. BLACKWELL. Yes; in terms of the money having been available. Yes. I think both the executive branch and the legislative branch have fulfilled their commitments. I think that the reasons that the ships have not been built has very little to do with the type of commitment to the program, particularly the strong support for that program in the Congress.

We have had, Mr. Chairman, for the last 3 years a horribly depressed situation in the tanker business. No one is building tankers. And no one is going to build tankers in appreciable numbers for the next several years.

Congress could appropriate the money, the President could ask us to spend it, and we are not going to find anyone foolish enough to come in under current market conditions to make a very substantial investment. We put them in a position of competitive parity. And all we are doing is putting them in a position to lose money along with the foreign-flag brethren. That is not going to build ships.

We could use, I believe, a restructuring of the program, because as far as I am concerned the only basic structural fault in the Merchant Marine Act of 1936 is its inability to establish the proper foundation for the development of a dry bulk fleet. I think, as I have testified on a number of other occasions, that if there is a single failure, a conspicuous failure, in terms of the 1970 program, it is that we have not built a dry bulk fleet. We have only built two vessels that could be considered to be dry bulk carriers under the construction program. Those were OBO's. I might say that conditions are very different today than they were when these ships were built. Even with legislation that we would hope to propose, we cannot guarantee any substantial amount of building. For one thing, the Japanese prices are now extremely low, and we are not sure that we could mete the 50 percent subsidy requirement. The Japanese are literally giving ships away in this dry bulk area.

And for another, we are now confronted with about the same type of overtonnage situation in the dry bulk international market as we are in the liquid bulk, the oil market. Rates are very low. People are losing money. And unless there is some type of industrial resurgence in the United States and Western Europe and in Japan this situation will persist. I might say that Japan is the critical element in the dry bulk market because the Japanese have to import almost everything they need in terms of their industrial base—coal, coke, iron ore.

When the Japanese economy is moving up substantially, it is a tremendous stimulus to the dry bulk shipping business. It is probably the most critical factor in the entire world bearing on the market for dry bulk ships. And the Japanese economy is not roaring along that well, as ours isn't, nor is Western Europe's.

The only thing I can see that is going to change that, is some type of accelerated economic activity, and when that occurs, the dry bulk market will get better. And if we can change the Merchant Marine Act by that time, I think entrepreneurs will find it attractive enough to come in and buy some ships here.

Senator INOUE. How would you change the Merchant Marine Act?

Mr. BLACKWELL. Well, I can't say that the legislation will be forthcoming. We do have a coordination process, but I did make a speech in New York sometime back, and I think if I could state it for a magazine, I can certainly state it for this committee.

One of the problems we have had with the act is that dry bulk operators under the U.S. flag just simply lack the flexibility under our program that they would have if they built anywhere else, and particularly in Norway.

We now preclude the sale of a U.S. vessel built with construction subsidy until it is older than 25 years. We think that is not a very good position with respect to dry bulk carriers, and we would suggest that that period of time be cut down to 10 years so that the American operator would be induced to sell the older asset at that point and build a more modern bulk vessel in the United States.

That is what the Norwegians do. In that regard, we would require the earnings of the older vessel to be deposited in something like a capital construction fund, to be used within a year for a new dry bulk vessel to be built in the United States.

We also think that for dry bulk ships only, it would be wise to eliminate the section 804 requirement that you and I talked about earlier which now precludes an American owner of foreign-flag vessels from obtaining operating differential subsidy for dry bulk carriers. We think this could be appropriately eliminated without any harm to U.S.-flag interest.

Senator INOUE. You said "we." Now, who supports you and who opposes?

Mr. BLACKWELL. Well, we will find out, probably this week.

Senator INOUE. Does the Secretary of Commerce support you?

Mr. BLACKWELL. I think she will, but I cannot speak for her. I have to say that on every maritime issue that I have taken to Mrs. Kreps, she has been tremendously supportive.

Senator INOUE. So if we don't change the laws, there isn't much we can do to be competitive with these shipbuilders abroad. It is not just Japan, but I think Korea is doing the same thing.

Mr. BLACKWELL. Well, as a matter of fact, the Koreans are beating the Japanese very substantially on certain types of ships because of their considerably lower wage rates. And, you know, the Korean facilities are amazing. They have first-class shipbuilding facilities. They are as good as any in the world.

Senator INOUE. The March 6 issue of the New York Times had an article stating that the American Council of Shipbuilders estimates that as many as 45,000 jobs of a total of 176,000 will disappear next

year at U.S. shipyards and that twice that number of workers could lose jobs in supporting industries and in affected communities.

Do you agree with these estimates?

Mr. BLACKWELL. Yes. Roughly. I have seen them, but I haven't studied those personally. We have run our estimates on a little bit of a different theory using direct shipyard labor. And we concluded as of today that if the major shipyards did not get any new orders, we would lose, by the end of 1979, 20,000 production workers.

In other words, 20,000 people who work directly in building ships would become unemployed. If we apply the indirect labor, the overhead, the administrative forces, the suppliers, and the kind of tertiary employment that is generated by the shipbuilding industry, we would expect an unemployment increase, if you will, of about six times that or about 120,000 people.

Now, to say there will be no new orders, Mr. Chairman, is not really very realistic. There will be some new orders. If you consider the program that we are asking for funding and some unsubsidized ships that we know will be built or we believe will be built, even if we realized the full extent of the shipbuilding program we have proffered in our statement as well as other ships that will be built without Government support, we still believe there will be unemployment amounting to about 11,500 workers in terms of direct employment in the major shipyards.

And here again, if you take the secondary, tertiary, overhead, administrative people, by the end of 1979, you will have about six times that number or roughly 68,000 to 70,000. That is a lot of people.

I might say most of these workers are in the urban areas. It is difficult to get other jobs. A very substantial number of them are black. About 30 percent of the shipyard work force is black. Many of them have been hired later than the white worker. And on a basis of last in, first out, we would expect the impact of this unemployment to fall most directly and dramatically on blacks.

In addition to that, what is not generally known is a fairly substantial amount of the blue-collar work force, the people who actually work out in the shipyard, are women. About 6 percent of the full shipyard direct labor work force is now made up of women. They have come in even after the blacks. So they would also be the first to be let go in any type of an orderly elimination of jobs.

I might say, though, that the prospect could be worse than we are now projecting under the assumption that our full building program will in fact be implemented because we have included in that program five LNG carriers, three for 1978 and two for 1979. One of the two LNG import project applications involved has been approved, but is pending before the Energy Regulatory Agency on five or six rather sticky points of pricing, siting, escalation, and that type of thing.

The other import project application is under review by the DOE and has not been approved. If, in fact, the energy policy of the United States shifts substantially and we decide not to import additional LNG, we would not build these five vessels, and we would have a direct unemployment loss by the end of 1979 of more than 13,000. To include the secondary effect, all you have to do is multiply that by six.

That is fairly significant. And it is most significant when you look at the impact of these unemployment losses on the affected communities. You are talking about places like New Orleans. You are talking about places like Galveston. You are talking about places like Brooklyn, where a very substantial number of blacks are employed in the shipyard—over 2,000. You are talking about our neighbor to the north here in Baltimore where we have about 2,600 workers. Virtually all of them could be let go within 2 years. In fact, if that yard doesn't get some work soon, there is no reason to keep any of the employees unless they can bring in some type of steel fabrication work related to non-maritime activity.

Senator INOUE. In other words, even if we authorize and appropriate the full amount requested by Marad, we still have a very severe unemployment problem?

Mr. BLACKWELL. In my opinion, if you gave us every penny that we asked for and if we spent every penny that we got efficiently, we would still have close to 12,000 workers at the minimum in terms of direct—that is, real shipyard workers, people using their skills to build a ship—we would have 12,000 people unemployed and six times that including the white-collar workers, the engineers, the administrative people, the people who earn their living off the shipyard, grocers, transportation people, that type of thing, suppliers.

Senator INOUE. Do you have any plans to cope with this problem?

Mr. BLACKWELL. We have to react on the basis of the applications that are submitted to the agency. And unless the market, as I mentioned earlier, changes rather dramatically, I think that we are going to simply have to accept these losses in jobs.

Now, from a nonmaritime point of view, there is enough concern in the administration and particularly in the Department of Commerce that this matter is being looked at on a broader scope than that of parochial maritime interest. People are looking to see whether there are other types of industrial activity that can be put into these facilities to create, or at least hold, some of the jobs until shipbuilding returns to better days. But there is concern.

Senator INOUE. Well, on that gloomy note, Mr. Secretary, I thank you very much for your candid responses. We have prepared a lot of questions I would like to submit to you for your consideration and response.

Mr. BLACKWELL. Thank you, sir.

Senator INOUE. Thank you very much. You have been most helpful, sir.

[The following information was subsequently received for the record:]

QUESTIONS OF THE COMMITTEE AND THE MARITIME ADMINISTRATIONS ANSWERS
THERETO

Question 1. a. As I understand it, there is a list of costs which are included in computation of operating-differential subsidy. Would you please explain the computation process?

b. Who determines the list of costs to be included in the computation?

c. On what basis is the determination made?

Answer (a). Operating differential subsidy is paid for four primary items of expense: wages; maintenance and repairs not compensated by insurance; hull and machinery insurance; and protection and indemnity insurance. In the most

general terms, calculation of the subsidy requires determination of U.S. costs and the costs of the primary foreign competitors. Because a myriad of operating practices and procedures are used to treat operating expenses for U.S. and foreign ships, a list of standardized cost elements has been developed to ensure comparability in the ODS computational process. The procedures used to calculate subsidy vary slightly for each item of expense and are described below.

WAGES

The computation of wage subsidy is performed for each ship type on each trade route for each subsidized operator. This process requires determination of a subsidizable wage cost and a subsidy rate.

Three steps are required to establish a subsidizable wage cost. Full wage costs are determined as of January 1. They represent the fixed wage costs for the normal manning complement of each ship type and adding the estimated variable wage expenses. Collective bargaining costs eligible for subsidy are calculated by deducting the costs of any manning not eligible for subsidy. Subsidizable wage costs are developed through application of the wage subsidy index system. The subsidizable wage cost represents, for base years, the collective bargaining cost. For non-base years, the base-year figure is escalated on the basis of a national wage index developed by the Bureau of Labor Statistics.

The subsidy rate is also developed in several steps. For the predominant ship type for each operator and trade route, full U.S. wage costs and the wage costs of the primary foreign competitors are compared. The resulting ratios, as calculated for each principal foreign flag competitor, are applied to the full wage costs of each U.S. subsidized ship type operating on that trade route to obtain estimated foreign wage costs for each ship type. The resulting foreign costs are weighted according to the percentage of foreign competition represented by that flag on the trade route. Finally, for each subsidized ship type, this weighted foreign wage cost is subtracted from the subsidizable wage costs obtained through the index system to derive the wage subsidy payment.

MAINTENANCE AND REPAIRS (M&R)

The subsidy rate for maintenance and repair costs not compensated by insurance is determined from U.S. and foreign price estimates for representative categories of maintenance and repair work for a standard set of jobs in each category of jobs in each category of maintenance and repair. The geographic distribution of repairs for each principal foreign-flag competitor on each trade route is determined and combined with a country cost differential to yield a repair cost differential for each principal foreign competitor. The results for all foreign competitors on the trade route are combined and compared with the subsidized operator's costs to yield the subsidy rate.

HULL AND MACHINERY INSURANCE (H&M)

The subsidy rate for premium costs of hull and machinery insurance is computed for each ship type on each trade route. The net premium costs of U.S. and foreign hull and machinery insurance are determined annually. The British market rate is used for foreign premium costs. The average foreign claims are adjusted to account for ship repairs in foreign countries. A composite foreign premium cost is determined and is compared to the U.S. premium cost to reach a subsidy rate.

PROTECTION AND INDEMNITY INSURANCE (P&I)

Subsidy for protection and indemnity insurance (P&I) involves computation of separate rates for premium costs and deductible costs. For these purposes, the cost differential is limited to those portions of premium costs and deductible absorptions which are related to crew liability. The cost of all other liabilities is assumed to be the same for both the U.S. and foreign ships.

The subsidy rate for the P&I premium is calculated for each general ship type (cargo, passenger/combo, bulk) on each service, and is based on costs per gross registered ton. The percentage excess of the subsidized operator's premium over each principal foreign competitor's estimated premium is multiplied by a factor which represents the percentage of the route's foreign carriage trade accounted for by the competitor. The sum of the weighted differentials is the subsidy rate. Subsidy payments for P&I deductible costs are similarly calculated to represent a weighted average of the excess of the U.S. cost over the foreign competition.

(b) and (c) The Maritime Subsidy Board decides which cost elements are to be included in the subsidy rate calculations, under the general guidance of the Merchant Marine Act, 1936, as amended. Determinations of costs to be included in subsidy computations are made on the basis of comparability of specific types of cost items and operating practices for the U.S. and foreign ships and services.

Question 2. (a) Are fuel costs included in the list of costs for purposes of computing operating differential?

(b) If not, do you intend to include them?

(c) If fuel costs are added to the list of costs, by what percent each year do you estimate the cost of the subsidy program will rise?

Answers (a), (b) and (c). The Maritime Administration does not now and does not expect to include fuel in the list of costs for the purpose of computing operating differential subsidy (ODS).

Although fuel represents a substantial portion of a vessel's total operating costs, about 20 percent of the total cost of operating a liner vessel and up to 50 percent of the cost of operating a tanker, there is no reason to believe that U.S. flag vessels would be charged differently than foreign flag vessels when purchasing fuel. Because ODS represents the difference between U.S. flag and foreign flag operating expenses, and since there is no differential for the fuel cost component, there is no need for subsidy on this item. As a result, there would be no increase in the cost of the subsidy program even if fuel costs were treated as a subsidizable item under ODS.

Question 3. (a) How many ships does the U.S. have standing by in the National Defense Reserve Fleet?

(b) How many of each type, i.e., liners, tankers, etc?

Answer (a). As of February 28, 1978, there were 321 ships in the National Defense Reserve Fleet, of which 214 are preserved and maintained for reactivation when required. These include 67 ships maintained for the U.S. Navy and 147 maintained for the Maritime Administration. The remaining 107 ships are awaiting disposal or are being retained for other use.

(b). The following table identifies by type those ships currently being maintained for reactivation.

	Passenger	Break bulk	Container/ multi- purpose	Tanker	Navy auxiliary/ special purpose	Total
MarAd:						
Ready reserve fleet.....		6	3			9
Other.....	1	129	8			138
Navy.....		6		9	52	67
Total.....	1	141	11	9	52	214

Question 4. (a) Is there a set age when a vessel must be struck out of the National Defense Reserve Fleet?

(b) Does the United States have a ship construction plan for their replacement? If so, please explain; if not, should we have a plan?

Answer (a). No. The value of a ship in the NDRF is based on its real utility under emergency conditions. The economic factors which determine ship life in commercial service do not apply to the reserve fleet. So long as a ship can be effective in wartime, it should be retained. In time, some ships may need rehabilitation, but, in general, as long as the hull and main engines are sound, a ship can be given the necessary rehabilitation more rapidly and at lower cost than a replacement can be built.

(b). We do not plan to build ships for the NDRF. Instead, our plan is to encourage construction of ships to replace the older ships in commercial trade and to take the older ships into the NDRF.

During the last 12 months, MarAd has acquired eleven Mariners, eight from Waterman on November 22, 1977, three from American Export Lines on March 2, 1977. Three of the Waterman ships are being processed for turn in to the NDRF in March, April, and May 1978. Five are being operated by Waterman under use agreements. Three of these are scheduled to be turned in during July 1980, the remaining two in September 1980.

The three AEL ships are scheduled to be turned in within the next three months.

The following additional acquisitions are projected:

1978

Four C4's, built in 1944 and 1945, from Waterman; Five C4's, built in 1944 and 1945, from Central Gulf; Two C4 partial containerships, from American President Lines; and Three C6 non-self sustaining containerships (converted stretched Mariners), from U.S. Lines.

1979

One Mariner from Farrell Lines. One Mariner from Waterman; and Five C6 non-self-sustaining containerships (converted stretched Mariners), from U.S. Lines.

As commercial fleet replacement ships are built in subsequent years, a substantial number of additional ships will become available for the NDRF.

Question 5. There is a bill pending before the Senate Foreign Relations Committee which provides as follows:

SEC. 744. SHIPPING ON UNITED STATES VESSELS.—“The ocean transportation between foreign countries of commodities purchased with foreign currencies made available or derived from funds made available under this Act or the Agricultural Trade Development and Assistance Act of 1954, as amended, and transfers of fresh fruit and products thereof under this Act shall not be governed by the provisions of section 901(b) of the Merchant Marine Act of 1936, as amended (46 U.S.C. 1241(b)), or any other law relating to the ocean transportation of commodities on United States flag vessels.”

(a) Would this provision affect the subsidies and financing programs administered by MarAd?

(b) Has MarAd had an opportunity to testify on S. 2420? If not, do you intend to request an opportunity to do so?

Answer (a). The wording of this section is almost identical to the wording of the equivalent section of the existing statute, the Foreign Assistance Act of 1961, as amended. The existing statute's language is quoted below, with the minor difference from the proposed language in italic:

“The ocean transportation between foreign countries of commodities *and defense articles* purchased with foreign currencies made available or derived from funds made available under this Act or the Agricultural Trade Development and Assistance Act of 1954, as amended, and transfers of fresh fruit and products thereof under this Act shall not be governed by the provisions of section 901(b) of the Merchant Marine Act of 1935, as amended (46 U.S.C. 1241(b)), or any other law relating to the ocean transportation of commodities on United States flag vessels.”

Since its provisions with respect to “shipping on United States vessels” are essentially the same as those of the existing law, it can be concluded that S. 2420 would not affect the subsidies and financing programs administered by MarAd.

(b) On the basis of our answer in (a), MarAd has not sought the opportunity to testify on S. 2420.

Question 6. The authorization bill under consideration today contains a request for \$259.7 million for Operating-Differential Subsidy for our liner ships.

It also contains a request for \$168 million for Construction-Differential Subsidy for 4 liner ships.

(a). Do you believe it is a contradiction in U.S. shipping policy to spend money to subsidize the construction and operation of the U.S. merchant fleet on one hand, and to permit the amount of Soviet penetration into our liner trades on the other hand?”

Answer. The Soviet-flag fleet has made a remarkable penetration into U.S. liner trades in just a few years. Soviet vessels began operations in 1971 on one of our 30 essential trade routes. Today they are operating on 17 of these routes. In the present competitive environment, the U.S. privately-owned carriers must compete directly against state-owned monopolies. Whereas private companies must make a profit to survive, state-owned fleets may be operated at non-compensatory levels to achieve political goals or to earn hard currencies. The increasing activity of state-owned fleets in the U.S. foreign trades has contributed to the overtonnaging of those trades, which has severe implications for the Maritime Administration's promotional programs.

This situation is not the result of an ineffective maritime promotional program. The policy established by the Merchant Marine Act of 1936, as amended in 1970, is sound. Toleration of the kind of disruptions that are being caused by the state-owned fleets in the U.S. trades is manifestly inconsistent with that policy.

The main problem is with our regulatory laws. At the same time that the U.S. is endeavoring to equalize U.S. and foreign-flag commercial operating costs

through subsidy, the Federal Maritime Commission is unable, because of inadequacies in the Shipping Act of 1916, to bring about an environment conducive to the best interests of the liner trades, the carriers involved, as well as their patrons.

Changes in the 1916 Act are needed. However, the Act should not be changed solely to protect U.S. liner interests. U.S. liner interests fall within a class of carriers that deserve the protection of the Act—that is all common carriers by water, regardless of flag, which have traditionally served the U.S. trades on an established, stable, predictable and continuing basis. If the Shipping Act of 1916 is strengthened to enable the FMC to provide a stable business environment for these carriers, U.S.-flag liner interests will also be protected.

Question 7. The 1970 amendments to the Merchant Marine Act of 1936, as amended, made Construction-Differential Subsidy available for dry bulk cargo ships.

(a). Is any of the money requested in this authorization earmarked for that purpose?

(b). What about last year (fiscal year 1978)? The year before (fiscal year 1977)?

Answer (a). Because of uncertainties inherent in projections of industry shipbuilding plans, money is not earmarked for specific projects. The authorization request is based on the current best estimate of the number and type of ships that may be awarded contracts during fiscal year 1979—two liquefied natural gas (LNG) carriers, two roll-on/roll-off (Ro/Ro) ships and two containerships. While there has been some interest in the construction of dry bulk ships, the current assessment of shipbuilding demand indicates a lower likelihood of award of CDS on this type of vessel.

(b). Construction-Differential Subsidy contracts were awarded on nine ships in fiscal year 1977—two containerships, three breakbulk ships, two Ro/Ro heavy lift ships and two LNG carriers. Two barge carriers (LASH) and one small Ro/Ro ship have been contracted in 1978. It is anticipated that construction of four additional ships, three LNG's and one small barge carrier, will be contracted during the remainder of 1978.

Question 8. The Capital Construction Fund was created by the 1970 amendment to the Merchant Marine Act of 1936, to assist operators in accumulating the large amounts of capital necessary to build or reconstruct ships.

(a). In your judgment, does the law or its administration place any unnecessary restraints on the free enterprise system so as to defeat the purpose of that program?

Answer (a). Neither the law authorizing establishment of capital construction funds nor its administration place unnecessary restraints on the free enterprise system. The creation of a capital construction fund is strictly voluntary on the part of any U.S. citizen owning or leasing an eligible vessel. The prospective fundholder defines the principal elements of his program including the number of ships, costs, method of financing and the amount of investment deposited into and withdrawn from the fund. The contract establishing the fund may be revised as circumstances require. These elements of flexibility have facilitated continued program growth.

Question 9. (a). Is the request for \$102 million for construction differential subsidy for two LNG tankers subject to reconsideration? In other words, could the Administration decide not to make those funds available?

(b). If so, what are the chances of the two tankers being built without subsidy?

(c). If they are not built, what will that mean in terms of jobs in the shipyards where they are to be built?

(d). As to these two LNG tankers, do you have any idea of what their operation will mean in terms of foreign exchange earnings?

Answer (a). The CDS allocation of \$102 million for two tankers which is included in the Administration's FY 1979 budget is for two vessels to be built for the El Paso II project. The El Paso II LNG import project is now pending before the Energy Regulatory Administration. If the project is not approved, no CDS funds will be expended on these vessels.

(b). As previously stated, if the project is disapproved, there will be no ship requirement and the vessels will not be built at all. If the project is approved, the indicated \$102 million in subsidy funds will be utilized to build the ships. Although there is no likelihood that the ships will be built in U.S. yards without subsidy, it is possible that if the project were approved and CDS were not available, the ships would be built in foreign yards.

(c). It is estimated that the building of two LNG ships generates 5,000 man-years of shipyard employment. Construction of these vessels also will generate employment in supplier industries, yielding almost as much additional secondary

employment as the net addition to shipyard employment. The impact of such a loss would be substantial. The shipbuilders considered as the most likely candidates to build the vessels in question are the General Dynamics Yard at Quincy, Massachusetts, and the Newport News Yard in Virginia. Quincy employs about 5,000 workers and builds only LNG ships. The yard's present orderbook will be completed in early 1979. Without new orders, major layoffs would be inevitable. Newport News employs over 5,000 workers in its commercial area, nearly all of whom are involved in LNG ship construction. The yard's commercial orderbook will be completed in mid-1979, and these workers would also face unemployment without new orders.

(d). Use of U.S.-flag ships would not generate foreign exchange earnings. Rather, it would diminish the balance of payments drain associated with LNG importation. Transportation is a major component of the overall cost of an LNG import project. By utilizing U.S. rather than foreign-flag ships, the negative balance of payments impact of the project would be reduced by the amount it would cost to ship LNG in foreign vessels. El Paso/Algeria has estimated that for the El Paso I project, this cost would be about \$14 million per year per ship (for three ships). For El Paso II, these would be somewhat higher since both capital and operating expenses will be greater.

Question 10. In July 1976, the Maritime Administration held a major conference on dry bulk construction.

(a). What were the recommendations from that conference concerning dry bulk construction?

(b). What became of those recommendations?

Answer (a). The report of the National Assessment and Planning Conference on U.S. Flag Bulk Shipping contains many recommendations which are addressed to the development of a U.S.-flag dry bulk fleet. Of these, the most important are:

1. Change regulations to eliminate foreign-to-foreign trading restrictions.
2. Change Section 804 to allow foreign-flag vessel ownership and operation while receiving subsidy on U.S.-flag vessels.
3. Allow the deposit of earnings from foreign flag vessels owned by U.S. companies in Capital Construction funds for the purpose of building dry bulk ships for the U.S. fleet.
4. Allow the sale of vessels to non-U.S. citizens with funds to be deposited in a CCF.
5. Evaluate and consider elimination of the 50 percent maximum CDS rate.

(b). After extensive review, certain of these recommendations have been incorporated by the Maritime Administration in a comprehensive legislative package which is designed to stimulate the development of a U.S.-flag dry bulk fleet. This package is currently under review within the Administration. In addition to development of this legislative package MarAd has made administrative changes, where possible, to incorporate many of the recommendations of the conference.

Question 11. (a). Has MarAd ever postponed shipbuilding commitments (i.e., Construction-Subsidy) because the particular trade was overtonnaged?

(b). If so, isn't this a case whereby permitting conditions to exist which cause overtonnaging in our trades, the government is contradicting the objectives of its Construction-Differential Subsidy program?

Answer (a) and (b). The only formal shipbuilding commitment is the ship replacement obligation which is an integral part of the Operating-Differential Subsidy contract. The replacement obligation commits the operator to replacement of his fleet with an equal amount of new capacity when the existing fleet reaches the end of its economic life. Because the emphasis is on replacement of equal capacity rather than an equal number of vessels, the ship construction commitment resulting from the replacement obligation does not exacerbate the problems of overtonnaging. No ship replacement obligations have been delayed as a result of overtonnaging in a trade, although some replacements have been delayed because operators could not afford to build new ships.

Any CDS package approved by MarAd, including construction for replacement obligations, must be demonstrated to be economically viable. This requires a reasonable prospect that a ship can generate enough cargo to be profitable. To the extent that overtonnaging limits the probable utilization rate for a proposed ship, it will clearly limit ship profitability and thereby curtail ship construction. In this situation, toleration of chronic, severe, overtonnaging would be manifestly inconsistent with the policy established by the Merchant Marine Act of 1936 which requires a U.S. merchant marine composed of ships built in U.S. shipyards.

Question 12 You state that the Maritime Administration funding of the ocean thermal energy conversion program (OTEC) will be limited to elements related to maritime transportation.

(a). Would you please explain the program, and MarAd's role?

(b). Are Construction-differential Subsidy funds involved?

Answer (a). The ocean thermal energy conversion program (OTEC) seeks to produce energy from water temperature differentials. Currently, the two most commonly accepted approaches to implementing this concept involve, (1) a floating platform for a water-based power station that produces and transmits electric power to shore, and (2) a plant ship that produces energy and then uses that energy to produce ammonia, or to meet some other high energy requirement. The plant ship concept is tied into a marine transportation system to carry the finished products to shore and, in some possible processes, to carry raw materials to the plant ship.

The production of energy is the responsibility of the Department of Energy (DOE). MarAd's role is to support DOE in matters of marine ship or platform construction and to explore the commercial feasibility of plant ship operations. The Maritime Administration and the Department of Energy have agreed to a cooperative effort in OTEC. Under this agreement, MarAd will provide technical expertise in ship construction and propulsion engineering. In FY 1979, MarAd has requested \$150,000 to conduct a survey of existing shipyard capabilities, interest, and skill requirements to support an OTEC construction program in the early 1980's.

(b). Construction-differential subsidy funds are not being used in MarAd work on OTEC. Funding requested for FY 1979 involves only the Research and development appropriation.

Question 13 (a). Why did MarAd decide to eliminate certain elements of Operating-Differential Subsidy when recent long-term contracts were renewed?

(b). Did OMB or any other agency in the federal government express a view on this matter?

Answer (a). The elimination of certain items of expense from new Operating-Differential Subsidy contracts resulted from negotiations between the Maritime Administration and the individual subsidized operators as authorized under Section 603(b) of the Merchant Marine Act, 1936, as amended. This action has been taken to reduce, wherever possible, the cost to the taxpayer of the ODS program. Most of these eliminations have concerned subsidy for maintenance and repair not compensated by insurance and hull and machinery insurance. In those cases where the operators have agreed, the differential between the U.S. and foreign costs for the item of expense had declined to the point where the elimination of that item from subsidy did not place the operator at a competitive disadvantage vis-a-vis his foreign counterparts.

(b). The Maritime Administration has received no formal statements or views from the OMB or other government agencies concerning the elimination of subsidy for these items of expense.

Question 14. MarAd's Office of Market Development assists the efforts of the U.S.-flag liner operators to increase the share of the trade they carry.

(a). Would you describe the program, and the chief obstacles to achieving its objectives?

(b). Could the Office of Market Development have a role in discovering instances where the Soviets appear to be predatorily pricing in our liner trades?

Answer (a). The purpose of MarAd's market development program is to increase U.S.-flag vessel carriage of the nation's ocean-borne commerce.

In the commercial cargo sector, MarAd promotes efforts to assist U.S. liner and bulk operators in marketing their services in a competitive atmosphere in which there is no legal requirement to use U.S.-flag ships. MarAd's approach is to use government auspices to help carriers help themselves. MarAd efforts to this end are focused in three areas: developing and distributing market information and cargo data—for example, shipper preference profiles and market leads—to U.S. operators to aid their own sales efforts; maintaining direct contact with exporters and importers to familiarize them with the benefits of using U.S.-flag and discuss problem areas inhibiting their use of American carriers; and working with carriers to plan and carry out target commodity programs and new marketing strategies.

U.S. liner carriage has improved during the time the program has been operating. Nevertheless, MarAd's market development effort is a difficult one, due to the absence of government authority to require shippers to use American vessels for commercial cargoes. In addition, the selection of a carrier may be determined not by pure competitive economics, but by other perceptions by the shipper of the

interests of his consignee, and other international political and financial factors. Thus, the effects of the MarAd market development program may be diluted and overridden by other considerations.

With regard to government-sponsored cargoes, MarAd is responsible for administering P.R. 17, P.L. 664 and the cargo preference provisions of the Foreign Military Credit Sales Program. MarAd has no direct authority to enforce compliance or impose sanctions for non-compliance because the actual authority for vessel procurement lies with the shipper agency. Consequently, MarAd activity is limited to monitoring the activities of federal agencies and the Export-Import Bank to encourage their compliance with the requirements of the preference laws. In spite of its limited role, the Maritime Administration has been quite successful in extending the effective coverage of the preference laws over 60 federal agencies.

(b). The Office of Market Development concentrates on the promotional aspects of generating cargo for U.S.-flag ships, and has no authority over rates and pricing. Instances of predatory pricing would more appropriately surface in the regulatory system of the Federal Maritime Commission.

Question 15. (a). Do the funding levels for the Construction-Differential and Operating-Differential Subsidy programs in the legislation reflect what MarAd recommended?

(b). In your judgment are the funding levels in the legislation for these programs consistent with the mandate to promote the U.S. merchant fleet as set out in the Merchant Marine Act of 1936, and the 1970 amendment?

Answer (a). These funding levels represent MarAd's current best estimate of Ship Construction and Operating-Differential Subsidy requirements in 1979. While they differ from the funding levels originally requested of the Secretary of Commerce, reexamination of those original requests and analysis of developments between the time of the original requests and the final formulation of the 1979 budget yielded the refined estimates that are presented in the current legislation.

(b). Yes, the funding levels in the legislation are consistent with the policy and purposes of the Merchant Marine Act, 1936, as amended. The requested 1979 Maritime Administration program supports and encourages the development of a well balanced U.S. merchant marine.

Senator INOUE. Appearing next will be a panel of three gentlemen: The vice president of finance, American President Lines, Mr. Eugene Kania; the vice president of State Steamship Co., Mr. Robert Mayer; the vice president and chairman of government affairs committee, Lykes Brothers Steamship Co., Mr. Hans Blocklin. All of these gentlemen appear on behalf of the Council of American-Flag Ship Operators.

Welcome, gentlemen, please proceed in any fashion you want.

STATEMENT OF EUGENE B. KANIA, VICE PRESIDENT, FINANCE, AMERICAN PRESIDENT LINES; ROBERT MAYER, VICE PRESIDENT, STATE STEAMSHIP CO.; HANS BLOCKLIN, VICE PRESIDENT AND CHAIRMAN, GOVERNMENT AFFAIRS COMMITTEE, LYKES BROS. STEAMSHIP CO., INC.

Mr. KANIA. We have submitted written testimony.

I am Eugene B. Kania, vice president of American President Lines, Ltd. I am appearing on behalf of the Council of American-Flag Ship Operators (CASO). CASO was organized effective January 1, 1978, by eight major U.S.-flag liner operators to more effectively promote a U.S. built, manned, and owned merchant marine.

The 168 vessels operated by CASO members in the foreign trade of the United States were all built in U.S. shipyards since World War II.

Senator INOUE. Without objection, the statement submitted by Mr. Kania will be placed in the record.

[The statement follows.]

STATEMENT OF EUGENE B. KANIA, VICE PRESIDENT, AMERICAN PRESIDENT LINES, LTD. ON BEHALF OF THE COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

I am Eugene B. Kania, Vice President of American President Lines, Ltd. I am appearing on behalf of the Council of American-Flag Ship Operators (CASO). CASO was organized effective January 1, 1978 by eight major U.S. flag liner operators to more effectively promote a U.S. built, manned and owned Merchant Marine. The 168 vessels operated by CASO members in the foreign trade of the United States were all built in U.S. shipyards since World War II. This varied fleet of container, barge, RO-RO and break bulk ships is the world's most modern and efficient.

The importance of these hearings is evidenced by the fact that I am accompanied today by Mr. Robert E. Mayer, Vice President of States Steamship Company and Mr. Hans G. Blocklin, Vice President of Lykes Brothers Steamship Company, representatives of CASO member companies from other coasts and other lines holding operating differential subsidy contracts. Some of my colleagues may wish to supplement this testimony and we will all join in answering questions from the committee.

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". Exhibit 1-1 of the study shows 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 employed 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.

OPERATING DIFFERENTIAL SUBSIDY

The Administration has requested new obligational authority of \$262.8 million for operating differential subsidies in FY 1979. This, combined with a carry-over 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 United States 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. This 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 fleet 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.

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 non-liner 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.

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.

CONSTRUCTION DIFFERENTIAL SUBSIDY

Although the Administration has requested only \$157 million in new obligation authority for construction differential subsidy purposes during FY 1979, a total of \$279 million will be available for FY 1979 because of a carry over of \$122 million from prior years.

Since Secretary Blackwell has already discussed the details of 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 U.S. at approximately the same price as he would pay on the world market.

These CDS subsidies are essential to the continued shipbuilding programs of 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 the international trades.

RESEARCH AND DEVELOPMENT

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 FY 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.

There are only about 340 general cargo and naval auxiliary vessels left in the United States reserve fleet of which 97 have already been designated for scrapping. Almost all of these are victory type ships built during World War II. Because these ships require a substantial amount of time to put in operating condition, the Navy and Maritime Administration have wisely implemented the Ready Reserve Fleet Program designated to upgrade the condition of selected Reserve Fleet ships so as to maintain 30 of these ships in a state of advanced readiness.

Most vessels in the existing reserve fleet will have to be replaced during the 1980's. It would be prohibitively expensive to construct new vessels simply for the purpose of mothballing them until they are required to meet a military emergency.

Fortunately, our privately owned liner fleet includes over 100 vessels, generally break bulk, which have a high military utility. Many of these will be replaced or become commercially obsolete within the next few years.

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 good and effective emergency military sealift. We suggest that your Committee make certain that the Marad budget has sufficient CDS funds so that the government can purchase all of these ships for the reserve fleet as they become available. Since the current budget does not contemplate much new liner vessel construction, we believe that the CDS funds requested are adequate to purchase any ships that may become available through FY 1979. However, we are in the process of making an analysis of ships that our member companies may have available for trade-in during the next several years and we will file a copy of this study with your Committee as soon as possible.

We completely support the appropriation of \$5,516,000 in FY 1979 for the continued operation and improvement of the National Defense Reserve Fleet. We are continuing to cooperate in a series of government sponsored programs to coordinate commercial and military sealift in time of emergency. We may have further recommendations to make to you next year to assure that everything is done to provide emergency sealift as our World War II reserve fleet disappears.

TITLE XI

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 ocean borne 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 that total commitments and guarantees in force at the end of FY 78 will exceed that amount. We respectfully urge you to promptly introduce and consider legislation to raise the ceiling to \$10 billion.

MARKET DEVELOPMENT

Mr. Chairman, my statement is already beyond the ten minutes you have allotted but I believe 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, including the Great Lakes, has benefitted 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 whole-heartedly support the MARAD Authorization request for FY 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.

OPERATING-DIFFERENTIAL SUBSIDY NET ACCRUALS—LINER OPERATORS ONLY

	Current dollars (millions)	Deflator ¹	Constant Dollars (millions)
Calendar year—			
1954	\$106.3	89.6	\$118.6
1955	104.1	90.9	114.5
1956	102.7	94.0	109.3
1957	122.8	97.5	125.9
1958	140.7	100.0	140.7
1959	158.8	101.6	156.3
1960	162.7	103.3	157.5
1961	168.8	104.6	161.4
1962	174.8	105.8	165.2
1963	190.5	107.2	177.7
1964	219.7	108.8	201.9
1965	182.9	110.9	164.9
1966	199.5	113.9	175.1
1967	215.4	117.6	183.2
1968	219.1	122.3	179.1
1969	227.4	128.2	177.3
1970	234.8	135.2	173.6
1971	200.0	141.4	141.4
1972	197.9	146.1	135.4
1973	207.5	154.6	134.2
1974	215.6	170.1	126.7
1975	224.5	185.9	120.7
1976	*249.0	195.6	127.3
Fiscal year—			
1977	262.6	203.5	129.0
1978 estimate	279.3	215.5	129.6
1979 estimate	274.9	227.8	120.7

¹ Implicit price deflator (1958=100), U.S. Department of Commerce, Survey of Current Business, October 1974, October 1977. Deflator for fiscal years 1977 through 1979 based on average of quarterly deflator values for the 4 calendar quarters included in the fiscal year. Forecast values for deflator are from "Review of the U.S. Economy," Data Resources, Inc., August 1977.

² Annual rate based on \$186,800,000 accrued through Sept. 30, 1976.

Sources: 1954-60, MarAd Annual Report, 1973; 1961-74, MarAd Annual Report, 1975; 1975-76, preliminary information, Maritime Administration, Office of Financial Management; 1977-79, Fiscal year 1979 Maritime Administration Budget, Highlights; Congressional Information Bureau, vol. 82, No. 15, Jan. 23, 1978.

Senator INOUE. Please proceed, sir.

Mr. KANIA. I will proceed directly to the area on operating differential subsidy.

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

All studies that we know of over the years have indicated that the operating differential subsidy based on the parity principle is probably the best way we know of to support the U.S. merchant marine from an operating-cost standpoint.

Although there have been a number of criticisms of the subsidy system, we feel that these are not verified and that in fact the United States today has the most modern and diversified and productive fleet in the world and has 5 or 6 times the annual ton-mile capacity of the conventional ships built as late as 1960, each of them.

This increase in productivity has been accompanied by a substantial reduction in crew size, averaging around 30 percent.

While it is true we have declined in number of ships, we are actually today equipped with a fleet that has over twice the annual ton-mile capacity of the 1950's fleet it replaces. During this time, subsidy paid out in constant U.S. dollars has increased very slightly.

And as both the Chairman and Mr. Blackwell indicated, this has happened during a time when the industry was faced with the unilateral application of our antitrust laws, competition over below-cost

from the state-owned fleets, and government insistence that we alone maintain an open conference system.

Further, as Mr. Blackwell indicated, the condition of the ship-building industry in this country is bleak. And I would like to point out, and I think a very important point in the area of the subsidized lines is that the subsidized lines of this country have built in this country because they are forced to build in this country despite costs all but four or five of all of the liners built in the United States since the Second World War.

So what we are saying basically is very few people other than the subsidized liners are in fact building liner vessels in the United States. And because of the foreign cost differential——

Senator INOUYE. Can we proceed from here with questions?

Mr. KANIA. Sure.

Senator INOUYE. The Secretary suggested, and I concurred, that something should be done with the present American lines conference policy of open entry. What are your thoughts?

Mr. KANIA. Obviously, we would favor being on an equal standing with the rest of the world and being able to control competition to a certain extent. Obviously, we don't want to eliminate competition, but the unfavorable pricing policies and the state of state-owned fleets make it extremely difficult to compete on a profitable basis even with subsidy in some cases.

Do you have any comments?

Mr. BLOCKLIN. I think, Mr. Chairman, if I might say, you got to the point well in the hearings the other day when we had some of the group before you, and we were discussing equal access pooling agreements, things like that.

The current proposition that Secretary Blackwell alluded to of the Justice Department obstructing the entry of the Russians on a two tier basis was a damaging type of intervention that we don't need from Justice.

But going back; equal access, pooling agreements, some type of thing that gets a overtonnage, some type of way to rationalize the excess capacity that is developing and that also will enable us perhaps to control the intrusion of the no-profit consideration type, COMICON national flags, as characterized by the Russian ventures on the trade routes.

Senator INOUYE. There is a bill pending before the Senate Foreign Relations Committee (S. 2420) and section 774 of this bill provides as follows: "Shipping on the U.S. Vessels." The ocean transportation between foreign countries of commodities purchased with foreign currencies made available or derived from funds made available under this act or the Agricultural Trade Assistance Act of 1954 as amended and transfers of fresh fruits and products thereof under this act shall not be governed by the provisions of section 901(b) of the Merchant Marine Act of 1936 or any other law relating to the ocean transportation of commodities on U.S.-flag vessels.

Do you have any comment?

Mr. BLOCKLIN. That would be a disaster. That is opening the door for further erosion instead of strengthening. We should be strengthening 901(b), Mr. Chairman.

We could well look at, instead of 50 percent, 75 percent of cargo that is financed by U.S. taxpayers moving on American flagships.

This comes as a shock to us, this bill. We have heard about this bill, this opening and this breach in the dike. And certainly, we are going to be ringing doorbells and we are going to get help to try and do something about it.

This is part of this problem. The other problem that is corollary to financial problems that we have. And that is that other agencies in our government are not giving full support to our merchant marine objectives.

There seems to be no commitment to build a merchant fleet on the part of these other agencies. We have had a case where we find that some buses were built in Germany and have been moved on a Russian flagship from Bremerhaven to Houston—25 buses, at a rate that was about 50 percent of the rate that we offered. And that was really a rate that was cut right down to the sharp pencil point by Lykes.

This just occurred last week.

Mr. MAYER. Mentioning financing.

Mr. BLOCKLIN. And the financing, as Mr. Mayer says, was partly urban mass transit, totally U.S. financed grant, given to the transit authorities of the cities in the United States.

Senator INOUE. If this provision should become the law of the land, do you believe it would affect the subsidies and financing programs administered by MARAD?

Mr. BLOCKLIN. Do you want to go?

Mr. KANIA. Go ahead.

Mr. BLOCKLIN. I will make a comment before Gene says anything.

I certainly would. In order to maintain the same amount of service, the level of service, and provide service to the shippers in the foreign commerce, I would see that it would probably cause an increase in the need for MARAD authorization for subsidy.

What we really want, Mr. Chairman, is cargo, not the subsidy so much, as the ability to get cargo.

Senator INOUE. The Secretary did not consider the growth of the Soviet fleet as a threat to the viability and growth of the U.S. merchant fleet. Do you agree or disagree? Do you think it is a threat?

Mr. KANIA. I don't view that the Soviet in itself is a threat, but with the fallout that comes from one particular line or one particular country cutting its rates to the effect that it has, just forces others who are in marginal situations to cut rates.

And generally, if that is the entire industry, it is to a much greater degree than a 6 percent portion of the carrying capacity that you think would affect the industry.

I think from that standpoint, allowing that to continue is extremely hazardous to the industry, and particularly the American flag because of its many implications.

Mr. BLOCKLIN. I wish I could be as sanguine as the Secretary is, Mr. Chairman. I think it is a very strong threat, and I think it is part of a national objective on the part of the Soviets. I think this penetration of carrying the flag, to move wherever they can is part of an overall scheme.

We have seen shipping go from less than 1 percent up to 7 or 8 percent now on our trade routes. That is an enormous jump in 3 or 4 years. This has to be part of a total, objective.

Senator INOUE. Would you consider this predatory pricing?

Mr. BLOCKLIN. I would, yes. I certainly would consider it.

I gave you an example that just happened to us. I certainly would. In other areas, we have prepared a list of—our group has prepared a list of—these types of predatory pricing which will come up in your other committee.

Senator INOUE. And you would agree with the Secretary that the competition is unfair?

Mr. BLOCKLIN. Yes, absolutely. Absolutely. They are not profit oriented.

Senator INOUE. Are you satisfied with the support the Justice Department gives to the maritime policy of the United States?

Mr. BLOCKLIN. Well, I don't want to be taking all the questions, but I will just start off with that one.

I am not, no. I think again, they are not supportive. There again, we have a dichotomy in thought and philosophy that is very harmful to us. And this is one of the areas; that area there and at the top level of the State Department. Those are the problem areas.

Medium level of State Department is good, and it is improving in the Office of Maritime Affairs, but they are dealing with other people, superiors, again who have no philosophical commitment to what we are trying to achieve here or perhaps had never read the merchant section 101.

Senator INOUE. You may recall I asked the Secretary his opinion on whether the Congress or the administration have kept faith with the section 209(b) of the Merchant Marine Act. And he said, yes, both parties have. Do you agree with that assessment?

Mr. BLOCKLIN. Well, I didn't agree at the time, and I felt the Secretary was under a bit of a mantle here. He is a spokesman for the administration, and it makes it sort of difficult.

I think there could be more support. For instance, I think the administration support of the Cargo Preference Act where there was only 9 percent asked for was only a token type of support here on the Hill. And of course, Congress then could have done more and should have done more.

I think many of the Secretary's problems in shipbuilding would have been alleviated if that 9-percent, a little simple 9 percent, bill had passed. And it didn't pass, as you know. And you worked hard to try and get it through.

But I think the administration in their support of that was very lukewarm. And I think that is, if you ask me, part of our problem again—no commitment in the White House for our problem.

Senator INOUE. The capital construction fund was created to assist operators in accumulating the large amounts of capital necessary to build or reconstruct ships. In your judgment, does the law or its administration place any unnecessary restraints on the free enterprise system so as to defeat the purposes of that program?

Mr. KANIA. The capital construction fund in my opinion is very constructive and makes possible through its tax shelter effects really the accumulation of the funds. The restrictions, if any, in the law and administration, I think, have been in the severe conservative dividend policy.

And with the changes being put forth by MARAD and generally agreed to by the industry, I think we see an opening up. We can't ask people to put money into ships and into the business unless they

have a reasonable return on investment. And with the dividend policy as it has been in the past, I don't think we had that opportunity.

We think the new proposals are in the right direction.

Senator INOUE. A recommendation has been made that no later than fiscal year 1980, the MARAD be given substantially increased funds so that it may purchase a number of vessels for the National Defense Reserve Fleet and which will become commercially obsolete in the next few years.

What will happen to those ships if MARAD does not purchase them?

Mr. KANIA. The first probability is scrap since we have limitations as to where we can sell them without approval. And since they obviously as commercial ships would have lost their competitive advantage, the market for them diminishes. And it is a likelihood that a good portion of them would be scrap.

Senator INOUE. How much would this program cost? Do you have any idea?

Mr. KANIA. We are currently putting together some work that will be done within a few weeks that goes directly to that point. And I am not prepared at this moment to say. I can't really give you a figure.

Senator INOUE. Any ballpark figure?

Mr. BLOCKLIN. I believe the Secretary mentioned the tonnage of 340,000 tons by 1979, as I recall. As a cost figure to buy these ships, I think we are talking probably, we might be talking, in terms of \$350 to \$500 million.

Senator INOUE. How many of these vessels are break bulk ships?

Mr. KANIA. The biggest majority of those that will be due for retirement would be break bulk because of the fact that the container ships came into being generally within the last 10 years. And obviously, these ships are retiring at 25 so would generally be break bulk or break bulk converted ships, too small for today's market.

Senator INOUE. Would you consider this type of ship to be important in our National Reserve Fleet?

Mr. KANIA. The break bulk ship is extremely versatile and has high utilitarian value from a military standpoint because it can carry just about anything that fits within its size. And it probably is most attractive to our defense over the long pull.

Senator INOUE. The MARAD Administration has an office of market development. It is supposed to assist U.S.-flag line operators to an increased share of the trade you carry. Do you think that the MARAD is achieving the objectives of the market development program?

Mr. KANIA. Yes. We would like to see it expanded. It has been helpful.

Mr. BLOCKLIN. I would like to speak to that, too, because I did some checking on the cargo that I thought would be attributable to that particular office last year, and I felt that we could easily identify some \$110 million worth of cargo revenues that we obtained through the efforts of that office.

They are particularly good at short-stopping attempts to go around and circumvent the laws by some of these recipients of export-import cargo loans and so forth.

I would like to see, as Gene said, more funds somehow appropriated for that office.

Senator INOUE. Do you believe that the requested funding levels of the vast programs in the MARAD are adequate to achieve the objectives of our national shipping policy?

Mr. KANIA. Well, we believe that the funds requested in 1979 are adequate to what can be spent during that time frame. That level of expenditure over the long pull, I can't say I would be assured that would fulfill the goals.

Mr. INOUE. You are satisfied with the requested level?

Mr. KANIA. In the fiscal 1979; yes.

Mr. INOUE. Mr. Blackwell testified with respect to the elimination of certain elements of operating differential subsidy when recent long-term contracts were renewed. Do you have any position with respect to eliminating these elements in the operational differential subsidy?

Mr. KANIA. It was our position individually and I think as a group that we would prefer to see all items of subsidy that had been in the contracts remain in the contracts. There obviously are price differentials. And to the extent those price differentials erode the profits and in some lines, they are significant, others not so significant, but in all cases, they do erode profit because we are competing against lower cost.

Senator INOUE. What is your position on the payback concept, getting out of the foreign trade into the domestic trade and pay back your subsidy?

Mr. KANIA. Basically, subsidies that we are talking about, you are talking about, construction subsidies in this case?

Senator INOUE. Yes, sir.

Mr. KANIA. Construction subsidies from a philosophical standpoint are to support the shipbuilding industry, and it is difficult to understand the concept of paying back a subsidy.

The purpose of the subsidy was to support the industry. That is the building industry, not the shipping industry per se. And just the concept of a payback seems penalizing in effect the shipowner.

Mr. BLOCKLIN. I think, Mr. Chairman, also in another respect, it gives the shipowner the best of both worlds. And if he can foresee or should see after building the ship for operation domestically or building the ship with CDS and he sees a better advantage to use it somewhere else and put it in another service or bring it in a domestic service, he then would leave the foreign service that this ship was authorized for, and perhaps it may be that a 605 hearing was held on and the whole investment so justified on.

And I believe that it is part of the problem that the Secretary has with this. And that is only given with the greatest of prudence and judgment and wisdom in some particular cases. I perhaps feel that may have motivated the administration in the *Stuyvesant* case. There were a particular set of circumstances that justified it there.

Mr. MAYER. May I comment on that, Mr. Chairman?

I believe that possibly the principle of payback concept arose originally out of consideration for the very substantial intercoastal fleet we had at one time, and coastwise fleets, both of which, of course, competed with the railroads and trucklines.

And if we were to subsidize a vessel for the offshore trade, then subsequently put it in the intercoastal or coastwise trades in competition with other modes of transportation, you would, of course, expect a violent objection.

And this concept carries over to the noncontiguous domestic trades to Alaska and Hawaii.

I don't know exactly why except that they are also a domestic trade rather than offshore trade. The similarity or the situation of competition with land-based modes, however, of course, does not exist. Certainly with respect to the Hawaiian Islands or Puerto Rico.

Senator INOUE. Coming back to S. 2420, I gather that all of you are going to do something about this.

Mr. BLOCKLIN. We have had so many bills, what is the title?

Senator INOUE. This is the one we discussed where the provisions of the Merchant Marine Act would not apply, 901(b).

Mr. BLOCKLIN. All right, the attempt to drop 50-50 on financed goods. Right. We are going to do something about it.

Mr. MAYER. We certainly are.

Mr. BLOCKLIN. Absolutely, we are going to do something about it.

Senator INOUE. I should point out to you the sponsors and cosponsors of this measure are very distinguished members of the Senate—Messrs. Sparkman, Case, Baker, Anderson, Bayh, Brooks, Bumpers, Church, Clark, Cranston, Eagleton, Glenn, Javits, Kennedy, Matsunaga, McGovern, Moynihan, Ribicoff, Sarbanes, Stone, and Williams.

Mr. BLOCKLIN. I am happy to see Senator Inouye and Senator Long aren't on that list there.

Senator INOUE. Do you think we are equal to them?

Mr. BLOCKLIN. Yes, but we will have to deal with them individually, I guess.

Senator INOUE. Well, the questions I wanted to ask, I am through. Do you have any other statement you would like to make?

Mr. KANIA. I think we would just like to sum it up with the fact that we as a group wholeheartedly support the MARAD authorization request for the fiscal 1979 and thank you for letting us appear and answering the questions.

Senator INOUE. I appreciate the appearance of all three of you. And on behalf of the committee, I thank you. And we will do our best to expedite the passage of this bill, sir.

Mr. KANIA. Thank you, Senator.

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

STATEMENT OF EDWIN M. HOOD, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. Hood. Mr. Chairman, I have a very brief statement, but in light of the previous testimony by Secretary Blackwell, it would be redundant for me to read it. I would ask your permission that it be included in the record.

Senator INOUE. Without objection, your statement will be made part of the record.

Mr. Hood. We support the fiscal year 1979 request for \$157 million in CDS funding.

Senator INOUE. Do you believe that the shipbuilders can absorb that amount?

Mr. HOOD. Yes, sir, without question. To give you an example, last year, 13 ships were ordered. In 1972 and 1973, 48 and 43 ships were ordered respectively. So, 13 measured against 48 gives you some idea of the industry's capacity potential.

Senator INOUE. Was the Secretary's assessment of potential unemployment problem a realistic one?

Mr. HOOD. Yes, sir. As a matter of fact, the New York Times figures you quoted are our figures. We have been working not only with the Maritime Administration, but also with the Navy Department to make sure that we are all on the same wavelength with respect to this serious situation. And I believe we are.

Senator INOUE. What are your thoughts—I believe I know your answer—on the payback concept?

Mr. HOOD. Of course, there is a provision in the law that makes it possible, but aside from that, we believe that the movement of CDS-built vessels into domestic trades eliminates shipbuilding potentials for coastal and intercoastal and noncontiguous routes that would otherwise come to our yards.

Senator INOUE. Do you believe it is in our national interest and in our national security interest to maintain a viable shipbuilding industry in the United States?

Mr. HOOD. That has been the declared policy of the land since colonial days, Senator. And I believe it.

Senator INOUE. Do you believe that our present shipping policy is being implemented the way Congress intended?

Mr. HOOD. The declaration of policy in the 1936 act as modified by the 1970 act; yes. But it is in the implementation and the absence of coordination, as you pointed to earlier, among the various executive agencies that the policy has not been productive.

Senator INOUE. So with the implementation, there is no——

Mr. HOOD. There is no coordination and cohesion, I guess is the best way to describe it.

Senator INOUE. Have you conveyed your concern to the administration?

Mr. HOOD. Yes; from the White House on down.

Senator INOUE. Have you had any response?

Mr. HOOD. How should I answer that? Other than to say that it is under consideration.

Senator INOUE. That is the answer you had 10 years ago.

Mr. HOOD. Yes, sir. I have been fighting the battle for 20 years now, Mr. Chairman.

Senator INOUE. Are you concerned about the predatory pricing of the Soviet fleets?

Mr. HOOD. Yes, sir. And I wouldn't hesitate to use the word "predatory."

Senator INOUE. What do you think we should do?

Mr. HOOD. I would suppose that legislation along the lines that you yourself have proposed should be enacted.

Senator INOUE. Well, we are going to try again to pass that bill, a third-flag bill.

The administration, as you know, has been, at best, lukewarm.

Mr. HOOD. Yes, sir.

Senator INOUE. And always concerned about the sensitivities of other countries. I think it is about time we are concerned about the sensitivities of our country.

Mr. HOOD. I think there is a time in terms of maritime policy when we could well afford to be a little bit more selfish than we have been in the past.

Senator INOUE. Do you think the Justice Department should relax a little on their antitrust activities?

Mr. HOOD. As a neophyte in the law, I would say yes.

Senator INOUE. Do you think it is fair for the Justice Department to prosecute basically just American ship owners and not foreigners?

Mr. HOOD. Totally unfair.

Senator INOUE. I asked the question relating to the capital construction fund program. Do you believe that this law is being properly administered?

Mr. HOOD. Yes, sir, I believe it is an effective mechanism for developing ship construction possibilities for American shipyards.

Senator INOUE. You don't think that the restrictions are unreasonable?

Mr. HOOD. I would have to defer to the judgment of the ship owners and operators on that point, Mr. Chairman.

Senator INOUE. If the energy policy of the United States should change as alluded to by the Secretary whereby we may not be shipping any LNG ships, what would be the effect on the shipbuilding industry?

Mr. HOOD. The potential for construction of as many as 18 LNG vessels would be lost.

Senator INOUE. And convert that into terms of people.

Mr. HOOD. In terms of numbers of people, spread over a 5-year period, you are probably talking about 12,000 a year.

We have 4 yards, Mr. Chairman, that are presently engaged in the construction of 16 LNG's. They are General Dynamics at Quincy, Mass., Newport News Shipbuilding at Newport News, Va., Avondale Shipyard at New Orleans, and, Sun Shipbuilding and Dry Dock at Chester, Pa.

Senator INOUE. Do you think that the present condition of the shipbuilding industry is sufficiently healthy to meet any future defense needs?

Mr. HOOD. The latest report from the Defense Department indicates that the capability of the industry to handle a short-term conflict is marginally adequate. In terms of a long-term conflict, wholly inadequate.

Senator INOUE. And in light of the projection of unemployment and possibly closure of the—

Mr. HOOD. The total capability of the industry to meet the national security requirements of this Nation will diminish.

Senator INOUE. Well, this has been a rather gloomy day.

Mr. HOOD. Yes, sir.

Senator INOUE. I hope that the absence of other members of the committee is not understood to be indicative of the interest shown in the industry.

I can assure you that the subcommittee is much more interested. We are having other problems on this day.

I thank you very much, Mr. Hood. You have been very helpful.

Mr. HOOD. Thank you, Mr. Chairman.

Senator INOUE. And you can count on our help, sir.
Mr. HOOD. Thank you.
[The statement follows:]

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

Mr. Chairman, Members of the Subcommittee. I appear here this morning on behalf of the Shipbuilders Council of America, composed of principal shipbuilders, shiprepairers and ship component manufacturers in all sections of the country (membership listing attached), to urge approval of the FY '79 Budget Authorization request for \$157 million in funding to cover construction differential subsidy (CDS) 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 as 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 continue to increase, 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 usual cost-effective expectancy and must necessarily be replaced by newly-built vessels.

Given a normal 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 rearrangement of maritime policy and in any budgeting for CDS funding.

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 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 \$1.0 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 actual 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, to earn foreign currency and to minimize the social costs of unemployment.

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.

Unfortunately, desperation price cutting 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. A "price" or "subsidy" war is very much in the making, and the implications for the United States could be pernicious.

These "bargains" and the boomerang effect of raising the CDS level to the statutory ceiling of 50 percent or beyond have no doubt discouraged—and will probably continue to discourage—certain new buildings 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 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 FY' 79 Budget will thus support the promotional efforts of the Maritime Administration and encourage marketing endeavors by individual shipbuilders.

Meanwhile, Mr. Chairman, you and the Members of this distinguished Subcommittee, should be aware of the severity of the near-term drop in shipyard employment. 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 five years.

With nearly 30 percent of the U.S. private shipyard workforce (of approximately 180,000 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.

Senator INOUE. The final witness is Mr. Herbert Brand, the president of the Transportation Institute of Washington. It is always good to see you, sir.

STATEMENT OF HERBERT BRAND, PRESIDENT, TRANSPORTATION INSTITUTE OF WASHINGTON

Mr. BRAND. Good morning. Thank you, Mr. Chairman.

I have a brief statement, which I would like to present for the record and to make some comments.

Senator INOUE. Without objection, the full statement will be made part of the record.

Mr. BRAND. Yes, thank you.

I am appreciative of the comments you made in your opening statement, Mr. Chairman, and I think it is one that is incumbent upon us to present to the American people as best we can. And that is your reference to the per capita contributions of the various traditional maritime nations in sustaining a shipping capability as compared to that of the United States.

The numbers you gave were substantially larger as I recall than that of the United States. And I think that gives some points to the fact that the myth of free trade is not as prevalent in world shipping as we like to think.

Senator INOUE. We are the only free traders.

Mr. BRAND. Yes, sir, and we surely appreciate that light that was shed on that. I think it is an extremely important set of numbers.

We want to support this bill before you, S. 2553. Obviously, it is what is needed to provide for the continuing adequate funding of the program, minimal program, we now have. And so we endorse it and urge that the committee as expeditiously as possible adopt it.

But we want to bring to your attention one thing if we may, Mr. Chairman. And that is to point out that in the funding of this present bill, there is an area of the present program in which we have failed,

perhaps, to a greater degree than anything else. The world has changed substantially since 1970. But the Merchant Marine Act of 1970 was designed to meet certain needs present at that time.

And in that changing of the world, the position of the United States has changed substantially.

One of the principal purposes of the act in 1970 was to create a bulk carrier fleet. And considerable effort on the part of the drafters of the legislation was devoted to developing a bulk carrier fleet. Congress took a very hard, long look at it and did a massive amount of work and accumulated a great deal of data as I recall in pointing to the need for that fleet.

And it recognized, as I recall, at that time, that the United States was moving in 1970, I believe, from its historic position of self-sufficiency in raw materials to a position of ever-increasing dependence on oceanborne imports of such materials.

And so it was felt that the need was clear and present. The need was to develop a fleet which could carry a substantial portion of those vital materials. But, unfortunately, the 1970 act hasn't created that dry bulk carrier fleet.

So I would like to urge that the committee give some consideration—as much as is possible—in view of the present climate to amending the act to give impetus to development in that very badly needed area of ocean capability.

As you mentioned earlier, or Mr. Blackwell did in response to a question from you, we have a sorry less than 1 percent in carrying of dry bulk cargoes which means that for practical purposes, everything that we bring in is carried aboard foreign-flag shipping.

And so if I may, I would like to point out that the final report—I think it was last year—of the National Assessment and Planning Conference which was sponsored by the Maritime Administration on the subject of U.S.-flag bulk shipping recommended the following amendments to the Merchant Marine Act in order to realize the goal for construction of new dry bulk carriers:

One was that there should be an exemption from section 804, the foreign-flag vessel holding prohibition for bulk vessel owners and operators.

Two, they suggested that there be permission for bulk vessels to trade foreign to foreign without restrictions carrying the American flag.

Three, permission for ship owners to deposit foreign earnings in capital construction funds.

Four, it was felt that there should be an authorization for the Maritime Administration to grant construction-differential subsidies above the current 50-percent level where conditions warranted that permission.

And they felt that permission for shipowners should be granted to sell bulk vessels prior to the expiration of the statutory life of the vessel, something which Mr. Blackwell pointed to in his testimony earlier.

And finally, perhaps a stopgap "build to chapter" program if it was necessary to commence construction.

We feel the time could not be more propitious for American-flag bulk vessels. I don't want to burden the record, but the current projections show that there is this vast unemployment danger, if there continues to be an absence of commercial orders in the yards.

So we feel that aside from giving us, then, important capability, it will serve a very important social and economic need and one which will contribute to the well-being of our economy and our national security.

And I think you have covered the record very well on what this means in terms of unemployment so I won't presume to read the rest of my statement other than to say that we strongly urge the support of the pending bill and urge that you look into this matter of stimulating the building of a dry bulk fleet.

I thank you very much, Mr. Chairman, as always for your personal and heartwarming interest in the state and plight of the American fleet.

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

I presume you have a position on S. 2420?

Mr. BRAND. Yes, sir, and we have already indicated, and it is my view that a good many of the names that you read off as being in support of that legislation may be unaware of the implications of the provision which would have the effect of barring the participation of American ships in the carriage of certain aid cargoes.

I don't know that everybody is fully aware of the impact of that.

Senator INOUE. Do you have any thoughts on the growth of the Russian fleet and its predatory pricing? Are you concerned about the growth of the Soviet fleet?

Mr. BRAND. Yes, sir.

Senator INOUE. And its predatory pricing?

Mr. BRAND. I am concerned more than I would be if Great Britain had the same objectives in terms of its merchant fleet. I am concerned more than I would be if it was Sweden that had that objective or Japan or any other world democracy.

It is especially significant to me and of considerable concern because of the nature of our relations and the inherent conflict that lies at the base of the Soviet and the U.S. relationship. I think that the Soviets' move is not one in which they are anxious only to get involved in the commercial world of shipping, but it is inextricably interwoven with their political and military objectives. That is the way the dictatorship works.

And you cannot separate any aspects of their social and political objectives as you can perhaps in the case of the United States. We have very, very concrete political objectives, but they do not involve the use of our commercial assets to achieve that apparently, certainly not in the case of our shipping.

Senator INOUE. Well, it is always good to have you with us, Mr. Brand. Your testimony is always helpful.

Thank you very much.

Mr. BRAND. Thank you very much again.

[The statement follows:]

STATEMENT OF HERBERT BRAND, PRESIDENT, TRANSPORTATION INSTITUTE OF WASHINGTON

Mr. Chairman, I want to thank the Committee for giving the Transportation Institute the opportunity to testify on S. 2553, the authorization of appropriations for maritime programs for the fiscal year 1979. The Transportation Institute is a non-profit education and research organization. Its 160 member companies operate United States-flag vessels in all aspects of U.S. foreign and domestic commerce.

The continuation of adequate funding levels for maritime programs continues to be as vital as ever in sustaining a United States merchant marine on the seas of the world and maintaining a shipbuilding base adequate to the needs of the United States in times of national emergency or peace. We strongly endorse the legislation before you and urge the Committee to act on it expeditiously.

In endorsing this legislation, however, we would be remiss in not bringing to the attention of the Committee certain very relevant matters. S. 2553 represents the current year's funding in a continuing ten-year program initiated by Congress in 1970 with only two dissenting votes. That legislation called for the construction of 30 merchant vessels. As this committee is well aware, despite some very notable successes under the program, the aggregate number of vessels constructed has fallen far short of expectations. Numerous reasons can be cited, not the least of which is global shipping conditions in recent years. However, in one area in particular, the 1970 Act has totally failed and we believe this Committee should address this problem as soon as possible after enactment of the pending bill. I refer to the failure of the Merchant Marine Act, 1970, to develop any dry bulk carrier fleet.

One of the principal purposes of the 1970 Act was to create a bulk carrier fleet. No issue in connection with the Act received more time or attention. The Congressional consideration of the legislation is replete with graphs, charts and statements showing the nation's totally deficient and overage bulk cargo fleet and contrasting it with the relatively new and efficient U.S. liner fleet. Congress and this Committee also recognized that the U.S. was moving from a historic position of self-sufficiency in raw materials to a position of ever increasing reliance on oceanborne imports of such materials. As a result of these factors, the 1970 Act for the first time extended construction and operating subsidies to bulk cargo vessels with the intention of building a strong and modern bulk fleet.

Congress was correct in assessing our needs. America is today reliant on imports by ship of 72 vital raw materials. According to the Department of the Interior, the United States must import at least half of its requirements of 13 basic raw materials required by any industrialized society. These include aluminum, chromium, manganese, nickel, tin and zinc. By 1985, the United States will also depend on imports for more than half of its iron, lead and tungsten. And by the year 2000, we will have to import more than half our copper, potassium and sulphur. Our dependence is immense and growing.

Unfortunately, the 1970 Act has not served to meet the need for dry bulk carrier vessels. Though it has serious problems, the U.S. liner fleet is among the most modern and efficient in the world. We have constructed numerous oil tankers, though we are still deficient in that area. However, it is in dry bulk carriers that the 1970 Act has totally failed. Only two such vessels have been constructed under the program. Today, the U.S. dry bulk fleet consists of 17 vessels, almost none of which engage in foreign trade and almost all of which are old. More and more of our raw materials are being imported by sea. An entire new generation of bulk vessels is being developed. Yet the United States continues to lose ground. We believe that Congress should amend the 1970 Act and move to remedy this serious deficiency. Failure to do so can have serious consequences for our national security, balance of payments and domestic employment.

In order to stimulate construction and operation of U.S.-flag bulk vessels, this Committee should seriously consider such changes in the law as may be necessary. The final report of the National Assessment and Planning Conference on U.S.-flag bulk shipping recommended the following amendments to the Merchant Marine Act in order to realize its goal of the construction of new bulk vessels:

1. Exemption from § 804, the foreign flag vessel holding prohibition, for bulk vessel owners and operators.
2. Permission for bulk vessels to trade foreign to foreign without restriction.
3. Permission for ship owners to deposit foreign earnings in capital construction funds.
4. Authorization for MARAD to grant construction-differential subsidies above the current 50 percent ceiling.
5. Permission for ship owners to sell bulk vessels prior to the expiration of the statutory life of the vessel.
6. A stop-gap "build to charter" program if necessary to commence construction.

The time could not be more propitious for rapid commencement of construction on a new series of American-built and American-flag bulk vessels. Current projections show that by 1980, 45,000 men and women will lose their jobs in American shipyards because of the absence of new commercial orders. During fiscal year

1979, we will see a rapid decline in shipyard employment. The skills which are lost may be irreplaceable, and could adversely affect the United States defense posture in the future. Close to 30 percent of the work force in U.S. private shipyards is composed of minority groups. Many of these have been hired relatively recently. Since 1970, there has been an increase of more than 75 percent in minority workers employed in shipyards, with much of the gain consisting of black employment. Many of these workers will most dramatically feel the impact of reductions in force in the shipyards.

We strongly urge the Committee, upon concluding its deliberations on the current maritime authorization bill, to enact legislation strengthening the dry bulk carrier fleet.

Thank you, Mr. Chairman.

Senator INOUE. With this, the committee will stand in recess.

And the record will be kept open for statements that may be submitted by other members of the committee.

[Whereupon, at 12:50 p.m., the hearing was adjourned.]

[The following information was subsequently received 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 United States flag shipowners, greatly appreciates this opportunity to indicate its support for S. 2553, a bill to authorize the appropriation of funds requested by the Administration for its fiscal year 1979 maritime programs. AIMS is comprised of 25 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 programmed 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.

U.S. maritime programs happen to be conducted in the full light of day. 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. These programs merit far more support than they receive.

Secretary Blackwell's March 10 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, we 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 the Committee.

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. Relatively few U.S.-flag ships would meet such a rigid and limited criterion.

However, a more current and we suspect more persuasive argument has been voiced by the Navy. 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. The Navy has testified in the past that a wide range of vessels are required to meet our needs; 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 S. 2553. We do appreciate the opportunity to have presented our views and thank you for your consideration.

STATEMENT OF THE AMERICAN MARITIME ASSOCIATION

The American Maritime Association, as shown by the attached membership roster, consists of 35 companies operating 100 United States-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 45 tankers and dry bulk carriers, built without GDS and being operated without ODS, except for the special subsidy being paid by the Government for the carriage of Russian grain.

The monies 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 member.

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 fleet 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 shops 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 preface 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 stand 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.

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 expenses 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 eight 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 Administration 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 would 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.

STATEMENT OF EARL W. CLARK AND TALMAGE E. SIMPKINS, CO-DIRECTORY
LABOR-MANAGEMENT MARITIME COMMITTEE

The Labor-Management Maritime Committee, composed of oceangoing steamship lines and maritime labor, appreciates the opportunity to present this statement in support of S. 2678. This bill would authorize appropriations for the Maritime Administration of the Department of Commerce for fiscal year 1979 and such sums as may be necessary for fiscal year 1980.

Provision for \$157 million for ship construction over the next fiscal year represents an amount only \$22 million in excess of that requested last year. However, a carry-over of some \$122 million from previous years would total \$279 million 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 million 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 then meet the needs for such programs for fiscal year 1979. We support authorizations 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.

Appropriate committees of both the House and Senate are addressing themselves to certain of these areas and we commend these committees for their foresight in doing so. Meanwhile, the provisions of S. 2678 appear to cover identifiable authorization needs for fiscal year 1979, and we support this legislation as currently introduced.

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