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**AUTHORIZE APPROPRIATIONS FOR CERTAIN
MARITIME PROGRAMS**

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**HEARING
BEFORE THE
SUBCOMMITTEE ON
MERCHANT MARINE AND TOURISM
OF THE
COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE
NINETY-SIXTH CONGRESS**

FIRST SESSION

ON

S. 640

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

APRIL 4, 1979

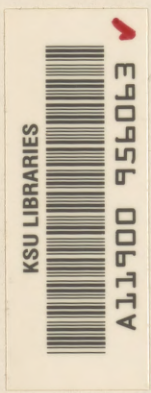
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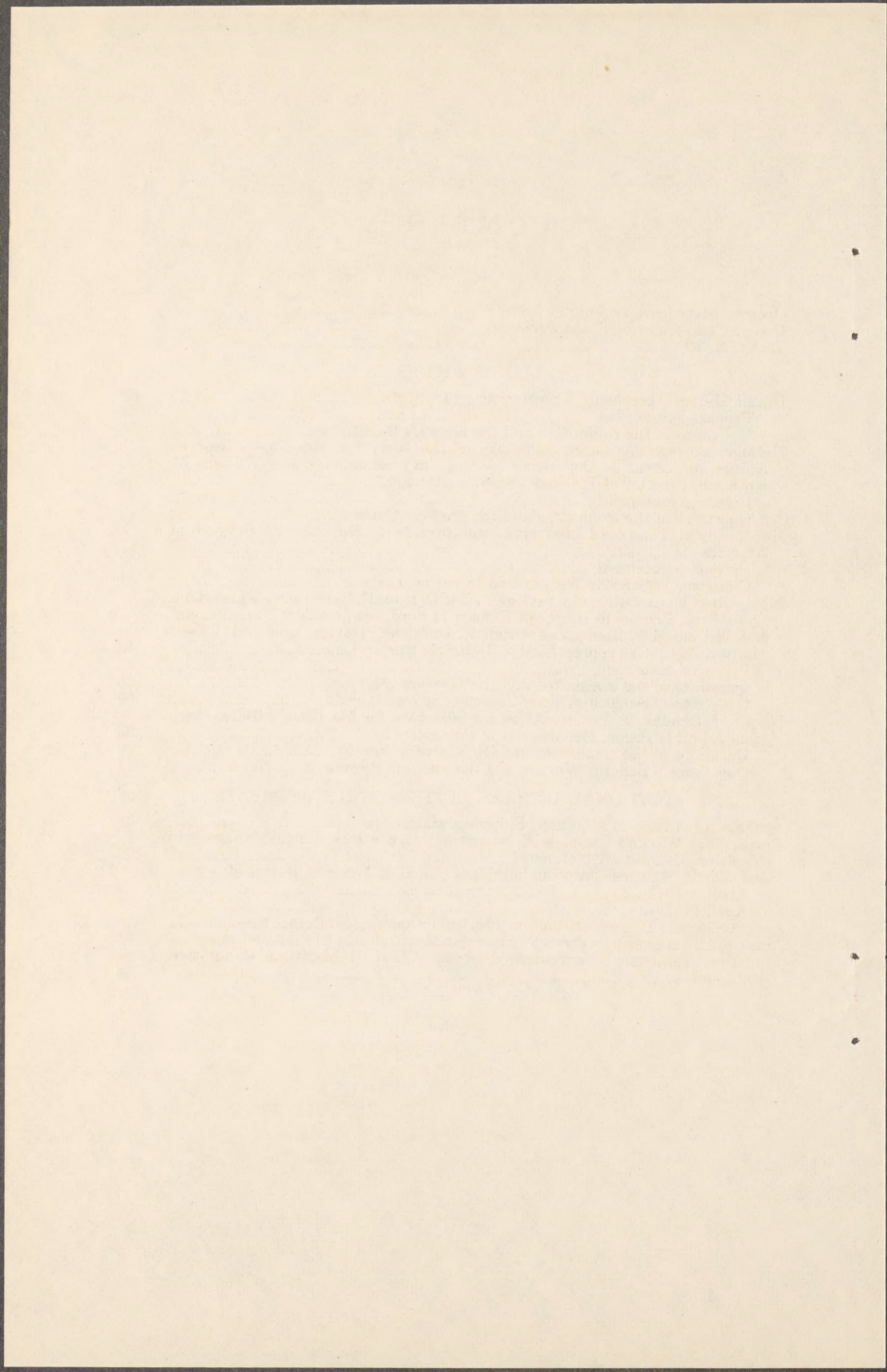
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AUTHORIZE APPROPRIATIONS FOR CERTAIN MARITIME PROGRAMS

WEDNESDAY, APRIL 4, 1979

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

The subcommittee met at 10:20 a.m., in room 235 of the Russell Senate Office Building; Hon. Daniel K. Inouye (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR INOUE

Senator INOUE. This morning the committee begins hearings on S. 640, a bill introduced at the administration's request which would authorize appropriations for the fiscal year 1980 for certain maritime programs of the Department of Commerce.

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. This bill authorizes appropriations for those activities listed in section 209.

The requests, by activity, are: \$101,000,000 for ship construction; \$256,208,000 for operating-differential subsidies; \$16,360,000 for research and development; and \$34,616,000 for maritime education and training expenses. This includes \$25,874,000 for maritime training at the U.S. Merchant Marine Academy at Kings Point, N.Y.; \$6,785,000 for assistance to State marine schools; and \$1,975,000 for supplementary training authorized under section 216(c) of the Merchant Marine Act, 1936; and \$35,598,000 for Maritime Administration operating expenses. This amount will provide \$6,377,000 for the National Defense Reserve Fleet; and \$29,221,000 for operating expenses related to the development and use of waterborne transportation systems and to general administration.

Added to that amount is \$73,506,000 in carryover and deferral funds, so that the program level for the Maritime Administration for fiscal year 1980 totals \$517,288,000.

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.

S. 640 is especially noteworthy in this regard because its subsidy program for ship construction provides for three dry bulk ships at a subsidy cost of \$69 million. The administration has indicated it will submit legislation this year to eliminate restrictions that have discouraged U.S. construction and operation of dry bulk ships.

The 1970 amendments to the Merchant Marine Act of 1936 made construction-differential subsidy available for dry bulk cargo ships in an effort to encourage the growth of this segment of the U.S. merchant fleet. Despite that effort, the U.S. dry bulk fleet today numbers only 19 vessels and carries less than 2 percent of our dry bulk trade. The United States is therefore almost totally dependent upon foreign-flag ships to carry bulk cargoes essential to U.S. import and export trades.

From the standpoint of national defense, the potential consequences of our inadequacy are especially serious. The United States is self-sufficient in only 3 of 71 strategic materials essential to national defense. We import 94 percent of our bauxite, 92 percent of our chromium, and 98 percent of our manganese. Moreover, our reliance on waterborne imports of raw materials for all purposes is increasing.

According to one source, the next 20 years will see only about 50 liner ships being constructed, as compared with 2,000 in the bulk area. He noted that if the United States could get one-third of the 2,000 new bulk ships, we would see a shipbuilding program of 600 vessels over the next 20 years.

The Maritime Administration has said that it anticipates problems and a decline in shipbuilding employment as ship deliveries shrink orderbooks in the next few years. But the agency anticipates that the dry bulk construction that might be stimulated by the legislation which the administration will submit could begin as early as 1980.

According to MarAd, U.S. shipbuilding subsidies in recent years averaged \$234 million annually.

France, on the other hand, allocated \$225 million this year for direct shipyard subsidies.

Since nationalization of its shipbuilding industry in Britain in 1977, some \$400 million have gone to shipyards, and \$445 million in financing credits have gone to shipowners ordering vessels from British yards; and another \$870 million for employee layoff compensation is forecast.

Over the next 5 years Italy is allocating \$1 billion in shipyard subsidies, while the Netherlands Government subsidies for new ships over the past 2 years amounted to \$380 million.

Ship construction subsidy is therefore not unique to the United States. Just as importantly, the foregoing statistics indicate that other maritime nations understand very well the importance of a vital shipbuilding industry.

This morning the committee will hear from the administration and several other witnesses on the importance of the programs and their funding levels as proposed in this bill.

Senator Warner.

OPENING STATEMENT BY SENATOR WARNER

Senator WARNER. Thank you, Mr. Chairman.

A study prepared last year for the Maritime Administration entitled "Economic Impact of the U.S. Merchant Marine and Shipbuilding Industries" found that the U.S. maritime industry accounted for, among other things: 480,000 American jobs; \$16.6 billion in sales in the economy; \$4.8 billion in personal revenue; and \$1.6 billion in Federal, State, and local tax revenues.

The study found that each dollar of sales by our merchant marine produces a total output of \$1.80 in sales throughout the economy. Also, each dollar of sales by the shipyard industry produces a total output of \$2.10 in the economy. The study disclosed that up to one-half of the subsidy outlays are returned to the U.S. Treasury in the form of tax accruals.

One of the study's conclusions is that economic benefits to the Nation of the maritime industry far outweigh the average annual \$550 million in Federal ship construction and operation subsidy outlays of recent years.

One would think that an industry which contributes so many positive benefits to the Nation would be looked upon with favor and be in rather sound fiscal shape.

But such is not the case. The maritime industry finds itself beset by a multitude of problems and under attack both within the Government and in the private sector.

Currently, the White House, through its interagency maritime task force, is formulating a maritime policy option memorandum which, if implemented, will go a long way toward changing the maritime industry as it is now known. It is unofficially reported that the administration will be submitting this option memorandum to Congress sometime this month.

As I believe it is high time that we constructively examine the maritime industry, I eagerly await this option paper and the opportunity it presents to explore all of the issues that concern the maritime industry. I certainly hope and expect that constructive legislation will result for this beneficial industry.

Certain legislators have attacked the Federal ship construction and operation subsidies—the same subsidies which the study proved so beneficial—as being unnecessary, wasteful of the taxpayers' money, and a gift to the Nation's shipbuilders.

The Maritime Administration, which administers both of these subsidy programs, is charged with, among other things, the development and maintenance of an adequate and well-balanced American merchant marine and promotion of the commerce of the United States.

With recent disturbing news hitting the papers weekly that the world's shipbuilding level is at its lowest level in the past 10 years, that the Nation's shipbuilding industry is in sharp decline and could be halved by 1984, and that the Nation's merchant marine officers are becoming a critical commodity, I am going to listen very closely to how the Maritime Administration intends to carry out its charged responsibilities, and also listen to recommendations that MarAd and the other witnesses provide to improve the Nation's maritime industry.

Thank you, Mr. Chairman.

Senator INOUE. Thank you, sir.

[The bill follows.]

[S. 640, 96th Cong., 1st sess.]

A BILL To authorize appropriations for the fiscal year 1980 for certain maritime programs of the Department of Commerce, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Maritime Appropriation Authorization Act for Fiscal Year 1980".

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

(1) For acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, not to exceed \$101,000,000;

(2) For payment of obligations incurred for operating differential subsidy, not to exceed \$256,208,000;

(3) For expenses necessary for research and development activities, not to exceed \$16,360,000;

(4) For maritime education and training expenses, not to exceed \$25,874,000, including not to exceed \$17,132,000 for maritime training at the Merchant Marine Academy at Kings Point, New York, not to exceed \$6,785,000 for financial assistance to State marine schools, and not to exceed \$1,957,000 for supplementary training courses authorized under section 216(c) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1126(c)); and

(5) For operating expenses, not to exceed \$35,598,000, including not to exceed \$6,377,000 for reserve fleet expenses, and not to exceed \$29,221,000 for other operating expenses.

SEC. 3. There are authorized to be appropriated for the fiscal year 1980, in addition to the amounts authorized by section 2 of this Act, such additional supplemental amounts for the activities for which appropriations are authorized under section 2 of this Act, as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law, and for increased costs for public utilities, food service, and other expenses of the Merchant Marine Academy at Kings Point, New York.

Senator INOUE. Our first witness is the Assistant Secretary of the Navy for Manpower, Reserve Affairs, and Logistics, Hon. Edward Hidalgo, who will be accompanied by the Director of Transportation, Mr. William W. KinKead.

Mr. Secretary.

STATEMENT OF EDWARD HIDALGO, ASSISTANT SECRETARY OF THE NAVY FOR MANPOWER, RESERVE AFFAIRS AND LOGISTICS, DEPARTMENT OF THE NAVY; ACCOMPANIED BY WILLIAM W. KINKEAD, DIRECTOR OF TRANSPORTATION

Mr. HIDALGO. Good morning, Mr. Chairman, Senator Warner. I am honored to appear before you, accompanied by Mr. KinKead, and, very frankly, even a summary of my short statement, I think, would be a gross imposition upon this committee, because your opening statements, Mr. Chairman and Senator Warner, have already indicated with quick clarity what the problems are.

The role of the Navy in this situation is one of expressing the tremendous interest and importance it attaches to the U.S. merchant marine as the cornerstone of our sealift capability. We know we need, and we fully support, a viable merchant marine in both peace and war. Over 95 percent of the Defense Department's dry cargo moves on privately owned U.S. flagships. In peacetime, much of our dry cargo is shipped in the U.S.-berth liner service along with the foreign and domestic commerce of the United States. In wartime and under certain contingency situations, we would be almost entirely reliant on civilian shipping assets. Thus, the health

of the U.S.-flag merchant marine is vital to our national defense and security.

The U.S. merchant marine is, of course, more than operations in the general cargo liner trades. Tankers, bulk carriers, and special-purpose ships are also vital to our national security as is the vitality of the shipyards which construct and repair both naval and merchant vessels.

I would like to pause there, if I may, Mr. Chairman, to say that the shipyards have occupied a considerable amount of my attention in the past 2 years, as Senator Warner knows. I have visited all our naval yards, including the one in Pearl Harbor. I visited many of our private shipyards, and as you have already expressed, again with great clarity, the outlook is rather bleak for that hugely important infrastructure of ours.

The descending curves of the work forces in many of these shipyards are a matter of the utmost preoccupation to the Navy.

May I add that I am honored to be here for Secretary Claytor, who unfortunately couldn't be with you, but asked me to take his place. He is keenly aware of the situation I just referred to, and as I have observed, it is a matter of the utmost preoccupation.

You have already pointed out, Mr. Chairman, the money that is being allocated for dry-bulk vessels in the administration's 1980 budget and the legislative proposals in this area. We are all aware of the worldwide surplus of tankers, although the current U.S.-flag tanker fleet is currently employed. That is one optimistic note.

Our own tanker fleet, which carries approximately 4 percent of our oil imports, needs to be modernized. And for me to comment on the various points of the bill, S. 640, Mr. Chairman, again, would be a gross imposition. So, I think what I would wish to do is just end my statement there and leave it to you to tell me in your questions what areas of interest you have.

Let me emphasize this: I think there has been a fair amount of opinion that the collaboration and the closeness between the Navy and MarAd may not have always been ideal. Secretary Claytor has personally attended to this situation. He has met on four occasions in the past 6 months with Secretary Kreps and with Mr. Blackwell. I was present at one of those meetings. I can assure you, sir, that it is our intention to implement this collaboration to the maximum degree possible.

Nothing interests us more than this collaboration, in view of our own Navy budget, in view of our own Navy shipbuilding program, which is a matter of the utmost concern with respect to the numbers of ships and other budgetary constraints. The U.S. merchant marine takes on added importance and added urgency.

So, sir, I will leave it there and respond to your questions as best I may.

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

I am certain you are aware that in the Soviet Union the comparable department that is in charge of the maritime affairs comes under the DOD. It is part of their war effort or their defense effort. Here we have two separate agencies: One is the Department of Commerce, and the other is the Department of Defense; more specifically, the Department of Navy. Those Departments, accord-

ing to the Merchant Marine Act of 1936, should be coordinating and getting together every so often.

Can you tell this committee how often the Secretaries of Commerce and Navy have physically met to discuss their respective responsibilities in this area, the merchant marine area?

Mr. HIDALGO. As I said earlier, Mr. Chairman, Mr. Claytor has met four times with Secretary Kreps and with Mr. Blackwell. He has shown a deep interest in maritime affairs.

I know that Mr. KinKead meets very frequently with our joint working groups and at the working levels in MarAd.

So, there is no question that since we have been aboard, while I can't speak for earlier times, there is growing attention, a growing emphasis, on this contact and this relationship. And the plan is to have quarterly meetings, Mr. Chairman, of the type I have described.

Senator INOUE. I have long maintained that, as Senator Warner so eloquently stated, this is an area that should be of grave concern to all of us. It is not one that affects only the economy and the trade of the United States, but the defense itself. That being the case, it has always disturbed me and distressed me to note that we're not working as a team in this area.

Now, for example, we have a law which says you shall not rebate. We issue subpoenas duces tecum and hand down indictments of shipping companies to enforce that law. But it just happens they're always American shipping companies. Foreign companies always resist these subpoenas on the grounds that they are prohibited by the laws of their country from complying.

Recently, the Federal Maritime Commission issued an order to the Baltic Steamship Co. The Baltic Steamship Co., as you are well aware, is a Soviet company wholly owned by the Government of the Soviet Union. It is not a privately owned shipping company. It is part of the Government.

The Baltic Steamship Co. refused to comply with the provisions of the FMC order to provide documents. So, the Maritime Commission decided that it would take Baltic to court. The Maritime Commission was doing exactly what it would do against American steamship companies. But, lo and behold, the State Department and the Justice Department stepped into the case, not on the side of the FMC, but on the side of the Baltic Steamship Co.

Are you aware of this case?

Mr. HIDALGO. I was not; no, Mr. Chairman. But I have listened with great interest.

Senator INOUE. I would suggest you study this.

Mr. HIDALGO. Yes, sir.

Senator INOUE. Because this is a little capsule of a major problem being faced by the merchant fleet of the United States. We're not working as a team. I have said this, and not facetiously. It's long overdue. We need an American desk in the State Department. We've got all kinds of desks—a Soviet desk, a Japanese desk, Italian desk, Israeli desk. I think it's about time we have an American desk.

We are also at fault because we pass laws that prevent activities like this. But I can assure you this subcommittee has been trying

its best to bring about a change here. But we have not received much cooperation.

Speaking of strange laws, I am also a member of the Intelligence Committee, and this might interest you, sir, because you have been with the Defense Department a long time. We have the freedom of information law in order to provide the people of the United States access to documents that we may have in our filing cabinets. Well, the way the law is written, it's not just for American citizens. It is for anyone here.

A few days ago the CIA received a freedom of information request from the People's Republic of Poland. You realize, under the law, we will have to abide by that request. I think next week we will get one from the Soviet Union. And I think the CIA will receive another request from the Soviet Union.

Something has gone haywire here. I am just trying to get a handle on this. We will get to it somehow. I thought I would let you know that we should be working as a team.

Mr. HIDALGO. Yes, sir.

Senator INOUE. Are you satisfied that the Navy and the Commerce Department are really coordinating responsibilities?

Mr. HIDALGO. I will answer that by saying that we wish to do so to the maximum possible extent, Mr. Chairman. On that, you have my assurance. That we're doing it perfectly, I would be most hesitant to say. But the intention and priority exist, that is unquestionable.

Senator INOUE. Because like you, sir, I am very much concerned with the state of our merchant fleet. We have many in the United States who argue that there is nothing wrong with having foreign vessels carry our goods. If they can provide the services at a less cost, we should use them.

As a result, we have a strange situation where foreign assistance goods are now being carried overseas on Soviet ships. I wonder how the recipients take this, to see American gifts being carried on a Red ship? But that's what the law says, because you have to go to the cheapest. The Soviet fleet has no board of directors or they have no stockholders. So, profit is not an important element to them. And at the rate they're going, I won't be a bit surprised if within 5 years they will be No. 1 in the Pacific and No. 1 in the Atlantic.

If that ever happens, sir, the oil embargo will be like child's play. When you have a shipping embargo, then you'll know we're in trouble. I just hope the State Department and the Justice Department are equally concerned. But their actions of recent years have not convinced me of that.

It has been said that history reveals that in World War II U.S. shipping and the output of American shipyards were major factors in turning the tide of victory against the Axis, and this was publicly knowledgeed by General Eisenhower when he was supreme commander of the forces in Europe.

It is true today in the event of a NATO wartime contingency, the United States would have access to shipping resources in many other places where these NATO contracts are not involved. It is doubtful whether these assets would be available to the United States.

That was borne out by the October 1973 Middle East war, when our NATO allies did not even give us landing rights for military aircraft, let alone shipping support. Such cooperation would have offended the Arab nations upon whom they were depending for energy supplies.

The Vietnam war was another conflict in which the United States could not rely on NATO shipping to supply us. In fact, many of these allies denounced our military operations in that country, and the U.S. merchant marine provided the sealift nearly single-handedly. For those who maintain that airlift could replace sealift support of our military, I would point out that the largest cargo aircraft in existence, the 747 freighter, can carry a payload of only 100 tons on a transatlantic flight.

Clearly, the U.S. merchant marine is a vital component of our national defense and will remain so for the foreseeable future.

Mr. Secretary, do you believe that the present working relationship and coordinating between MarAd and your Department recognizes how vital the U.S. merchant marine is?

Mr. HIDALGO. Yes, sir, I do.

Senator INOUE. In order to assure the full committee of this working relationship, could you provide us with a memo setting forth how this relationship and coordination is being carried out?

Mr. HIDALGO. With pleasure.

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

The U.S. Navy and the Maritime Administration work closely together and interface, both organizationally and operationally. The purpose of this interface is to assist in fulfillment of responsibilities of both organizations specified in the Merchant Marine Act of 1936. The primary responsibilities of the Secretary of the Navy under the Merchant Marine Act of 1936 are:

1. Examining plans and specification for new construction ships and suggesting to the Secretary of Commerce any changes so that the ship will be suitable for conversion into a naval or military auxiliary or otherwise suitable for the use of the United States Government in time of war or national emergency. (Section 501(b)).
2. Promulgating, in conjunction with the Secretary of Commerce, regulations under which commercial shipping may be built in Navy yards; advising the Secretary of Commerce on annual surveys of existing privately-owned yards to ascertain if their capabilities for merchant ship construction provide an adequate mobilization base for national defense and national emergency. (Section 502(e) and (f)).

Procedures to discharge the first responsibility are under the cognizance of the Chief of Naval Operations, who is assisted by the Naval Sea Systems Command and the Military Sealift Command. All new construction ships to be used in the foreign commerce of the United States and which make application to the Secretary of Commerce for a construction differential subsidy are reviewed and changes are recommended as necessary by the Navy. The latter responsibility is executed for the Secretary of the Navy by the Commander, Naval Sea Systems Command.

The primary organization to achieve this interface has until recently been the Navy-Maritime Administration Policy Planning Group which was established to assist in fulfillment of responsibilities of the Navy and the Maritime Administration specified in the Merchant Marine Act of 1936, as amended. This group is jointly chaired by the designated representatives of the Secretary of the Navy and the Assistant Secretary of Commerce for Maritime Affairs. These two representatives are the Deputy Chief of Naval Operations (Logistics) (OPNAV), and the Assistant Administrator for Policy and Administration (MARAD). Other members are selected by the Co-Chairmen on an Ad-Hoc basis governed by the subjects under consideration. Meetings are held periodically. The Charter of the Planning Group encompasses a broad spectrum of Joint Commerce and Defense responsibilities; policy areas addressed, implemented and monitored by the continuing meetings of the Navy-Maritime Administration Policy Planning Group include:

1. *Sealift enhancement plan (SEP)*.—Designed to improve logistical and strategic sealift capabilities. Includes proposals for Build and Charter legislation and modernization of the Military Sealift Command (MSC) fleet.

2. *Sealift readiness program (SRP)*.—Contractual commitment by commercial carriers to commit up to 50 percent of their ships for military use in a non-mobilization type emergency within 10, 30 and 60 day timeframes. The SRP is augmented by additional ships made available under P.L. 95-298.

3. *National Defense Reserve Fleet (NDRF)*.—Composition and numbers are maintained as mutually agreed between the Maritime Administration and the Navy.

4. *Ready Reserve Force (RRF)*.—Selected NDRF ships upgraded and placed on short notice readiness to respond to contingencies. Ultimate goal is to have the equivalent of 30 Victory ships maintained in such a state of readiness that they could be put into operation within 10 days. The Fiscal Year 1979 program plan includes 14 ships.

5. *Navy/Maritime Administration/OMB Five-Year Coordinated Shipbuilding Study*.—Completed August 1975, the study developed five-year projections of subsidized, private unsubsidized and Navy ship construction in U.S. shipyards and identified no seriously conflicting demands for resources among the programs. This study will be revised and updated as required.

6. *National Defense Features (NDF)*.—Changes to make ships more suitable in time of war or national emergency are continuously under review. Ship owners are encouraged to build these features, higher speed and organic lift for example into their ships and are compensated monetarily for doing so. Certain statutory changes are being recommended to improve the program.

7. *Joint Navy/MARAD Design Team*.—Participates in development of criteria for National Defense Features in merchant ships and coordinates Navy technical actions related to the utilization of merchant ships in naval roles.

The foregoing are examples of programs developed as a result of recommendations by the Navy/MARAD Policy Planning Group. All are directed toward improving the ability of the U.S. Merchant Marine to serve as an augmenting force in an emergency. Additionally, the Maritime Administration and the Navy jointly assessed the adequacy of the shipbuilding mobilization base to satisfy certain simulated workloads. This study sponsored by the Secretary of Commerce and Secretary of Defense contains conclusions and recommendations regarding the shipbuilding mobilization base.

The most recently established organization to achieve the Navy interface with MARAD is the Navy-Maritime Policy Board. Established 31 October 1978, this Board essentially upgrades the Navy/MARAD Policy Planning Group by elevating the co-chairmanship to the Secretary of the Navy/Assistant Secretary for Maritime Affairs (MARAD) level. Maritime industry representatives are invited to attend meetings of the Board.

Finally, there is the Joint MARAD/Navy Shipbuilding and Repair Committee which is concerned with operational and contracting problems within the shipbuilding industry. This committee meets periodically for the purpose of providing coordination and cooperation between the Maritime Administration and the Navy Department, and to advise the Secretary of Commerce and the Secretary of the Navy as to mobilization, adequacy, and efficiency of the shipbuilding and repair industry and the impact of all Government and private shipbuilding programs upon the industry.

Examples of Joint Navy/MARAD initiatives in process to improve future capabilities of the Merchant Marine include efforts to improve merchant ship communications, and to provide naval training of Merchant Marine Officers.

Senator INOUE. Because we have been told in the past that there was almost no coordination.

Mr. HIDALGO. Well, what I said earlier, sir, I need not repeat. There have been the meetings at the highest level, to which I referred, and there are very frequent meetings by my Director for Transportation, Mr. KinKead. In my staff meetings, these matters arise almost every week.

So, there is no lack of interest, Mr. Chairman, which doesn't mean that we are doing everything we possible could.

Senator INOUE. Thank you very much.

Senator Warner.

Senator WARNER. Thank you, Mr. Chairman.

I would like to say it is not necessary to come to the defense of this witness, because I know him well professionally and the United States is fortunate to have your services.

Mr. HIDALGO. Thank you.

Senator WARNER. I occupied a position similar to yours for over 5 years.

It is an interesting thing, Mr. Chairman, that there have been—both under a Republican administration and a Democratic administration—some difficulty with the coordination of these two governmental entities. I guess it goes way back.

But I think the chairman stresses—and I endorse this position—that we somehow must improve the relationship between these two government authorities for the overall benefit of the merchant marine.

I have before me, Mr. Chairman, the report of a group of Governors that looked into shipbuilding. If I may, I would like to read a brief portion of that report in the record.

Senator INOUE. Without objection.

Senator WARNER. Thank you. It relates directly to the point you are raising, Mr. Chairman. It states, as follows:

When shipbuilding capacity is diminished, ship repair and retrofitting capacity is also diminished. Repair and retrofitting capacity is not only the most profitable activity of shipyards, but it is essential to the maintenance of our current fleet. Given the current policy of reduced construction of new navy vessels—and I believe those figures are down to something under 70 ships now in the five-year program, in contrast to in excess of 150 ships in the predecessor Administration. "It requires five to 10 years to construct a navy ship and approximately three years for a merchant vessel. To reactivate a shipyard requires a minimum of three years. Given these lead times if shipyards are forced to materially cut back on their capabilities, if significant numbers of their labor force is dispersed, is it even possible in view of modern weaponry and warfare to ready the shipyards in a national emergency?

Independent of your analysis, Mr. Chairman, the Governors have found the same conclusion.

The question I direct to the witness is: What studies do you have of the current levels of civilian employment in shipyards, and what do those curves show?

Mr. HIDALGO. Well, Senator Warner, I have the current program right here and it shows that if you take commercial overhaul, repair, and Navy overhaul and repair, and current Navy new construction the figure for the 5-year program, 1980-84 is 80 ships.

On that basis, you've got a tremendous declining curve of employment, going from 180,000 down to about 120,000 in 1985.

Senator WARNER. What percentage dropoff is that?

Mr. HIDALGO. That is about a 30-percent decline.

Senator WARNER. In what period of years, now?

Mr. HIDALGO. In 5 years.

Senator WARNER. Five years?

Mr. HIDALGO. Yes.

Senator WARNER. Well, that would lead to major layoffs we can anticipate in the industry in the course of the next several years.

Mr. HIDALGO. Yes, sir. In fact, it's more than 30 percent, Senator Warner. Mind you, I would like to point out that out of the total employment, which today is approximately 168,000 in the private shipbuilding industry, the Navy workload, new construction,

repair, and overhaul, accounts for 55 percent. So, that just confirms what you and the chairman have been saying concerning the huge importance of this cooperation between Navy and MarAd.

Senator WARNER. Also, it impacts on our national security?

Mr. HIDALGO. Correct.

Senator WARNER. Refreshing my recollection with respect to MSTs and its successor entity, what is the status of that organization in the Navy?

As you know, Mr. Chairman, the Department of Navy operates its own quasi-civilian fleet.

Mr. HIDALGO. The MSC, Senator Warner, what is the status of it?

Senator WARNER. Yes, the number of ships today.

Mr. HIDALGO. Number of ships? The MSC-controlled fleet as of 30 March 1979 totals 106. Full operating status, 103. Reduced operating status, 103.

Senator WARNER. Are there any current studies on sealift under way? We used to continually have them. Have any been completed recently?

Mr. HIDALGO. I will ask Mr. KinKead to answer that.

Mr. KINKHEAD. Senator Warner, we annually review the size of the Military Sealift Command controlled fleet. In addition, there are other studies ongoing involving civilian manning and the transfer of more fleet support missions to the Military Sealift Command.

Senator WARNER. Are you implementing any bill or charter programs?

Mr. HIDALGO. I would like to respond to that.

Senator WARNER. I am keenly interested in that. I recall, my tenure in early 1977, in this position, when I was confronted with some problems out of the old build-and-charter situation. I am sure you are familiar with it—we both had two shipyards—and the position we felt we had to take.

Mr. HIDALGO. We are conducting a very active study, and it is under my direct supervision, on how we should go about build-and-charter and what kind of a proposal we will bring to Congress.

I would hope that within the next 2 months or so we will have completed that. We are getting the lawyers very busy on it, because, as you know, sir, the previous setup was, what I would call, a little Byzantine. It was a most involved legal situation.

I have been a lawyer 43 years. That was one of the most involved situations I have seen in many a day. I am sure there is some way to simplify that and some way to bring it up to Congress without some of the earlier complications.

I consider build-and-charter to be an extremely important initiative, and we are pushing it vigorously.

Senator WARNER. The reason again being that there are areas of military usage which do not necessarily comport with the most efficient need for ships and the most economic need for ships in today's worldwide competition.

Mr. HIDALGO. And when the numbers of our ships are being so significantly reduced, we have got to find ways, and correct ways, acceptable ways, of supplementing our national security.

Senator WARNER. Thank you, Mr. Chairman.

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

Mr. HIDALGO. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF EDWARD HIDALGO, ASSISTANT SECRETARY OF THE NAVY FOR
MANPOWER, RESERVE AFFAIRS, AND LOGISTICS

I am pleased to appear before this distinguished Committee to present the views of the Navy Department with respect to the U.S. Flag Merchant Marine. I am accompanied today by William W. KinKead, Director of Transportation of my staff.

Before answering any questions you may have, I wish to touch briefly on a few basic maritime matters. First, the U.S. Merchant Marine is the cornerstone of our sealift capability. We know we need and we fully support a viable Merchant Marine in both peace and war. Over 95 percent of the Defense Department's dry cargo moves on privately-owned U.S. flag ships. In peacetime, much of our dry cargo is shipped in U.S. berth liner service along with the foreign and domestic commerce of the U.S. In wartime and under certain contingency situations, we would be almost entirely reliant on civilian shipping assets. Thus the health of the U.S. Flag Merchant Marine is vital to our national defense and security.

The U.S. Merchant Marine is, of course, more the operations in the general cargo liner trades. Tankers, bulk carriers, and special purpose ships are also vital to our national security as is the vitality of the shipyards which construct and repair both naval and merchant vessels. And, certainly the operation, construction, and repair of the U.S. Merchant Marine is dependent upon trained productive civilian manpower.

In the berth liner service, we have seen some improvement in the U.S. fleet. Although the competition from foreign flags is very keen and our U.S.-flag operators are often competitively disadvantaged on certain trade routes, we understand that the U.S. share of our foreign trade now stands at about 30 percent. The dry bulk fleet is old and very small and moves only a small percentage of our shipments. Although there now appears to be a worldwide surplus of dry bulk tonnage, we do not believe that condition will continue indefinitely. In any event, prudence dictates that actions be taken to revitalize that segment of U.S.-flag shipping. The Administration's 1980 budget contains 69 million dollars for dry bulk vessels. In addition, the Administration is currently reviewing legislative proposals in this area. We are all aware of the worldwide surplus of tankers, although the current U.S.-flag tanker fleet continues to be fully employed. Our own tanker fleet, which carries approximately 4 percent of our oil imports, needs to be modernized.

I recognize that the primary purpose of your hearing today is to consider the fiscal year 1980 appropriations authority for the Maritime Administration (MARAD) of the Department of Commerce. Therefore, I will comment briefly on the major elements of the MARAD budget.

Direct federal maritime subsidies are generally intended to provide cost parity for the U.S.-flag operator in ship construction and operating costs. Construction Differential Subsidy (CDS) provides the differential necessary for construction in U.S. yards thus keeping a shipyard base for the construction and repair of naval vessels. This also provides us with U.S.-flag ships upon which we rely to carry our cargoes in peace and war. In addition, CDS funds are used to provide National Defense Features (NDF) on these ships in order to make them more useful for military purposes.

Operating Differential Subsidy (ODS) keeps U.S.-flag ships operating on the essential trade routes of the U.S. and thus guarantees the availability of ships in being for national defense. Quite a large number of break-bulk ships which are very useful for defense purposes currently operate with ODS.

The Research and Development (R&D) accomplished by MARAD promotes the design of more competitive ships thus providing a potentially larger U.S.-flag merchant fleet for national defense and security. In addition, MARAD has been active in the development of new and more efficient ship construction techniques, thus providing better naval and merchant ships.

With regard to Merchant Marine Training, the graduates of the U.S. Merchant Marine Academy and of State Marine schools serve as a source for U.S. Naval Reserves. They also provide us with a number of critical skills in our seafaring manpower base.

We consider the National Defense Reserve Fleet (NDRF) as a useful national resource, particularly the Ready Reserve Fleet (RRF) segment which, under our current program, will provide us with improved sealift readiness and early availability.

To summarize the Navy's broad convictions with respect to the U.S.-Flag Merchant Marine and related industrial infrastructure, we hold that a viable Merchant Marine is vital to the national security. As in the past, we will continue to work

with the Maritime Administration (MARAD) to improve the posture of the Merchant Marine. In addition, we have recently taken steps to strengthen our coordination with MARAD. The Secretary of the Navy has been personally involved. This Committee can be assured of the Navy's commitment to the maintenance and improvement of the U.S.-Flag Merchant Marine.

THE ASSISTANT SECRETARY OF THE NAVY,
MANPOWER, RESERVE AFFAIRS, AND LOGISTICS,
Washington, D.C., March 30, 1979.

Hon. DANIEL K. INOUE,

Chairman, Subcommittee on Merchant Marine and Tourism of the Committee on Commerce, Science and Transportation, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: With reference to your recent letter, Mr. Claytor has asked that I appear in his place before your Subcommittee on April 4, 1979, in connection with the Maritime Administration fiscal year 1980 Authorization Bill.

Your letter contained a number of questions concerning various maritime matters. I am attaching our answers to these questions. I trust you will find them responsive and useful.

Sincerely,

EDWARD HIDALGO.

Attachment.

Question 1. The Subcommittee has been told that the National Defense Reserve Fleet consists of roughly 130 Victory ships of World War II vintage.

Some critics have said these vessels are too slow, too small, and too old to be a factor in our overall defense considerations.

Do you consider it worthwhile to maintain them?

Response. As you know, the Merchant Ship Sales Act of 1946 established the National Defense Reserve Fleet (NDRF) now administered by MARAD. As a result, many ships built in World War II were placed in mothballs to be used under specified conditions. You also know that we relied upon the NDRF for shipping support in both the Korean and Vietnam conflicts. The NDRF still contains a number of Victory ships which could not be competitive in the commercial trades but which can be responsive under contingency conditions. These older ships make ideal ammunition carriers. In addition, there is a segment of the NDRF, called the Ready Reserve Fleet (RRF), which is largely the result of trade-ins to the NDRF of newer and more modern cargo ships. The RRF is a joint Navy-MARAD program initiated over two years ago. The RRF program was undertaken to select and upgrade the best and most useful ships from the NDRF into a 5-10 day readiness status for contingency use. This program continues and as newer ships are traded in to the NDRF, the usefulness of this fleet will improve. Therefore, the Navy supports MARAD in the operation, maintenance, and improvement of the NDRF and there are funds in the Navy's 1980 budget to increase the size of the RRF upwards to 20 ships.

Question 2. Referring to the ships that are available under the Sealift Readiness Program, the Subcommittee has been told that ten carriers have pledged 105 ships. These include 54 breakbulk ships, 46 containerhips and 5 other types. Putting these together with the Ready Reserve and the Defense Reserve Fleet, what is your opinion of the merchant marine as a fourth arm of defense?

Response. The number of ships available under the Sealift Readiness Program (SRP) varies slightly from time to time. Because of the additional ships available under Public Law 95-298, currently we would expect to have about 195 dry cargo ships from the SRP if required. In addition, we would anticipate up to about 150 ships from the National Defense Reserve Fleet (NDRF) including 14 ships from the Ready Reserve Fleet (RRF). Given these numbers, it is clear that the U.S. merchant marine is a viable element of national defense and security.

Question 3. How many ships would it take to support the movement of one combat-ready division from the United States to the Middle East?

Response. The number of ships required to support the movement of one representative combat division from the U.S. to the Middle East is scenario dependent, with the primary considerations being: (1) type of division; (2) ship mix; (3) amount of support required. Approximately 12 ships, primarily break-bulk, would be required to move a typical division.

Support requirements to sustain this division over the longer term could vary between 12 and 24 additional ships.

Question 4. Before construction-differential subsidy is given in connection with the building of a U.S.-flag ship in an American yard, the Department of Navy is

required to approve the plans. Presumably this is because of the potential of defense features. Should not the ship itself be looked at as a single defense feature and hence, should not the Navy have a greater impact on the approval than has been done in the past?

Response. As you know, the Navy reviews all plans and specifications for ships to be built with Construction Differential Subsidy (CDS). If these ships can be used for the purposes of national defense or can make a contribution to national security, we would so certify with our suggestions for national defense features. We therefore look at each ship as a whole. It must be recognized that practically every merchant ship constructed contributes to our national security. While not all ships are directly useful for the Department of Defense, the remainder support our national economy and the private sector industrial base. It is this sector that provides our weapons and material for national defense.

Question 5. In the Vietnam War, containerships, commencing in 1967 or 1968, played an impressive role. This was particularly true as Cam Rahn Bay became available. Would not containerships, which are the dominant commercial ships in the Sealift Readiness Reserve Program, be of value? Would Defense consider stockpiling self-loading and self-discharging rails to be put on containerships to even increase their utility value?

Response. A number of containerships constructed with subsidy have incorporated container crane rails and strengthened decks to carry heavy lifts. However, in most instances while provision for rails can be made, a self-sustaining containership is not commercially viable especially where shoreside container handling facilities are readily available. We have been in collaboration with MARAD to develop the necessary statutory authority to procure, stockpile, maintain and install container handling equipment. We consider containerships to be useful and although other ships, such as Roll-On/Roll-Off (RO/RO) are better suited for deployment purposes, we have funded the development of means to discharge nonself-sustaining containerships in unimproved areas. In developed areas, containerships are very valuable for resupply purposes.

Question 6. Has not the Marine Corps done a complete study on the users of containerization and planned its assault program around it? The Subcommittee has been told that some of the study has been made public, and we would like to have copies of this available to us.

Response. The Marine Corps has conducted a number of studies in connection with a Field Logistics System (FLS). We are attaching a general briefing brochure which relates primarily to Amphibious Logistics Support Ashore (ALSA). Should you desire further or more detailed information, we can provide a briefing for the committee or your staff.

Question 7. It is our understanding that the Navy has done a study on the defense requirements of our shipyards. Apparently, that study has not been made public. Would you advise the Subcommittee as to the status of the study and the basic conclusions reached in the study?

Response. There have been two Navy/MARAD studies of the U.S. mobilization base for shipbuilding. The first was promulgated in April 1978. The second, which was an update of the first and done as a part of the President's Interagency Maritime Study, has been completed and forwarded to the coordinators of the Interagency study for review. Although the input data for the second study was slightly changed, the basic overall conclusions remain the same. Essentially the studies indicate that current available U.S. Navy and private U.S. shipyard and labor resources would be marginally adequate to meet requirements during a 90-day intensive NATO-Warsaw Pact War. Drydock availability would be the constraining factor. Steel availability would not present a problem. In the case of a 90-day intensive war followed by 33 months of stalemate with low-level conflict, the studies indicate that shipyard labor and steel could be augmented to meet estimated demands. Facilities, principally building positions, would be a problem. There would be inadequate shipbuilding facilities to accommodate a workload similar to that generated by these assumptions.

The two studies are final for the specific assumptions addressed. However, the Navy has recently completed additional work that will further refine the basic data concerning shipping loss rates. Navy and MARAD are prepared to use the new data in accomplishing a joint revision of the study.

Question 8. Recently the General Accounting Office issued a report "A Time to Consider Alternative Sources of Quick Response Sealift Capability." We would like your comments in connection with this report.

Response. As a matter of Department of Defense (DOD) policy the Navy is required to and has conducted annual evaluations of its nonmobilization contingent-

cy sealift programs. The MSC controlled dry cargo fleet which includes Reduced Operational Status (ROS) ships, the Ready Reserve Fleet (RRF) Program and the Sealift Readiness Program (SRP) provide the capability to respond to nonmobilization contingency sealift requirements. In addition, the MSC controlled fleet including ROS ships provides part of the capability required to meet the critical, early demands in nonmobilization situations and the assured capability to meet present Department of Defense peacetime surge requirements.

The primary objective of the ROS and RRF programs in conjunction with the SRP is to provide an effective mix of ships required to meet DOD nonmobilization and peacetime surge requirements at optimum cost. At this time, there are critical, early nonmobilization ship requirements that cannot be met by the combined assets of the MSC fleet, the RRF and SRP Programs without ROS ships. The ROS and RRF are designed as complementary programs and are not duplicative. Each has its advantages.

Specifically, MSC controls the ROS, maintains up-to-date ships availability data on the entire fleet so as to be responsive in emergencies, can have ROS ships ready to sail in three to four days and is able to discreetly place a few ships in a loading position while the decision making process of acquiring ships from the RRF or SRP is being consummated.

The latest evaluation of the ROS, RRF and SRP Programs was conducted in February 1979. It was concluded, at that time, that these three programs need to be continued in order to provide responsive sealift to meet DOD requirements.

Question 9. What, if anything, is the Navy doing in conjunction with private shipyards to upgrade their productivity?

Response. The Navy is the largest customer for private shipbuilders. Therefore, it is good business for the Navy to encourage productivity improvements in the private sector. Since the private shipbuilding and ships repair business is competitive, Navy's participation is primarily concerned with overall improvements in the industry. Specific improvements for particular programs are also encouraged but shipyards must undertake these types of improvements based on their denial to remain competitive in particular specialties. Some examples of Navy's participation in productivity improvements follow:

(a) To Motivate shipbuilder investment in productivity improvements, Defense Acquisition Regulations (DAR/ASPR) 1-315 and 3-815 have been issued to encourage contractor capital investment for efficient capability. Navy is reviewing means of application to shipbuilding contracts.

(b) Shipbuilders are now involved early in the contract design of new naval ships. Recent experience with the FFG-7 and DDG-47 projects have demonstrated that the early participation of ship builders in the design process injects producibility concerns into the basic design. The ship is then designed with a view towards making it easier to build. This concept has been extended to the LSD-41 and is planned for the CV/CVV and MCM designs.

The most significant contribution the Navy can make to the shipbuilding industry is an increased and steady shipbuilding program. Present government priorities have dictated a reduced shipbuilding program. The consistency of the program has also varied as each five-year shipbuilding program has differed from the previous one, usually in the form of a reduced program. However, the Navy is doing more careful analyses of proposed shipbuilding programs during the planning process. These analyses indicate how, by either shifting ships from one fiscal year to another or even adding ships, the industry's workload can be more level. This then provides shipyards with a more steady workload of particular ships which in the long run saves money by eliminating many of the costs associated with stops and starts. It also aids the shipyards by simplifying their planning and guaranteeing them a run of ships. This effort is just underway and although it has not affected any ship programs, it has been received well.

Although the overall workload has been declining, the need for highly-skilled craftsmen to do the difficult and demanding ship-work remains. The Navy has been participating in a federal program to expand such formal skills training in the private sector with funding from the Department of Labor's Comprehensive Employment and Training Act (CETA) (Public Law 93203). The Navy with both the Department of Labor and the Maritime Administration formed an interagency committee to explore formally methods to obtain more skilled personnel for the shipyards.

The most promising joint effort involves the proposed establishment of a Job Corps Center and its pilot program of training in the marine trades. Disadvantaged young Americans will live and work at this center for two full years. At the end of that time, they will have received a high school diploma and the equivalent of at least

the first year of an apprenticeship in one of the shipyard trades. They will then be placed in one of a number of shipyards that will bid for their services.

The Navy also has initiated a number of research and development projects to improve performance through two related programs. These are the Navy Exploratory Development and the Manufacturing Technology programs.

Question 10. If we got into a non-nuclear war, albeit of a guerrilla nature, of a more sustained nature in the Middle East or in the Pacific that was to last for several years and involve manpower to somewhat the same extent as did Vietnam, in your opinion, is our merchant marine capable of supplying that type of situation?

Resonse. Yes, under certain circumstances. The answer to this question is very sensitive to the conditions of the conflict, including its intensity, allied and enemy capabilities, the distances involved, and the type of forces supported. However, no matter what situation may be postulated, prudence dictates that we assure the continued and improved viability of the U.S.-flag merchant marine, our shipbuilding and repair industry, and related labor force.

Senator INOUE. Our next witness is the Deputy Assistant Secretary for Maritime Affairs, Maritime Administration, Department of Commerce, Samuel B. Nemirow.

Welcome, Mr. Nemirow. Please proceed.

STATEMENT OF SAMUEL B. NEMIROW, DEPUTY ASSISTANT SECRETARY FOR MARITIME AFFAIRS, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE

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

Let me say at the outset that I greatly appreciated hearing the opening remarks and other comments made by you and Senator Warner this morning, and particularly the understanding which those remarks demonstrated concerning the condition and status and needs of our merchant marine and shipbuilding industry.

I should turn to my formal comments and say that I am glad to have this opportunity this morning to present to you the Maritime Administration request for appropriations authority for fiscal year 1980. Before I go into the details of that request, I would like to give you a brief status report on the maritime program.

On January 1, 1979, there were 745 privately owned deep-draft ships in the U.S. Merchant Marine, with a record total of 21.7 million deadweight tons, up 1.3 million deadweight tons from the level of January 1, 1978. During 1978, the oceangoing component of the deep-draft fleet increased from 578 ships and 17.5 million deadweight tons to 584 ships and 19 million deadweight tons, with tanker deliveries accounting for most of the increase.

At a time when the maritime depression has forced most of the world's maritime nations to develop new merchant marine subsidies, the existing U.S. subsidy system of maritime assistance has continued to function remarkably well. Despite the unfortunate and highly publicized financial failure of two federally supported liner companies, the subsidized liner fleet will comprise 159 ships in 1980, down only seven from the end-1977 level, and will account for more than 70 percent of our foreign-trade liner fleet.

Furthermore, the shipping capacity generated by this fleet per constant dollar of operating subsidy has increased by 60 percent since 1970, and the constant dollar cost of subsidy per freight payable ton of cargo carried has declined by half. In the same period, the U.S. share of our foreign-trade liner cargo has climbed slightly over 20 percent to about 30 percent.

With the continuing high rate of overtonnaging in the world's tanker trades, there is no near-term prospect of tanker construction that would help us to increase our 3- to 4-percent share of U.S. oil imports. However, the deadweight tonnage of the U.S.-flag tanker fleet has increased by 87 percent since 1970 and, in contrast to the dismal world tanker situation, that fleet at this time is almost fully employed, with only two small tankers in layup.

Our dry bulk fleet, as you indicated, Mr. Chairman, is still limited to 19 ships, most of them old, but we believe there is reason for optimism in this area. The administration plans to introduce legislation this year to eliminate restrictions that had discouraged U.S. construction and operation of dry bulk ships. This is one of the items considered in the administration's Interagency Maritime Policy Task Force Study. With world bulk-ship overtonnaging expected to ameliorate between 1980 and 1985, ship construction contracting that might be stimulated by such legislation could begin as early as 1980. Accordingly, we are seeking CDS funds in 1980 that could be used to expand the bulkier building program.

With respect to the subsidized ship construction, fiscal year 1979 has been the best year since the early 1970s.

My prepared statement, which was submitted to review and approval some weeks ago, is in error in that it states that contracts have been signed for 10 ships, and we expected 3 more by the end of this year. I'm very pleased to report today that Friday evening we did sign contracts for three additional ships, and we expect that our year's commitment for 1979 will total \$443 million, leaving \$23 million of carryover into 1980. This represents a major turnaround after the experience of recent years. Nonetheless, we anticipate problems and a decline in shipbuilding employment as ship deliveries shrink orderbooks in the next few years. However, the situation of the U.S. shipbuilding industry continues to be markedly better than the world shipbuilding situation in general in this difficult period of maritime depression.

Now I shall turn to the detail of our 1980 budget request. The Maritime Administration request for 1980 appropriations authority totals \$435,040,000. The requests by activity are as follows:

- \$101 million for ship construction;
- \$256,208,000 for operating-differential subsidies;
- \$16,360,000 for research and development activities;
- \$25,874,000 for maritime education and training expenses. This includes \$17,132,000 for maritime training at the U.S. Merchant Marine Academy at Kings Point, New York, \$6,785,000 for assistance to State marine schools, and \$1,957,000 for supplementary training; and
- \$35,598,000 for Maritime Administration operating expenses. This amount will provide \$6,377,000 for National Defense Reserve Fleet, and \$29,221,000 for other operating expenses.

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

Ship construction—the level of construction-differential subsidy, or CDS, funds required for 1980 proposed activity is \$124 million. New appropriation authority totaling \$101 million is requested. The balance of the 1980 funds, \$23 million, will be available through a deferral of unused 1979 funds.

The ship construction program includes \$567,078,000 during 1979-80. The proposed 1979 and 1980 programs will support six contracts for a total of 17 ships.

Again, my statement is in error in the next few sentences, because it does not take into account the three ships which we did sign on Friday night.

The strongest prospects of 1980 are one LASH—lighter aboard ship—barge carrier and three dry bulk ships. The LASH vessel represents a replacement obligation related to an Operating-Differential Subsidy Contract with Waterman Steamship Corporation for Trade Route 18. Subsidy costs for that contract are estimated at \$45 million. The dry bulk ships represent anticipated requirements in conjunction with the Dry Bulk Vessel Legislative Initiative which we have already discussed. Subsidy costs for these ships would total \$69 million. These costs, plus the cost of engineering changes, et cetera, yield a program level of \$124 million, \$23 million of which is covered by an anticipated carry-over from 1979.

Due to current uncertainties concerning DOE approvals and the timing and extent of demand for LNG construction, we have not included LNG's in the prospective 1980 ship mix.

As to operating-differential subsidies, we expect that the total amount needed to cover operating-differential subsidy activity in 1980 will be \$306,714,000. This level would be funded by an appropriation of \$256,208,000 and a projected carry-over of 1979 funds amounting to \$50,506,000. The carryover from 1979 results primarily from removal of 12 ships from service during 1979. Ten of these ships relate to the bankruptcies of Pacific Far East Line and States Steamship Co.

The 1980 level represents a net increase of \$14,188,000 from that of 1979. This increase reflects a reduction in the number of ships projected to be in idle status, and the net effect of foreign and domestic cost escalations. A decrease is anticipated in the amount required for payment of obligations from prior years. The 1980 effects of the Pacific Far East Line and States Steamship Co. bankruptcies have been taken into account.

We also expect that U.S.-flag ships will not participate substantially in the U.S./U.S.S.R. grain trade because demand for their services in other trades, particularly Alaskan oil carriage and the Strategic Petroleum Reserve fill program, is expected to continue at a significant level through 1980.

The 1980 appropriation authority requested for research and development activities is \$16,360,000. This involves a decrease of \$1,140,000 from the 1979 appropriation. Part of the reduction reflects elimination of the exploratory research program at the National Maritime Research Center at Kings Point, N.Y.

This is consistent with personnel reductions levied in meeting the President's objectives to reduce federal employment. The reduction also reflects the nonrecurrence of certain expenses incurred during 1979 in research on advanced ship systems.

The appropriations authorization requested for 1980 maritime education and training expenses total \$25,874,000, which is \$3,241,000 above the 1979 appropriations. These authorizations cover the U.S. Merchant Marine Academy, the State Marine

Schools, and supplementary training authorized under section 216(c) of the Merchant Marine Act of 1936.

For maritime training at the U.S. Merchant Marine Academy \$17,132,000 is requested, \$1,773,000 above the 1979 level. The additional funds will provide for pay raises and other cost increases, the exercise of an option to buy a leased training aid used in the Academy's upgraded diesel engine curriculum, increased maintenance and operating requirements, and the Academy's modernization effort. In 1980 the modernization program will be concentrated on the renovation of Fulton Hall and the completion of a project to improve barracks fire protection features.

For the six State marine schools \$6,785,000 is requested. The requested amount is \$1,415,000 greater than the level appropriated for 1979. This increase covers increased allowances due to reduced attrition, training ship maintenance cost increases and a reduction in the backlog of major repairs, and initial funding for a 3-year schoolship improvement program. The increase in grants to the State Marine Schools, which was authorized last year, has been funded for both 1979 and 1980; \$1,957,000 is requested for supplementary training courses, including an increase of \$53,000 over the amount appropriated last year. The additional funds will enable the Maritime Administration to increase course offerings to industry required by an increased demand for diesel training at the Maritime Academy.

The appropriations authorizations requested for 1980 operating expenses total \$35,598,000. This includes \$6,377,000 for Reserve Fleet expenses and \$29,221,000 for expenses related to the administration of several programs which contribute to development and use of waterborne transportations systems and to general administration.

The \$6,377,000 requested for reserve fleet expenses reflects an increase of \$932,000 over the 1979 appropriation. One point I would make in terms of operating expenses, the Ready Reserve Fleet program, which was begun in 1977, will be further expanded in 1980. This joint Navy-Maritime Administration program prepares and maintains selected ships in an advanced state of readiness to permit full activation with five to ten days of notification. It is estimated that 6 ships will be added to the Ready Reserve Fleet in 1980, bringing the total to 20.

The \$29,221,000 requested for other operating expenses includes an increase of \$149,000 over the amount appropriated for 1979. Additional resources are requested for pay raise and other cost increases and the study of foreign maritime aids we have taken at 2-year intervals. These cost increases are largely offset by a reduction in personnel relating to the transfer of 21 positions for the equal opportunity contract compliance function to the Department of Labor and the elimination of 38 positions consistent with the President's objective of reducing Federal employment.

That concludes my prepared remarks. I think it's necessary to get all the details of our budget request into the record. I think that those remarks indicate some details of the specifics of what our requirements are.

And I would be most happy to answer any questions as to those details, or of a more general nature, that you or Senator Warner may have.

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

The staff and I have prepared, I'd say, about 50 questions here, and if we proceeded to ask each of them, we'd be here until 6:00 in the evening, at least.

And since most of the questions are rather technical in nature, I will be submitting them on behalf of the committee and request your response.

However, I have a few here which may touch upon some policy attitudes because a little bird tells me that you may be testifying here quite often.

So, I'd like to proceed on that basis.

Mr. NEMIROW. It's very difficult for me to sit here and not comment on your little bird, but I'll be as good as I can.

Senator INOUE. As you are well aware, the Merchant Marine Acts of 1920 and 1936 provided that U.S. mail be carried on U.S. vessels. However, that provision was repealed, and as a result, carriage of U.S. mail is open to competitive bid.

At the present time, much of our mail is being carried by Polish ships. Russian ships have submitted bids, but apparently the Poles have been a little lower than the Russians.

Some of us have been concerned about other countries carrying our cargo, especially sensitive cargo such as mail.

There is a bill pending in the House which would call for the reinstitution of this provision, which would require that U.S. mail be carried by U.S. vessels. What is your position, sir?

Mr. NEMIROW. I am afraid we have no—at the present time—formal position on the issue as you presented it. I have not been familiar with the fact that legislation had been prepared or introduced.

My comment, personal comment, would be that that is in keeping with the various cargo reservation provisions of the 1936 act and of Public Resolution 17. And I would certainly encourage favorable consideration of that type of proposal from a personal point of view.

I think one comment I would make is that prior to 1936, as you know, practically the sole device by which subsidy was granted the U.S.-flag merchant marine was through ocean mail contracts. There were a great many abuses of that system during the period of 1920 to about 1935. And I would only comment that I'm sure that those abuses, through proper legislation, could be avoided in the future.

Senator INOUE. But you have no official position at this time on the reinstitution of a provision that would require, to the greatest extent possible, the use of U.S. vessels for U.S. mail?

Mr. NEMIROW. I have no official position on that specific question. But I would be most pleased to submit one to you as soon as I am able.

Senator INOUE. I would appreciate that, sir.

The U.S. flags are now carrying about 30 percent of the cargo in our line of trades. Of that amount what percentage is Government impelled?

Mr. NEMIROW. I do have that number here, if you just bear with me for a moment. Actually, I have that information broken down by both subsidized and unsubsidized vessels for military and commercial cargo, and I can submit it to you and the staff immediately following the hearing.

Senator INOUE. Fine, sir.

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

CARRIAGE OF PREFERENCE CARGOES (LINER)

Table I shows U.S. oceanborne foreign trade liner cargoes for the period 1970 to 1977, broken down by total long tons carried and the U.S.-flag market share expressed in long tons and as a percentage of total liner carryings. These statistics include Government-sponsored cargoes except for Department of Defense shipments.

TABLE I

	Total long tons carried	U.S.-flag share	
		Long tons	Percent
1970	50,400,000	11,800,000	23.5
1971	44,200,000	10,100,000	22.9
1972	44,600,000	9,800,000	21.9
1973	51,300,000	13,200,000	25.8
1974	51,400,000	15,400,000	29.8
1975	44,400,000	13,700,000	30.7
1976	49,800,000	15,400,000	30.9
1977	47,800,000	14,400,000	30.2

Table II shows the U.S.-flag liner market shares from 1970 to 1977 broken down by commercial, DOD and other preference cargoes. The breakdown is expressed in long tons and percentages of the total U.S.-flag market share.

TABLE II

[Tons in thousands]

	Total U.S. flag long tons ¹	Commercial long tons	Percent	Department of Defense long tons	Percent	Other preference long tons ²	Percent
1970.....	19,036	9,400	49.4	7,236	38.0	2,400	12.6
1971.....	15,975	8,099	50.7	5,875	36.8	2,001	12.5
1972.....	15,637	8,139	52.1	5,837	37.3	1,661	10.6
1973.....	17,163	11,751	68.5	3,963	23.1	1,449	8.4
1974.....	19,302	14,697	76.1	3,902	20.2	703	3.7
1975.....	16,789	12,957	77.2	3,089	18.4	743	4.4
1976.....	18,512	13,466	72.7	3,112	16.8	1,934	10.5
1977.....	17,453	11,812	67.7	3,053	17.5	2,588	14.8

¹ Includes Department of Defense cargoes.

² Data reported to MarAd by shipper agencies. The number of agencies submitting reports had increased from 4 in 1970 to over 60 in 1977.

Table III shows, for the period 1972 to 1977, the percent of total liner freight revenues earned by U.S.-flag operators from Exim-Bank (PR 17) carryings. Exim-Bank data is reported only on a freight revenue basis.

Table III

<i>In percent</i>			
1972.....	4.4	1975.....	5.5
1973.....	5.5	1976.....	5.8
1974.....	7.2	1977.....	5.6

Senator INOUE. I'm certain you're aware of this recent GAO report to the Congress, dated June the 8th, 1978. It's entitled "Cargo Preference Programs for Governed and Financed Ocean Shipments Could be Improved." Are you aware of that?

Mr. NEMIROW. Yes; I am.

Senator INOUE. This report found that MarAd has been hampered in its efforts to expand a number of programs subject to cargo preference requirements by nonspecific legislation and lack of clearcut authority to define which programs should be required to use U.S.-flag vessels.

Consequently, this report concluded, in some cases, federally funded or guaranteed cargo that could have been shipped on U.S.-flags that may have been shipped on foreign flags.

Is that situation still existing?

Mr. NEMIROW. We have undertaken in recent years, particularly since the adoption of the amendments to section 901, in the 1970 act, a rather vigorous enforcement program in which we are constantly monitoring the activities of various Federal agencies in their compliance with the cargo reservation laws that are now on the books.

We had some problems, particularly in the earlier days, in reaching an understanding and convincing various agencies that the requirements of the law demanded that they use U.S. ships to whatever specified percentage is set forth in the various statutes. I think that problem has been substantially rectified, and we have a number of people, a small number, I might say, but a very vigorous few people who, on a daily basis, monitor the activities of other Federal agencies to insure compliance with the various cargo preference laws. I think within the past couple of years they've been very effective.

Senator INOUE. Why is it necessary for one U.S. agency to monitor other U.S. agencies to make certain that they comply with the laws of the United States?

I can see a U.S. agency monitoring foreign agencies to make certain that they comply with our laws.

But this is part of the Government team.

Mr. NEMIROW. In fairness—and I don't want to be too fair, because I think part of this was a reluctance or a fairly conservative interpretation of the law as it stood, but part of our effort has been an educational process.

Some of the agencies involved in the various programs that would require U.S.-flag participation were just not aware or sufficiently aware of the requirements of Public Law 664 or Public Resolution 17. I can't say that's the case on the part of the military, because the 1904 act was well understood by them.

I think, following the educational process that we've undertaken, we've had a great deal more cooperation in recent years than in prior years.

Senator INOUE. I ask a question which sounds rather naive, but it's indicative of attitudes, because on one hand we find ourselves spending astronomical sums of money to maintain a defense establishment, primarily poised against a possible attack from the Eastern European countries—more specifically, the Soviet Union.

Most of our defense activities are carried out because of that possible threat, and yet I find, on the other hand, other Government agencies who seem to go on their merry way, giving aid to agencies of the Soviet Union.

I hate to bring it up again, but I think this is a classic example—that is, the buses that were financed for the most part by taxpayers of the United States, purchased in Germany, and shipped on Soviet ships to the United States.

Mr. NEMIROW. I would only comment, if I might, that that situation is one that has been corrected; and, too, it is my understanding as of recently, last week, that although the specific requirements of the statute demand that 50 percent of the cargo be shipped on privately owned U.S.-flag, commercial vessels, that at the moment, in their particular movement of articulated buses, 100 percent of the movement is now on U.S.-flag vessels. At least in that one instance the condition has been rectified.

Senator INOUE. Well, I think it's about time you did that, because from information we have received it appears that in the postal area, for example, the Russians won't permit anything but a Russian ship to carry their mail—same thing with the French, the Germans, the British, the Italians.

We're the only ones who go out of our way to say, "OK, Poland, you take ours."

Mr. NEMIROW. I have no problem agreeing with you. There are some constraints under which the Government operates which you are familiar with. Certain agencies, for example, require that U.S.-flag ships be permitted to carry at least 50 percent.

That's been interpreted to mean only 50 percent, because if you put additional cargo on U.S. ships, it might cost you more. Therefore, it would be against the competitive requirements of the U.S. economic philosophy to use U.S.-flag ships above the amount required.

There are many issues that GAO reviews, and the Comptroller General reviews, which limit the amount of cargo on U.S.-flag vessels to those amounts specified and for those programs specified in the statute.

I think, again, in the postal area, that if this legislation is forthcoming; that type of legislation would be very easy for the Maritime Administration to monitor and assure compliance by the postal agencies of the United States.

Senator INOUE. Has your agency solicited legislation to clarify these laws?

It's your responsibility, isn't it?

Mr. NEMIROW. Yes; the problem is, as I indicated, that unfortunately the laws are clearer to you and your committee and to us than they are to other agencies. What we have been doing, since the requirement was imposed on us in 1970, under section 901(b)(2), as it was amended in 1970, is to monitor directly the activities of

various agencies and specific regulations for the shipment of cargos on U.S.-flag ships.

Since that time a rather vigorous effort has been undertaken and we've had a great deal more compliance. We don't think the statute is as obtuse as some might think.

Senator INOUE. You don't think any change is necessary?

Mr. NEMIROW. I think at the moment no change is necessary in the provisions of 901, or in Public Resolution 17. I leave open the question as to whether it would be appropriate at this time to adopt a piece of legislation related directly to the postal agencies.

Senator INOUE. Would you submit to us a memo citing for us those agencies who find it difficult to comply with the law of the land?

Mr. NEMIROW. I can submit to you a list of the agencies that we have contacted in recent years to discuss the issue, and where we have educated and trained some of the people in proper compliance with the cargo reservation provisions. I think at the moment we would not be able to specify any agencies that find it difficult complying with the law of the land.

I can submit to you the list of agencies that we have had discussions with to resolve outstanding problems concerning movement of cargo on U.S.-flag ships. I think, without significant exception, the objectives of the statute are now being complied with.

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

Department of Agriculture:

- Agricultural Marketing Service
- Agricultural Research Service
- Foreign Agricultural Service
- Forest Service
- Soil Conservation Service
- Office of the General Sales Manager
- Animal and Plant Health Inspection Service

Department of Commerce:

- Economic Development Administration
- National Oceanic and Atmospheric Administration
- Domestic and International Business Administration
- Patent Office
- National Bureau of Standards
- U.S. Travel Service
- Office of Telecommunications
- National Technical Information Service
- Bureau of the Census

Department of Defense: Defense Security Assistance Agency

Department of Energy:

- Bonneville Power Administration
- Energy Research and Development Administration
- Strategic Petroleum Reserve

Department of Health, Education, and Welfare:

- Public Health Service
- Health Services Administration
- National Institutes of Health
- Center for Disease Control

Department of the Interior:

- Defense Electric Power Administration
- Southwestern Power Administration
- Southeastern Power Administration
- Bureau of Reclamation
- Geological Survey
- Bureau of Sport Fisheries and Wildlife
- Alaska Power Administration

Department of Justice:

Federal Bureau of Investigation
Drug Enforcement Administration

Department of State:

Agency for International Development
U.S. Despatch Agency
Defense Attache Office
Foreign Broadcast Information Service
Foreign Building Organization

Department of Transportation:

U.S. Coast Guard
Federal Aviation Administration
Federal Highway Administration
Federal Railroad Administration
Saint Lawrence Seaway Development Corporation
Urban Mass Transportation Administration
Materials Transportation Bureau
National Highway Traffic Safety Administration

Department of Treasury:

Comptroller of the Currency
Bureau of Customs
Bureau of Engraving and Printing
Internal Revenue Service
Bureau of the Mint
Bureau of Alcohol, Tobacco, and Firearms

*General Accounting Office**Government Printing Office**Library of Congress**ACTION**American Battle Monuments Commission**Export-Import Bank of the United States**General Services Administration*

Office of Preparedness
Public Building Service
Federal Supply Service
National Archives and Records Service
Automated Data and Telecommunications Service

*Inter-American Development Bank**National Aeronautics and Space Administration**National Science Foundation**Smithsonian Institution*

International Exchange Service
National Museum of Natural History

*Tennessee Valley Authority**U.S. Information Agency**U.S. Postal Service**U.S. Sinai Support Mission**Veterans' Administration*

Senator INOUE. Do you believe that U.S. laws, especially those with criminal sanctions, should be applied equally and fairly among U.S. and foreign flags—most specifically, our anti-rebating laws?

Mr. NEMIROW. I haven't been a lawyer for 43 years, as Secretary Hidalgo indicated he has, but there is no question in my mind that that's required and should be required. I'm familiar with the fact that you set out concerning the FMC investigations.

Unfortunately, the law of the land, as interpreted by our courts, has said that for compliance with a data request, for example, by the FMC, if there is a law in the country of which the company is national, which prohibits the company from submitting the data to the FMC, that the United States cannot require a foreign nation to violate his own law.

Senator INOUE. Then we must be the laughing stock of the world, that the only people that can be indicted and convicted would be American shipowners.

Mr. NEMIROW. I would hope that in the course of the inter-agency review of maritime policy, and in the legislative proposals which may be forthcoming, either from the administration or from your committee, that that problem can be addressed directly, so that the U.S.-flag operator is not discriminated against vis-a-vis his foreign competitor.

Senator INOUE. Are you aware of any laws in other countries which give our companies the same breaks we give the liner companies of foreign countries?

Mr. NEMIROW. The answer to that is no, I'm not familiar with any such laws.

Senator INOUE. Because there aren't any laws?

Mr. NEMIROW. But in fairness——

Senator INOUE. In fairness to who, sir, the Russians or us?

Mr. NEMIROW. To the question.

Senator INOUE. Okay.

Mr. NEMIROW. There are also no regulatory bodies similar to that of the FMC, that I know of, to which the U.S. carriers must submit data upon request. To my knowledge the issue has not come up as a legal issue.

I think the point is absolutely valid, that the U.S. merchant marine is at a disadvantage, vis-a-vis its foreign competitors; and it is a disadvantage because of international law or laws of foreign countries, and that is an accepted fact. And our domestic legislation should reflect that.

And if changes are required, they should be made.

Senator INOUE. As you know, the Senate and the House passed the legislation in the last Congress that would have provided equal treatment for foreign-flag and U.S.-flag operators. It was vetoed by the administration.

Mr. NEMIROW. And you have reintroduced it in this session, as I understand it?

Senator INOUE. Yes.

And what will be MarAd's position on this?

Mr. NEMIROW. The Maritime Administration took the position, the last time it was allowed to take a position as an agency and not as an administration position, that it would not be inappropriate to adopt that kind of legislation.

The President's message of disapproval, since it was a pocket veto and not a veto while the Congress was in session, indicated that he believed that shipping law is international in character, and we had to take into consideration the impact on our trading partners. And he specifically indicated that meetings were upcoming between the United States and various foreign maritime powers, and that he hoped the issue of rebating and compliance with data requests could be resolved at those meetings.

There was a meeting in November. The result of that meeting has been reported to the President. And I think that would affect, or have a substantial impact on whether he might veto the legislation if it were presented to him again.

Senator INOUE. Mr. Blackwell, the Assistant Secretary, suggested that unfair rate practices, illegal rebating, was significantly responsible for the financial difficulties which caused the demise of the two major U.S.-flag lines last years, PFEL and State Steamship.

Do you agree with Mr. Blackwell?

Mr. NEMIROW. Yes.

Senator INOUE. And MaRad's attitude was that it is not inappropriate to pass a law; that's not strong support.

Mr. NEMIROW. You asked me what our position was in the last Congress.

Senator INOUE. What will it be this time?

Mr. NEMIROW. What will the position be this time? Again, I would expect, No. 1, that the Inter-Agency Task Force will have some comments to make in that particular area. And, No. 2, I would certainly have to get approval of any position that we might take in the course of your hearings on the antirebating bill, which you introduced in this Congress.

Senator INOUE. The Maritime Administration, I would think, as such, has little bias. The cardinal rule of this administration is prejudice, yes, against our merchant fleet. Are you afraid of expressing that?

Mr. NEMIROW. You're asking me what the position of the Maritime Administration would be in this Congress on a bill which has not been submitted to us for comment, and on which we haven't submitted comment to the Administration.

If you want my personal opinion, I'd be happy to give it to you.

Senator INOUE. Your personal opinion, as a likely successor to Mr. Blackwell.

Mr. NEMIROW. Thank you for the comment.

I believe that the rebating activity did have a substantial impact on the financial condition both PFE and States found themselves in.

I believe that rebating should either be illegal with enforcement against everybody evenhandedly, and compliance demanded of everyone in the U.S.-foreign trade, or we should just forget about the rebating statutes.

My personal position would be that rebating should continue to be illegal under the 1916 act. Sanctions should continue to be enforced by the Federal Maritime Commission and all people cognizable under the responsibility of the FMC. Both foreign and U.S. operators must be required to comply with their demands to enforce the statute.

Senator INOUE. But what if the courts don't recognize it?

Mr. NEMIROW. I think that other sanctions can be developed. All what has happened in the courts, again, if we're talking personally, it that the court said that an operator cannot be required to disclose to the FMC financial data which is proprietary to his company if the law of his country does not permit him to. That does not say that sanctions cannot be imposed by the FMC in forms of civil penalties or other penalties which would induce an operator, a foreign operator, to be interested in compliance with data requests from FMC.

One thing that we have talked about at various points has been that an operator who may not comply fully with the requirements of the FMC, and impedes FMC performance of its function under that statute, might not be permitted to have his tariff on file with the FMC, and therefore not be permitted to engage in the U.S.-foreign trade.

That's a sanction which is not now available to the FMC. It's also substantial, and could be very effective.

Senator Inouye. Well, if I may, I'd like to submit all of these questions to you for your response. And if possible, may we have your response within 2 weeks? We'd like to report this measure out as soon as we can.

Thank you very much, sir.

Senator Warner.

Senator WARNER. Thank you, Mr. Chairman.

I hope the witness will make himself available to listen to members of the maritime industry who are going to come forward shortly and give their perspective on the Nation's maritime situation.

Quite frankly, listening to the Navy testimony this morning and your statement, I find the state of the maritime industry and the Nation's shipyards to really be a deplorable situation which impacts directly on our defense readiness and economy.

I personally am going to join the chairman and do everything I can to rectify some of these problems. I would like to have you—are you available to stay to listen to comments of the industry?

Mr. NEMIROW. Yes, sir.

Senator WARNER. You heard questions asked of the Assistant Secretary of the Navy about civilian employment. He gave a statistic that roughly 50,000 jobs, or that we could expect a 33⅓ percent decline in shipyard employment over the next several years.

Do you wish to comment on that statistic in terms of, (A) its accuracy and (B) what we might do in a partnership between Congress, Government, and the private sector to rectify it?

Mr. NEMIROW. I wouldn't comment on its accuracy except to state that our numbers are very similar to those which the Secretary indicated to you.

As far as what we do in the near term to rectify this problem, there are a number of things that we are undertaking, and we believe that the dry bulk initiative, when it is forthcoming, will generate additional construction opportunities in U.S. shipyards; and our expectation, at this point, is approximately five ships a year, once the program gets started.

And I think that will help ameliorate that problem a bit.

I can comment, as I indicated in my statement, that there is both a world depression in shipbuilding. All countries are experiencing a depression in shipbuilding. And, as the chairman indicated in his opening remarks, there are many countries of the world today that are engaging in various types of subsidy programs to maintain their ship-building base, as well as the United States. I think the problem is not unique to the United States.

I think the subsidy program can work. I think that with certain modification in the program as it now applies to dry bulk carriers,

we could induce operators into the program to build U.S.-flag dry bulk ships.

I think that that will help solve, in the near term, some of the problems confronting the ship-building industry.

Senator WARNER. Might I just make a personal observation?

When I was in Government service, I had a map on a wall. There wasn't a day that went by that I didn't look at that map and recognize that the United States is an island nation.

With all due respect to Canada and Mexico, we are an island nation. As such, when we say that other countries in the world are experiencing problems, many of those countries do not have the dependence on overseas shipment of raw materials that the United States has.

I may be slightly in error. Basically though, the Soviet Union can obtain almost all of its raw materials with the exception of, I think, just one or two from countries that are contiguous land masses.

Therefore, I do not find any comfort in thinking that the rest of the world has a problem in shipping, so we may as well experience ours, when this country is sitting out there in the middle of two great oceans.

Mr. NEMIROW. I would hope you don't think that that was the thrust of my comment.

Senator WARNER. No. I just pass that along. I used to open every speech with that statement, and somehow the audience began to pay a little more attention. We tend to forget it here in the United States.

Mr. NEMIROW. We don't tend to forget it at the Maritime Administration. The only concern that I have regarding the conversations that we've had this morning is that the committee clearly understand that the Maritime Administration and its staff, at every level, is committed to the promotion of U.S. shipbuilding and the U.S. Merchant Marine; and there is very little hesitation when I say that.

The Maritime Administration is doing all that it can to promote the Merchant Marine and the shipbuilding industry, in keeping with the requirements of the 1936 Act. And I just wanted to be clear to the committee that I think there may be some changes required in the legislation, and we'll be proposing those.

If at any time the committee thinks we're not fulfilling our obligations, I hope you will indicate that to us.

Senator WARNER. As the chairman indicated, shortly he hopes you come to this subcommittee in connection with a new assignment.

Mr. Chairman, only having been here 90 days, I am always interested in the public contention to problems.

The chairman and I were in a hearing the other day—on Monday—on hair dryers, and the hearing room was filled with people and television cameras and news people and everything.

I don't intend to demean the fact that there is a possible health problem there, but here we are with one of the major segments of the economy which is sick. I think we need to, frankly, inject a little excitement and alarm over that situation and awaken the Nation to the potential that someday these foreign nations may not

come to our shores bringing the raw materials we need for our economy.

I think you'll find that in the automobile, which we accept as an everyday item, in the telephone, about half of the parts are manufactured from raw materials that are brought in by sea to the United States.

If this country ever experienced—and I hope it doesn't—an international situation whereby the shippers were wary of sending their ships to us for fear of loss through enemy action, we'd just dry up.

Mr. NEMIROW. That's exactly the condition we found ourselves in prior to World War I and World War II.

And unfortunately, as you gentlemen know, probably better than I, the U.S. public frequently has a very short memory when it comes to incidents of that nature.

It's not by an historical accident that our programs to promote and regulate the Merchant Marine were adopted in 1916, just prior to World War I—our involvement in that war—and in 1936, as we were getting prepared for our involvement in World War II.

Various changes took place during the time of the Korean conflict. And then, as we heard today, 95 percent of the cargo that moved to Vietnam during the Vietnam affair, moved on U.S.-flag ships.

We certainly understand the importance of that in today's environment. Unfortunately, that is more difficult to solve than you and we might expect.

Senator WARNER. Well, if you do succeed to the position to which you presumably aspire, I hope you become a hero.

We'll try and get him some backup, won't we, Mr. Chairman?

Senator INOUE. Yes, sir. We'll promote you.

Mr. NEMIROW. We can use it. I think we're in this together, and I look forward to the opportunity.

Senator WARNER. I'd like to submit the balance of my questions for the record so we don't detain our witnesses from the private sector. I'd like to say I thank you very much, sir. And I believe we'll be seeing more of you.

Mr. NEMIROW. Thank you, I hope so.

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

U.S. DEPARTMENT OF COMMERCE,
THE ASSISTANT SECRETARY FOR MARITIME AFFAIRS,
Washington, D.C., April 17, 1979.

Hon. DANIEL K. INOUE,
U.S. Senate, Washington, D.C.

DEAR SENATOR INOUE: Furnished herewith are answers to the written questions you presented for Maritime Administration response at the April 4, 1979, Senate hearing on the MarAd budget authorization bill.

Sincerely,

SAMUEL B. NEMIROW,
Acting Assistant Secretary for Maritime Affairs.

Enclosures.

Question. 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.

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

(b) Inasmuch as there are only 15 dry bulk ships in our merchant fleet and they carry less than two percent of the dry bulk cargo in our trades, have the successive Administrations, in your opinion, kept their part of the bargain with respect to the construction of dry bulkers?

(c) With respect to ships for our liner trades?

(d) With respect to tankers?

Answer. (a) Yes.

(b) The executive branch has also kept its part of the bargain with respect to the ship construction program. However, it appears that the Merchant Marine Act of 1970, although it extended the full range of government subsidies to bulk shipping, was not successful because it was not tailored sufficiently to the specialized needs of the dry bulk trades.

Currently, the dry bulk fleet is composed of 19 (four are inactive) vessels whose average age exceeds 25 years. Thirteen of these vessels were built between 1944 and 1948. There is little prospect that the private sector will generate significant new building orders for dry bulkers unless certain disincentives are eliminated. MarAd has developed a legislative package intended to eliminate restrictions that have discouraged bulk carrier construction in this country. The Administration intends to forward this package to Congress this spring. MarAd's fiscal year 1980 ship construction program reflects this new initiative and includes \$69 million for three dry bulkers. The new program could generate construction of up to five vessels annually after 1980.

(c) In the liner area, the U.S. liner fleet is the world's most modern. Container-ships, Ro/Ro vessels, and LASH (barge carrying) vessels are prime examples of recent technological advancements. The U.S. liner fleet currently carries in excess of 30 percent of our liner trade, compared to 23.5 percent in 1970.

(d) The tanker sector of ship construction illustrates the volatility of the market upon which shipbuilding orders depend. Tanker orders between 1970 and 1975 were sufficient to yield an 87 percent increase in U.S.-flag tanker tonnage by 1979. However, the worldwide tanker depression, which began with the oil embargo of 1973-74, has resulted in substantial world overtonnaging. Excess tanker capacity is expected to persist until the mid-1980's and new orders for foreign-trade tankers are not expected before 1985 at the earliest.

Question. Recently the Court of Appeals ruled that ships built with Federal subsidy could not be permitted to pay back that subsidy and thereby become eligible to participate "permanently" in the domestic trades (*Stuyvesant Case*).

As the majority said in the Court of Appeals opinion:

"The fact that the vessels were originally constructed in American yards without subsidy is important for Merchant Marine Act policies. Competing domestic operators could take the tonnage of these vessels into account at the time the vessels were built in making their own future investment decisions. However, in the instant case, American carriers could not have known that the *Stuyvesant* under construction in American yards with subsidy, would in its initial operation, try to enter the Alaskan market in competition with unsubsidized vessels."

On the other hand, as the dissent said:

"Full repayment of subsidy irrevocably places the transferred vessel on the same footing as all other ships in the Jones Act fleet, without affording an unfair advantage to the previously subsidized operators. The only conceivable harm to Jones Act operators is an increase in competition from an additional U.S.-flag, U.S. built vessel."

This, the dissent said, is a kind of protection it did not believe Congress intended.

Complicating the matter, is the fragility and indeed the utter disappearance from some areas of coastwise trading.

Do you believe section 506 of the Merchant Marine Act of 1936, should be amended to take into account changes in circumstances in our coastwise trades and if so, specifically in what respect?

Answer. Assuming that the Appellate Court decision in the *Stuyvesant* case is ultimately sustained, we may give further review to the needs of the domestic trade and the availability of tankers built with CDS for the various United States trades. Upon completion of any review we make, consideration could be given to the appropriateness of developing proposals for inclusion in the Department legislative program which would allow greater latitude in the introduction of vessels built with construction subsidy into the domestic trades.

Question. What provisions of United States tax laws do you see as counter-productive to our efforts to promote ship construction in U.S. yards?

Answer. 1. The Investment Tax Credit for foreign-built vessels. A U.S. citizen taxpayer is entitled to an investment tax credit of 10 percent of the cost of qualified assets, placed in service during the tax years, subject to certain limitations prescribed in section 46 of the Internal Revenue Code.

Qualified assets, which are termed "section 38 property" usually are tangible personal property. Section 48(a)(2)(A) provides that, subject to section 48(a)(2)(B), "section 38 property" does not include property which is used predominantly outside the United States. Section 48(a)(2)(B)(iii) provides that "any vessel documented under the laws of the United States which is operated in the foreign or domestic commerce of the United States" can be section 38 property. Therefore, a U.S. citizen taxpayer vessel operator could elect to build new vessels foreign and benefit from both lower foreign cost and the investment tax credit. The availability of the investment tax credit for vessels built in foreign yards is a disincentive to construction of vessels in U.S. shipyards.

2. The controlled foreign corporation provisions, sections 951-958, provide that a "U.S. person" (citizen, resident, domestic partnership or domestic corporation, estate or trust) is subject to the provisions if it actually or constructively owns 10 percent or more of a foreign corporation's voting interest, and owns 50 percent or more of the value of the stock of the controlled foreign corporation on any day in the corporate tax year.

Subpart F income (from a controlled foreign corporation) which is derived from foreign base company shipping operations may be successfully deferred from taxation in the U.S. for so long as it is invested in foreign shipping. This provision is a disincentive to the repatriation of foreign-source income to the United States, some of which could be invested in the construction of vessels in U.S. shipyards.

Question. On December 8, 1978, the Maritime Subsidy Board published notice of its intent to adopt standard forms for all contracts that are subject to its approval in awarding construction-differential subsidy.

It has been suggested that insofar as the Board's proposal would require the use of standard form contracts by ship purchasers and ship builders for all CDS program vessels, it is contrary to the principles set out in the 1970 amendments to the Merchant Marine Act, 1936. Critics also say that the proposed form to be used for contracts between the shipyard and ship purchaser would introduce unwarranted rigidity into a contractual process that must necessarily accommodate a variety of needs and circumstances. For example, it is said this form attempts to resolve on a uniform basis issues concerning design responsibilities, patent rights, excusable delay, performance requirements and consequences of failure to perform, without any appreciation of the issues involved.

Answer. The question states that critics have said that the adoption of pro-forma contracts forms introduces unwarranted rigidity into the contractual process. It is true that the adoption of the pro-forma contract forms will establish certain standards; however, under the circumstances and conditions that the Board envisions in adopting the forms of contract, the Board does not anticipate any adverse consequences.

The Board considers the proposed forms of contracts to have four types of provisions: (1) provisions that are statutorily required; (2) provisions that implement stated Board policy, (3) provisions in the Contractor-Purchaser relationship, the content of which affect the Board monetarily; and (4) those provisions which affect the Contractor-Purchaser relationship which do not interest the Board.

Representative of statutorily established provisions are: Article 12, Domestic Preference; Article 23, Labor Provisions; and Article 24, Work Hours Act of 1962—Overtime Compensation, in the proposed form of Board-Contractor Contract. Articles of this type implement federal statutes and do not appear to be questioned by the critics of the proposed pro-forma contracts.

Representative of provisions that implement stated Board policy are Article 33, Value Engineering in the pro-forma Construction Contract; and Article 1, Paragraph (d) CDS for owner's design work, plan approval and inspection, in the pro-forma Board-Purchaser contract. Since provisions of this type implement board policy, it does not appear that the criticism is directed at these provisions.

The issues identified in the question, i.e., design responsibility, patent rights, excusable delay, performance requirements and consequences of failure to perform, certainly are representative of the type of provisions that affect the Board monetarily. In the Federal Register notice of December 8, 1978, it was stated that the Board feels that contract uniformity will tend to reduce shipbuilding costs. As an example, when a shipyard accepts responsibility for a design not prepared by the shipyard,

the contract price generally will be increased in an amount equal to the shipyard's anticipated increased expense for accepting design responsibility which it would otherwise not anticipate assuming. If the Board were able to identify the amount by which the contract price was increased to reflect this assumption, such amount would be disallowed for subsidy purposes. Since, however, it is very difficult, if not impossible, to identify such an amount, subsidy may be allowed for an item which would be considered to exceed reasonable contract requirements. The standard form of contract requires that the party responsible for the design accept responsibility for defects in the design.

Another very important example concerns the default provisions. Under the CDS program, default by either the shipbuilder or the shipowner during the construction period generally results in increased financial obligations by the Government to the non-defaulting party. It seems clear that under the circumstances one party ought not to be able to default the other without Government consent.

The notice states that the Board policy of routinely considering proposals to modify standard contract provisions will be terminated. The Board believes this is a reasonable and common-sense approach. In the future, with good cause shown, and upon circumstances presented justifying an exception, the Board will entertain changes in certain model contract language. There are, however, as mentioned, certain clauses so basic to the Board's participation in a given transaction that, without the agreement of the Purchaser and Contractor to such language, the Board would decline to participate in a given transaction. The board will, in its final rulemaking, identify the contract clauses to which it will not entertain any modification.

Also, following enactment of the Merchant Marine Act of 1970 and the 1972 amendments to the Title XI program, there has been a great deal of concern expressed by Government and industry alike that the paper work related to ship construction and financing under the 1936 Act is too weighty. Adoption of standardized contracts was, to an extent, an attempt to meet these concerns.

MarAd has requested comments on this subject and will, of course, review all comments submitted very carefully before taking any further action.

Question. A critic of the Construction-Differential Subsidy program has set forth a number of arguments as reasons for denial of the CDS appropriation requested for 1980. Would you please comment specifically on each of the six allegations set forth below.

(a) The cost is excessive. When the Merchant Marine Act of 1970 was passed, Congress was assured that the CDS rate would be lowered to 35 percent by 1976. Not only has this goal not been met, but in many cases, the real difference between U.S. building costs and world market prices actually exceeds the existing statutory limit of 50 percent.

(b) The construction subsidy program is poorly planned and executed. The Maritime Administration (MARAD) routinely asks Congress to fund this program without having any firm idea of how or whether it is going to spend the money authorized. The building programs MARAD submits to Congress are not realistic appraisals of future construction possibilities.

(c) The building program proposed to be funded this year is even more tenuous than that of past years.

(d) CDS is a burden not only on the taxpayers, who must subsidize U.S. shipyards in competition with an over-supply of low cost foreign yards, but also to the U.S.-flag ship operators who now are required to purchase their ships in U.S. yards as a condition to receiving operating subsidy or participating in the movement of government-impelled cargoes. In 1976, the General Accounting Office recommended that ship operators who received operating subsidy should not be required to build their ships in U.S. yards. Not only is the cost twice as high as the world market price, but it takes about three years to have a major ship constructed in U.S. yards as compared with one year on the world market. Thus if we are to have an efficient and growing merchant fleet, we must allow our operators to acquire their ships under the same conditions as their foreign competitors.

(e) Further subsidies contribute to worldwide excess shipyard capacity. At the existing CDS rate of 50 percent, if the Government wished to buy ships in the world market, it could buy them and give them to U.S. operators for the same cost it now spends on construction subsidy.

(f) There is no demonstration that CDS contributes to the national defense.

Answer. (a) This allegation omits mention of the CDS rate reduction that was actually achieved in the period 1971-1976, or of the circumstances that have made higher rates necessary since 1976. All of the CDS contracts between 1971 and 1976 fell within the descending guideline rates (45 percent in 1971 to 35 percent in 1976)

established by the Merchant Marine Act, 1970. It was the worldwide shipbuilding depression that followed the 1973-1974 oil embargo—and the ensuing drastic lowering of foreign ship prices, in some cases apparently below actual construction costs—that necessitated the elevation of the statutory CDS rate limit to 50 percent for negotiated contracting. Considering all subsidized construction contracts signed since 1970 the weighted average CDS rate per ship has been 38.4 percent, and, although the rate for most ship types now approaches 50 percent, the LNG rate is still below 30 percent and there are prospects for generally lower rates in the future when the worldwide situation stabilizes. To deny CDS now, when foreign actions make it most necessary, would be at cross-purposes with one of the major objectives of the Act, that of sustaining an adequate and healthy shipbuilding industry.

(b) CDS program, which is statutory, is designed to be responsive to the needs of the industry for suitable ships rather than the other way around. Planning and execution under this condition are quite different than they would be if the program were completely discretionary on the part of the Maritime Administration. When this condition taken into account, it will be perceived that the program is very well planned and executed.

CDS budget requests reflect the Maritime Administration's best estimates of commercial demand for subsidized ships during the budget year, which is always at least 18 months in the future at the time of budget formulation. The shipbuilding market is highly volatile, however, and has been particularly unpredictable during the recent years of worldwide maritime industry depression and uncertainty regarding LNG import policy. Guarantees of specific contracting simply cannot be provided. If such guarantees had been required in the past as a part of the authorization process we would have built only a fraction of the ships the program has produced, and our maritime defense posture would be materially weaker than it is today.

(c) The President's Budget indicates that increased emphasis will be placed on bulk ship construction in fiscal year 1980, and the Administration has indicated that it will forward this year legislative proposals to minimize restrictions that discourage bulk ship construction. The government can never guarantee the implementation of any prospective industry building program, which must depend on private initiative. However, this program is no more tenuous than any other, and if the \$69 million associated with dry bulk construction in the budget request is not made available, no steps can be taken to start the revitalization of this highly inadequate segment of the fleet. In addition \$45 million is sought in connection with a prospective LASH contract. This contract is associated with an ODS replacement obligation, and is therefore as close to being assured as any prospective contract can be.

(d) This statement does an injustice to the 1976 GAO report by cutting its recommendations in half. The recommendation mentioned here is accompanied in the GAO report by a proposal that CDS be permitted on ships that entail low subsidy rates, such as LNG's, built for sale to foreign operators. Thus the GAO would have, in effect, provided for the continued maintenance of the shipbuilding mobilization base.

It is true that yards in a number of foreign countries can deliver new ships more rapidly than is the norm for U.S. shipbuilders, and that swift delivery is in many cases preferable to slower delivery. However, it is misleading to state that we must provide operating subsidy to foreign-built ships "if we are to have an efficient and growing merchant fleet." The U.S.-flag liner fleet is now the most modern in the world, and the ships of its subsidized component are much newer, on the average, than those of the unsubsidized component. In this light it would be most difficult to demonstrate that we need to subsidize the operation of foreign-built ships, particularly when that would lead inevitably to the erosion of the shipbuilding mobilization base.

(e) Even with continued CDS funding, it is likely that several U.S. shipyards will go out of business within the next few years of anticipated low-level contracting for new U.S.-built ships. However, CDS funds that can help to minimize the erosion of the shipbuilding mobilization base should not be denied simply because foreign shipbuilders vastly expanded their yards during the boom period of the sixties and early seventies and now are being forced to retrench. It is certainly true that ships can be acquired abroad at lower cost than in the United States. However, this has been true throughout this century, and this simple truth, combined with this country's demonstrated need for a shipbuilding base, were major reasons for the passage of the 1936 Act.

(f) A Navy/MarAd study completed in 1977 and updated in 1978 indicates that the current U.S. shipbuilding mobilization base of between 60 and 70 construction and

repair yards would be only marginally adequate to meet U.S. needs in a short NATO war and would require augmentation in a long war. The shipyard requirement is sensitive to the level of wartime ship loss and damage, and the study will be updated again, this year, to reflect new Navy estimates of the ship loss and damage to be expected in a NATO war.

Approximately 20 percent of the capacity in the construction yards is now supported by CDS work, and there can be no assurance in a NATO war that European or Japanese shipyards would be available. It is probable that many European yards would be in, or close to, the NATO combat zone and all European yards would be vulnerable to enemy air attack. Thus the European yards represent an uncertain resource at best. The status of Japan is also uncertain. If Japan were neutral in a NATO war it is not clear that that country would be in a position to support a U.S. war effort. Furthermore Japanese yards are too far removed from the U.S. and the NATO theater to be of much—if any—help with the ship activation and damage repair tasks that would constitute most of the shipyard workload in a short war. In the MarAd view a policy of dependence on foreign shipyards in wartime would be highly questionable.

In light of foregoing considerations, MarAd cannot agree that CDS does not demonstrably contribute to the national defense.

Question. Assistant Secretary Blackwell has said that "our tanker fleet is completely inadequate in size to provide the U.S. with even token control over its vital oil imports which now account for 45% of the Nation's consumption."

(a) Do you agree?

(b) What steps can MarAd take or recommend Congress take to remedy this situation?

Answer. (a) Yes.

(b) Tankers with between 20 million and 30 million deadweight tons of capacity are still in layup worldwide, and tanker rates, although volatile, continue to be generally depressed. New orders for tankers to serve in the foreign trade are not expected while this situation persists. However, the ship construction industry worldwide has begun to rationalize, with significant reductions in capacity in several major shipbuilding countries. This, along with the return of stability in the oil trades, should result in recovery. Best estimates are that market demand should be sufficient to stimulate new orders by the mid-1980's.

Question. Assistant Secretary Blackwell has said that stepped up levels of foreign assistance have posed some problems for MarAd in calculating ship construction-differential subsidies, and that MarAd knows of some instances in which foreign yards, as a result of government aids, are quoting prices below their out-of-pocket costs.

(a) What problems does this create for MarAd?

(b) Does this pose a threat to our CDS program?

(c) If so, is there anything Congress or the Administration should do?

Answer. (a) In response to the current shipbuilding depression foreign yards, assisted in many cases by increased government assistance, are offering ships at prices close to or below the actual cost of construction. This puts U.S. yards at a disadvantage in getting new orders. CDS rates have risen, and for most ship types are at or close to the 50 percent allowable maximum. This in turn means that more CDS funds are subsidizing fewer vessels. The CDS program is not able to accomplish as much as it could in more prosperous times.

(b) There is no long-term threat to the CDS program itself. World shipbuilding capacity has already been rationalized to some extent. For example, Japanese yard capacity is being reduced by 35 percent. Furthermore, some recovery of ship demand is anticipated by the mid-1980's. Once the market comes into equilibrium, foreign ship prices will increase and foreign governments would be expected to reduce or eliminate their current shipbuilding subsidies. U.S. yards should become more cost-competitive and the current pressures on the CDS program are likely to diminish.

(c) The Administration will forward to Congress this spring a legislative package to aid the ailing dry bulk segment of the fleet. An integral part of this is a ship construction program.

Question. A legislative package to ease the regulatory restrictions which have deterred potential applicants from undertaking dry-bulk construction programs has been promised by the Administration.

(a) Do you know when that package will be submitted?

(b) Inasmuch as the Administration's authorization request provides for 3 dry bulkers, shouldn't that package be submitted soon? Otherwise those dry bulkers will be operating under the present restrictions.

Answer. The dry bulk legislative package is expected to be forwarded to the Congress this spring. If adopted in this session of Congress, the package should spur contracting for three dry bulkers in fiscal year 1980. Ships ordered in 1980 may be expected to commence operation in 1982.

Question. In addition to easing regulatory restrictions for the dry bulk subsidy program, Secretary Blackwell has said there are other dry-bulk problems which are obstacles to a successful program. Would you please explain?

Answer. Other impediments to an expanded U.S. dry bulk shipping program include a combination of financial and market considerations. In the financial area, certain U.S. tax provisions provide incentives for American shipowners to build abroad. Specifically, Subpart F of the Internal Revenue Code excludes foreign-flag shipping income if the money is reinvested in foreign shipping assets. Additionally, American shipowners are allowed the investment tax credit when building ships overseas.

With respect to the market, there is still excess capacity in the world's dry-bulk fleet, and charter rates for dry-bulk ships continue to be depressed. However, this overtonnaging is not as severe as that which afflicts the tanker market, and there is reason to expect some recovery in the 1980-1985 time frame when ships ordered in 1980 would become operational.

Question. The 1970 amendments to the Merchant Marine Act of 1936 extended construction subsidy to dry bulk carriers. How many dry bulkers have been built with subsidy since the 1970 amendments? Without subsidy?

Answer. Since enactment of the 1970 amendments to the Merchant Marine Act of 1936, two oil/bulk/ore carriers have been built with subsidy and one dry bulker without subsidy. In addition, a contract for the subsidized construction of five dry bulkers was signed in the fall of 1978. Actual construction work under this contract has not yet started.

Question. Under present law, operating-differential subsidy is not available to companies which operate both U.S.-flag ships and foreign-flags. The theory being that some of the subsidy funds payable to a company that was operating both U.S.-flag ships and foreign-flag ships, might be diverted from the U.S.-flag operation to the foreign-flag operation.

(a) Do you agree with his theory insofar as it applies to dry bulkers?

Answer. (a) No, I do not. I feel that the legal restraints stated in Section 804 unnecessarily limit the number of dry bulk operators that may receive ODS.

I agree with the principle behind the enactment of Section 804, i.e., that ODS should not be transferred from a subsidized U.S.-flag vessel to support foreign-flag operations. However, I feel that Section 804 should be liberalized so as to allow persons who own both U.S. and foreign dry bulk vessels to receive ODS for their U.S.-flag dry bulk vessels. The liberalization of Section 804 should contain a provision providing for the promulgation of new regulations to be implemented to prevent any abuse of the proposed liberalization.

Section 804(b) provides authority for the Board, under special circumstances and for good cause shown, to waive the provisions of Section 804(a) for a specific period of time. However, it generally is not possible to find the "special circumstances" and "good cause" necessary for such waivers unless a specific proposal has been submitted.

The maritime industry has claimed that Section 804 has always constituted a practical bar to the development of a U.S.-flag dry bulk cargo fleet. I feel the liberalization of this restriction, with appropriate safeguards, will serve to promote the U.S.-flag merchant marine without risk of subsidy diversion.

Question. Under present law, there is a limit on guaranteed loans outstanding of \$10 billion under the Federal Ship Financing Fund to guarantee ship construction loans and mortgages under Title XI of the Merchant Marine Act of 1936.

At fiscal 1980 year-end, the program's total commitments and guarantees will reach an estimated \$7.2 billion.

Thus, under the law an additional \$2.8 billion on construction loans and guarantees is available.

However, the Administration's budget proposes to limit commitments to \$1 billion.

How does the Administration propose to make the limitation \$1.8 billion less than the law allows? There is nothing in S. 640 to that effect?

Answer. Under present law, the amount of obligations guaranteed and outstanding at any time under Title XI of the Merchant Marine Act, 1936, as amended, is limited to \$10 billion. The Administration is proposing an additional limitation on this program in the form of an annual limitation on the aggregate amount of new loan guarantee commitments. This limitation, which would limit new commitments

to \$1 billion in 1980, has been included in the Administration's proposed 1980 appropriations bill.

The annual limitation is part of the Administration's efforts to control Federal credit programs.

Question. (a) What financial losses were incurred by programs or funds administered by MarAd as a result of the financial difficulties of Pacific Far East Line and States Line?

(b) Did those losses have any impact on the MarAd budget for fiscal year 1979; will they have for fiscal year 1980?

Answer. (a) MarAd had, prior to the bankruptcy of each of these companies, guaranteed substantial amounts of debt issued by the companies to aid in financing vessels pursuant to Title XI of the Merchant Marine Act, 1936, as amended. The guarantees which this program offers, however, are secured by First Preferred Mortgages on the vessels financed. The Proceeds of the sale of these vessels in foreclosure are used to recover the guarantee payments.

MarAd has honored all the guarantees on the Pacific Far East Line vessels in the total principal amount of \$97,822,540.03 plus accrued interest of \$4,219,006.95. In addition, approximately \$4,000,000 has been expended to date for items relating to maintenance and foreclosure of the collateral. These expenditures are also recoverable from the sale of the vessels. Foreclosure proceedings have been initiated on three containerships, one roll-on/roll-off trailer vessel and 400 LASH barges (all the barges located in the United States). Losses of \$30,000,000 to \$35,000,000 are anticipated.

To date no payoff of the title XI guarantees on the States' vessels has effectively been made, and, thus, no loss has been incurred. However, in anticipation of a possible transaction with Lykes Brothers Steamship Co., Inc., which would result in an alternative use for States' four roll-on/roll-off trailer vessels, MarAd advanced \$3,447,826.95 for principal and interest payments with respect to these vessels in December 1978. In January 1979, Lykes purchased one of the vessels and chartered two others for a minimum of three years. The purchase price was sufficient to cover the repayment of the guarantee payment and a portion of the advance made with respect to the purchased vessel. The charter hire payments will parallel and equal the payments of principal and interest due with respect to the title XI guaranteed debt and portion of the advance related to the chartered vessels. The debt service on these chartered vessels will, thus, be insured for at least three years. MarAd is continuing to work with all parties concerned in States' bankruptcy to arrange alternative employment for the fourth ro/ro and States' seven breakbulk vessels.

(b) There will be a net zero impact on the 1979 operating subsidy (ODS) budget of the two bankruptcies. The PFEL bankruptcy situation was known before the 1979 budget request was made to the Congress, so no ODS funds were requested for PFEL in either 1979 or 1980. The removal in 1979 of the nine States' ships from subsidy will be offset by the initiation of new operations by an existing operator (Waterman on Trade Route 21 with four ships) and by the resumption of operations for three of the States' ships by Lykes Bros. Steamship Co., Inc. The 1980 request reflects a reduction of approximately \$6 million to account for the change in 1980 operations by States and Lykes.

Question. U.S.-flags carry 30 percent of the cargo in our liner trades. Of that amount, what percentage is government-impelled cargo?

Answer. In 1977, the latest year for which information is complete, U.S.-flag ships carried 16.9 million tons of liner cargo, of which 24.7 percent or 4.17 million tons was government-impelled. Civilian agencies (Export-Import Bank excluded) generated 1.65 million tons of government-impelled cargo, and the balance (2.52 million tons) was defense logistical support cargo. Export-Import Bank cargoes, which are also subject to cargo preference, are reported only by freight revenues, and on this basis generated \$138.5 million or 5.6 percent of the total U.S.-flag liner revenues in 1977.

In further response to this question, in 1977 U.S.-flag liner vessels carried 16.9 million tons of cargo in the U.S.-foreign trade. Based on our statistics, the 16.9 million tons included 4.17 million tons of government-impelled cargo. The government-impelled cargo consisted of 1.65 million tons of civilian agency cargo and 2.52 million tons of defense logistics support cargo.

The 16.9 million tons of cargo moved by U.S.-flag operators represents 33.6 percent of the total liner cargo moved in 1977 by U.S. and foreign-flag operators in U.S.-foreign trade. The 4.17 million tons of preference cargo carried by U.S.-flag operators represents 8.7 percent of the total liner commerce. Excluding preference cargo carried by U.S.-liner operators, U.S.-flag liners carried 24.9 percent of our total liner commerce in 1977.

As stated previously, the above statistics for government-impelled cargo do not include Ex-Im Bank financed cargo which up until now has been reported on a freight-revenue basis only.

Question. A recent GAO report found that MarAd has been hampered in its efforts to expand the number of programs with cargo preference requirements by nonspecific legislation and lack of clean-cut authority to define which programs should be required to use U.S.-flag vessels. Consequently, the report concluded, in some cases federally funded or guaranteed cargo that could have been shipped on U.S.-flags may have been shipped on foreign flags.

(a) Was this part of the problem with the shipment of buses financed with Federal funds from Germany aboard Soviet carriers?

(b) Does MarAd believe there are *now* cases of federally funded or guaranteed cargo that could have been shipped on U.S.-flags, which were shipped on foreign-flag? If so, what is the reason?

Answer. (a) Yes.

(b) Yes. Some federally funded or guaranteed cargo is presently moving on foreign-flag vessels because bookings were made before our regulations were finalized. It was not feasible to change the shipping arrangements because of construction schedules and contractual commitments.

In further response to this question, (b) there is only one significant area where we have reached the conclusion that there is presently an unreconcilable disagreement between MarAd and another government agency concerning the application of cargo preference to a program. The State Department/AID maintains that the newly formed cash transfer program to Israel is not subject to cargo preference. Several years ago AID's Office of General Counsel took a position that cargo preference did not apply to cash transfers. We have referred the matter to the Comptroller General for his ruling since we believe cargo preference should be applied.

Our review with respect to cargo preference is an on-going matter. At the present time, the staffs of three other federal agencies have informed the staff of the Maritime Administration that they do not believe cargo preference applies to their programs. These matters are now being negotiated with our staff. We are hopeful of successful resolution. As per request, we will report back to you at such time as we have concluded that these differences are also unreconcilable. Of course, additional programs will in all probability arise in the future where the agency involved will dispute the applicability of cargo preference, and as a result, it will be our obligation to attempt to assure that U.S. flags carry the cargo available had cargo preference been applied.

In further response to your question concerning the Luling Bridge project, we have been informed by the staff of the Department of Transportation that cargo preference will be applied.

Question. Has the Interagency Task Force taken the UNCTAD Liner Code into consideration in its deliberations? If not, why not?

Answer. The UNCTAD Liner Code was taken into consideration by the Interagency Task Force as part of its analysis of the broader issue of bilateral agreements. The Interagency Task Force studied the concept of bilateral cargo sharing agreements as a way to deal with problems arising from the rise of state owned fleets and the aspirations of less developed nations to maintain their own merchant fleets.

Question. If Europe and Japan implement a modified form of the UNCTAD Code in their trade with developing countries, won't that curtail competitive opportunities for U.S.-flag carriers as cross-traders, such as American President Lines, United States and Sea-Land?

Answer. To the extent that the carriers mentioned are cross-traders, "yes."

Question. Won't introduction of an UNCTAD type cargo sharing agreement in foreign-to-foreign trades result in displacing many existing ships, now operating as cross-traders, that will then be dumped into the "open access" U.S. liner trades which are already becoming overtonnaged?

Answer. It is reasonable to expect that if cargo availability in foreign-to-foreign trades becomes restricted as a result of the "coming into force" of the U.N. Liner Code, traditional cross-traders will seek to find compensating employment for unused vessel capacity. The most likely place for this such employment would be in the "open access" U.S. liner trades.

Question. Assistant Secretary Blackwell has said that it is conceivable that, as shipping competition intensifies, we will see the major trading powers endorsing bilateral shipping arrangements to protect their fleet's interest.

(a) Do you agree; and, if so, should the U.S. endorse these agreements?

(b) Should we continue our opposition to UNCTAD?

Answer. Given the very likely accession to the U.N. Liner Code by the Common Market countries and Japan, at least with respect to trade involving developing countries, it is unlikely that "major trading powers" will endorse bilateral shipping arrangements as such, because they would be superfluous in most cases.

Whether we oppose the U.N. Liner Code will soon become academic, assuming that it comes into force, which seems likely. We would better direct our energy to adjusting our shipping policy to a shipping world in which the Code is a fact of life.

Question. The cargo sharing provision of the UNCTAD Code are commonly referred to as 40-40-20. Is there more to the Code, much of it harmful to carriers?

Answer. Indeed, there is much more to the Code. Whether these other provisions are harmful to carriers is a matter of intense debate. In addition to cargo sharing, two other important provisions of the Code provide for closed conferences and a 15-month freeze on conference rate increases. Obviously, absent a radical revision of U.S. law, the U.S. cannot accede to a Code which provides for closed conferences. Undoubtedly, in the present era of rapidly increasing costs, the Code provision relating to a freeze on rate increases could be harmful to carriers.

Question. Some industry officials have stated that the UNCTAD Liner Code has already stimulated increasing numbers of developing countries to unilaterally impose cargo sharing laws in their trades with the U.S. Is that true? Do you see that trend continuing? What countries are now seeking bilateral maritime agreements with the U.S.? What countries have such agreements with the U.S.?

Answer. Whether there is a cause and effect relationship between the existence of the proposed U.N. Liner Code and the increasing number of cargo preference laws enacted by developing countries cannot be empirically confirmed. Motives may vary. In fact, some LDC Cargo preference laws antedated the promulgation of the U.N. Liner Code. It is true, nonetheless, that the incidence of such unilaterally enacted laws is increasing.

This trend will no doubt continue in U.S. trades, particularly if the U.S. does not accede to the U.N. Liner Code.

Several countries are now seeking bilateral maritime agreements with the U.S. The substances of the proposed agreements varies, i.e., not all countries have exhibited an interest in cargo sharing. Some, notably eastern block countries, are principally interested in improved port access and relief from the Controlled Carrier Act. The countries now seeking negotiations are: Bulgaria, Bangladesh, People's Republic of China, Ecuador, German Democratic Republic, Guatemala, Poland, Romania (for renewal of existing agreement), and Singapore.

The U.S. now has government-to-government bilateral maritime agreements with the Soviet Union and Brazil.

Question. Assistant Secretary Blackwell has been reported as saying (American Shipper, Feb., 1979) that the U.S. should "try bilateralism where it make sense," and that we should look into the possibility of implementing bilateral accords in trades with developing nations. He is further reported as saying that he does not think cargo sharing agreements would work in the highly competitive North Atlantic and Far East Trades. Do you agree with Mr. Blackwell's statements? If so, please specify the trades in which you believe bilaterals would/would not work, and why; and what type of bilaterals would work, i.e., government-to-government, or agreements within a conference, etc.?

Answer. The negotiation of cargo-sharing agreements is the only practical way to protect U.S. shipping interests against the unilateral imposition of cargo preference by other countries, whether by decree in the case of developing nations or by monopolistic trade practices in the case of countries with non-market economies. Whether the bilateral agreements are commercial or governmental is not so important as assuring equitable treatment of the affected interests—shippers as well as carriers. The Federal Maritime Commission approves and monitors commercial shipping agreements, and MarAd has negotiated governmental accords in consultation with the State Department and has monitored their implementations.

Bilateralism would contribute more in our trades with developing countries and those with state-controlled economies than in trades with industrialized countries where U.S. liner market shares have traditionally been equitable and where implementation of cargo sharing would be inimical to normal foreign trade practices.

Question. Mrs. Kreps is scheduled to visit Peking on May 7, 1979, and sign a maritime agreement with the People's Republic of China. Is the Administration aware of the need to shape any grant of Most-Favored-Nation treatment in such a way as to retain the application of the State-controlled carrier bill on PRC ships in U.S. cross-trades?

Answer. We recognize that the grant of Most-Favored-Nation treatment to the People's Republic of China would affect the jurisdiction that the Federal Maritime Commission has under the Ocean Shipping Act of 1978 over PRC vessels. The Administration is addressing this question at this time.

Question. Would it be helpful for Congress to pass a clear statutory authorization designating MarAd with the primary responsibility to negotiate bilateral maritime agreements in consultation with State Department?

Answer. The Maritime Administration has been primarily responsible, in conjunction with the State Department, for the negotiation of the last several bilateral maritime agreements. We cannot evaluate such a proposal in the abstract without reference to a specific text. If specific legislation is introduced we would, of course, be happy to review it in the normal manner.

Question. The Committee will hear testimony today urging us to urge MarAd to implement the parity concept by providing for operating-differential subsidy payments for all ships covered by parity contracts. The allegation being that MarAd has increasingly sought to withhold parity payments with regard to the cost of maintenance and repair.

Would you please comment.

Answer. In keeping with the Congressional intent evident in the legislative history of the 1970 Act, the Maritime Administration has moved toward effecting a lesser dependence on subsidy by liner operators, in recognition of the competitive gains made by the subsidized fleet due to technological advances. Generally speaking, it is considered that high-technology vessels require less subsidy because of their greater efficiency and productivity than less efficient and productive break-bulk vessels. This philosophy has been applied on a case by case basis during negotiations with each operator concerning the award of an ODS contract, taking into consideration the varying circumstances pertaining to each operator's services.

We expect that the level of repair in U.S. shipyards by both foreign and U.S. flag vessels will be, even without subsidy for maintenance and repair, sufficient to maintain an adequate maintenance base. Even without the incentive of subsidy, non-subsidized operators have their repairs performed mostly in U.S. shipyards, for several reasons:

(1) U.S. shipyards have better familiarity with high-technology U.S.-built ships—thus insuring fewer delays.

(2) The cost of foreign repairs is close to that of U.S. repairs, and customs duty on foreign repairs lessens the difference to U.S.-flag operators even further.

(3) Performance of repairs in U.S. yards enables the U.S. operator to substantially reduce crew travel costs which must be paid while ships are undergoing repairs in foreign ports.

Question. The Department of Transportation is creating an Assistant Maritime Secretary "to assure that the voices of water transportation are heard."

(a) Isn't this what the Assistant Secretary of Commerce for Maritime Affairs is supposed to do?

(b) Do you see potential duplication, conflict or encroachment on the functions of the Maritime Administration?

Answer. (a) The Assistant Secretary of Commerce for Maritime Affairs is delegated the responsibility for developing, implementing, and administering Federal programs to foster the development and maintenance of an American merchant marine sufficient to meet the needs of the national security and of the domestic and foreign commerce of the United States. Accordingly, in carrying out these functions MarAd maintains constant contact with all segments of the maritime industry.

Based upon the information available to us concerning DOT's new Assistant Secretary position, we are not sure as to precisely which "voices of water transportation" are going to be heard and if they are heard, how these voices will affect the above responsibilities of MarAd. On the surface there would appear to be some overlap, but Secretary of Transportation Adams has stated before the House Subcommittee on Merchant Marine that the new Assistant Secretary position and the new Office of Marine Transportation does not seek to duplicate the efforts of other maritime agencies.

(b) In reviewing the statements by Secretary Adams and Deputy Secretary Butchman, it would appear that the three divisions reporting to the new Assistant Secretary concerned with international marine transportation, domestic transportation and ports could duplicate or conflict with similar ongoing activities in MarAd. However, in view of the statement made by Deputy Secretary of Transportation Butchman when announcing the establishment of the new Assistant Secretary for Marine Transportation, and the statement by Secretary of Transportation Adams explaining the responsibilities of the new Assistant Secretary before the House

Merchant Marine Subcommittee on March 15, 1979, this does not seem to be the case.

Question. In your statement you say that our bulk fleet is limited to 19 ships. Testimony from the Joint Maritime Congress states that our bulk fleet consists of 15 ships. Is this discrepancy reconcilable?

Answer. Yes; the Maritime Administration statement includes both active and inactive dry bulk vessels as of February 1, 1979. The Joint Maritime Congress statement included only the active dry bulk vessels as of February 1, 1979.

Question. GAO made the following recommendations to the Secretary of Commerce:

To improve the completeness of the cargo preference data submitted to MarAd and to improve MarAd's monitoring ability, we recommend that the Secretary of Commerce direct the Assistant Secretary for Maritime Affairs to:

Establish a timetable for identifying all of DOD's programs that have cargo preference applicability and for developing DOD reporting requirements.

Has MarAd acted on this recommendation: If not, why?

Answer. In further response to this question, DOD's programs, which generate ocean shipments involving U.S. Government funds, have been identified and therefore no timetable is required. The DOD programs in this category, namely the Foreign Military Credit Sales Program and the Military Assistance Grant Aid Program, are under cargo preference, and MarAd is assisting DOD in the monitoring of these programs to assure that the U.S.-flag carriers receive their equitable share.

With respect to DOD's contracting activities, which include Direct Procurement; Offset Procurement; U.S. participation in co-production agreements; and U.S./NATO co-procurements, a U.S.-flag provision is applicable to prime contractors. An amendment to the Defense Acquisition Regulations, soon to be published, will incorporate a reporting procedure satisfactory to MarAd and will encompass all of DOD's contracting. For many years however, DOD has taken the position that cargo preference only applies to prime contractors. There is a difference of opinion between MarAd and DOD staff personnel in this regard concerning subcontractors, although U.S.-flag vessels may in fact be participating in the carriage of subcontract cargoes. We are currently reviewing the DOD staff position on subcontracts. Other than this situation, we know of no DOD program or contracting activity where DOD maintains that cargo preference is not applicable.

U.S. DEPARTMENT OF COMMERCE,
THE ASSISTANT SECRETARY FOR MARITIME AFFAIRS,
Washington, D.C., April 20, 1979.

Hon. JOHN W. WARNER,
U.S. Senate,
Washington, D.C.

DEAR SENATOR WARNER: This refers to your letter of April 6, 1979, requesting responses to 13 questions for the record of the hearing on the Maritime Administration authorization held by the Senate Committee on Commerce, Science, and Transportation. The answers to your questions are furnished herewith.

Sincerely,

SAMUEL B. NEMIROW,
Acting Assistant Secretary for Maritime Affairs.

Enclosures.

Question 1. I understand that there is a move in the House of Representatives to (1) eliminate construction differential subsidies and (2) to provide operating differential subsidies to vessels, whether or not they were built in the United States (presently, in order to receive operating subsidies, vessels must be American-built). What is the Administration's position on this proposal?

Answer. The Administration is opposed to the elimination of construction-differential subsidy (CDS) funds requested in its fiscal year 1980 budget. Although U.S. shipyard employment is currently at a high level, orderbooks are dwindling. A significant downturn in employment is now unavoidable and some shipyards are likely to close before the shipbuilding market begins to recover, probably in the mid-1980s. As shipyards close, the U.S. shipbuilding mobilization base, now judged to be only marginally adequate on the basis of joint Navy/MarAd analyses, will shrink. Although the estimated four ships that can receive CDS support at the fiscal year 1980 budget level will not be adequate to reverse the anticipated employment downturn, they will help to reduce it—and the CDS program as a continuum,

accounting for about 20 percent of major-yard capacity and over 80 ships since 1970, is one of the major buttresses of the mobilization base.

The elimination of construction-differential subsidies would lead inevitably to the significant erosion of an already-marginal mobilization base. To provide operating-differential subsidies to foreign-built vessels would have the same effect, because it would eliminate a major incentive to construction in U.S. yards. Because ship prices on the world markets are currently deeply depressed, in many cases below actual cost, U.S. operators frequently can buy foreign-built vessels at prices below those at which U.S. yards can deliver vessels built with CDS. If there were no requirement that ODS recipients build vessels in U.S. yards, few commercial orders would be forthcoming for those yards—at least during the period before the market stabilizes and foreign prices return to compensatory levels.

Question 2. In your Title XI program, you are asking that a \$1 billion per fiscal year ceiling be placed on this program. Would you explain the reasoning behind the request for this ceiling?

Answer. The \$1 billion limitation on the level of new Title XI loan guarantee commitments in 1980 represents one of the initial Administration efforts to control Federal credit programs through appropriation legislation. It is the Administration's expectation that such efforts will facilitate control and management of Federal credit programs leading to both a better understanding of the economic impact of such programs and application of this knowledge towards rational decisionmaking in the pursuit of national economic objectives.

Question 3. It is my understanding that American companies, to the extent they are building ships, are utilizing foreign yards. What can be done to encourage these companies to utilize domestic shipbuilding facilities?

Answer. Contracts to build 13 ships with subsidy in U.S. shipyards have been signed by American companies in fiscal year 1979. However, some American companies are indeed utilizing foreign yards. A major reason for this is that world shipbuilding is currently depressed, and until the market stabilizes foreign shipyards, supported in many cases with governmental subsidies, are pricing ships below actual cost. This distorts the price differentials upon which our subsidy system is based, making it difficult to achieve U.S.-foreign price parity even at maximum subsidy levels. In addition, certain U.S. tax provisions encourage American shipowners to build abroad. Foreign-flag shipping income which is reinvested in foreign shipping assets is exempt from U.S. tax under Subpart F of the Internal Revenue Code, and U.S. shipowners are allowed the investment tax credit when building ships overseas. Finally, a number of statutory restrictions imposed on subsidized U.S. bulk ship operators have acted as disincentives to the construction of dry bulk ships in this country. There are now only 19 dry bulk carriers under U.S. registry and only two of those, which are actually oil/bulk/ore carriers, have been built since 1970.

The dry bulk legislative proposals that the Administration intends to forward to the Congress this spring would eliminate the noted statutory restrictions on dry bulk operators.

Question 4. Mr. Ed Hood of the Shipbuilders Council of America predicts that the number of active U.S. shipyards could be reduced from 19 presently to 8 or 9 by 1984 and that the existing shipyard work force will decline by 66,000 before 1985. Do you agree with Mr. Hood's assessment? What steps are the Maritime Administration taking to lessen the hardships of the current shipbuilding crisis?

Answer. As we interpret the numbers referred to here, the 19 shipyards in question are currently active in building oceangoing and Great Lakes ships. There are seven other active major yards not building ships and more than 50 additional smaller yards that specialize in ship repair work, drill rig construction, etc. Mr. Hood's projected employment decrement is from a total of close to 180 thousand, representing the work force in all of the yards, large and small. Given this interpretation, we are in essential agreement with his projections as a worst-case possibility.

We anticipate that our proposed legislative package easing restrictions on dry bulk carriers built with subsidy, if enacted, will stimulate construction of an additional three to five ships a year between now and 1985, lessening somewhat the impact of the current shipbuilding crisis. Other prospective mitigating factors include tanker replacement and conversion to comply with new anti-pollution regulations, and, possibly, the ultimate approval of certain long-delayed LNG import projects, with concomitant orders for some additional LNG ships under MarAd assistance programs. It is too early to predict the extent to which these factors may alleviate the situation. However, there is at least a reasonable prospect that, despite a now unavoidable downturn in employment, the worst-case situation may not occur.

Question 5. The Maritime Administration has just released a study which comes to the conclusion that U.S.-flag ships on the Great Lakes are facing a growing shortage of deck and engine officers. The study describes the shortage as "a critical situation." According to the study, the shortage is a result of fewer new officers coming from within the ranks of unlicensed seamen, vacation and pay benefits for deep-sea officers attracting many of the graduates of the U.S. Merchant Marine Academy and coastal state maritime academies and limited enrollment at the Great Lakes Maritime Academy. Would you please tell this Committee what steps are being taken by MarAd to correct this shortage situation which will reach an average of 129 deck officers and 165 engine officers from the year 1981 on? Also, what steps are being taken to implement the many recommendations of the study?

Answer. In the formulation of our fiscal year 1981 budget careful consideration is being given to the needs of the Great Lakes Maritime Academy consistent with Administration budget guidelines. The other State academies have been apprised of the situation on the Great Lakes and are being encouraged to make their students aware of the employment opportunities on the lakes. A number of the academies have already responded to the situation. Further, the Administration last year and again this year will be sponsoring legislation to impose a service obligation on graduates of the United States Merchant Marine Academy and to convert the grants being extended to students at the State academies to loans which will be forgiven if certain service requirements are met. If enacted, this legislation will help to increase the personnel retention rate in the industry and be of assistance in this situation. Finally, we will continue to monitor the situation on the lakes and take appropriate action as needed.

Question 6. The Department of Transportation has recently announced that it is creating an Assistant Secretaryship for water transportation who will preside over divisions focusing on international marine, domestic marine, and ports. To what extent do you foresee DOT's actions duplicative of MarAd programs? What conflicts do you foresee? Is this the first step towards transferring MarAd out of the Department of Commerce and into the Department of Transportation?

Answer. In reviewing statements by Department of Transportation Secretary Adams and Deputy Secretary Butchman, it would appear that the three divisions reporting to the new DOT Assistant Secretary—concerned with international marine transportation, domestic transportation and ports—could duplicate or conflict with ongoing activities in MarAd. However, in view of the statement made by Deputy Secretary Butchman when announcing the establishment of the new Assistant Secretary for Marine Transportation, and the statement by Secretary Adams explaining the responsibilities of the new Assistant Secretary before the House Merchant Marine Subcommittee on March 15, 1979, this does not seem to be the case. Secretary Adams stated that the organization under the new Assistant Secretary for Marine Transportation does not seek to duplicate the efforts of other maritime agencies.

Since the formation of the Department of Transportation in 1969, the question of the organizational placement of the Maritime Administration has periodically been raised and consistently answered in the same manner. Congress clearly excluded the Maritime Administration and all functions involving the promotion of the American merchant marine involved in international commerce as well as domestic commerce from the DOT. We are not aware of any reorganization plan by the Administration that would change this stated intent of Congress.

Question 7. It is my understanding that because of the severe increase in oil-based bunker fuel, the U.S.-flag merchant marine is looking at converting its ships to diesel power. The Maritime Administration three years ago relaxed its "Buy American" requirement for subsidy-built ships to permit the use of foreign-made, slow-speed diesels. Is this relaxation still in effect? What is MarAd doing to promote the use of American-made diesel engines where possible?

Answer. On August 12, 1977, the Maritime Subsidy Board issued its final decision not to withhold approval of applications for construction-differential subsidy for vessel designs incorporating domestically manufactured slow speed diesel propulsion units solely because some foreign components were used in the units. This step was taken because it was believed that the policy would (1) permit development of a U.S. slow speed diesel manufacturing capability that would otherwise not occur, (2) strengthen the U.S. marine propulsion industry by making it possible for U.S. shipyards to accommodate ship purchasers who might prefer slow speed diesel propulsion plants, and (3) minimize long-term dependence on foreign components.

The Board's policy emphasizes that possible approvals of designs incorporating slow speed diesels with foreign components will be conditioned on various requirements intended to ensure that the goal of an entirely domestic capability for the

manufacture of slow speed diesels would be achieved within a reasonable time. In addition, the Board addressed the requirement for a diesel training school with appropriate training equipment. Such a school has since been established at the U.S. Merchant Marine Academy, with courses for both midshipmen and active seafarers. All course offerings have been fully subscribed.

To date, no CDS contracts have been granted which incorporate slow speed diesel propulsion. However, American President Lines, Ltd., has requested consideration of slow speed diesel propulsion as a change in the specifications for its recently awarded C-9 containerships, and MarAd is currently gathering and evaluating the information necessary to respond to this request.

Question 8. The amount requested in your fiscal year 1980 budget for the Federal and State maritime academies in comparison with those amounts authorized in fiscal year 1979 does not give any indication that you will be able to rectify the problems highlighted in your Ship Officers Study. Please comment on this.

Answer. The fiscal year 1980 budget was prepared prior to the completion of the Great Lakes Supply and Demand Study. As is indicated in the response to Question 5, in formulating our fiscal year 1981 budget careful consideration is being given to the needs of the Great Lakes Maritime Academy, consistent with Administration budget guidelines, and certain other steps are being taken. The situation can be alleviated by improving the personnel retention rate in the industry. The Administration will sponsor legislation to impose a service obligation on graduates of the Federal maritime academy and to convert the grants to State maritime academy students to loans, forgivable only upon meeting certain service requirements. This legislation, if enacted, will improve the retention rate.

Question 9. Would you indicate how many defaults there have been under the Title XI program and has the Federal government suffered any economic harm as a result?

Answer. The Title XI program presently involves nearly 400 companies and approximately 4,300 vessels (consisting of approximately 2,450 oceangoing and inland vessels and 1,850 LASH barges) with Title XI guarantees or commitments totaling approximately \$6.2 billion. Since 1938, the Title XI program has experienced defaults involving 11 companies. Two other Title XI companies, Bulk Food Carriers, Inc., and States Steamship Company, have filed under Chapter XI of the Bankruptcy Act. Arrangements have been made for the disposition of the majority of these two companies' vessels to other companies, and negotiations are presently underway for the disposition of the remainder. As a result, no Title XI losses are anticipated with respect to these two bankruptcies.

The Federal Government cannot be considered to have suffered appreciable economic harm as a result of these defaults, as the income to the Title XI program, obtained from the fees paid by each company utilizing the program, has exceeded net losses on defaulted vessels. Further, the Maritime Administration holds a First Preferred Mortgage on all vessels financed under the Title XI program, and the net losses incurred in connection with default situations have been quite low, as the funds paid with respect to the Title XI guarantee are offset by the proceeds obtained from the sale of the defaulted vessels.

Prior to the default involving Pacific Far East Line, Inc. (PFEL), the Title XI program incurred only 10 relatively minor defaults with a net loss from the re-sale of the vessels of approximately \$14.6 million. It is presently estimated that the losses resulting from the upcoming sales of the PFEL vessels will total approximately \$30-\$35 million for all the vessels. The cost of these losses (as with all other expenses incurred in administering the Title XI program) is expensed against the income received by the program. At the present time the Title XI program has funds available of approximately \$80 million, with an additional deposit of approximately \$70 million anticipated as a result of sale on the defaulted PFEL vessels, for which the Title XI program has previously paid off approximately \$104 million.

Question 10. Would you please provide for the record the type of ships which have been constructed under the Title XI program?

Answer. The 4,300 vessels presently being financed under the Title XI program can generally be classified into the following categories: tankers; cargo vessels; cargo/passenger vessels; river tugs; river barges; ocean tugs; ocean barges; shipboard (LASH) barges; drill rigs, drill service vessels; LNG vessels and bulk carriers. In addition, several special purpose vessels have been financed under the Title XI program.

Question 11. Would you please explain the Title XI program as administered by the Maritime Administration?

Answer. The Title XI program, established pursuant to the Merchant Marine Act, 1936, as amended, provides for a full faith and credit guarantee by the United

States Government of debt obligations issued by the United States citizen ship-owners for the purpose of financing or refinancing United States flag vessels constructed or reconstructed in United States shipyards. The primary purpose of the Title XI program is to promote the growth and modernization of the United States Merchant Marine by enabling United States citizen owners of eligible vessels to obtain long-term financing on favorable terms and conditions and at interest rates that are comparable to those available to large and financially strong corporations. Such favorable terms are usually not available to the average shipowner.

The Title XI program is self-supporting. Participants are charged a one-time investigation fee and an annual guarantee fee. These funds are deposited into the Federal Ship Financing Fund from which the operating expenses of the program are paid and guarantees, in the event of default, are honored.

The procedures for approval under the Title XI program involve the making of certain findings and determinations by the Maritime Administration. Specifically, prior to granting any guarantees, the Maritime Administration must determine that the proposed shipowner possess the ability, experience and other qualifications necessary for the operation and maintenance of its vessels. The project must be found to be economically sound, which requires an analysis of existing and future markets for the vessels, including any long term contracts for the utilization of the vessels. The shipowner must also meet certain financial requirements in order to qualify for Title XI financing.

In addition to the initial qualifying financial requirements, the shipowner is subject to continuing financial covenants, and under certain circumstances is required to deposit approximately 50 percent of its cash flow from the operation of its Title XI financed vessels into a restricted account to help assure that future expenses will be met. The Maritime Administration is also secured by a First Preferred Mortgage on all vessels that are financed under the Title XI program.

Question 12. MarAd has recently completed a study on disposing of toxic chemicals. I would appreciate very much if you would supply a copy of this study for the record. Since we are becoming more and more concerned with our ecological systems and how indiscriminate disposal of our chemical wastes affects them, would you please summarize the findings of the "Study of the Economics and Environmental Viability of U.S.-Flag Toxic Chemical Incinerator Ship"?

Answer. a) A complete copy of MarAd's "Study of the Economics and Environmental Viability of a U.S.-Flag Toxic Chemical Incinerator Ship" is enclosed herewith. Additional copies are available from the National Technical Information Service as follows:

NTIS No. PB 291931/Set: "Study of the Economics and Environmental Viability of a U.S.-Flag Toxic Chemical Incinerator Ship," Three Volumes, Price \$22.50.

NTIS No. PB 291932/AS: "Study of the Economics and Environmental Viability of a U.S.-Flag Toxic Chemical Incinerator Ship," Volume I—Executive Summary, Price \$4.50.

NTIS No. PB 291932/AS: "Study of the Economics and Environmental Viability of a U.S.-Flag Toxic Chemical Incinerator Ship," Volume II—Detailed Study, Price \$11.75.

NTIS No. PB 291932/AS: "Study of the Economics and Environmental Viability of a U.S.-Flag Toxic Chemical Incinerator Ship," Volume III—Appendices, Price \$6.50.

b) The study indicates that there is a market for a U.S.-flag toxic chemical incinerator ship operation and the economics appear to be more attractive than land-based incineration. The environmental aspects of incineration at sea appear acceptable with some restrictions on those toxic chemicals which include heavy metals.

The study addresses the total anticipated growth of generation of toxic chemicals from U.S., Canada, Mexico, Brazil, Japan, and Western Europe for 1977, 1983, and 1989.

The study assumes that at-sea incineration is used for only those liquid toxic chemicals which do not contain significant heavy metal contaminations. This limitation results in effluents which are tolerable for the environment at sea.

The study investigates the influence of regulations (state, federal, and international agreements) on the quantities of toxic waste available for ocean incineration. It appears that there will be a sufficient market by 1983 to support three of the toxic chemical incinerator ships on the U.S. Gulf Coast and one on the U.S. East Coast. These ships are assumed to be on the order of 12,000 deadweight tons, or about the same as a T-2 tanker.

While it is not always fair to compare costs with prices, we find the range of costs for U.S. toxic chemical incinerator ship disposal to be in the range of \$40 to \$57 per metric ton as compared to prices of \$80 to \$91 per metric ton for foreign, at-sea

incinerator ships and \$181 to \$212 per metric ton for land-based incineration. The high, land-based prices are related to the expenses of scrubbers and neutralizing the resulting acids scrubbed from the incinerator stacks.

Question 13. I would appreciate your supplying a copy of MarAd's study entitled "A Ship Repair Market Assessment" for the hearing record. This study found that MarAd could institute several actions and policies to help U.S. ship repairers, such as extending to ship repairing the type of development program it has undertaken with shipbuilders to perfect new methods for various specific activities, and that a study of current repair technology should be undertaken. Please outline for us what steps you have taken or plan to undertake to institute the study's suggestion.

Answer. A copy of A Ship Repair Market Assessment is attached. Please note that several errata sheets are included. Some factual inaccuracies were discovered in the original report which have been corrected. They do not affect the general substance of the study itself, or of its recommendations.

The study concluded that a number of actions to improve the ship repair industry's future prospects could be taken by the industry itself, as well as by the U.S. government (Navy and the Maritime Administration). Specifically, the study recommended that MarAd should:

Expand the Competitive Shipbuilding Program to the Ship Repair Sector. In effect, this has been done. While there have been no projects specifically addressed to ship repair, representatives of that industry are included in government/industry meetings held under this program and their views and needs are fully considered.

Conduct a Study of U.S. Ship Repair Technology. The MarAd-sponsored comparison of U.S. construction yards with foreign yards in terms of technology that is referred to in the Repair study is now complete. Some of its findings cast light on aspects of ship repair. No similar analysis of ship repair yards as such is planned at this time, but MarAd has continuing dialogue with the industry's representatives and such a study could be undertaken at a later date.

MarAd should Increase Its Support of Skill Development Programs. At present, MarAd is engaged in a joint effort with the Navy and the Department of Labor to establish an advanced job corps training center for shipbuilding skills.

Senator INOUE. We now have a panel representing the Council of American Flag Ship Operators: The executive vice president of Council of American Flag Ship Operators, Mr. Albert E. May; the vice president of Lykes Brothers Steam Ship Co., Mr. Hans G. Blocklin; the vice president of Farrell Lines, Inc., Mr. Richard H. Ford; the vice president of American President Line, Ltd., Mr. William H. Williams; and the legislative representative, Delta Steam Ship Lines, Mr. Robert Hunter.

Senator WARNER. Are these the survivors, Mr. Chairman?

Senator INOUE. They're various survivors. I welcome you on behalf of the subcommittee.

STATEMENTS OF ALBERT E. MAY, EXECUTIVE VICE PRESIDENT, CASO, WASHINGTON, D.C.; HANS G. BLOCKLIN, VICE PRESIDENT, LYKES BROS. STEAMSHIP, INC.; CAPT. RICHARD H. FORD, VICE PRESIDENT, FARRELL LINES, INC.; WILLIAM H. WILLIAMS, VICE PRESIDENT, AMERICAN PRESIDENT LINE, LTD.; ROBERT HUNTER, LEGISLATIVE REPRESENTATIVE, DELTA STEAMSHIP LINES

Mr. MAY. Good morning, Mr. Chairman.

We also appreciate being here and I might comment that in 1970, there were 19 U.S. flag liner companies. Today there are 10.

Senator WARNER. In 1970 there were—

Mr. MAY. 19. Today there are 10. Of the nine that have disappeared 3 might be considered corporate mergers that didn't involve companies that were failing or seriously ill, but that's all. And it's a trend that is by no means reversed.

And that's why all of us are here today as a panel to present these concerns. We greatly appreciate what you and Senator Warner have already said.

Your statements were clear, insightful, and I hope the gentleman behind us from the press will give them some publicity because somehow, we do have to publicize our National maritime problems.

Senator WARNER. In 1970, there were 19 private ships—how would you characterize it?

Mr. MAY. Privately owned U.S.-flag liner operating companies.

Senator WARNER. Now there are but 10.

Senator INOUE. Senator Warner, you may add another batch of statistics to that. At the end of World War II, we had a virtual monopoly of passenger lines in the world in the seven seas. Today, how many do we have now?

Mr. MAY. Today, sir, we have four partial passenger ships, so-called combination ships. They're the Magdalena class vessels owned by Delta Steam Ship Lines that operate around South America. They carry approximately 100 passengers. That's all there are in the entire fleet.

Senator INOUE. We ruled the seas at one time.

Senator WARNER. Didn't Mr. Lykes incorporate a couple of boroughs for passengers in his ships at one time?

Mr. BLOCKLIN. Would you repeat the beginning of that?

Senator WARNER. Did Lykes put in a couple of cabins on his steam ships?

Mr. BLOCKLIN. I think you're thinking of the CB class. Yes, we do. It's very popular.

Senator INOUE. Senator Warner will now take over the chair.

Senator WARNER [presiding]. I may add the Chairman and I have a complete bipartisan relationship on this subcommittee.

Mr. MAY. Thank you, again, Mr. Chairman. We have listened to what you've said and we certainly agree with the comments. We find it ironic—indeed, often bitterly ironic—that part of our Government, a committee such as this, does a great deal of work to support our industry for defense and economic reasons. But other parts of Government cause the most severe problems we're faced with due to unequal and unfair application of U.S. laws between us and the foreign companies with whom we compete.

We had planned to tell you, Senator Warner, many of the things that you and the Chairman, and other witnesses have said. We won't impose on your time to repeat those.

However, we would like to make several points from our statement, and then comment on things that have been said here today.

From our statement, we'd like to point out that companies that are subsidized, and that benefit from the bill before you today, build all of their ships in the United States. They're all owned by U.S. companies. They're manned by U.S. citizens, and a substantial portion of officers are in the U.S. Naval Reserve.

Second, the companies before you today, and the other three companies in the same posture who couldn't be with us, have ordered all but four or five of the total number of liner vessels built in the U.S. shipyards for foreign trade since the Second World War.

In other words, the subsidy programs have worked.

We had a marvelous statement from Secretary of the Navy Claytor we were going to read you about the importance of the American merchant marine. However you've already heard it.

We would simply say that we reviewed the principal elements of the President's proposed Maritime Administration budget for fiscal year 1980, and we support the proposed funding as adequate to meet minimum current obligations and requirements.

With regard to operating differential subsidy, we were going to emphasize, as you already have, the economic contributions of the shipping and shipbuilding industries to the country. We won't repeat that.

There is a problem we would like to call to your attention. The ODS system is designed to place the U.S. operator on a cost parity with his actual foreign competitor. Parity payments were intended by Congress to equalize overall labor costs and four other categories of vessel expense. However, recent contracts have limited parity payments to wages and fringes. Overhead, administrative, fuel and other expenses are not subsidized, nor is a profit guaranteed.

The parity system designed by Congress was equitable. However, we feel compelled to point out that if it is to work as intended, it must not be eroded by administrative actions.

In recent years, the Maritime Administration has increasingly sought to withhold parity payments with regard to P&I insurance costs, and the cost of maintenance and repair.

The rationale behind this administrative action is that these items are not as essential as they once were because of the increasingly high technology of new ships.

In point of fact, the P&I insurance differential reflects the fact that the medical and other costs for injured U.S. seamen are much higher than those for seamen in less developed countries.

This differential, of course, is not affected by technology.

In other words, if an American breaks his back, the cost of rehabilitating and supporting him properly under our system is vastly higher than say for someone from South East Asia.

Senator WARNER. Excuse me. I'm informed by committee counsel that the chairman's questions are being submitted and cover that very important point.

Mr. MAY. Fine. We'll move on from there, if I may, Senator.

It is estimated that a total of 17 ships will be built with CDS from fiscal year 1979 and 1980 funds, six of which will enter the liner fleet. Three of the ships that will be built with this year's construction subsidy funds were recently contracted for, as Assistant Secretary Nemirow said, by American President Lines.

Since the CDS portion of the Maritime Administration authorization authority is basically designed to promote and support our shipbuilding industry, we will leave further discussion and comments to the representative of the Shipbuilders Council of America, who we understand is scheduled to testify later in the day.

We support the MarAd R. & D. program. We find it has been beneficial, as we testified to this committee in the past. Four of our companies, for instance, are today participating in a 50-50 funded program. The Government puts up half, the companies put up half.

The Government in effect provides seed capital for work that none of our companies alone are big enough to do.

We feel that this is very valuable.

With regard to the reserve fleet, we know of your interest in the military aspects of seafleet. We believe that it would make good sense to have a permanent law on the books authorizing the Maritime Administration to buy at fair market value, and with no premiums to the owner, vessels which may no longer be economically viable. These vessels may still have great military utility, but because of the introduction of new technology, perhaps by another American or foreign operator on a route, they may no longer be commercially profitable.

The break bulk vessels, for instance, have been forced out of some, but not all U.S. trades. They are still one of the most valuable ships to the military.

We believe that the present authority in the law for the owner to trade in a ship and get back scrap vessels of roughly equal value from the Government is simply unrealistic.

We're running out of scrap vessels. The reserve fleets are disappearing and it would make good sense to have a law on the books so we don't lose any of these ships that are useful to the military.

Senator WARNER. Why are the break bulk ships no longer desirable?

Mr. MAY. Well, let's take for example the companies carrying trade from the U.S. to Northern Europe and the U.K. There, it's been possible to containerize at least 80 percent of the cargo. This has driven break bulk ships out of that trade.

Senator WARNER. Yes, I'm familiar.

Mr. MAY. We did want to make one other point with regard to the so-called title XI program. This is the Government guaranteed program for ship financing, and it's not only available for our ships; it's available for vessels employed on domestic waterways, fishing, and offshore drilling. It operates at no cost to the Government.

The program's actually made a profit up to now. We feel it's absolutely essential.

There's a report sent to the Congress every year with regard to all of the commitments that are made. Maritime Administration administers it under very close guidelines. However, we find that there is a request in this year's budget to put a \$1 billion ceiling on new authorizations.

Shipbuilding orders, as you well know, don't come along in a nice, even pattern. They tend to come in clumps. We're concerned that if, for instance, the administration should reverse its policy on need to import foreign liquefied natural gas, you might suddenly have a demand for 13 or more LNG's and this cost would be well in excess of a billion dollars.

We urge that the present system of control be retained. We would point out that the administration twice tried to get authority to put a ceiling on title XI guarantees with the Federal Financing Bank Act, and the Congress turned it down.

We frankly feel that this is the nose of the camel. If it's in the bill this year, it's going to be lowered to \$700 million next year,

and so on. They will be able to control the whole program from the Treasury Department.

Finally, Mr. Chairman, we would like to comment on Senator Inouye's remarks with regard to the Baltic shipping case. That is a striking example of what happens in this country when the philosophy of people in several agencies of Government seem to override our national maritime policy.

I'd like to describe for you what I believe is an equally ridiculous proposal that is now surfacing within the administration. That is, if we enter into a bilateral shipping arrangement with the Chinese, the Justice Department is urging that it should have no cargo sharing provision in it.

And the State Department seems at least to be leaning towards that point of view.

Now, the experience with the Russians has been that they seek 50-50 cargo sharing agreements.

Some European countries, opposing 50-50 as a matter of policy, ask the Russians for shipping agreements without a cargo-sharing provision. Usually it simply said it's "intended" that both parties will carry equal amounts of cargo. In one such agreement with the U.K., I'm told the Russians carry 94 percent of the cargo between the U.K. and Russia. The reason is simple. They have government agencies that buy and sell everything that moves. And the Chinese have exactly the same economic system.

The Chinese have recently spent more foreign exchange on shipping than perhaps anything else other than grain.

Senator WARNER. You mean new ships?

Mr. MAY. Basically, they've very cleverly recognized that there has been overttonnaging; they have been buying up ships at bargain basement prices.

Estimates of what they've bought range up to \$2 billion worth. They're going to fill those ships up, if we let them.

For this Committee to authorize money to support the merchant marine, and then to have our government simply give away the cargo that's essential to our success, we think is ridiculous.

Senator WARNER. Well, now, what sort of an agreement would you like to see with China? Don't be hesitant.

Mr. MAY. We'd like to see an agreement that half the cargo moves on U.S. ships and half on Chinese ships.

Senator WARNER. 50-50. All right, good point.

Mr. MAY. Mr. Chairman, that completes our statement. I would ask my colleagues if they would like to add anything, and we will, of course, be happy to answer any questions you may have.

Senator WARNER. Let me bring to your attention the following.

The Secretary of Commerce, Mrs. Kreps, is scheduled to visit Peking and sign a maritime agreement with the People's Republic of China. We put a question to MarAd: Is the administration aware of the need to shake any grant of the most-favored-nation treatment in such a way as to retain the application of the state controlled carrier bill on PRC ships in U.S. cross-trades?

What might we do between now and the 7th before the ink goes dry on that agreement? Try and get this sort of assurance from the administration?

Mr. MAY. I don't know. I'm not privy to the inner thoughts of the Department of Commerce.

But basically, they're our friends and they've done a good job for us.

Secretary Blackwell and Mr. Nemirow have been outstanding public servants. I think that Mrs. Kreps has supported us, Senator, we hear that it's the State and the Justice Departments that are causing the problems with this.

Mr. BLOCKLIN. I'd like to make a statement in this regard. You may or may not have caught up with the fact that we were the first—we have already sent a ship to China. The Letitia Lykes has already loaded approximately 2,500 tons of cargo in China. And there is a Chinese ship coming to Seattle on the 18th of this month.

But naturally, before this was accomplished. In the arrangements for working the Letitia Lykes out, there were many discussions with Chinese officials, quasi-governmental and governmental. We had some very serious discussions with them that they were amenable to a cargo-sharing program.

And in fact, we had felt that probably the very minimum was a 40-40-20 percentage.

Senator WARNER. What would the 20 be? Worldwide?

Mr. BLOCKLIN. It would be a third nation, Senator. But I tell you, suddenly there is this new wave of thinking that seems to permeate certain agency areas of Washington, that what we had thought was almost the fait accompli in this relationship and an acceptance by responsible Chinese officials, is perhaps just being given away at levels at, as Al May has said, I believe we could look at the State Department, perhaps Treasury, and perhaps to the White House, in as much as they're influenced by the State Department.

So I thought you might like to have that comment from someone, a company who has been right in the—on the cutting edge of the Chinese venture, let's say.

Senator WARNER. That's very helpful.

Mr. BLOCKLIN. That's all I have.

Senator WARNER. Any other colleagues like to—

Mr. MAY. I'd like to make a comment on that, just with regard to overall philosophy.

There has been some discussion this morning of the mail problem and of the 50 percent of government cargo going on U.S. ships.

Some years ago I was at a meeting of the International Chamber of Shipping, and there was criticism of the U.S. policy that half of our Government generated cargo has to move by U.S. flagship.

I had heard this just once too often, and I got angry and I stood up and I said: I want anyone in this room, to tell me of a single instance where their government routes any appreciable portion of its own cargo on anything but their own ships where they're available.

I have subsequently asked that question at endless State Department sessions. I've asked it at shipping sessions where there are government people from all over the world. And not a single person has ever cited me a single instance where a foreign government with ships available doesn't always use them.

None of those governments needs laws requiring cargo preference as we do.

It simply wouldn't occur to a minister sitting in the Hague or Bonn or Tokyo to route cargo on other than their own ships.

They don't need laws to do that. That's the real problem we have. It's a difference in philosophy across the board.

And it's something that we somehow have to learn to cope with.

Senator WARNER. Counsel has reminded me, and I've often heard the chairman of this subcommittee say, that perhaps we do need that American desk at the State Department to represent our interests.

Mr. MAY. Amen.

Senator WARNER. These are facts in support of that.

Mr. BLOCKLIN. I want to go back and make a comment for the record on the *Baltic Steamship* case.

Senator WARNER. Yes.

Mr. BLOCKLIN. We had worked that case and, in fact, were going to provide a witness to the FMC, who is reopening the hearings on the *Baltic* case. But we were again on the cutting edge of that situation because Lykes was the company that was involved in the bus shipment.

And let me say I just want to correct the record as far as a figure was concerned. We finally, through much pressure and a lot of hard work on the part of Mr. Nemirow—he's been modest about it—and through a real bird dog that he has, Tom Romeo, that works under his direction and supervision, we finally got DOT to help in this.

And we came up with—I think the final figure was between 25 and 30 percent of the buses went American.

So, this is how much of the cargo that was lost. Some 400 and some odd buses were lost to the foreign shipping.

And finally when this got all sorted out, and this is the big problem that you have, Mr. Nemirow talked about this educational process, and he's pushing it in all directions with these various agencies. And many of them have to be dragged kicking and screaming into complying with the intent of the law.

So I just want to say that, again, what we did carry was between—what the American flag carried was between 25 and 30 percent of those buses.

Senator WARNER. Your colleague on the end, I think, had some comments. Am I correct?

Mr. WILLIAMS. I just wanted to say that your line of questioning this morning is very reassuring to us. We're on the firing line every day and not that the committee has ever been remiss. Again, it's consoling to us that it's your interest, and it's clearly demonstrated by your line of questioning.

We look forward to further appearances before you and your support.

Senator WARNER. Thank you. Anyone wish to speak?

Mr. HUNTER. Speaking for Delta Steamship, I would like to reiterate the same thing.

I'm very pleased with the interest that is demonstrated here, particularly the last question that Mr. Williams brought up. We're particularly interested with approaches to make the Soviet Union the most favored nation, for instance, and to make sure we get our 50-50 whenever it's possible and whenever it's available.

Senator WARNER. You've got my support. I'm going to ask counsel for the committee—

Mr. BLOCKLIN. It just occurred to me—I was listening to Secretary Hidalgo—and I know that you're familiar with the responsibilities, and so forth, of that office and how under it, MSC—previously was MSTs when you were there—used the figure that 95 percent of this cargo is shipped on U.S. flag ships.

That figure really doesn't tell the story. It's 95 percent of U.S. flag ships, but about 17 of those ships out of about 21 that were actively operating are chartered ships, fully chartered, controlled ships.

What I'm saying in another sense is that this cargo does not go to the extent it goes on all those 17 charter ships—it is not going on the regular liner ships who go between these ports, U.S. and foreign all the time, through good times and bad times.

Those controlled ships take that cargo and we get the balance. And of course, I need not tell you about the competitive bid situation. You're very familiar with the agonies that we go through on that. Just to say that in some ports, in some areas, to be second is to get practically no cargo.

But I wanted to clarify the point that, while Secretary Hidalgo says that 95 percent went on U.S. flag ships, that ought to be qualified with the statement that a very large amount of that goes on controlled ships that are on charter, on 3- to 5-year charters.

Senator WARNER. I detect a great receptiveness here on this committee—certainly with the chairman and other members of the Commerce Committee—to work in full partnership with the industry, with the Government, and with the labor organizations. I think the time is right to help build this industry back up.

Mr. BLOCKLIN. You are so right, Senator. Next year or two, if we don't do something, we will be down to a few companies, and we will be in real serious straits. I think probably the leading edge of this tragedy that's occurring is probably first going to be felt by the shipyards.

Senator WARNER. Another aspect, I think, is purely romantic. There must be many young people in the United States today who would love to have the opportunity to go to sea. And not only see the world, but learn from the benefits of the seafaring life. It's just being denied them.

Counsel.

Mr. HARDY. Thank you, sir.

Mr. May, just one question. The chairman asked the MarAd witness if it would be beneficial to the promotion of our merchant fleet if the Merchant Marine Act of 1936 were amended to require the Postal Service to contract for the use of vessels of U.S. registry for the international sea transportation of mail. Specifically, he was referring to a bill such as H.R. 824, which is now pending in the House. That bill amends the title XXXIX, United States Code.

I was wondering what your organization—would it favor an amendment to the Merchant Marine Act of 1936 along the lines that the chairman has suggested?

Mr. MAY. Very much so. We testified in favor of similar legislation in the last Congress.

Senator WARNER. Thank you very much, gentlemen.

Mr. MAY. Thank you, sir.

Senator WARNER. We would like to submit some questions to you and, hopefully, you will recollect the chairman's request that these answers should be supplied timely so we can incorporate them into the record.

Thank you very much for giving your time today on behalf of not only your industries but on behalf of the country.

[The statement follows:]

STATEMENT OF COUNCIL OF AMERICAN-FLAG SHIP OPERATORS (CASO)

Good morning, Mr. Chairman and members of the Committee.

I am Albert E. May, Executive Vice President of the Council of American-Flag Ship Operators. Accompanying me this morning are representatives of four major U.S. flag liner companies. They are: Mr. Hans G. Blocklin, Vice President, Lykes Bros. Steamship Company, Inc.; Captain Richard H. Ford, Vice President, Farrell Lines, Inc.; Mr. Robert Hunter, Consultant, Delta Steamship Lines, Inc.; Mr. William H. Williams, Vice President, American President Lines, Ltd.

Companies holding ODS contracts own and operate 159 U.S. flag ships. These represent the majority of the U.S. ocean-going liner fleet which is the most modern, diversified and productive in the world. Many of the 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. Even though smaller, this new fleet has over twice the annual ton-mile capacity of the World War II build fleet which it replaced.

This increase in capacity has been achieved without significant increase in subsidy cost. During the 27 years, 1954 through 1980 inclusive, the cost of ODS for U.S. flag liner operators has decreased by only 11.6 million in constant dollars. Attached to my statement as Exhibit 1 is a table showing ODS payments for this 27 year period in both current and constant dollars.

There are two points which we believe bear particular emphasis at this hearing: First, all of the ships in the ODS contractors' fleets are owned, built and manned by U.S. citizens—indeed, a substantial portion of officers, particularly younger men, are officers in the U.S. Naval Reserve. Second, the ODS contractors have ordered all but four or five of the liner vessels built in U.S. shipyards for foreign trade since the second World War.

We have reviewed the testimony presented before this Committee today by Assistant Maritime Administrator Stryker. We will not repeat most of the background detail included in his presentation since that is already a matter of record.

These appropriations are required to fund promotional programs designed to implement our national maritime policy as set forth in Section 101 of the Merchant Marine Act of 1936, as reaffirmed in 1970, which says that "... the United States shall have a Merchant Marine sufficient to carry its domestic waterborne commerce and a substantial portion of the waterborne commerce and a substantial portion of the waterborne exports and imports of foreign commerce ... and capable of serving as a naval auxiliary in time of war or national emergency ..."

The importance of our national flag fleet was reemphasized by President Jimmy Carter, in his State of the Union Message on January 25, 1979, when he promised to propose long overdue changes in the Nation's maritime policies because "we must improve the ability of our Merchant Marine to win a fair share of our cargo."

Last month, Secretary of the Navy W. Graham Claytor, Jr., in testimony before the House Armed Services Committee stressed the importance of our maritime industry:

"Maritime superiority is not a matter of naval strength alone. Much too often overlooked or neglected is the merchant marine's vital role in our national security. The U.S. merchant marine is, by any measure, stagnating, and the commercial shipbuilding outlook is highly pessimistic. This is not a satisfactory state of affairs ... There is absolutely no doubt that continued erosion of our merchant fleet, and its supporting shipbuilding industry and labor force, is going to weaken our national defense. We must find the means to keep our maritime industry alive and well ..."

The United States merchant industry is not alone in seeking assistance in order to keep "alive and well." In 1977 a study prepared by Temple, Barker and Sloane for the Maritime Administration documented the aids, both direct and indirect, employed by the six major foreign maritime nations to assist their shipping and

shipbuilding industries. The nations studied were, in order of national flag fleet size, Japan, the United Kingdom, Norway, Sweden, West Germany and France. These fleets of major western industrial nations are all faced with a deteriorating competitive posture because of increasing competition from state-owned fleets, and overt and covert cargo preference. Without exception, the governments of these western countries recognize the critical importance of merchant marines to their economies and defense and all are providing increased government aid.

CASO is currently cooperating in the preparation of a new study which will update the 1977 analysis and develop comparative measures of average annual maritime assistance. Preliminary data indicates that the level of federal assistance to the U.S. maritime industry is significantly lower than that afforded by the six nations examined—this is true when assistance is measured as a percentage of gross national product, a percentage of total foreign trade, or on a per capita basis. We make this point not to urge that federal aid be increased, though probably for other reasons it should be, but to underscore the fact that programs of maritime assistance in the United States are not unique and, indeed, are rather modest when compared to the assistance provided by our principal trading partners/competitors.

We have reviewed the principal elements of the President's proposed Maritime Administration budget for FY 1980. We support the proposed funding since the amounts requested appear adequate to meet minimum currently anticipated obligations and requirements.

Our comments on specific budgetary items are as follows:

OPERATING DIFFERENTIAL SUBSIDY

New authorization authority for \$256,208,000 has been requested for operating differential subsidies for FY 1980 to which is added \$50,506,000 of projected FY 1979 carry over funds. The total available funds are considered adequate to support operation of 159 liner vessels and 21 bulk vessels in the forthcoming fiscal year.

We in the industry are often asked what benefits are derived from direct government support of approximately one-half billion dollars paid out annually as operating differential subsidy and construction differential subsidy. Let me try to highlight some of the significant estimated annual contributions to the U.S. economy by the U.S. Merchant Marine and the shipbuilding industries. These estimates are based on a study by the Planning and Development Department of the Port Authority of New York and New Jersey utilizing an input-output analytical technique to quantify economic benefits. The U.S. shipping and shipbuilding operations in 1977 accounted for: 480,000 American jobs; \$16.6 billion in sales in the economy; \$6.8 billion input to the Gross National Product; \$4.8 billion in personal income; \$1.6 billion in corporate income; and another \$1.6 billion in Federal, State, and local tax revenues.

Significantly, the study revealed that each dollar of sales by our merchant marine produces a total output of \$1.80 in sales throughout the economy. Each dollar of sales by the shipyard industry produces a total output of \$2.10 in the economy.

It was further concluded that up to one-half of the subsidy outlays are returned to the U.S. Treasury in the form of tax accruals.

The ODS is based upon a system designed to place the U.S. operator on a cost parity with his actual foreign competitor. Parity payments were intended by Congress to equalize overall labor costs and four other categories of vessel expense. However, recent contracts have limited parity payments to wages and fringes. Overhead, administrative, fuel and other expenses are not subsidized, nor is a profit guaranteed. The parity system designed by Congress was equitable. However, we feel compelled to point out that if it is to work as intended, it must not be eroded by administrative actions. In recent years the Maritime Administration has increasingly sought to withhold parity payments with regard to P & I insurance costs and the cost of maintenance and repair. The rationale behind this administrative action is that these items are not as essential as they once were because of the increasingly high technology of new ships.

In point of fact, the P & I insurance differential reflects the fact that medical and other costs for injured U.S. seamen are much higher than those for seamen from less developed countries. This differential of course is not effected by technology.

High technology vessels are productive but they are also costly to maintain and repair. The cost differential between repairing these vessels in the U.S. versus many low cost foreign yards is placing U.S. operators at substantial disadvantage vis-a-vis their foreign competitors. It is not a solution to say that when the government through administrative action refuses to pay subsidy on maintenance and repair, it permits the operator to repair abroad, because a 50 percent duty is levied on the full value of foreign repairs performed on a U.S. flag ship. We urge that your Commit-

tee direct the Maritime Administration to implement the parity concept by providing for ODS payments on repairs for all ships covered by parity contracts.

CONSTRUCTION DIFFERENTIAL SUBSIDY

The Administration has requested authorization authority of \$101,000,000 in fiscal year 1980 for construction differential subsidy purposes which will be increased by \$23,000,000 of carry over funds from fiscal year 1979.

It is estimated that a total of 17 ships will be built with CDS from fiscal year 1979 and 1980 funds, six of which will enter the liner fleet (3 Waterman and 3 American President Lines). These liner vessels are part of the continuing replacement program required in the 20 year operating differential subsidy contracts between the Maritime Administration and the liner operators. Since the inception of the Merchant Marine Act of 1936, the subsidized liner operators have purchased or built five generations of vessel types, each of which has been more productive and efficient than the vessel type it has replaced. (Pre-World War II; Victory, C-2 and C-3; C-4 Mariner; new C-3 and C-5; Container, Barge Carrying, Ro-Ro).

Since the CDS portion of the Maritime Administration Authorization Authority is basically designed to promote and support our shipbuilding industry, we will leave further discussion and comments to the representative of the Shipbuilder's Council of America who we understand is scheduled to testify later in the day.

RESEARCH AND DEVELOPMENT

The Administration has requested authorization for \$16,360,000 for MarAd research and development projects to develop methods, equipment and systems to make the U.S. shipbuilding and ship operating industries more efficient, competitive and productive. The amount is approximately 6½ percent below the amount authorized for fiscal year 1979.

Over the past ten or twelve years U.S. liner shipping has progressively moved from a labor intensive to a capital intensive industry. As we adopt innovative, high technology equipment, there is an increasing need for research, development and testing of new equipment advanced systems, and effective building procedures which are beyond the economic resources of individual companies. The research and development programs of the Maritime Administration have made significant contributions in meeting these needs.

Many MarAd projects are conducted in cooperation with the industry, particularly where the research and development costs cannot be justified by the economic return of a single company. For example, four CASO members have entered into a cost sharing agreement with MarAd for the development and operation of a prototype International Data Communications System to link participating companies' home offices with their major offices overseas. This will enable them to swiftly and economically transmit manifests, stowage plans, equipment inventory reports, financial reports, traffic information and operational data. An individual company could not underwrite the feasibility study and initial development costs without the financial support of the Maritime Administration. This is just one example of the many activities within the research and development program which MarAd has helped the industry help themselves.

RESERVE FLEET

The authorization authority for fiscal year 1980 for National Security Support Capability has been established at \$6,372,000, which is an increase of approximately 17 percent over the fiscal year 1979 budget figure. These funds will be employed for reserve fleet expenses with special emphasis on the Ready Reserve Fleet Program. We wholeheartedly support this program for the benefit of our national security. We respectfully repeat, however, our observations made in prior years that Maritime Administration should be allocated sufficient funds to purchase vessels at actual fair market value for our reserve fleet.

Commercial operators often have vessels which are no longer economically competitive but which still have a high degree of utility for military resupply purposes. It is a waste of an important national resource to let these ships go to foreign buyers or to the cutter's torch because relatively modest sums are not available to acquire them for the Ready Reserve Fleet.

TITLE XI

The provision for guaranteed construction loans and mortgages under Title XI of the 1936 Act has been instrumental in providing the financing vehicle for the construction of virtually 100 percent of the liner vessels in the current U.S. merchant fleet that were built in U.S. shipyards. This support, at no cost to the

government, is provided through the Federal Ship Financing Fund for vessels in the foreign commerce of the United States; it is also available for vessels employed in the domestic trades, in research, on inland waterways, in fishing and for offshore drilling.

Since the inception of this program a limitation on guarantees and commitments to guarantee has been established by use of a statutory ceiling. From time to time this ceiling has been reviewed by Congress and raised as deemed necessary.

During the past several years the Department of Treasury has on several occasions asked Congress to pass legislation authorizing the Federal Financing Bank at the Department of Treasury to regulate many aspects of government guaranteed loan programs. The Congress rejected this legislation, particularly with regard to programs such as Title XI which are already regulated and administered in great detail by other agencies of the government. The imposition of a ceiling on Title XI authorization through the budgetary process would achieve part of the goal which the Congress rejected with the Federal Financing Bank legislation. Thus, we must oppose the request in the present budget to limit during fiscal year 1980 the total aggregate amount of new commitments to guarantee construction loans and mortgages of \$1 billion.

Requests for Title XI guarantees tend to come in groups and are not, and indeed cannot be, evenly spread out over a long series of years. The industry has cooperated insofar as practicable with government programs, placing orders for large numbers of standardized ships rather than ordering one or two ships at a time. With ships costing upwards of \$80 million a piece for liners, a single order can total upwards of \$½ billion. If, due to the petroleum crisis, the administration should find it necessary to increase LNG imports, major loan guarantees would be required for groups of these vessels which individually may cost in excess of \$150 million.

Quite frankly, we are also concerned about the precedent being set, even if the \$1 billion ceiling is completely adequate for fiscal year 1980 we are concerned that a similar or different ceiling in future Authorization bills might be totally inadequate. Each year the OMB and the Congress are given a progress report in the budget on the Federal Ship Financing Fund in which a full accounting of obligations and commitments are made. Certainly this is ample check on the stewardship of the administrators of the program.

We urge that you delete the \$1 billion limitation proposed in the fiscal year 1980 budget as being an unnecessary constraint on the operation of the Federal Ship Financing Fund and the construction of vessels in U.S. shipyards.

We appreciate the opportunity to present this testimony and will be happy to try and answer any questions which the Committee might have.

OPERATING-DIFFERENTIAL SUBSIDY NET ACCRUALS—LINER OPERATORS ONLY

(Current and constant dollars in millions)

Calendar year	Current dollars	Deflator ¹	Constant dollars
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

OPERATING-DIFFERENTIAL SUBSIDY NET ACCRUALS—LINER OPERATORS ONLY—Continued

[Current and constant dollars in millions]

Calendar year	Current dollars	Deflator ¹	Constant dollars
1974.....	215.6	169.5	127.2
1975.....	224.5	185.8	120.8
1976.....	* 249.0	195.5	127.4
1977.....	262.6	206.9	126.9

Fiscal year	Current dollars	Deflator ²	Constant dollars
1978.....	261.2	221.5	117.9
1979 estimate.....	250.5	239.9	104.4
1980 estimate.....	276.5	258.4	107.0

¹ Implicit price deflator (1958=100), U.S. Department of Commerce, Survey of Current Business, October 1974, November 1978.² Annual rate based on \$186,800,000 accrued through Sept. 30, 1976.³ Deflator for fiscal years 1979 and 1980 are based on forecast from "Review of the U.S. Economy," Data Resources, Inc., March 1979.

Sources: 1954-1960—MarAd Annual Report, 1973; 1961-1974—MarAd Annual Report, 1975; 1975-1976—Preliminary information, Maritime Administration, Office of Financial Management; 1977—Fiscal Year 1979 Maritime Administration Budget, Highlights; Congressional Information Bureau, Vol. 82, No. 15, January 23, 1978; 1978-1980—Maritime Administration.

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

COUNCIL OF AMERICAN-FLAG SHIP OPERATORS,
Washington, D.C., April 12, 1979.

HON. DANIEL K. INOUE,

Chairman, Subcommittee on Merchant Marine and Tourism, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

DEAR CHAIRMAN INOUE: Enclosed are the answers to the questions you asked at the April 4 MARAD Authorization hearing.

Mr. Chairman, we greatly appreciate your support of the American merchant marine. If we can be of any further assistance, please do not hesitate to let us know.

Yours sincerely,

ALBERT E. MAY,
Executive Vice President.

Enclosure.

Question 1. On December 8, 1978, the Maritime Subsidy Board published notice of its intent to adopt standard forms for all contracts that are subject to its approval in awarding construction differential subsidy.

It has been suggested that insofar as the Board's proposal would require the use of standard form contracts by ship purchasers and shipbuilders for all CDS program vessels, it is contrary to the principles set out in the 1970 amendments to the Merchant Marine Act, 1936.

Critics also say that the proposed form to be used for contracts between the shipyard and ship purchaser would introduce unwarranted rigidity into a contractual process that must necessarily accommodate a variety of needs and circumstances. For example, it is said this form attempts to resolve on a uniform basis issues concerning design responsibilities, patent rights, excusable delay, performance requirements and consequences of failure to perform, without any appreciation of the issues involved.

Would you please comment?

Answer. CASO members are convinced that the Maritime Administration does not have legal authority to impose a standard form on the contract between the shipowner and the shipyard. We are convinced that this issue was settled by the Congress during its consideration of bills that became the Merchant Marine Act of 1970. At that time the Congress, for the first time, authorized negotiated procurement for CDS built vessels. The Congress has subsequently extended that authority and it has been used in all construction contracts since 1970. We agree completely with the critics who you quote and the examples they cite of items that should be standardized.

Last month, CASO filed comments with the Maritime Administration which set forth in some detail our position in this regard. While our views have not yet been

considered by the Maritime Subsidy Board, we assume they will be accepted in view of the legislative history which we have cited. We would be happy to make a copy of our detailed comments to MARAD available to the Committee, if you wish.

Question 2. GAO made the following recommendation to the Secretary of Commerce: To make MARAD's annual cargo preference report to the Congress more comprehensive, we recommend that the Secretary direct the Assistant Secretary for Maritime Affairs to include those agencies not complying with MARAD's determinations under Section 901(b) and the reasons why not. Would you please comment.

Answer. We support the GAO recommendation. In fact, we would suggest that MARAD should also report regarding agencies who are only partially complying, or failing to comply with the spirit of the statute, which we believe clearly implies that 50% is a floor when U.S. flag ships are available at fair rates.

Question 3. GAO made the following recommendation to the Secretary of Commerce: To improve the completeness of the cargo preference data submitted to MARAD and to improve MARAD's monitoring ability, we recommend that the Secretary of Commerce direct the Assistant Secretary for Maritime Affairs to:

Amend MARAD's cargo preference regulations to required submission to MARAD of available summary shipment or other data as well as bills of lading for all Federal agency cargo preference shipments.

Establish a time table for identifying all of DOD's programs that have cargo preference applicability and for developing DOD reporting requirements.

Would you please comment.

Answer. CASO supports the intent of these recommendations.

Question 4. The Department of Transportation is creating an Assistant Maritime Secretary "to assure that the voices of water transportation are heard."

(a) Isn't this what the Assistant Secretary of Commerce for Maritime Affairs is supposed to do?

Answer to 4(a). Yes.

(b) Do you see potential duplication, conflict or encroachment on the functions of the Maritime Administration?

Answer to 4(b). There could be duplication and conflict, to the detriment of our national maritime program, if both Assistant Secretaries were to adopt conflicting viewpoints on various issues. We share the concern which Chairman Inouye has expressed on a number of occasions regarding the inability of the United States to develop and enunciate a single, cohesive maritime policy. The constant bickering between many departments and agencies, some of whom have only remote interest and authority in maritime affairs, has led to confusion at home and considerable amusement abroad. We urge your Committee to continue to prod the Administration to designate a single spokesman on international maritime affairs. We believe that under existing law and organization, this can best be done by the Secretary of Commerce.

We welcome the interest of the Department of Transportation in maritime affairs and believe that the creation of a new Assistant Secretary post could be constructive if he concentrates his efforts, as Secretary Adams has indicated he will, in the areas of ports, domestic waterways and international maritime treaties. At the same time, leadership with regard to international maritime promotional activities and regulatory matters should be left to the Department of Commerce and the FMC.

We would welcome a Congressional review of the government's organization to handle maritime matters looking towards a concentration of effort and leadership.

Question 5. Critics of the construction differential subsidy program have said, among other things, that:

(1) CDS "cost is excessive".

Answer to 5(1). U.S. shipbuilding prices are very high by world standards. However, we do not believe that they are excessive since in the main they reflect our standard of living. The differential between costs in U.S. and foreign yards is increased at the present time due to the foreign practice of contracting below cost, often with governments absorbing losses.

5(2) CDS program is poorly planned and executed.

Answer to 5(2). The CDS building program is basically a reflection of market demand and we believe this is absolutely correct and proper. There is no justification for an arbitrary government program to build ships for which there is no commercial employment. We would support programs to ensure more cargo for U.S. flag vessels to increase the demand for new ships.

5(3) Proposed fiscal year 1980 CDS building program "is even more tenuous than that of past years".

Answer to 5(3). It is extremely difficult to predict what ships will be ordered by operators in any given year. This is influenced by the international market, wheth-

er earnings are sufficient to support new construction, government regulatory policies, etc. Many U.S. operators were prepared to undertake the world's largest LNG building program in U.S. yards. However, this program has been frustrated for many years with enormous consequential losses to potential operators, because of delay in government decision on an LNG import policy. With specific regard to the program for 1980, this is tenuous in that the proposed dry-bulk carriers will probably not be built if the Administration does not approve the Maritime Administration's proposed new incentives for construction of vessels of this type. However, we believe that since the U.S. is only carrying about 1 percent of our dry-bulk cargo in our own ships, and most of these are very old, the Maritime Administration should be commended for doing everything possible to encourage and facilitate this program.

5(4). CDS is a burden not only on taxpayers, who must subsidize U.S. shipyards in competition with an over-supply of low cost foreign yards, but also to the U.S. flag ship operators who now are required to purchase their ships in U.S. yards as a condition to receiving operating subsidy or participating in the movement of government-impelled cargoes.

Answer to 5(4). We wholeheartedly support the maintenance of a U.S. shipbuilding capacity sufficient to meet wartime construction and repair requirements for the Navy and merchant marine. Since World War II we have contributed substantially to this by contracting to construct our new CDS vessels in U.S. yards. We are prepared to continue this support with the single caveat that we cannot afford to subsidize U.S. shipyards by paying more than world prices.

The present 50 percent CDS ceiling is arbitrary and currently results in U.S. operators having to pay more than the world price, which on an actual basis might require a CDS rate of as much as 54-55 percent. This high differential may well be the result of foreign shipyards dumping vessels below cost, but whatever the reason, we must have parity if our own operations are to remain competitive.

5(5). Further subsidies contribute to worldwide excess shipyard capacity.

Answer to 5(5). There may be excess shipyard capacity in the world but we do not believe that is the case here in the U.S. As mentioned above, we must have domestic shipyards with trained personnel to meet our unique defense requirements.

5(6). There is no demonstration that CDS contributes to the national defense.

Answer to 5(6). CDS program has resulted in tens of billions of dollars worth of business for U.S. shipyards. This has certainly been a vital element in maintaining our shipbuilding base. We believe those who state that CDS does not contribute to national defense should have the burden of first proving that this shipbuilding base is not required for defense purposes.

COUNCIL OF AMERICAN-FLAG SHIP OPERATORS,
Washington, D.C., April 23, 1979.

Hon. JOHN WARNER,
*Subcommittee on Merchant Marine and Tourism, Committee on Commerce, Science,
and Transportation, U.S. Senate, Washington, D.C.*

DEAR SENATOR WARNER: Enclosed you will find answers to the questions you sent us after the Maritime Administration Authorization hearing.

Senator Warner, we greatly appreciate your interest in and support of the maritime industry. If we can be of any further assistance, please let us know.

Best wishes.

Sincerely,

ALBERT E. MAY,
Executive Vice President.

Question 1. Will the capital construction fund and the construction differential subsidy allow you to replace your fleet in U.S. shipyards and continue to show decent profits?

Answer. Senator Warner, that is a function of what is going to happen to our industry in the future; such a question is extremely difficult to answer definitely at this time. A very important factor is what future profits will be, and profits are a function of the cargo market, as well as of the world competitive factors.

All too often it is assumed that subsidy programs guarantee a profit. They do not; nor do they guarantee cargo. The concept of the subsidy system is parity in costs between the subsidized operator and his foreign flag counterparts. Construction differential subsidy is paid to U.S. shipyards on order to equalize the costs to the buyer, the U.S. operator, of the vessels built in the U.S. with those built in foreign

countries. The U.S. flag merchant vessel operator is required to commit most of the profit earned to the replacement of the vessel, and then earn a profit if he can.

The size of capital construction funds and the expansion of our fleet will all be a function of what we earn.

Question 2. I understand that most of your membership receives operating differential subsidies. However, not all steamship companies participate in the operating differential subsidy program. What are the advantages of not receiving operating subsidies which have led certain companies to the decision of foregoing these government funds?

What are the disadvantages of participating in the ODS program? Can any of these restrictions be eliminated? Have they been addressed by the White House Interagency Task Force which has been composing a new maritime policy for the United States?

Answer. Senator Warner there are 3 parts to your question. First, the following is a list of restrictions placed on ODS operators:

Subsidized operators are required to:

- (1) operate a specified number of vessels on government specified trade routes with a minimum and maximum number of annual sailings, and to make required calls at regular intervals at specified ports;
- (2) replace and repair vessels in U.S. yards, and follow "Buy American" statutes;
- (3) stay out of domestic trade and not operate foreign flag vessels;
- (4) maintain satisfactory insurance;
- (5) comply with requirements as to manning, employment conditions, wages citizenship (all employees must be U.S. citizens);
- (6) not transfer management of subsidized vessels without prior U.S. consent;
- (7) file extensive financial reports and follow Government limitations on payment of dividends;
- (8) not participate in any merger, consolidation, or unrelated new enterprise without prior U.S. consent.

Several specific problems with the ODS program are as follows:

- (1) increasing program costs; although the differential between foreign and American costs is decreasing, the wage subsidy requirements are increasing;
- (2) erosion of parity through the exclusion of hull and machinery and protection and indemnity insurance costs;
- (3) inflexibility of service. The subsidized operator is:
 - (a) contractually obligated to provide fixed amounts of service to specified points on the routes for long periods of time;
 - (b) required to set aside funds to build ships to guarantee continuity of competitive low-cost service on that route.
- (4) The Treasury Department has failed to give recognition to the fact that the U.S. flag merchant marine must compete in the virtual tax-free world of international shipping. U.S. flag operators are allowed to set up the capital construction fund, where earnings are deposited on a tax-deferred basis if they are used to build new ships. But that alone cannot put U.S. flag vessels on an equal tax footing with many virtually tax-free foreign flag competitors.

Contrary to popular opinion, the U.S. flag carrier does not receive favorable tax treatment. As discussed in the 1977 Downing report on the oversight of the American-flag merchant marine:

"It is clear that the tax-deferral benefits of the capital construction fund do not place U.S.-flag vessels on an equal tax footing with the tax-free foreign-flag competitors. The Treasury Department submitted information which would indicate that the tax treatment of every industry (domestic) . . . enjoyed far more preferable tax treatment than the U.S.-flag merchant marine."

Question 2(b). Can any of these restrictions be eliminated?

Answer. The subsidy program could be improved with regard to the trade route concept and other restriction on ODS contractors. The fundamental problem in our minds is that the bureaucracy in general, including even the Maritime Administration below the highest level of that agency, fails to recognize a congressional mandate to promote the merchant marine. Instead, they constantly whittle away at congressional promotional programs. Recent elimination of H and M (hull and machinery) and P and I (protection and indemnity) insurance costs is a good example. Another is the fact that we require a law to get government agencies to move cargo on our own ships, while foreign governments do not need such a law. They would not dream of using any ship but their own to transport their government-impeled cargo.

Question 2(c). Have these problems been addressed by the White House Inter-agency Task Force which has been composing a new maritime policy for the United States?

Answer. Senator Warner, we know that the promotional portion of the Inter-agency Task Force was considering the desirability of eliminating some of these restrictions. We do not know the status of this report at this time.

Senator WARNER. Our next witness we have is Mr. Brand, president of the Transportation Institute.

STATEMENT OF HERBERT BRAND, PRESIDENT, TRANSPORTATION INSTITUTE

Mr. BRAND. Thank you, Senator. I appreciate this opportunity to get a few moments of your time here to comment on the proposed authorization.

Senator WARNER. Your statement in its entirety will be included in the record.

Mr. BRAND. I am not going to read it. I would like to make a few comments.

Senator WARNER. There is no rush at all.

Mr. BRAND. I am the president of the Transportation Institute, which is a research and industry promotion organization which is sustained by 174 member companies engaged in deep-sea and inland waters transportation of the United States.

We, of course, support the proposed authorization. Senator, this is minimal to permit the operation of our merchant marine as Congress intended. It is, I think, significant that in this day of increasing inflation, in a world in which maritime activity is expanding on a world basis, that we find the budget for U.S. ship operation is diminishing, that the costs of sustaining our merchant fleet are, in effect, diminishing. The reason is simply that our fleet continues to shrink. It would be more helpful if we had to cope with an expanded merchant fleet, and consequent increased budget considerations.

I think coincidental with this budget decrease, we find that employment is decreasing, that the number of our vessels is decreasing, and consequently, the U.S. position as a sea-power nation is diminishing. This points to a lack of national awareness of a deep-seated need and, I think, a failure on the part of various portions of our Government to recognize that on issues affecting our national security we must be more than objective.

I think that we are entitled, and it is entirely defensible, to look at our position in this respect from a subjective standpoint in some measure. We heard a moment ago that with respect to the opening of the trade with China, about which there was considerable diverse opinion in this country, we find now that we are going to develop a trade agreement and a maritime agreement.

I think it is imperative that the United States clearly and forthrightly demonstrate to the Chinese that we have an interest in sharing in whatever maritime activity stems from our relationship with them.

I think it would be a tragedy if, in any trade that is developed with China, largely, as a result of, I presume, American loans and American capital investment—that the Chinese Communists and their satellite nations derive all the benefit of maritime activity.

Moreover, I think it would be a very bad example to set for the rest of the world. I think it's bad enough that America's visibility is diminishing throughout the world.

I think for us to withdraw our flag in effect from those areas of the world where it should be visible would demonstrate a lack of national will. I think this whole problem, as I have said on other occasions here, that stems from a lack of direction, from a lack of determination that the United States achieve a certain prominence in the field of shipping.

It is the responsibility of leadership to demonstrate to the American people and point to the need for positive steps in those areas that are in our national interest, partially in a field as complicated as shipping. There is hope, I suppose, for the American-flag industry, if we can develop the necessary objectives.

We have people going to China shortly. And it was said here that the State Department should be leaned on. And I don't think, from a historical standpoint, that we can change the State Department in a matter of a few weeks on this issue. I don't think the State Department is going to advocate a cargo-sharing arrangement with the People's Republic of China. They have a whole range of other considerations.

I think the Treasury Department is probably opposed to it.

I think what is important, though, if I may say here, is that Madam Kreps, as the Secretary of Commerce, will be responsible for negotiating the agreement and has a responsibility for the promotion of American-flag participation in world commerce, should be firm and strong on the subject. And I think she can provide leadership.

Senator WARNER. Let me just interrupt right there.

Having been abroad on missions for the administration myself, I know you carry a great portfolio under your arm with all the instructions that have been given to you. These instructions are arrived at through a consensus of thinking among the several departments and agencies of the Federal Government.

So, we can't lay on Mrs. Kreps the responsibility to do something when she lacks the authority in this portfolio to do it.

Why is the Treasury Department opposed to this arrangement, in your judgment?

Mr. BRAND. Well, sir, I think most often we hear where there is a question with regard to the use of American-flag shipping, that there is a universal opinion among by our Government agencies—the OMB, the Treasury Department, Agriculture, and so on, with the exception of Commerce—that it is cheaper to use foreign flag ships.

Always, it comes down to the point, that if you use a foreign flag ship you will save a few cents in transportation costs. We don't necessarily submit to or accept that point of view. They argue it on the basis of an outmoded free trade concept. They think that the forces of the free market should obtain in connection with world shipping.

And the fact of the matter is that there is no such thing as a free market in world shipping. If that were the case, the Japanese, who carry 44 percent of their commerce, the Scandinavian nations and others, the Dutch, and the English, who carry anywhere from 20 to

40 percent of their foreign commerce, wouldn't carry a single stick of cargo, because they don't operate at the lowest cost levels.

And if there were a free market to take over, I suppose the Liberian-flag ships and the state-controlled fleets probably would carry all of the cargo. I don't think that clinging to old notions that probably obtained when Adam Smith first set forth his theories on market conditions in the world is realistic.

I also submit that we are in a rather difficult position because the world has changed so substantially over the years that there are large American corporations which are multinational in character, which was not the case 30 and 40 and 50 and 100 years ago. We now have multinational corporations which have numerous interests in foreign flag ships and they find they are not bound by the same kind of national considerations and concerns that they had formerly.

I think it was very simple for an American entrepreneur 100 years ago who resided in this country and only went out of it to drop off his cargo. But today his plants are all over the world. He uses vessels of his own subsidized corporations which fly the flags of a whole range of nations, and they are not bound by the same conditions of allegiance, if you will, that was the case formerly. And so they are against US-flag shipping.

Senator WARNER. Would those arrangements also apply to the reasoning of the Department of State, in your opinion?

Mr. BRAND. I think the Department of State function is to keep peace with our neighbors—so-called.

I think that if you work in the Department of State, you're constantly badgered to do something for them.

And I think it has been in the record that our merchant marine, small as it is—not influential, despite what other people may attempt to state—that we are expendable.

So, the State Department feels it important to aid the shipping interests of the Scandinavian nations, of the British, and the West Germans, and so on—and consequently they use it as a means to barter for other considerations.

And so they are not an advocate of a strong flag condition.

Senator WARNER. I had interrupted your statement. Did you wish to pick up?

Mr. BRAND. I think we're dealing here with a bill that is very minimal. But it doesn't do anything to attack any problem.

The proposed authorization will allow us to live for another year. But if you look at the record of last year, you'll find that we're in a substantially less secure position than we were last year; and the year before, and so on.

So we are in a gradual state of disintegration, you might say, or deterioration at the very least. And the only thing, in my view, that can correct the problem is for some direct leadership to establish certain goals.

We certainly need a national maritime policy in this country. In order to have a national maritime policy, a cornerstone of such a policy must certainly deal with the question of cargo.

The country must make a determination, and I don't mean cargo preference, but it should make a determination as to what should be the role of its merchant marine.

What degree should we be involved in our trade? Since costs are absorbed and degraded in various fashions, to what degree is it imperative to our national interests to have our flag flying in the far corners of the globe, to be visible as evidence of America's strength and dominance.

I think this is tied directly with this country's eventual destiny.

As you said, you looked at the map on the wall and saw that we're an island. If we withdraw into that island and we cut off all of evidences of our existence throughout the world, we will be forgotten.

Senator WARNER. Are you familiar with the *Stuyvesant* case?

Mr. BRAND. To some degree.

Senator WARNER. Would you care to comment on that decision?

Mr. BRAND. I am not a lawyer. There are very diverse opinions. I, as an advocate of a strong merchant marine—

Senator WARNER. Let me explain.

Recently, the court of appeals ruled that ships built with Federal subsidies should not be permitted to pay back that subsidy and thereby become eligible to participate permanently in the trade. The majority said, in the court of appeals decision * * * the fact that the vessels were originally constructed in American yards without subsidy is important for basic Merchant Marine Act policies. Competing domestic operators could take the tonnage of these vessels into account at the time the vessels were built in making their own future investment decisions. However, in the interested case, American carriers * * * could not have known that the *Stuyvesant*, under construction in American yards with subsidy, would in its initial operation try to enter the Alaskan market in competition with unsubsidized vessels.

On the other hand, as a dissenting opinion, said:

Full repayment of subsidy irrevocably places the transferred vessel on the same footing as all other ships in the Jones Act fleet, without affording an unfair advantage to the previously subsidized operators. The only conceivable harm to the Jones Act operators is an increase in competition from an additional U.S.-flag, U.S.-built vessel.

Question: Do you believe section 506 of the Merchant Marine Act of 1936 should be amended to take into account changes in circumstances in our coastwise trade? And if so, specifically in what respect?

Mr. BRAND. OK, sir. I think it is dangerous and perhaps even wasteful to hastily attempt to provide patches and plasters to the situation arising, for example, out of the *Stuyvesant* case.

What has happened is that the *Stuyvesant*, of course, was built with other objectives in view, but the situation has deteriorated so badly that in order to save the ship, it is essential to find employment for it, provide some work for it and keep it going, it is a ship of enormous investment, and representing a great interest for this country.

On the other hand, if it goes into that field, into that trade, then it impacts on people who had built ships with under different circumstances. And I feel for both sides in this case.

But what it does demonstrate is that this country is unable to resolve its shipping problems, and that the situation is deteriorating very rapidly.

The best analogy that I can draw is that these are a few bones put out and each day that number of bones diminishes, with the same group of operators trying to eat from it. And what happens is that you start to find them almost cannibalizing, to us an unfortunate term.

But I think what the situation requires is a little more examination and the need to determine what kind of policy should be considered with respect to cargo before we attempt just simply to do anything hastily.

I just wonder if we ought not to try to get to the bottom of the problem.

For example, sir, if I may, here we find tank-ship problems. We have a gaping loophole in our domestic shipping picture; and I'm sure you're aware that the Virgin Islands are exempt from the Jones Act.

What would it do to the employment if that little gap was closed up? It would not harm the Virgin Islands, because I think it should be limited simply to the transport of oil.

You can bring oil from Alaska down to the Virgin Islands in a foreign-flag ship, although the Virgin Islands is part of the United States—bring it down there, put it ashore, put it through a refinery, then put it on another foreign-flag ship, and bring it to the east coast or the gulf of the United States, and you can't do that between any other two American ports.

This is not essential to the welfare of the Virgin Islands. It would not impact unfavorably on them to close that loophole. What would this do to resolve problems like the *Stuyvesant* case? There would be sufficient cargo opportunities to relieve the pressure on that *Stuyvesant* problem.

Senator WARNER. We're going to get into those matters.

Mr. BRAND. So, I think when we examine the *Stuyvesant* case and the problems of tank shipping operators, perhaps we ought to consider that in the context of problems like the Jones Act.

Senator WARNER. We thank you, Mr. Brand. We'd like to submit a few questions; and again, I thank you.

Mr. BRAND. Thank you very much.

[The statement follows:]

STATEMENT OF HERBERT BRAND, PRESIDENT, TRANSPORTATION INSTITUTE

Mr. Chairman and members of the Committee:

My name is Herbert Brand. I am President of the Transportation Institute, a private nonprofit research and educational organization established to promote a strong maritime transportation capability in the United States. The Institute is composed of 174 member companies that operate U.S.-flag vessels in the nation's foreign and domestic shipping trades, including the inland waterways and the Great Lakes.

I appreciate the opportunity to express our views on S. 640, the maritime authorization for fiscal year 1980. We concur with the Administration's budget line-item proposals, and we wish to emphasize that the passage of S. 640 is vital to the nation's economic and security needs.

Of particular importance to these interests is the request for \$101 million for construction differential subsidies. As the committee knows, the appropriation together with \$23 million of carry-over funds will be used to construct four ships; one LASH (lighter aboard ship) and three bulk carriers. The construction of these ships will provide the benefit of maintaining the shipyard mobilization base necessary to ensure the nation's defense and security. In national economic terms, these new orders will serve to maintain domestic employment not only in the shipyard work

force, but also throughout the economy through the economic multiplier effect as it ripples back into other related sectors.

The construction of three dry bulk vessels indicates to us that the Administration is beginning to focus on this long-needed and vital component of a viable fleet. The United States economic and defense interests have developed a continually increasing reliance on foreign sources for critical raw materials. Recent world-wide oil shortage developments should have impressed upon this country the danger of dependence of foreign-controlled raw materials. In tandem with this reliance is the method by which these supplies are transported to our shores; namely, by foreign transportation networks. While we may not be able to obtain these raw materials from any but foreign sources, we can ensure that the method by which we transport these commodities to this country is safe and secure. Therefore, it is particularly encouraging that the Administration is focusing on construction of dry bulk vessels which fly the American flag. However, we have no illusions on this score. The building of the ships is but one aspect of the problem. Unless we have a cargo policy the effort would be wasted.

We believe that the appropriation for the continuation of operating differential subsidy funds is essential to maintain the economic livelihood of the U.S. merchant fleet, in order to allow them to compete with foreign shipping companies which are being increasingly promoted by national maritime aids of many forms.

Looking ahead to the shape of the industry in the future, we advocate acceptance of the authorization for research and development activities which would enable the Maritime Administration to continue its efforts in exploring the feasibility of advanced ship designs and technology.

Therefore, the Transportation Institute respectfully urges the Committee to consider this 1980 authorization bill as minimally essential to maintaining the viability of the merchant fleet at present levels and requirements. It is worrisome to note that while the Committee deliberates the merits of this legislation, forces are at work within the government on divergent paths, which most certainly will undermine the benefits that the Maritime Administration seeks to achieve through this authorization.

The role of such agencies as the Departments of Commerce, Justice, and State, the Treasury, and the Federal Maritime Commission have been increasingly at odds. Some of these agencies have been working, as required by law, to promote the U.S. merchant fleet, while others have in effect been working in the opposite direction. This inconsistency in the policies of the various agencies, if allowed to continue will neutralize the attempts of this Committee to implement the Merchant Marine Acts of 1936 and 1970.

It is our opinion that a sound coordinated governmental policy would assist those in the industry to exploit substantial opportunities which the Transportation Institute believes exist in world trade.

Two immediate opportunities deserve attention. The growing prospects of the China trade, a study on which has recently been published by the Transportation Institute, shows the potential for strengthening the U.S. merchant fleet if the government would lend assistance by negotiating a bilateral cargo agreement between the United States and the People's Republic of China. Such an agreement has strategic as well as economic significance when viewed in the context of the maritime ambitions of both China and the Soviet Union. These two powers are conscious of the critical role of their merchant fleets, a role which seemingly escapes many policy makers within our government.

Another immediate opportunity for strengthening the fleet would be provided by closing the loophole that exempts the Virgin Islands from the provisions of the Jones Act. Closing this loophole would not even require a major step forward in maritime policy. On the contrary, it would simply require making our laws uniform and consistent in the way that they satisfy a basic national security need for U.S. control over the transportation of domestic cargoes.

The resolution of this problem requires a clear and definitive statement of national maritime policy devoid of ambiguity and conflict. Setting down clear goals, policy and directives will assist those in the industry to make decisions on investment in new ships and productive technology, which will further enhance the viability and vitality of the U.S.-flag fleet. Therefore, we urge consideration of S. 640 as necessary for continuation of current policy, recognizing that it is but a step toward the ultimate goal of restoring the American-flag merchant fleet to a position required to defend and maintain the national interest on the high seas.

Mr. Chairman and members of the Committee, I wish to thank you for this opportunity to express our views.

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

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question. A recent GAO report found that, "Reports to the Congress on cargo preference shipments have been incomplete; some agencies have not fully complied with the Maritime Administration's reporting regulations. For instance, information on some ocean shipments financed by the Agency for International Development was not reported to the Maritime administration. Freight forwarders under contract with the General Services Administration did not always furnish copies of bills of lading as required. Also, some Department of Defense ocean shipments have been excluded from the Maritime Administration's reporting system pending the establishment of clearer, workable arrangements between the two agencies."

Would you please comment.

Answer. The General Accounting Office (GAO) report of June 8, 1978, entitled, *Cargo Preference Programs and Government-Financed Ocean Shipments Could Be Improved*, recommended that the Maritime Administration (MarAd) improve the "management of cargo preference monitoring, regulating and reporting responsibilities." In the past, federal agencies responsible for programs subject to the requirements of the Cargo Preference Act of 1954 have submitted inadequate statistical data to MarAd. Therefore, the annual reports to Congress on cargo preference shipments have been incomplete.

Although MarAd requires agencies to submit bills of lading for government-financed ocean shipments, many of these shipments are never officially reported. The Agency for International Development (AID) failed to submit bills of lading for approximately 40 percent of the loan and grant shipments reviewed by the GAO. Rather, AID submitted "summary statistics" to MarAd.

The General Services Administration (GSA) contracts with commercial freight forwarders for the management of government-financed ocean shipments. These private freight forwarders are required to submit monthly shipping reports, but an average of 43 percent of the voyages contracted for were not reported in 1976. The GSA repeatedly failed to enforce all reporting requirements.

Department of Defense (DOD) cargo preference shipments have been excluded from MarAd's reporting requirements. MarAd's computer system was unable to meet military security standards and adequate regulations could not be drafted until all DOD programs having cargo preference applicability were identified.

The GAO study concluded that "despite MarAd's efforts to improve its annual compliance report (to the Congress), major gaps in report coverage and opportunities for improvement still exist." In order for the Congress to be assured to receiving complete and accurate reports on cargo preference programs, many of the recommendations put forth in the GAO report must be implemented. MarAd must be accorded additional authority to determine the applicability of cargo preference requirements to specific programs. Regulations regarding the reporting of agency compliance must be strengthened. And now that DOD's new National Cargo Shipping Analysis System computer is operational, MarAd must promulgate regulations requiring reporting of DOD cargo preference shipments.

Question. The Department of Transportation is creating an Assistant Maritime Secretary "to assure that the voices of water transportation are heard."

(2) Isn't this what the Assistant Secretary of Commerce for Maritime Affairs is supposed to do?

(b) Do you see potential duplication, conflict or encroachment on the functions of the Maritime Administration?

Answer. The record of Congressional debate regarding the creation of the Department of Transportation in 1966 evidences the intent of Congress that responsibility for marine transportation remain in the Department of Commerce. We believe that the Department of Transportation is now attempting to accomplish by administrative fiat what it could not convince the Congress was worthy of legislative enactment.

The DOT action would add to the multiplicity of federal agencies involved in maritime functions. Its involvement is an unwarranted incursion into the jurisdiction of the Department of Commerce's Maritime Administration, and thus an unnecessary additional cost to the Federal government.

Question. GAO made the following recommendation to the Secretary of Commerce:

Amend MarAd's cargo preference regulations to require submission to MarAd of available summary shipment or other data as well as bills of lading for all Federal agency cargo preference shipments.

Establish a timetable for identifying all of DOD's programs that have cargo preference applicability and for developing DOD reporting requirements.

Would you please comment.

Answer. The General Accounting Office (GAO) report, Cargo Preference Programs for Government-Financed Ocean Shipments Could be Improved, found that "MarAd's cargo preference statistics in its annual reports to the Congress have been incomplete." Further, the lack of adequate statistical data on cargo preference shipments have "handicapped (MarAd) in carrying out its regulatory role." We support the GAO's recommendations for strengthened reporting requirements, including reports to the Congress of those agencies failing to comply.

Pursuant to regulations promulgated in July 1971, the Maritime Administration (MarAd) requires all non-military agencies administering cargo preference programs to submit bills of lading for cargo preference ocean shipments. Levels of non-compliance with this requirement range from 1.1 percent to 100 percent, which, therefore, have hampered the completion of adequate reviews of the status of present cargo preference programs as well as preventing MarAd from providing the Congress with complete and accurate annual reports on the administration of cargo preference programs.

The submission of summary data on government-financed ocean shipping is useful in evaluating the adequacy of bills of lading. The receipt of summary data would enable MarAd to determine whether or not all bills of lading had been submitted by each agency administering cargo preference programs. The GAO has recommended that MarAd amend its regulations to require submission of available summary shipment or other data as well as bills of lading. We concur with this recommendation.

The Department of Defense (DOD) was specifically excluded from MarAd's regulation requiring reporting of cargo preference shipments because MarAd's computer system failed to satisfy military data requirements and DOD safeguard requirements. MarAd cannot, therefore, monitor significant volumes of ocean cargoes which are subject to cargo preference laws.

However, the new computer system, called the National Cargo Shipping Analysis System (NCSAS), which is now in operation at MarAd meets all DOD security requirements. The GAO therefore recommended that MarAd promulgate regulations outlining cargo preference reporting requirements for DOD. The GAO recognized the need to identify DOD programs having cargo preference applicability prior to promulgating reporting regulations. We support the GAO recommendation calling for establishment of a timetable for the development of a complete DOD program analysis and promulgation of regulations outlining reporting requirements.

Question. Critics of the Construction-Differential Subsidy Program have said, among other things, that:

(a) CDS "cost is excessive", (2) CDS program is poorly planned and executed, (3) proposed fiscal year 1980 CDS building program "is even more tenuous than that of past years, (4) CDS is a burden not only on the taxpayers, who must subsidize U.S. shipyards in competition with an over-supply of low cost foreign yards, but also to the U.S.-flag ship operators who now are required to purchase their ships in U.S. yards as a condition to receiving operating subsidy or participation in the movement of government-impelled cargoes," (5) further subsidies contribute to worldwide excess shipyard capacity, and (6) there is no demonstration that CDS contributes to the national defense.

(a) Would you please comment specifically on each of these six allegations.

Answer. (1) Construction-Differential Subsidy (CDS) is a fundamental aspect of any maritime program and exists in the major maritime programs throughout the world. Critics state that CDS "cost is excessive" without knowledge of this factor.

(2) The CDS program is no better than the maritime industry in general. If there is no program to promote maritime, how can we expect improvements in the CDS program.

(3) The fiscal year 1980 budget for the CDS program represents the well thought out and reasonable expectations of the Maritime Administration. We believe that a national maritime program would include an effective shipbuilding program.

(4) This criticism ignores national defense considerations. CDS represents no more of an inordinate cost to taxpayers than subsidies to farmers, railroads, airlines, cities, states and the many others receiving assistance under our federal programs.

(5) Further subsidies do not contribute to excess shipyard capacity. Our capability should be geared to our needs. Other traditional maritime nations have been en-

couraging the building of vessels in their own yards as a means of improving their economy.

(6) CDS contributes to national defense as it enables shipyards to remain open with the development of the necessary skills to man a shipyard at the time of a national emergency.

Question. Under present law, construction-differential subsidy is not available to companies which operate both U.S.-flag ships and foreign-flags. The theory being that some of the subsidy funds payable to a company that was operating both U.S.-flag ships and foreign-flag ships, might be diverted from the U.S.-flag operation to the foreign-flag operation.

(a) Do you agree with this theory insofar as it applies to dry bulkers?

Answer. We believe that it may be worthwhile to look into the possibility of changing present law that denies eligibility to construction-differential subsidy (CDS) program benefits to companies operating ships under the U.S.-flag and foreign-flags. Before any change is recommended, a thorough examination of the problem should be undertaken and the degree of interest by American companies should be considered.

Question. GAO made the following recommendation to the Secretary of Commerce. To make MarAd's annual cargo preference report to the Congress more comprehensive, we recommend that the Secretary direct the Assistant Secretary for Maritime Affairs to include those agencies not complying with MarAd's determinations under section 901(b) and the reasons why not.

Would you please comment.

Answer. In the June, 1978 report entitled, Cargo Preference Programs for Government-Financed Ocean Shipments Could Be Improved, the General Accounting Office (GAO)—recommended that "the Congress . . . clarify the Merchant Marine Act of 1936 concerning the types of programs to be covered under cargo preference legislation." The report also urged the Secretary of Commerce "to improve Maritime Administration's management of cargo preference monitoring, regulating and reporting . . ."

There are high levels of non-compliance with the requirements of the Cargo Preference Act of 1954 and the regulations for reporting ocean shipping data to the Maritime Administration (MarAd) by government agencies. Various government agencies, including the Departments of Defense, State, Commerce and Treasury, Agency for International Development and the Export-Import Bank, have disputed MarAd's interpretation of the applicability of U.S.-flag shipping requirements to various programs they administer. Agencies which abide by the cargo preference laws often fail to comply with MarAd's reporting requirements.

Enforcement of existing cargo preference regulations should be strengthened and cargo preference laws should be more clearly defined by the Congress. In order to effect needed changes in cargo preference legislation, the Congress must be provided with complete annual reports on the current status and enforcement of existing ocean shipping regulations. Non-compliance with MarAd's reporting regulations, however, has hindered Congressional reviews and will continue to do so until MarAd's reporting requirements are strengthened.

The GAO recommended that MarAd "include those agencies not complying with MarAd's determinations under Section 901(b) (of the Merchant Marine Act of 1936) and the reasons why not" in their annual report to the Congress. Implementation of this recommendation would insure that the Congress would be provided with all pertinent information to improve the cargo preferences programs for government-financed cargoes.

We strongly support this GAO recommendation.

Question. 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.

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

(b) Inasmuch as there are only 15 dry bulk ships in our merchant fleet and they carry less than 2 percent of the dry bulk cargo in our trades, have the successive Administrations, in your opinion, kept their part of the bargain with respect to the construction of dry bulkers?

(c) With respect to ships for our liner trades?

(d) With respect to tankers?

Answer. Although Section 209(b) of the Merchant Marine Act of 1936 calls for the construction of such ships as are necessary to carry out the purposes of this act, it is

apparent that our merchant fleet is below the necessary standards for the United States to be a strong maritime nation.

Because of certain circumstances, there was no way for the Congress to meet the objectives of this Act. While the objectives were worthy, the collapse of the world shipping market and the fuel embargo of 1973 stymied any attempts. These factors showed us that without a cargo policy, the building of ships is an impossible goal to reach.

What the successive Administrations failed to do was address the question of a national cargo policy. The Nixon Administration attempted cargo sharing with Russia with respect to bulk trade.

The liner trade enjoys a different position because of the nature of the trade as there is a different market structure. Cargoes are more available in the liner trade and we, therefore, are able to carry a larger percentage than in the other trades.

A national cargo policy would strengthen the operations of our tankers as there is not now sufficient cargo for the tankers that have been built.

Question. A recent GAO report found that MarAd had been hampered in its effort to expand the number of programs with cargo preference requirements by nonspecific legislation and lack of clear-cut authority to define which programs should be required to use U.S.-flag vessels. Consequently, the report concluded, in some cases federally funded or guaranteed cargo that could have been shipped on U.S.-flags may have been shipped on foreign-flags.

(a) Was this part of the problem with the shipment of buses financed with Federal funds from Germany aboard Soviet carriers?

(b) Does Transportation Institute believe there are now cases of federally funded or guaranteed cargo that could have been shipped on U.S.-flags, which were shipped on foreign-flags? If so, what is the reason.

Answer. (a) The problem lies with agencies who refuse to abide by the law to use U.S.-flag ships when required. Specifically, when the German-made bus purchase was announced, the Maritime Administration advised the Department of Transportation that they were subject to cargo preference laws.

(b) We find, as the industry has found, there are continuing incidences, sometimes deliberate, of federal agencies failing to carry out the Congressional mandate with regard to the carriage of government generated cargo.

MarAd has determined that the following programs should require the use of U.S.-flag vessels but currently do not, or are not complying with U.S.-flag shipment requirements to the level specified by the cargo preference laws:

(1) The DOD Foreign Military Sales Program—Direct Credit Sales, Credit Guarantees, Offset Purchases, and Coproduction Agreements.

(2) Federal Grant Programs—UMTA Programs, Federal Highway Administration Programs, and Department of Health, Education, and Welfare Programs.

(3) Ex-Im Bank Programs—Exporter Credit Insurance Programs, Commercial Bank Guarantees, and Discount Loan Programs.

(4) AID Cash Grant Program.

(5) Federal Loan Programs—Department of Commerce Economic Development Administration Loan Programs.

The Transportation Institute concurs with these findings.

In the category of AID cash grants, we are aware of cargoes moving to Israel on foreign-flag vessels because of a Department of State (DOS) determination that the program is exempt from cargo preference requirements. U.S.-flag operators stand to lose over \$30 million in revenues because of this one DOS determination alone.

Senator WARNER. Mr. Edwin Hood, President, Shipbuilders Council of America.

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

Mr. HOOD. I have a brief statement, which, with your permission, I would like to have included in the record.

Senator WARNER. Fine.

Mr. HOOD. Shipbuilding has been very much the subject here this morning, and I'd like to call your attention to attachment B of my statement, which projects merchant ship construction prospects for U.S. shipbuilders in the 5-year period from fiscal year 1980-84. The total is only 41 ships.

By comparison, 48 vessels were ordered the single year of 1972; 43 were placed in 1973. It's, of course, no news to you, Senator, that the 5-year Naval shipbuilding program has been reduced by 90 vessels, from 157 to 100, to 89, to 85, to 70, to 67, in a period of less than 12 months.

Obviously, the full capability of our industry is not going to be fully utilized.

Our latest projections, and I call your attention to attachment C, indicate that the present shipyard work force will drop by nearly 66,000 workers before 1985.

Senator WARNER. What's the percentage of that?

Mr. HOOD. About a 50 percent decline.

Senator WARNER. That's a little different. We had a third earlier.

Mr. HOOD. Under the time frame used in the question directed to Secretary Hidalgo, it would be a third. That was over the next several years. My figures go 1985.

Senator WARNER. We are going a little longer?

Mr. HOOD. That's right. About 47,000 of these will be skilled production workers, and many of them will involve minority groups in the areas of chronic unemployment. Another 200,000 workers in supporting industries will be similarly affected.

The active U.S. shipbuilding industrial base currently, in our judgment, is comprised of 26 major shipyards. These are shown in attachment D. Ten yards are now engaged in the construction of Naval vessels. Four of these are also building merchant ships. A total of 13 shipyards are engaged in the construction of oceangoing or Great Lakes merchant ships.

But under presently projected workloads, the number of yards building Naval ships will drop to six. And no more than three additional yards will be sustained by the anticipated market opportunities for merchant ship construction.

Of the 26 shipyards that compose the active base, 19 are currently building ships. It can now be predicted that more than eight or nine shipyards will hold major shipbuilding contracts in 1984.

Worldwide, an increasing number of shipbuilders are chasing a decreasing number of ship construction opportunities. Amid international discussions of ways to reduce overcapacity, below-cost prices are being offered by many foreign shipbuilders, in many cases with the approval and financial indemnifications of their governments.

A demoralizing subsidy war is rapidly evolving.

Some shipbuilders are offering prices 10 to 40 percent below actual costs.

Senator WARNER. In those instances, Mr. Hood, the difference is made up presumably by the Government?

Mr. HOOD. Yes, sir. That's correct.

Having said that, Mr. Chairman, we support S. 640, the funds requested for CDS projects. We believe these funds will cover the few prospects currently foresee.

But, let me just add a little dimension to the figure of \$101 million in new funding, and \$23 million in carryover. We have retained the firm of Data Resources, Inc. to prepare what is called macroeconomic and input-output models on which to measure the economic impact of shipbuilding.

I asked DRI the other day to give me quickly a preliminary estimate of what this appropriations authorization would mean in terms of economic impact. Of the \$124 million, \$114 million would be dedicated to ship construction.

But under the 50 percent CDS provisions of the 1936 Act, another \$114 million would come from private enterprise.

This total of \$228 million will generate an aggregate, according to Data Resources, Inc.—an aggregate impact of more than \$700 million on the gross national product, involving purchases, by the way, from every State in the Union, including the District of Columbia.

In addition, more than 16,000 man-years of employment for shipyard workers would be generated.

So here, Mr. Chairman, we're talking about four ships generating that amount of economic impact. Multiply it by 3, 4, 5 times, you begin to appreciate that building ships extends far beyond a shipyard adjacent to the waterfront.

Senator WARNER. Ripple effect.

Mr. HOOD. Yes.

So ends my statement.

Senator WARNER. I'm going to have that study submitted for the record by reference.

Mr. Hood, we've heard some comments today about Mrs. Kreps' trip. Would you care to add your opinion on that?

Mr. HOOD. Well, I leave to the ship owners and operators the discussion of shipping policy. I have as many problems as I can handle trying to achieve some coherence in shipbuilding policy.

Senator WARNER. You wouldn't disagree with—

Mr. HOOD. No, sir. In my opinion, one of the prerequisites of a fundamental change for improvement in our maritime posture has to be a change in attitude at the State Department level. It has to involve a change in the public opinion. It has to involve a better quality of leadership at the highest level in the land.

Senator WARNER. Mr. Hood, one other question here—on December 8, 1978, the Maritime Subsidy Board published notice of its intent to adopt standard forms for all contracts that are subject to its approval in awarding construction differential subsidy.

Mr. HOOD. Yes, sir. I'm familiar with that.

Senator WARNER. It's been suggested that insofar as the Board's proposal would require a standard form of contracts by shipbuilders for all CDS program vessels, it is contrary to the principles set forth in the 1970 amendment to the Merchant Marine Act of 1936.

Critics also say that the proposed form to be used for contracts between the shipyards and the ship purchaser would induce unwarranted rigidity into the contractual process which must necessarily accommodate a variety of needs and circumstances.

For example, it is said that this form attempts to resolve, on a uniform basis, issues concerning design responsibilities, patent rights, excusable delay, performance requirements, and consequences of failure to perform without any appreciation of the issues involved.

Would you care to comment?

Mr. HOOD. There are several major points inherent in that question. First, I think it has to be said that the negotiated contracting

provisions of the 1970 act have been most effective. They have worked very well in the generation of the contracts that have thus far been placed, and we certainly subscribe to a continuation of that principle.

With regard to the specification of the proposed standard contract form, I will have to defer an answer, Mr. Chairman, for the simple reason that this is a matter of intense review before our Procurement Advisory Committee.

I have seen some of their preliminary comments, and at this point in time, they're up to 50 pages.

So you can see at once that even within the shipbuilding community, there are many views on this subject which need to be evaluated before a consensus can be reached.

Senator WARNER. Well, will you supply any amplification you wish for the record?

Mr. HOOD. Yes, sir.

Senator WARNER. We thank you for coming today.

The hearing hasn't adjourned yet.

You're free to go.

Mr. HOOD. Thank you.

[The statement follows:]

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

Mr. Chairman, members of the Subcommittee.

The membership of the Shipbuilders Council of America, composed of major shipbuilders, shiprepairers and allied suppliers in all sections of the country (see attachment A), most respectfully urges approval of S-640 containing a Budget request of \$101 million to cover fiscal year 1980 construction-differential subsidy (CDS) commitments under provisions of the Merchant Marine Act of 1936, as amended. This amount plus the expected remainder of approximately \$23 million from previously authorized and appropriated funds will just about cover the few contracts for subsidized merchant shipbuilding now foreseen.

As you will note from attachment B, merchant ship construction prospects for U.S. shipbuilders in the five-year period from fiscal year 1980 to fiscal year 1984 are projected to total only 41 vessels. As a basis for measuring comparative utilization of industry capacity, it should be noted that 48 vessels were ordered in the single year of 1972 and contracts for 43 were placed in 1973. It should also be noted that the five-year naval shipbuilding program has been reduced by 90 vessels—from 157 to 100 to 89 to 85 to 70 to 67 ships in a period of less than 12 months. These depreciated availabilities for both merchant and naval vessels have serious implications for the U.S. shipbuilding industry.

Obviously, the full capabilities of the industry, reflecting more than \$1.7 billion in capital improvements over recent years, will not be fully utilized. Latest projections indicate that the present shipyard workforce will drop by nearly 66,000 before 1985 (see attachment C). About 47,000 of these will be skilled production workers, many of whom come from minority groups in areas of chronic unemployment. Another 200,000 workers in supporting industries will be similarly affected.

It is our considered judgment that the active U.S. shipbuilding industrial base is currently comprised of 26 major shipyards (listed in attachment D). Ten yards are now engaged in the construction of naval vessels; four of these are also building merchant ships. A total of 13 shipyards are engaged in the construction of ocean-going or Great Lakes merchant ships of 1,000 gross tons and over. Under presently projected workloads, the number of yards building Navy ships will drop to six, and no more than three additional yards will be sustained by anticipated market opportunities for merchant ship construction.

In sum, 19 of the 26 shipyards in the active U.S. shipbuilding base are currently building ships. It can be predicted that no more than eight or nine shipyards will hold major shipbuilding contracts in 1984. This severe contraction of a resource base which the Secretary of the Navy asserted in 1977 was only marginally adequate for a short war and substantially inadequate for an extended conflict should not be dismissed lightly. The cumulative effect will spread to other industries and activities

that not only supply and service shipyards but also enhance the assurances of national security to a Nation whose reliance on ships for defense and commerce is historic and monumental.

It needs to be stressed that placement of additional shipbuilding contracts today—if that were possible—will not obviate the unemployment and idle facilities now foreseen. The duration of the inescapable slump in activity and the timing of recovery will be contingent on factors beyond the control of shipbuilders individually and collectively: market demands, economic influences, governmental policies, and world conditions.

Worldwide, an increasing number of shipbuilders are chasing a decreasing number of ship construction opportunities. Amid international discussions of ways to reduce overcapacity, below-cost prices are being offered by many foreign shipbuilders: in many cases, with the approval and financial indemnifications of their governments. A demoralizing subsidy war is rapidly evolving.

Some nations, previously openly critical of maritime assistance programs, have now added direct subsidy to a subtle array of indirect credit and tax mechanisms. Acknowledgement of the continuing strategic and economic importance of shipping and shipbuilding has been the underlying motivation. Shipyards in one country are thus not competing with shipyards in another country. Governments are competing with governments to capture ship construction opportunities—wherever, whenever and at whatever price—to serve what is considered to be their self-interests.

Some shipbuilders abroad are reportedly offering prices at ten to 40 percent below actual costs. This "false" pricing has two immediate consequences: first, the statutory CDS ceiling of 50 percent does not facilitate contract awards in the United States, and, secondly, U.S. owners look longingly at cheap prices for ship construction—and conversions—in foreign lands. The allure of such "bargain" prices becomes more intriguing with the realization that foreign-built ships can be documented under the American-flag without payment of any import duty with entitlement to a ten percent investment tax credit. Given the purpose and scope of governmental encouragement and support abroad today, some foreign shipbuilders are quick to exploit this situation as well as the absence of a strong, coherent, coordinated and responsive U.S. maritime policy.

In this sense, while there is currently much emphasis on the virtues of the latest Multilateral Trade Negotiations, "dumping" by foreign shipbuilders, which forecloses substantial contracts for U.S. shipbuilders and many thousands of man-years of employment for skilled American shipyard workers, continues to escape official response. In effect, the United States offers a ten percent investment tax credit bonus for the acquisition of a foreign-built vessel: the economic and national security consequences as they may apply to domestic shipbuilding are rarely considered.

It might be interesting to recall that roughly 200 vessels of 1,000 gross tons and over were built abroad for U.S.-based companies or their affiliates in the years 1958-1978, while in the same period, U.S. shipbuilders delivered 447 merchant ships of 1,000 gross tons and over to U.S. owner/operators. Only a few of the foreign-built vessels were registered under the American-flag for the reason that the existing Internal Revenue Code permits deferral of current taxation on foreign-flag shipping income by U.S.-owned foreign corporations to the extent that these earnings are reinvested in qualified shipping assets, including construction of vessels by foreign shipbuilders. This tax privilege can hardly be regarded as encouraging shipbuilding in the United States.

From all of the foregoing statements, a number of conclusions can be reasonably drawn: (1) U.S. merchant shipbuilding requirements, contrary to general belief, are and have been shared with other shipbuilding nations, (2) some contraction of the shipbuilding resource base is certain, (3) in this country, inflation and domestic regulatory requirements restrain the kind of price/cost maneuvering which today benefits foreign shipbuilders, and (4) shipbuilding worldwide is in the doldrums. A return to normalcy can only be shaped by government policy—more appropriately by more than one government policy—and the shipbuilders of the United States sincerely hope this distinguished Subcommittee will assume a role of positive leadership in ensuring, as in other countries, the preservation of an essential core of shipyard facilities and manpower to support national interests.



SHIPYARD WEEKLY

SHIPBUILDERS COUNCIL OF AMERICA

800 NEW HAMPSHIRE AVE., N.W. | WASHINGTON, D. C. 20037

Thursday, February 1, 1979 - No. 5

FIVE-YEAR MERCHANT SHIPBUILDING PROSPECTS IDENTIFIED

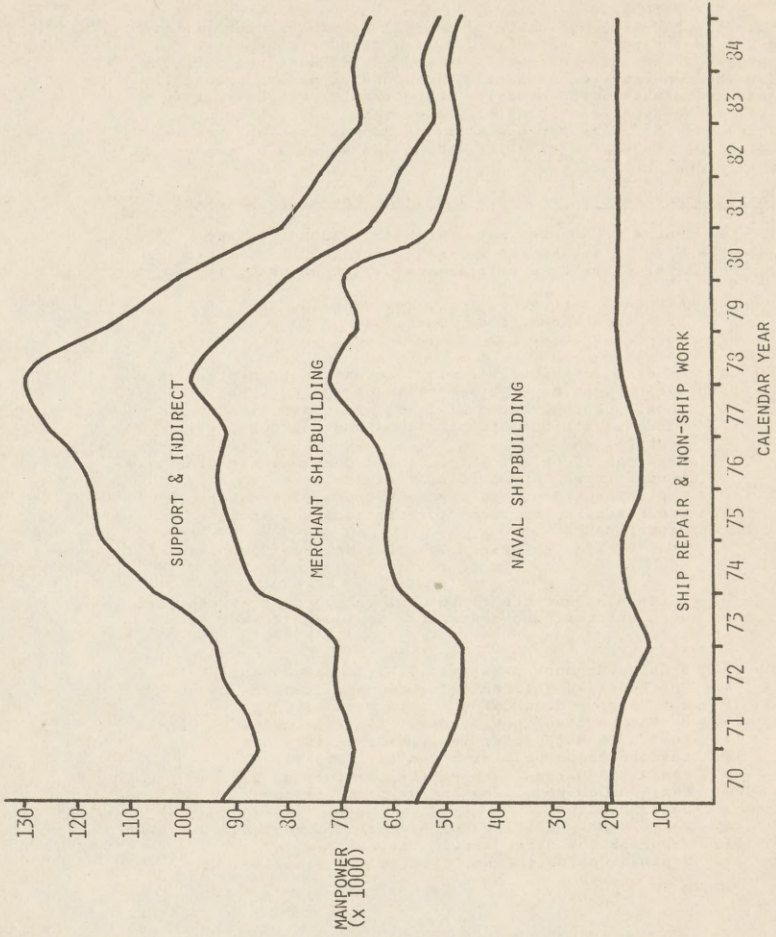
Analogous to five-year naval shipbuilding program outlined in Jan. 11 SHIPYARD WEEKLY (confirmed by Defense Secretary Harold Brown's Jan. 25 report to Congress), it is understood Maritime Administration (MarAd) tentatively anticipates following merchant ship construction contract awards to U.S. shipbuilders in same time frame:

	<u>FY'80</u>	<u>FY'81</u>	<u>FY'82</u>	<u>FY'83</u>	<u>FY'84</u>	<u>Total</u>
Bulk Carriers (35,000 dwt)	3*	-	-	-	-	3
Great Lakes Carriers (60,000 dwt)	2	1	1	-	-	4
Tug-Barge Tankers	-	-	2	2	-	4
Chemical Tankers	2	-	-	-	-	2
Roll-on/Roll-off Ships	-	-	3 (2*)	6*	5*	14
Containerships (Large)	-	-	-	-	3*	3
Containerships (Small)	-	-	3	2	2	7
LASH Ships	1*	-	1*	-	-	2
Tankers (40,000 dwt)	2	-	-	-	-	2
TOTAL	10	1	10	10	10	41

*Subsidized construction

Secondary prospects, according to MarAd sources, include construction of 125,000 cubic meter liquefied natural gas (LNG) carriers - 8 in FY '80, 2 in FY '81 and 2 in FY '82 - plus five 35,000 dwt bulk carriers each in FY '81, FY '82, FY '83 and FY '84. LNG newbuildings are contingent upon clarification of Carter Administration's intentions with respect to LNG imports - two projects involving as many as 10 U.S.-built LNG carriers have already been squelched (see 1/11 SW). Bulk carriers are contingent upon Administration approval of MarAd's proposed program (see 2/23/78 SW).

EMPLOYMENT TRENDS - U.S. SHIPBUILDING BASE



Attachment D

U.S. SHIPBUILDING INDUSTRIAL BASE

The Shipbuilders Council of America, in collaboration with the Maritime Administration's Office of Ship Construction, surveyed the entire shipyard industry to determine those shipyards that are currently engaged in, or seeking contracts for the construction of naval ships, and/or major ocean-going and Great Lakes merchant ships. The results of this survey defined the active shipbuilding industrial base which now serves as the basis for the Maritime Administration's monitoring of the status of major ship building in U.S. commercial shipyards.

Shipyards Currently in Active Industrial Base (26 shipyards)

- a) There are twelve major shipyards identified by the Navy Department as potential "principal builders of naval ships", as well as commercial ships:
 - 1. Avondale Shipyards, Inc., New Orleans, LA
 - 2. Bath Iron Works, Inc., Bath, ME
 - 3. Bethlehem Steel Corporation, Sparrows Point Yard, Baltimore, MD
 - 4. General Dynamics/Electric Boat Division, Groton, CT
 - 5. General Dynamics/Quincy Division, Quincy, MA
 - 6. Ingalls Shipbuilding Division, Pascagoula, MS
 - 7. Lockheed Shipbuilding and Construction Company, Seattle, WA
 - 8. National Steel and Shipbuilding Company, San Diego, CA
 - 9. Newport News Shipbuilding, Newport News, VA
 - 10. Sun Shipbuilding and Dry Dock Company, Chester, PA
 - 11. Todd Pacific Shipyards Corporation, Los Angeles Division, CA
 - 12. Todd Pacific Shipyards Corporation, Seattle Division, WA
- b) There are fourteen additional shipyards that are also pursuing shipbuilding contracts, including lesser naval ships:
 - 13. Alabama Drydock & Shipbuilding Company, Mobile, AL
 - 14. The American Ship Building Company, Lorain, OH
 - 15. Bay Shipbuilding Company, Sturgeon Bay, WI
 - 16. Bethlehem Steel Corporation, San Francisco, CA Yard
 - 17. Equitable Shipyards, Inc., Madisonville, LA
 - 18. Livingston Shipbuilding Company, Orange, TX
 - 19. Marinette Marine Corporation, Marinette, WI
 - 20. Maryland Shipbuilding and Drydock Company, Baltimore, MD
 - 21. Norfolk Shipbuilding and Drydock Company, Norfolk, VA
 - 22. Peterson Builders, Inc., Sturgeon Bay, WI
 - 23. Seatrain Shipbuilding Corporation, Brooklyn, NY

- 24. Tampa Ship Repair and Drydock Company, Tampa, FL
- 25. Todd Shipyards Corporation, Galveston, TX
- 26. Todd Shipyards Corporation, Houston, TX

Note: Four additional shipyards considered themselves a part of the "active" shipbuilding base in the 1977 Shipbuilders Council survey but have since advised the Maritime Administration that they were no longer pursuing shipbuilding contracts.

Current Status of Shipbuilding

a) Naval Shipbuilding: The following shipyards have U.S. naval ships under construction at the present time:

- 1. Avondale*
- 2. Bath
- 3. General Dynamics/Electric Boat
- 4. Ingalls
- 5. Lockheed*
- 6. Marinette Marine*
- 7. National Steel*
- 8. Newport News
- 9. Todd, Los Angeles
- 10. Todd, Seattle

*Auxiliary ships only.

The projected workload in 1984, based upon the current Presidential five-year shipbuilding program, will sustain only six of the yards listed above.

b. Merchant Shipbuilding: The following shipyards have major ocean-going or Great Lakes merchant ships under construction at the present time:

- 1. The American Shipbuilding Co.
- 2. Avondale
- 3. Bath
- 4. Bay Shipbuilding
- 5. Bethlehem, Sparrows Point
- 6. Equitable
- 7. General Dynamics, Quincy
- 8. Livingston
- 9. National Steel
- 10. Newport News
- 11. Peterson Builders
- 12. Seatrain
- 13. Sun

The projected workload in 1984, based upon the Maritime Administration's most recent market survey, will sustain no more than three of the yards listed above.

c) Summary: Of the twenty-six (26) shipyards in the present "active" U.S. shipbuilding base, only nineteen (19) are currently building ships. Absent any significant

change in current Administration policy or world market conditions, it is anticipated that no more than eight or nine of those shipyards will hold shipbuilding contracts in 1984.

Current Status of Shiprepairing

- a) At the present time, approximately 20% of the employment within the active shipbuilding base is engaged in ship repair and non-ship work.
- b) Supplementing the twenty-six yards in the shipbuilding base are seventeen (17) additional major ship repair yards, with drydocking capability, that engage in repair and surveys of ocean-going and Great Lakes merchant ships plus regular overhauls of naval ships.
- c) These forty-three shipyards account for approximately three-fourths of total annual private yard repair business in the United States, according to Shipbuilders Council surveys. Preliminary results from an on-going survey indicate that 1978 repair business utilized only 66% of the capacity of those yards.

Manpower

Facilities are not a primary constraint to any U.S. shipbuilding plans. In addition to today's active shipbuilding base, there are a number of shipyards that are industrially active in projects other than the construction of ocean-going ships. Of paramount concern is the pending loss of shipbuilding manpower skills. Accompanying the projections that suggest future ship construction contracts will support only eight or nine shipyards is a reduction of approximately 48,000 job opportunities for shipbuilding production workers. This represents a 60% decrease in manning from the manpower requirements of 1978. The substitution of non-ship work to preserve the industrial identity of shipyard owners will not protect the mix of skilled workers necessary to build ships.

March 15, 1979

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

SHIPBUILDERS COUNCIL OF AMERICA,
Washington, D.C., April 10, 1979.

Mr. JAMES S. DAWSON, Jr.,
Secretary, Maritime Subsidy Board, U.S. Department of Commerce, Maritime Administration, Washington, D.C.

DEAR MR. DAWSON: In response to your Notice of a rule change to 46 CFR Part 251 appearing in the Federal Register Vol. 43, No. 237 of December 8, 1978, the Shipbuilders Council of America, composed of major shipbuilders in all sections of the country, submits the attached comments regarding the proposed standard contract forms for use in awarding construction-differential subsidy.

Aside from the specific comments noted, there are further issues of concern which, to us, would seem to merit exploration. In particular, the Federal Register Notice indicated that the "practice of routinely considering proposals to modify standard contract provisions will be terminated."

In this regard, we recognize the virtue of establishing a firm "middle ground" in contract language which would reflect an equitable balance of risk and preclude inequities that can be created in a "buyers" versus a "sellers" marketplace. We recognize, too, that government regulated terms and conditions, assumed to be fair to all parties concerned, could minimize the time and effort required in establishing an acceptable contractual arrangement.

However, as past practices have demonstrated, there are some issues which can only be reasonably and appropriately resolved by direct negotiation between the purchaser and the contractor. To this end, as noted in the attachment, we believe those clauses relating to liquidated damages, disputes, withholding of payments to insure performance of guarantee work, and conditions are proper items for direct negotiations between purchaser and builder; subject, of course, to the approval of the Maritime Subsidy Board. Conversely, where the Maritime Administration proposes to leave open the issue of escalation, we feel it is mandatory that the recognition of risks beyond the control of the shipbuilder must be firmly described in the clause defining contract price adjustments. In this context, we would support the concept of regulated standard contract forms.

Moreover, as we are all well aware, the current prospects for ship construction are very bleak on a world-wide front. U.S. shipbuilders are continuing to find it difficult to hold their own against shipbuilders in other countries who are offering prices having no relationship to actual costs, and are more heavily subsidized and sometimes owned by foreign governments in whole or in part. There is potential that wholly inflexible contract terms such as have now been proposed by the Maritime Administration may compose another disincentive for shipowners to have their ships constructed in the United States. This concern is manifested most forcefully by the recent action of at least two U.S. flag shipping lines in turning to shipbuilders in Japan and South Korea.

In view of the foregoing, we most respectfully request that clarification be provided as to the procedures and policy which will govern the administration of the standard contract forms. We would further hope that the comments provided in the attachment will be the subject of further discussion with Maritime Administration representatives to insure a full understanding of the shipbuilders' concerns.

Anticipating a favorable reply, I am

Cordially,

EDWIN M. HOOD, *President.*

WASHINGTON, D.C., April 20, 1979.

Hon. JOHN W. WARNER,
U.S. Senate,
Washington, D.C.

DEAR SENATOR WARNER: It is a pleasure to respond to the questions contained in your letter of April 6, 1979 relative to my April 4, 1979 testimony before the Subcommittee on Merchant Marine and Tourism of the Committee on Commerce, Science and Transportation concerning the fiscal year 1980 Maritime Administration Authorization Bill (S-640):

"1. I noticed in the Journal of Commerce that you believe the number of active U.S. shipyards could be reduced from 19 presently to 8 or 9 by 1984. In addition, you predict that the existing shipyard work force will decline by 66,000 before 1985 and that 200,000 workers in supporting industries will be similarly affected. What measures can be taken by the Federal government to counteract this severe disruption?"

The coming downturn in shipyard employment is unavoidable. To have prevented this certainty, the Federal Government should have commenced corrective action two or three years ago. Shipbuilding normally involves a three-year lead time, and if an upturn is to occur in 1982 or immediately thereafter, the Administration and/or the Congress should now be crystallizing programs which will produce early merchant ship construction contracts. In the near-term, these might include: bringing the Virgin Islands within the purview of the Jones Act, approval of deep seabed mining legislation as introduced in this Session of the Congress, modification of the Administration's LNG import policy which would enable construction of more LNG tankers in this country, implementation of the bulk shipping program recommended by the Maritime Administration, and possibly, the construction of ships under Title VII of the Merchant Marine Act of 1936, as amended, for later sale or charter to qualified owner/operators. For the long-term, we, as you know, have developed a series of ten recommendations for revision in U.S. maritime policy which would enable more flexibility and more stability in ship operations as well as eventual ship construction opportunities for U.S. shipbuilders.

"2. A MarAd study which was issued in 1979 and entitled 'Technology Survey of Major United States Shipyards 1978' was highly critical of the lagging technology in U.S. shipyards. What must be done, in your opinion, to clear this problem up? How can we encourage improvements and technology and productivity in U.S. shipyards?"

The Maritime Administration-sponsored study, "Technology Survey of Major U.S. Shipyards—1978," has only recently been released and a comprehensive industry review has yet to be completed. There are, however, some initial reactions that put into perspective the impact of such a study.

To begin with, there tends to be an immediate bias that relates to any direct measurement between technology employed in U.S. shipyards versus that in "comparable" foreign yards. This situation is perhaps best described by a still timely statement contained in the 1973 Report of the Commission on American Shipbuilding, to wit:

"With industrial products other than ships, some degree of market assurance is provided normally by the quasi-captive mass market in the United States secured in part from competing foreign products that must surmount transportation costs, some tariffs, and lack of high-volume distribution and service centers within the United States. Shipbuilding enjoys no such advantages; it is truly international in that customers take delivery at point of construction and have the ships repaired at any large port. Market assurance for U.S. shipbuilders, to any degree at all, has been known only in two great wars and in rare circumstances such as the Maritime Administration's Mariner program in the 1950s. Such assurance was of relatively short duration, offering little assistance to the long-range needs of U.S. shipyards for stable workloads.

"In contrast, market assurance by the Japanese government to the Japanese shipbuilding industry seems to have been massive, unequivocal, and sustained. As Lester B. Knight & Associates, Inc. reported: 'In Japan, for example, when the merchant fleet was falling behind foreign trade tonnage, a Shipping and Shipbuilding Rationalization Council developed a government-sponsored program for 19,500,000 grt to be built in Japanese yards over a six year period.'

"Such a market assurance of 2.5 to 4.2 million grt per year for 6 years obviously can go a long way towards providing the two curative measures all shipyards seek: (1) a stable, predictable workload; and (2) a series production to make capital investment attractive. These two prerequisites for maximum shipbuilding efficiency, attained in other countries such as France by assuring the market through the use of quota-reservation policies (France has a requirement for a stipulated amount of imported crude oil to be carried in French-flag ships), are so important as to warrant further examination.

"It is axiomatic that, with some assurance of a continued market with stability of employment, there is an incentive to invest in capital equipment that will reduce cost and improve competitiveness. Without the prospect of a reasonable market, investors see little hope of a satisfactory return on capital."

In this context, then, any report card identifying areas of technology where U.S. shipyards purportedly "lag behind" is mostly a reflection of investment commitments created by the marketplace.

The issues raised in the subject study are not interpreted to be a negative assessment of the U.S. shipbuilding industry vis-a-vis its overseas counterparts. As cited in the study, "U.S. Shipyard Management is aggressively implementing higher technologies." Since 1970, the shipbuilding industry has invested more than \$1.7 billion in capital improvements. This is a remarkable number when considered in

the light of data presented in a recent Office of Naval Research study entitled "The Profitability of the U.S. Shipbuilding Industry, 1947-1976." That study determined that eleven major shipyards aggregated after tax profits of only 0.2 percent of sales in the years 1967 through 1976, an amount estimated to be \$37 million. Those eleven shipyards invested more than \$1.2 billion in capital improvements during that same time frame!

Given the current lack of national purpose to establish a U.S. maritime policy that would provide "some assurance of a continued market," it is difficult to imagine that our industry can sustain the pace described above in an effort to improve the competitiveness of U.S. shipbuilding. The subject study fulfills its primary objective to provide a baseline of technology levels deserving special attention in any shipyard's long-range improvement plan. We have the means to achieve these improvements plan. We have the means to achieve these improvements through the industry's participation in two excellent programs: The Maritime Administration-sponsored "National Shipbuilding Research Program," and the Navy's "Manufacturing Technology Program." It remains to be seen how much of this Nation's shipbuilding industry can survive to achieve these goals.

"3. Would you please indicate the status and rank of America's LNG shipbuilding technology? What shipyards in America are capable of building LNGs? Are other shipbuilding countries in the world pursuing LNG ship contracts?"

It is not generally realized that the United States led the world in the development of LNG shipbuilding technology. However, with typical American humanitarianism, this technology has been exported, and today five other countries (Belgium, France, Japan, Sweden, and West Germany) are building LNG vessels of various sizes. In this country, four shipyards—General Dynamics Corporation, Quincy Shipbuilding Division, Quincy, MA; Ogden/Aovondale Shipyards, Inc., New Orleans, LA; Sun Shipbuilding & Dry Dock Company, Chester, PA; and Tenneco/Newport News Shipbuilding, Newport News, VA—presently hold LNG shipbuilding contracts. A total of 11 LNG carriers are now under construction, and all are scheduled for delivery by 1983. Two projects contemplating U.S. building of another seven to 11 LNG vessels have recently been disapproved by the Department of Energy, and one other possibility involving up to six LNG carriers is at this moment in various stages of extended governmental decision-making.

"4. You have presented to the President's Interagency Task Force on Shipping a position paper on recommendations to stabilize the shipping picture in this country. Would you please submit your recommendations to this Committee?"

Our position paper incorporating these recommendations was forwarded you with covering letter on April 6, 1979. However, another copy (attachment A)¹ is enclosed herewith. This document has also been made available to the Subcommittee on Merchant Marine and Tourism of the Committee on Commerce, Science and Transportation and to the Committee on Appropriations.

"5. I understand that the relatively small amount of new shipbuilding being done by American companies is taking place in foreign yards. How can these American companies be encouraged to utilize domestic shipyards?"

As stated in my April 4, 1979 testimony, "some shipbuilders abroad are reportedly offering prices at ten to 40 percent below actual costs." This "false" pricing shatters the present statutory construction-differential subsidy (CDS) ceiling of 50 percent and consequently affected owners are not disposed to place contracts with U.S. shipbuilders. As a first step, the Congress could amend the Merchant Marine Act of 1936, in some manner, so as to enable CDS payments, under extraordinary circumstances such as have existed over the past several years, in excess of 50 percent. As a second step, we would hope that the Congress would carefully consider the recommendations contained in attachment A.

Further, the April 4, 1979 hearing spotlighted the continuing absence of coordination among involved Federal agencies with respect to the articulation and implementation of an effective U.S. shipping/shipbuilding policy. For example, while the U.S. Government moves not at all to discourage U.S. owners from having ships built abroad, the Department of Labor, in late March, certified that "workers and former workers engaged in the construction of oceangoing ships" at the Sparrows Point, MD shipyard of Bethlehem Steel Corporation, displaced by reason of "dumping" by foreign shipbuilders offering below-cost prices are entitled to adjustment assistance under Section 222 of the Trade Act of 1974.

The recent procurement of 12 large containerships from shipyards in Japan and South Korea by Sea-Land Service, Inc. was cited by the Labor Department as a primary justification for this determination favoring U.S. shipyard workers who could be entitled to 70 percent of their average weekly wages, with a maximum of

¹ See Page 76.

\$250 per week for as long as 52 weeks. Assuming this finding would apply to all of the 47,000 production workers now facing unemployment by 1985, the maximum cost to the Federal treasury could exceed \$600 million—nearly twice the amount Sea-Land is allegedly committed to pay Far East shipyards.

In other words, one Department of government would authorize the payment of public money to unemployed shipyard workers while at the same time other Departments of government seem to do nothing to foreclose the outflow of shipbuilding contracts and dollars which would obviate that unemployment. The Congress should demand more coordination and more spirit of cooperation within the Federal establishment to ensure that U.S. shipbuilding resources are productively utilized and that U.S. owners will be less inclined to have ships built abroad.

"6. I noticed that the European Community Commission for a Common Market has devised a "scrap and build" scheme that is designed to ease the shipping industry's over-capacity problem while providing work for shipyards. Can you describe this plan and give your opinion of its chances for realizing its objectives?"

For background with respect to this plan, I would refer you to the item appearing on page 3 of our January 25, 1979 SHIPYARD WEEKLY (attachment B) and an article appearing in the January 12-18, 1979 issue of MARINE WEEK (attachment C). This proposal has the merit of reducing an overcapacity of ships while at the same time providing urgently needed work for shipbuilders. Though additional governmental subsidies, either direct or indirect, would be required, this plan is under active consideration by OECD countries. To date, it has not been accepted, and, in my opinion, the chances of realization are about 50/50.

"7. I understand that there is a move in the House of Representatives to (1) eliminate construction differential subsidies and (2) to provide operating differential subsidies to vessels, whether or not they were built in the United States (presently, in order to receive operating subsidies, vessels must be American-built). What is your position on this proposal?"

We are opposed to these proposals. Our reasons were set forth, in some detail, in a letter dated April 2, 1979 to Chairman John M. Murphy of the House Committee on Merchant Marine and Fisheries, a copy of which is enclosed as attachment D.

"8. On December 8, 1978, the Maritime Subsidy Board published notice of its intent to adopt standard forms for all contracts that are subject to its approval in awarding construction differential subsidies. It has been suggested that insofar as the Board's proposal would require the use of standard form contracts by ship purchasers and shipbuilders for all CDS program vessels, it is contrary to the principles set out in the 1970 amendments to the Merchant Marine Act, 1936.

"Critics also say that the proposed form to be used for contracts between the shipyard and ship purchaser would introduce unwarranted rigidity into a contractual process that must necessarily accommodate a variety of needs and circumstances. For example, it is said this form attempts to resolve on a uniform basis issues concerning design responsibilities, patent rights, excusable delay, performance requirements and consequences of failure to perform, without any appreciation of the issues involved. Would you please comment?"

This question was answered in the closing minutes of my testimony on April 4, 1979, and a subsequent letter of comments to the Maritime Subsidy Board (attachment E) was submitted to Subcommittee Counsel John E. Hardy on April 16, 1979.

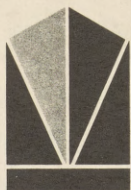
"9. Critics of the construction differential subsidy program have said, among other things, that: (1) CDS 'cost is excessive,' (2) CDS program is poorly planned and executed, (3) proposed fiscal year 1980 CDS building program 'is even more tenuous than that of past years, (4) CDS is a burden not only on the taxpayers, who must subsidize U.S. shipyards in competition with an over-supply of low cost foreign yards, but also to the U.S.-flag ship operators who now are required to purchase their ships in U.S. yards as a condition to receiving operating subsidy or participating in the movement of government-impelled cargoes,' (5) further subsidies contribute to worldwide excess shipyard capacity, and (6) there is no demonstration that CDS contributes to the national defense. Would you please comment specifically on each of these six allegations?"

These allegations are identical with those made by Congressman Paul N. McCloskey, Jr. in a letter dated March 13, 1979 to Chairman Robert N. Giaino of the House Committee on Budget. They have their genesis in a mistaken notion that a shipbuilding industrial base is not essential for national security. They are cloaked with half-truths which tend only to confuse complex issues. It seems to me that attachment D plus the response to Question No. 2 deal rather extensively with this criticism.

Needless to say, I stand ready to provide any additional information or opinions you might desire. Meanwhile, with best personal regards always, I am

Cordially,

EDWIN M. HOOD, *President.*



SHIPYARD WEEKLY

SHIPBUILDERS COUNCIL OF AMERICA

800 NEW HAMPSHIRE AVE., N.W. | WASHINGTON, D. C. 20037

Thursday, January 25, 1979 - No. 4

FY '80 BUDGET CONTAINS \$9.6 BILLION FOR SHIPYARD ACTIVITIES

Reactions to President Carter's "lean and austere" \$531.6 billion FY '80 Budget proposed to Congress on Monday (Jan. 22) have run full gamut - from not enough to just right to too much - with overtones of "sleight of hand" suspicioned by conservatives and liberals alike. Assertedly, Federal spending will be reduced "to unwind inflation." Outwardly, funds for social-welfare programs are cut. Pragmatically, defense spending is increased.

Boost of \$10.8 billion in DOD budget, to total of \$122.7 billion, "provides for growth in outlays in real terms of 3% above the current year's spending" most of which "will be for strengthening our NATO forces and maintaining strategic balance" (see 11/16/78 SW). THE WALL STREET JOURNAL (Jan. 23) editorially asks "3% of What?" and places increase at only 1.7% in 1980 dollars, noting that "while we are given a 3% figure, it is far from the kind of 3% figure that adds up to the kind of sustained defense effort needed to offset the on-going Soviet buildup." Conversely, THE WASHINGTON POST (Jan. 24) editorially sees real "3% increase as pledged" to NATO allies and "forward steps" in countering Soviet buildup.

Assuming Congressional concurrence, requested FY '80 governmental funding for shipbuilding/shiprepairing will be about 20% above FY '79 appropriations, mostly because of Presidential veto of \$2.0 billion for nuclear-powered aircraft carrier last year (see 9/14/78 SW):

	FY '78	(Millions) FY '79	FY '80
	Actual	Appropriated	Request
Navy Shipbuilding & Conversion	\$5,760.5	\$3,759.6	\$6,173.8
	-	834.7*	-
Navy Ship Repair/Alteration (Est.)	2,804.4	3,053.5	3,167.1
Merchant Ship Construction	135.0	157.0	101.0
U.S. Coast Guard (Est.)	85.5	109.5	112.5
Corps of Engineers	17.4	59.6	88.8
TOTAL	\$8,802.8	\$7,973.9	\$9,643.2

*FY '79 supplemental budget request, also submitted on Monday, includes \$543 million for one guided missile destroyer (DDG), \$194 million for one guided missile frigate (FFG) and \$97.7 million for settlement of shipbuilding claims against prior year programs

Proposed FY '80 Navy shipbuilding and conversion (SCN) program would cover following projects (see 1/11 SW):

<u>New Construction</u>	<u>(Millions)</u>
1 TRIDENT Submarine (SSBN)	\$1,121.1
1 Attack Submarine (SSN)	461.5
1 Aircraft Carrier (CVV)	1,617.1
1 AEGIS Destroyer (DDG)	820.2
6 Guided Missile Frigates (FFG)	1,204.2
5 Ocean Surveillance Ships (T-AGOS)	154.0
15	\$5,378.1

Conversions

1 DDG Modernization	\$ 221.3
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Also long leadtime items for Carrier Service Life Extension Program (SLEP) and supply ship conversion (\$50.5); cost growth and escalation for prior year programs (\$300.0); landing craft, service craft and miscellaneous items (\$223.9)

\$ 574.4

TOTAL

\$6,173.8

Make-up of revised five-year naval shipbuilding program is not contained in massive budget document, but projection of latest version (see 1/11 SW) suggests that number of yards building Navy vessels could drop from ten today to six in 1984 because of cutback in amphibious and auxiliary ships.

Numbers of vessels to be ordered against \$101 million FY '80 construction-differential subsidy (CDS) requested by Maritime Administration are not specified, but it is stated: "The 1980 program will emphasize the production of ships with national defense utility and will include several ships built as part of subsidized operators' replacement obligations. . . and new emphasis is being directed toward encouraging construction of bulk ships." Presumably, previously appropriated CDS funds will be nearly exhausted by construction of three containerships and conversion of four existing vessels for American President Lines, Ltd., San Francisco, CA (see 1/4 SW).

For FY '80, U.S. Coast Guard has asked for \$106 million to cover acquisition of three medium endurance cutters as part of continuing construction program. In addition, 35 small search and rescue boats are planned.

New funding for U.S. Army Corps of Engineers includes \$50 million to supplement prior year programs for one medium class and one large class hopper dredges. Remainder would be used for rehabilitation work on existing dredges and other floating equipment. No new starts are listed for FY '80 other than medium class dredge which was put out for bid last year (bids are due soon and contract award is expected in Spring).

Through inclusion of \$1.1 million in FY '79 supplemental budget and \$7.4 million in FY '80 Budget, Carter Administration also seeks rejuvenation of Renegotiation Board beyond 3/31/79 cessation mandated by Congress (see 1/11 SW).

TWO FOR ONE "SCRAP AND BUILD" PLAN OFFERED IN EUROPE

According to Britain's MARINE WEEK (Jan. 12-18 issue), International Maritime Industry Forum (IMIF), composed of ship-owners, shipbuilders, bankers and governments, has proposed plan to "hasten the end of the continuing crises in shipping and shipbuilding by scrapping and building tonnage on a ratio of 2:1 over a period of three years."

"The overall effect," it is reported, "is reckoned to remove an extra 18M gt of ships from the market in the period 1980-82, over and above the 73M gt which is expected to be scrapped under normal circumstances" and to encourage additional 3M gt per year in newbuildings "to maintain nucleus of a skilled workforce." Total cost of shipbreaking is placed at \$360M - "only a fraction of the amount expected to be paid out in newbuilding subsidies during that time, and will be used to cover the gap between scrap prices and secondhand sales prices so that the owner is not penalised when sending a ship for demolition."

Further, "a shipbuilder operating within a scrap and build programme would be given assistance to offer extended credit terms on newbuildings to a shipowner which produced evidence that it had scrapped (or contracted to scrap) twice the amount of tonnage it proposed to order. The easier terms would represent a subsidy devoted to the newbuilding, and the IMIF has assumed a credit package offering a 12 years term for 90% of the newbuilding price repayable at 8% interest." Cost of "such subsidized orders is estimated at \$1.1 million for every \$10M of the cost price. . . an amount which could be offered as a straight cash subsidy rather than extended credit terms."

"In the end," it is said, "the debate on taking positive measures to shorten the slump in shipping while not driving established shipbuilders to the wall is a mixture of . . . (1) a scrap premium subsidy; (2) special credit terms for owners proving they have scrapped; and (3) a continuous subsidisation of shipbuilders along the lines of that offered at present" - i.e. indemnification of below cost pricing - "to help them attract orders."

ASNE/SNAME FORUM ON SHIPBUILDING ISSUES SCHEDULED

Flagship Section of American Society of Naval Engineers (ASNE) and Chesapeake Section of Society of Naval Architects and Marine Engineers (SNAME) will hold joint meeting starting at 6:00 p.m. Thursday, Feb. 22, 1979, featuring panel discussion on "Challenges for Ship Design and Shipbuilding in the Next Decade." Event will be held at Adult Education Center, University of Maryland, College Park, MD.

Following panelists have agreed to participate: C. Larry French, President, National Steel & Shipbuilding Co. (NASSCO), San Diego, CA; James Harvie, Vice President-Marketing, Bath Iron Works Corporation, Bath, ME; RADM James W. Lisanby, USN, Commander, Naval Ship Engineering Center; John J. Nachtsheim, Assistant Administrator for Operations, Maritime Administration; and RADM Edward J. Otth, Jr., Deputy Commander for Acquisition, Naval Sea Systems Command. Council President Hood will serve as Moderator.

Sampling of other seminars of interest to shipyards in near future includes:

"U.S. Ships For Peace and Prosperity" - Mar. 8-9, 1979, Portland, OR, sponsored by Port of Portland, Maritime Administration and U.S. Navy League. Mr. French of NASSCO will moderate session on ship repair capabilities.

"Welding in Shipbuilding: Productivity and Economics" - Mar. 13-15, 1979, Hilton Hotel, San Diego, CA, sponsored jointly by American Welding Society and Maritime Administration.

"International Gas Turbine Conference and Exhibit" - Mar. 11-15, 1979, Convention Center, San Diego, CA, sponsored by Gas Turbine Division, American Society of Mechanical Engineers (ASME).

"The United States and International Shipping: The Economic Future" - Mar. 27-28, 1979, Biltmore Hotel, New York, NY, sponsored by LLOYD'S SHIPPING ECONOMIST, MARINE ENGINEERING/LOG and AMERICAN SHIPPER. Council President Hood has been invited to speak on this topic: "Can over-supply of shipbuilding throughout the world be eliminated - if so, how?"

"Contract Management for Commercial Ship Construction and Repair" - May 7-8, 1979, Henry VIII Inn and Lodge, St. Louis, MO, sponsored by Fisher Maritime Transportation Counselors, Inc.

"Ocean Thermal Energy for the 80's" - June 19-22, 1979, Shoreham-Americana Hotel, Washington, DC, sponsored by Department of Energy and organized by Applied Physics Laboratory, Johns Hopkins University.

TALKBACK

Scrap and build — a solution for all

THAT CONGLOMERATE of shipowners, bankers and governments which makes up the International Maritime Industry Forum has moved from the passive to the active phase of its short life in releasing this week its proposals for a scheme of scrap and build. They have already gone to the target governments.

Hitherto, the IMIF has been forward in urging governments not to subsidise the building of vessels in particular surplus — notably tankers. It has now turned out a proposal for "positive measures" which could hasten the end of the continuing crises in shipping and shipbuilding by scrapping and building tonnage on a ratio of 2:1 over a period of three years.

The "build" part of such a scheme will become critical next year. The IMIF reckons that 1980-82 will be the real crisis years for shipbuilding, although it emphasises also that there may be a strong revival in demand thereafter. To keep shipyards going for the lean period, it estimates orders for an additional 3M grt will be required. The shipbuilding members of the forum are particularly concerned that the nucleus of a skilled workforce is maintained during those years so they can be viable when the market picks up, and the 3M would be designed to keep it.

Against this natural desire for survival, however, is the insistence by shipowners on the forum that as few ships as possible are built. They point out that the surpluses in the tanker and dry cargo sector are already threatening to a spill over into liner trades, including into containerships and ro-ro vessels. And operators in the dry bulk trades are making particular note of the fact that the surplus of combined and dry bulk carriers as at mid-1978 has been estimated at anywhere between a low of 23M dwt and a high of 53M dwt.

All owners, however, are united with shipbuilders in wishing to encourage as much premature scrapping as possible.

Scrap effect

The overall effect of the IMIF's 2:1 ratio for tonnage scrapped and built is reckoned to remove an extra 18M grt of ships from the market in the period 1980-82, over and above the 73M grt which is expected to be scrapped under normal circumstances. This accelerated scrapping programme of ships near to obsolescence would in turn reduce the average ship life by about 2.5 years. That is expected, says the IMIF, to bring forward the date at which supply and demand in shipping are in balance by

between 1-1.5 years. As it says, "such a result would be a very considerable advantage".

There is a problem, however, with the capacity of shipbreakers to handle the extra tonnage. In the period since 1965, scrapping has only reached around 15 per cent of the tonnage of new ships, and stands at about 20M dwt per annum at present. The IMIF reckons an increase to 75M dwt capacity over the next three years is necessary, and indeed comments that such an increase should have been organised "years ago" to match the large expansion in shipbuilding.

Shipbreaking in the West is also very unprofitable, with only Spain maintaining any sort of an industry and that presently working on a four day week and being unable to compete with cheap US imports. Taiwan, which accounts for around 50 per cent of the world's shipbreaking, uses the scrap for its own steel industry, so there is an obvious limit to expansion of capacity there.

Meanwhile, despite having wage levels double those in the UK, for instance, the US is still able to produce the cheapest scrap and looks likely to keep doing so while the dollar stays weak.

One part of the cost of a scrap and build programme, therefore, will be the subsidisation of shipbreaking in the West. The IMIF estimates that to scrap an extra 10M dwt of ships each year (about 6M grt) for the next three years will need a subsidy of about \$12 per ton — or \$360M over the period. This, as it points out, is only a fraction of the amount expected to be paid out in newbuilding subsidies during that time, and will be used to cover the gap between scrap prices and secondhand sales prices so that the owner is not penalised when sending a ship for demolition.

Conversely, however, there is the problem of not providing subsidies to the owner which would have scrapped its tonnage anyway. All IMIF members are united, their report makes clear, in avoiding that. The recommended method would be to lay down an age barrier, with a different age for each class of ship — though there is no suggestion in the current report of just what those might be. The IMIF especially recommends that the 7M dwt of tankers under 200 000dwt in lay-up and built before 1966 receive no assistance, nor the 1.5M dwt of idle cargohips which are over 15 years old. Such tonnage is headed for the breakers without inducement from anyone, and

does not need special assistance IMIF members' feel.

What about the yards?

But what of the consideration for shipbuilders? The IMIF report quotes predictions for the early 1980s which say that even after a substantial cut in shipbuilding capacity, commercial demand will still be some 3M grt below the 11M grt which is reckoned to be necessary to sustain the world's shipyards. The gap would be bridged, under the 1:2 formula, by the scrapping of that extra 6M grt (10M dwt) proposed.

A shipbuilder operating within a scrap and build programme would be given assistance to offer extended credit terms on newbuildings to a shipowner which produced evidence that it had scrapped (or contracted to scrap) twice the amount of tonnage it proposed to order. The easier terms would represent a subsidy devoted to the newbuilding, and the IMIF has assumed a credit package offering a 12 years term for 90 per cent of the newbuilding price repayable at eight per cent interest.

Thus there would be a special exception made to the standard OECD terms for export ships, though orders placed outside the scrap and build scheme would continue to be subject to standard OECD rules.

At the end of the day, its best estimate of the cost of such subsidised orders is \$1.1M for every \$10M of the cost price, an amount which could be offered as a straight cash subsidy rather than extended credit terms. Though the figure is large, the IMIF feels it is not out of line with the present level of shipbuilding subsidies, which the European Commissioner for Industry, Mr Davignon, has estimated at \$1bn per year within the EEC alone. What the IMIF hopes is that these funds will be diverted to a scrap and build policy which is designed to shorten the present slump as well as protect shipyards.

Unfortunately that is not the end of the matter, as the IMIF report recognises. There will not be a wholesale transfer of subsidies for the simple reason that, all other things being equal, European shipbuilders are not competitive with those elsewhere. So there must be a third element introduced — a continuing subsidy to help them attract orders, much on the lines of that offered at present.

In the end, the debate on taking positive measures to shorten the slump in shipping while not driving established shipbuilders to the wall is a mixture of the three:

- A scrap premium subsidy
- Special credit terms for owners proving they have scrapped
- A continuous subsidisation of shipbuilders along the lines of that offered at present

ATTACHMENT D

SHIPBUILDERS COUNCIL OF AMERICA,
Washington, D.C., April 2, 1979.

Hon. JOHN M. MURPHY,
*Chairman, Subcommittee on Merchant Marine,
Committee on Merchant Marine and Fisheries, Washington, D.C.*

DEAR MR. CHAIRMAN: At recent hearings concerned with the FY '80 Maritime Authorization Bill (HR-2462), Congressman Paul N. McCloskey, Jr. (R-CA) has evidenced a sharp antipathy toward the construction-differential subsidy (CDS) provisions of the Merchant Marine Act of 1936, as amended. He has, as you know, also called upon the Committee on Budget to delete the Administration's fiscal year 1980 Budget request for new CDS funding in the amount of \$101 million and wants as well to amend HR-2462 accordingly. Further, he has circularized the U.S.-flag shipping community endeavoring to enlist support for "the ending of the CDS program."

In late 1975, following my testimony as a part of extensive "oversight" hearings conducted by your Subcommittee, Mr. McCloskey put to me a series of questions which reflected the same animus. A copy of my detailed response, dated January 20, 1976, is attached for your information. You will particularly note, on page 5, my rejoinder to the ideas he is now again espousing:

"They * * * have been consistently rejected on the grounds that the American taxpayer and the public treasury with 'finite resources' should not be called upon to pay for the construction of merchant ships in U.S. shipyards for foreign owners, nor to pay for the operation of merchant ships constructed in foreign shipyards for U.S. interests. The rationale has been that shipbuilding support policies must be predicated on the construction of ships in American shipyards to American standards by American craftsmen with American products for American owners to serve American interests."

Moreover, if national security is to be fully assured, a maritime capability; cannot be fragmented. The "Declaration of Policy" in Section 101 of the 1936 Act clearly prescribes the application of public funds to maintain the inseparability of shipping and shipbuilding—in the national interest. The vagaries of below-cost prices being offered by some foreign shipbuilders while a world shipping recession persists compose no *a priori* justification for a fundamental change in that mandate as Mr. McCloskey has advocated. By eliminating CDS, on temporal grounds, he would hasten the demise of a major segment of vital shipbuilding and support capabilities, and, at the same time, obviate certain positive impacts on the national economy.

Let me especially cast this last point in the context of the merchant ship construction envisioned by the fiscal year 1980 Budget request: one LASH vessel and three drybulk carriers. These shipbuilding contracts would be financed by an authorization/appropriation of \$101 million in conjunction with \$23 million of carryover funds for a total of \$124 million. Of this total, \$114 million is intended for new construction. At the currently prevailing 50 percent CDS level, this figure would represent a total of new shipbuilding activity in the amount of \$228 million.

Using macroeconomic and input/output models developed by Data Resources, Inc., as part of a study of "The Economic Impact of the U.S. Shipbuilding and Ship Operating Industries" commissioned by the Shipbuilders Council last year, this contract value of \$228 million would yield a total national economic impact of \$782.9 million and 16,200 man-years employment for the U.S. labor force. This impact results from the interaction of the shipbuilding industry with other sectors of the U.S. economy. Actual expenditures would extend very probably over a three-year period and would flow to every State in the Union plus the District of Columbia. No doubt, Mr. McCloskey would be surprised to learn, from the print-out furnished by Data Resources, Inc., that his home State of California would receive more purchases than any other State. New York State, by the way, would be second here after being constructed abroad.

No other activity creates such a wide diversity of employment in such a variety of other industries and geographic locations as does ship construction and repair. Mr. McCloskey's avowed purpose is to export this widespread activity through a deliberate diversion of merchant ship construction contracts to shipbuilders in other countries. Jobs for many thousands of skilled shipyard workers who now face unemployment would likewise be exported. He makes no similar advocacy affecting bricklayers, structural steel erectors, carpenters, painters, plumbers and unskilled construction workers: because roads, buildings, bridges and so on obviously cannot be floated here after being constructed abroad.

He goes on to argue that U.S. shipowners should have the right to obtain their ships from the shipyards of other countries. As you and I know, U.S. shipping operators are not prohibited from building their ships abroad if they so desire. They have long been permitted to do so, and in fact, as pointed out in my testimony before the Subcommittee on March 15, 1979, have been doing just that. The numbers are considerable. By building abroad, however, these owners/operators are excluded from operating-differential subsidy (ODS) programs provided by the 1936 Act.

It would be shortsighted for a subsidized shipping operator to be seduced by the allure of "starvation" prices now being offered by foreign shipbuilders. In all likelihood, the public—and a majority of the Congress—would quickly call for a prohibition against the application of U.S. tax dollars for operating subsidies, of any kind, on ships built in foreign shipyards. Registry of such foreign-built vessels under foreign-flag, manned by foreign crews, would surely follow. Total collapse of the U.S.-flag maritime capability would be hastened with all the hazards to national security which would inevitably ensue.

This is no time for experimentation with dubious philosophical postulates. Clearly, CDS is an investment with manifold tangible as well as intangible return to the Government and the general economy of the country, which have a value far greater than zero, as Mr. McCloskey has inferred. Hopefully, his moves will be rebuffed at the mark-up session on April 5, 1979, and, to this end, a copy of this letter is being forwarded all members of the Committee on Merchant Marine and Fisheries.

We also hope this letter and its attachment can be made a part of the record of recent Subcommittee hearings, pertaining to HR-2462.

Cordially,

EDWIN M. HOOD, *President.*

SHIPBUILDERS COUNCIL OF AMERICA,
Washington, D.C., January 20, 1976.

Hon. PAUL N. McCLOSKEY, Jr.,
*Merchant Marine Subcommittee,
Committee on Merchant Marine and Fisheries, Washington, D.C.*

DEAR MR. McCLOSKEY: Supplementing my acknowledgment of November 17, I have prepared detailed answers to the questions posed in your letter of November 6 as follows:

"1. Though the issue has been discussed and debated a great deal, would you answer this basic policy question: Assuming that the United States has finite resources, why should we use government money through subsidies, mortgage guarantees, and tax incentives to artificially channel national resources in the shipbuilding industry?"

"This question seems particularly important when, according to your testimony, there is a large over-capacity of shipbuilding facilities in the world, and much of the developing world is planning to develop what will be an even larger over-capacity. I don't think it is sufficient to reply that this is the only way to meet the subsidy programs of other governments. In one sense, we should welcome foreign shipbuilding subsidies. To the extent that they allow vessels to serve the United States trade at less than cost, those foreign governments will, in effect, be subsidizing U.S. foreign commerce. Why not provide the minimum shipbuilding facilities necessary for national defense and then let the market allocate resources to the shipbuilding industry?"

Former Secretary of Defense James R. Schlesinger has provided an appropriate preface for an answer to this multifaceted question: "The first claim on our resources, it seems to me, should be to keep the form of society that the United States has secure." (NBC Meet The Press 11/23/75.) His comment was made in the context of the relative change in U.S. and U.S.S.R. strategic strength and mobility over the past few years. His point: the national security of the United States is thereby gravely endangered.

With equal logic, the national security of the United States is endangered when freedom of the seas for the transport of trade and commerce is threatened and when hostile interests intrude upon U.S. territorial waters. Control of the sea lanes and domestic waters, however, begins with control of shipbuilding, takes root with the adequacy of naval strength and sealift capability, branches out with supremacy in technology, workforce, financing and national will, and is enchaned by mercantile advantages—the carriage of a sufficient volume of imports and exports to ensure control and "to keep the form of society that the United States has secure."

That our naval fleet, merchant shipping capability, and cargo policies are deficient when measured against the expanding presence of the Soviet Union on the world's oceans are no longer subjects for credible debate. That the surety of the American industrial machine and defense establishment is contingent upon the availability of 71 critical materials—69 of which must be imported is a proven fact. That U.S. security could be threatened seems clear. Reliance on foreign shipbuilding facilities for expedient experimentation could merely pluralize the threat.

Early in the course of these "oversight" hearings, the correlations between national security, national defense and national interests as applying to shipbuilding were affirmatively established in testimony by Dr. John J. Bennett, Acting Secretary of Defense for Installations and Logistics. In point of fact, he, as a spokesman for the Administration, was restating the "Declaration of Policy" in Section 101 of the Merchant Marine Act of 1936 which has been affirmed and reaffirmed time and again by the Congress with increasing emphasis on national security objectives.

As to the role of subsidies, mortgage guarantees and tax incentives, the purpose appears self-evident: to ensure that the United States has a merchant marine "supplemented by efficient facilities for shipbuilding and ship repair," as set forth in the above mentioned "Declaration of Policy." Principal reliance on American shipyards is implicit in this mandate, and the specter of over-capacity abroad, now or in the future, has no relevancy to the shipbuilding/shiprepairing industrial base which is required and must be maintained within our own boundaries—to serve national security.

Obviously, then national security requirements must be a pervasive consideration in the allocation of "finite resources" for merchant shipbuilding endeavors. Those national security requirements, however, do not and will not remain static: the relative change in U.S. and U.S.S.R. maritime strength and mobility at sea over the past few years warrants an entirely new emphasis especially with respect to the necessity for unrestrained availability of critical materials from overseas without which the United States could not be secure.

In terms of merchant shipbuilding, it might be noted, the allocation of "finite resources" in Fiscal Year 1975 amounted the less than eight hundredths of one percent of total Federal expenditures. I do not imply that this allocation should have been greater simply "to meet the subsidy programs of other governments." But, I do assert that it must be adequate to meet national security and national defense needs.

You ask: "Why not provide the minimum shipbuilding facilities necessary for national defense and then let the market allocate resources to the shipbuilding industry?" This question presupposes a "minimum" level of shipbuilding facilities and supporting enterprises necessary to sustain national defense has been defined. Such has never been done authoritatively on a continuing basis. If further presupposes that the envisioned "minimum" will also remain static. Such is not the case. World—or mercantile—conditions can rapidly change, and governmental policies and actions have been known to oscillate.

Navy shipbuilding programs, for example, have averaged 12 major ships per year in recent times. But, because of cumulative deficiencies in fleet strength, and the Soviet threat at sea, there are now strong pressures, in and out of government, to achieve a balanced naval fleet by the mid-1980's. This goal could require deliveries of as many as 35 naval ships annually by the nation's shipbuilders. On the other hand, because of the global shipping recession and the resulting trickle of new commercial contracts at this time, a substantial portion of the nation's present merchant shipbuilding capacity will be idled in 1978—only two years hence.

The thrust of my testimony on November 5, 1975, was to make the point that the task for decision-makers should now be to determine how an essential "minimum" in shipbuilding capabilities under every conceivable circumstance is to be maintained in the years ahead—to meet both mobilization and peacetime requirements.

"2. On page 32 of your statement, you indicated that U.S. shipbuilding costs are higher than those of foreign yards and stated that 'the difference . . . is a reflection of the American way of life.' Yet in testimony before the Subcommittee, the GAO indicated that labor costs in Sweden were about 15 percent higher than those in the United States. This is reflected on page 32 of your statement where you show that the average hourly earning in Swedish yards is \$8.07 compared to \$7.06 in U.S. yards. How can Sweden be a major exporter of ship on the international market with these kinds of labor costs? Why can't the U.S. shipbuilding industry perform as well?"

Direct comparison of shipyard labor rates in Sweden with prevailing rates in the United States can be misleading. Underlying economic forces, variations in govern-

ment support programs, and differences in shipbuilding environment need to be put in relative perspective.

Only three years ago, in 1973, U.S. shipyard labor rates were higher than those in Sweden. Meantime, inflation has been accelerating more rapidly there than here, and the relationship has now been reversed. Between 1970 and 1975, for example, wages increased by 208 percent in Sweden and by 132 percent in this country.

Nonetheless, the Swedish government has a policy—expressed or otherwise—of supporting shipbuilding at international competitive prices regardless of internal costs and wage levels. As a result of favorable tax treatment (accelerated depreciation, investment credits, tax remissions) plus generous loan guarantees, the export marketing of merchant vessels built “in series” has enabled Sweden to remain second on the world shipbuilding scale.

Moreover, it must be recognized that most Swedish shipbuilding operations are elements of an integrated industrial complex in which the whole (including steel, propulsion and component manufacturers) is dependent upon the “sale” of a ship. In this circumstance, a builder may price a ship at a “loss” merely to sustain more profitable elements of the process. Nevertheless, if the Swedish builder’s “loss” is disastrous, the government provides crucial refinancing assistance, and in at least one case involving a major yard, the government encouraged customers to accept significant price increases to offset inflationary effects and to minimize the “loss.”

You ask: “Why can’t the U.S. shipbuilding industry perform as well? The answer is not simple: (1) only in rare instances have the requirements of American shipowners lent themselves to cost savings series production, (2) cooperation among companies on marketing and pricing details such as takes place in Sweden is not possible in the United States because of anti-trust strictures, (3) understandably, the American taxpayer and the U.S. Government are something less than enthusiastic about financing intentional losses in any operation, (4) work rules (job demarcation) for the utilization of manpower in Swedish shipyards are considered to be far less rigid than in this country, and (5) unlike in Sweden, in the United States shipbuilding is not looked upon as an important national endeavor: in this country, almost on a yearly cycle, this attitude engenders psychological uncertainties which affect operational stability and productivity in U.S. shipyards.

“3. Early this year, CAO released a study of the shipbuilding industry which made two primary recommendations: 1. that vessels built in foreign yards and operated under the American flag qualify for operating subsidy, and 2, that authority be given to award construction subsidy to vessels built in U.S. yards which would be operated under foreign flags.

“What is your opinion of these recommendations?”

The GAO report to which you refer also recommends that “early resolution of the Government’s expectation of the shipbuilding industry is essential for defining clear and finite objectives for Government support of the industry.” To me, this recommendation is far more primary than the other two specifically mentioned in your question.

Nonetheless, these two proposals are not new. They have been advanced before by diverse groups, and have been consistently rejected on the grounds that the American taxpayer and the public treasury with “finite resources” should not be called upon to pay for the construction of merchant ships in U.S. shipyards for foreign owners, not to pay for the operation of merchant ships constructed in foreign shipyards for U.S. interests. The rationale has been that shipbuilding support policies must be predicated on the construction of ships in American shipyards to American standards by American craftsmen with American products for American owners to serve American interests.

The second recommendation, cited in your question, is usually offered in a specious effort to make the first more palatable. It is wishful thinking at best. In the 1950-1974 time span, U.S. shipyards have built a total of 531 merchant ships (totaling 17,800,000 dwt) for American companies or their affiliates for registry under the American flag. During the same period, nearly 2,000 vessels (totaling more than 100,000,000 dwt) were built abroad by American companies or their subsidiaries for foreign-flag registry. Few of these would have been brought under U.S. documentation even if operating subsidies had been available. Even more, this ratio of four to one favoring foreign shipbuilding suggests that, given the option to build abroad as the GAO advocates, American subsidized owners are likely to do just that—especially when foreign shipbuilders offer “bargain” prices below actual cost.

The consequences in terms of maintaining an essential industrial base for shipbuilding could be serious: The balance of international payments would be adversely affected, employment for skilled shipyard craftsmen would decrease, employment for workers in supporting industries in every State of the Union would decrease,

sales domestically manufactured products for ship construction would decrease, tax revenues would diminish, reliance on foreign shipyard sources only herald the doom of other essential national needs—U.S. shiprepairing and U.S. flag shipping among them.

"4. You have indicated that there is a large over-capacity in foreign yards. This is primarily a function of the severe depression in the tanker industry. Can those yards which previously concentrated on tanker construction readily change to building dry cargo ships? If not, why will the over-capacity in tanker building facilities depress world prices for dry cargo ships and other types of more sophisticated yard construction? In short, what I am asking is: Will there be a serious attempt by foreign yards to slash prices for other ships as well as tankers?"

A building dock or building way can be used for the construction of any type vessel whose dimensional characteristics fall within the physical limits of the facility. It is not unusual for a shipbuilder, in this country or abroad, to build a tanker or cargo vessel in the same dock or on the same ship way. This has been done many times. Because of the recent collapse of the tanker market and the current slump in the dry cargo market. Japanese shipbuilders have indicated plans to adapt facilities heretofore devoted to large tankers for the construction of offshore drilling rigs and smaller vessels, even though these alternatives could result in something less than optimum utilization.

The scarcity of market opportunities and all that this adversity foretells in terms of utilization of manpower, shipyard capacity and related production resources, will prompt either (1) unrealistic price cutting, (2) increased government support to offset the difference between price and cost, or (3) both. The purpose will be to capture whatever commercial contracts that may be available in a depressed market which could continue for another two years—whether tankers, dry cargo ships, drilling rigs, or other floating craft—to keep people employed and to avoid the social costs of unemployment.

You ask: "Will there be a serious attempt by foreign yards to slash prices for other ships as well as tankers?" My answer is that this undesirable, but understandable, phenomenon is already taking place. Reportedly, foreign prices are being cut without regard to actual costs. In an unanticipated manner, a principal objective of the 1970 Act has already been undermined: to hold the level of Federal support (CDS) for merchant ship construction at 35 percent. The sensitive influence of foreign shipbuilding prices on CDS determinations in this country, I fear, is not sufficiently recognized.

"5. On page 46 of your testimony, you recommend that there be a 'restatement of CDS percentage guidelines.' Does this mean that you think the 35 percent CDS ceiling will have to be raised? If so, what are your reasons?"

It is difficult to establish the differential between a domestic and foreign shipbuilding price at any one time with exactness because of the unlikelihood of an absolute comparison: two identical ships being constructed simultaneously—one in the United States and one abroad—under identical procurement procedures, production conditions and cost accounting methods. The task is further complicated by the price-influencing variations in foreign governmental policies and subsidy assistance. The pattern of shipbuilding economics in other countries thus affects 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. In the judgment of government and industry officials, the 35 percent CDS ceiling with respect to negotiated contracting, now mandated by the Merchant Marine Act of 1970, does not reflect the differential between true U.S. shipbuilding costs and artificial shipbuilding prices presently being offered abroad.

Because of the sharp decline in ship construction market opportunities worldwide, there is evidence that some foreign builders are actually resorting to desperation price cutting in an effort to obtain urgently needed work and to keep their labor force employed—regardless of true cost. This trend toward "bargain" prices abroad, as indicated, will force the CDS rate above the present statutory ceiling of 35 percent for negotiated contracting. These kinds of fluctuations in the international market suggest that the ceiling must be raised and that provision should be made for flexibility in the future.

"6. Sea-Land has suggested that the construction subsidy be modified so as to provide subsidies above parity with foreign costs. Their contention is that this expanded construction subsidy should largely replace the operating differential subsidy. What is your view of this suggestion?"

Taking into account the expanding array of shipping/shipbuilding assistance provided in other countries and economic distortions caused by state-owned fleets, this suggestion may have a certain appeal. Yet, the combination of CDS with ODS—or

ODS with CDS—might well produce more complexity than now prevails in preserving the parity system on which the Merchant Marine Act of 1936 is based. Such an approach might enable more flexibility in financing for the shipowner/operator, but it would also involve basic policy considerations with respect to capital structure, vessel replacement commitments, governmental control, elimination of restrictions on foreign registered tonnage, among others. If the Sea-Land proposal is to be seriously considered, these, and other, questions that pertain to the appropriate role of government in life-cycle acquisitions of merchant ships need far more examination than has taken place to date.

During my November 5 testimony before the Subcommittee on Merchant Marine, you properly stressed the imperative need for data as to the numbers of ships by types and the amount of shipyard capacity that might be required to support a national cargo policy. As promised, I have been searching for valid projections of shipping and shipbuilding anticipations, and find that the Commission on American Shipbuilding devoted considerable attention to this subject in its October 1973 Report. Volume III, Annex IV, pages 847, 848, 849, 852, 968 and 969 contain useful tabulations, and the accompanying commentary is especially helpful in evaluating the impact and potentials of cargo penetration—to serve national interests.

I stand ready to provide any additional views or information you might desire.

With warm personal regards always, I am

Cordially,

EDWIN M. HOOD, *President.*

ATTACHMENT E

SHIPBUILDERS COUNCIL OF AMERICA,
Washington, D.C., April 10, 1979.

Mr. JAMES S. DAWSON, Jr.,
Secretary, Maritime Subsidy Board,
Washington, D.C.

DEAR MR. DAWSON: In response to your Notice of a rule change to 46 CFR Part 251 appearing in the Federal Register, Vol. 43, No. 237 of December 8, 1978, the Shipbuilders Council of America, composed of major shipbuilders in all sections of the country, submits the attached comments regarding the proposed standard contract forms for use in awarding construction-differential subsidy.

Aside from the specific comments noted, there are further issues of concern which, to us, would seem to merit exploration. In particular, the Federal Register Notice indicated that the "practice of routinely considering proposals to modify standard contract provisions will be terminated."

In this regard, we recognize the virtue of establishing a firm "middle ground" in contract language which would reflect an equitable balance of risk and preclude inequities that can be created in a "buyers" versus a "sellers" marketplace. We recognize, too, that government regulated terms and conditions, assumed to be fair to all parties concerned, could minimize the time and effort required in establishing an acceptable contractual arrangement.

However, as past practices have demonstrated, there are some issues which can only be reasonably and appropriately resolved by direct negotiation between the purchaser and the contractor. To this end, as noted in the attachment, we believe those clauses relating to liquidated damages, disputes, withholding of payments to insure performance of guarantee work, and conditions are proper items for direct negotiations between purchaser and builder; subject, of course, to the approval of the Maritime Subsidy Board. Conversely, where the Maritime Administration proposes to leave open the issue of escalation, we feel it is mandatory that the recognition of risks beyond the control of the shipbuilder must be firmly described in the clause defining contract price adjustments. In this context, we would support the concept of regulated standard contract forms.

Moreover, as we are all well aware, the current prospects for ship construction are very bleak on a world-wide front. U.S. shipbuilders are continuing to find it difficult to hold their own against shipbuilders in other countries who are offering prices having no relationship to actual costs, and are more heavily subsidized and sometimes owned by foreign governments in whole or in part. There is potential that wholly inflexible contract terms such as have now been proposed by the Maritime Administration may compose another disincentive for shipowners to have their ships constructed in the United States. This concern is manifested most forcefully by the recent action of at least two U.S. flag shipping lines in turning to shipbuilders in Japan and South Korea.

In view of the foregoing, we most respectfully request that clarification be provided as to the procedures and policy which will govern the administration of the standard contract forms. We would further hope that the comments provided in the attachment will be the subject of further discussion with Maritime Administration representatives to insure a full understanding of the shipbuilders' concerns.

Anticipating a favorable reply, I am

Cordially,

EDWIN M. HOOD, *President.*

Senator WARNER. I think it would be helpful if we had Mr. Nemirow come back and take the stand once again. Mr. Nemirow, can you provide us with any observations you might have on this very helpful testimony brought forth from the private sector?

STATEMENT OF SAMUEL B. NEMIROW—RESUMED

Mr. NEMIROW. I learned a long time ago, once you're a witness in one of these hearings, get up and leave as soon as you're finished. But you wouldn't give me the opportunity.

I would be glad to answer any questions you may have.

Senator WARNER. Specifically, I think that the attention is focusing on Mrs. Kreps' trip. At the very minimum, I would hope you would convey to her personally, if at all possible—but if not, by memorandum—points stressed by private industry this morning.

You might put in, as a bottom sentence, which I used to have slipped to me from time to time, that the taxpayers are paying her salary and the cost of the trip. Therefore, they'd like to get some of the benefits, as asked this morning.

Mr. NEMIROW. I would only comment, in that regard, that I will have an opportunity to discuss it with her personally before her trip. I also expect to be going with her to discuss that.

Senator WARNER. That raises our hopes.

Mr. NEMIROW. I hope so.

There is * * * in fairness to the exercise that's going on at the moment, there is an interagency group which is discussing what course we should take in respect to the maritime agreement, which the President indicated in the joint communique with Vice President Teng will be negotiated.

I will certainly take the opportunity of those meetings.

Senator WARNER. You're part of the interagency discussion group preparing the document; is that correct?

Mr. NEMIROW. Yes, sir. And I will take the opportunity at the next meeting of this group to convey the comments that were discussed here this morning and the thrust of the remarks that have been made by the various interested parties.

And I can assure you, without hesitation, that Secretary Kreps will be well informed as to the thrust of the comments here today.

Senator WARNER. Would it be helpful for Congress to pass a clear statutory directive designating MarAd as having the primary responsibility to negotiate bilateral agreements with the State Department?

Mr. NEMIROW. Again, one of the issues that's before the Inter-Agency Maritime Task Force that the President has constituted is the question of how we can best coordinate our maritime policy and maritime policy decisionmaking. I would hope that the outcome of that study will make it clear that there will be more coordination and a clearer process for the decisionmaking in response to maritime interests.

Senator WARNER. I'll let the chairman possibly submit other suggestions in deference to not making this anything but a bipartisan approach, because I know he's very much interested in this. There is some precedent for Congress to express viewpoints as these interagency agreements, briefing sessions and negotiating sessions are put together.

But I think I should let him write directly to the Secretary of Commerce on that.

Well, we hope you have a profitable, good, safe trip and return. We look forward to seeing you back, hopefully, before this committee.

Should you succeed in being appointed to the office to which you aspire, I look forward personally to working with you.

And let's see if we can't, as I say, get a little pizzazz into this thing and attract the public's attention.

Mr. NEMIROW. I think it would be very helpful.

And in that concern, I can certainly join with you, and I look forward to the process, whatever the result.

Senator WARNER. Thank you very much.

The hearing stands adjourned.

Thank you very much.

[Whereupon, at 12:45 p.m., the hearing was adjourned:]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

SHIPBUILDERS COUNCIL OF AMERICA,
Washington, D.C., April 9, 1979.

Hon. DANIEL K. INOUE,

Chairman, Subcommittee on Merchant Marine and Tourism, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Solution of the problems affecting U.S. shipping/shipbuilding, as you suggested at the April 4 hearing of your Subcommittee on Merchant Marine and Tourism, requires far more understanding and coordination on the part of the Executive Department and far more consistency of policy and implementation than has been the case for too many years.

As you will note from the enclosed document, prepared by our Commercial Shipbuilding Committee, the shipbuilding industry of the United States fully shares your opinion. You will also recognize a number of recommendations which our Board of Directors believe could be beneficial in stabilizing the future for shipbuilding in this country. We hope these ideas will merit your consideration.

With best personal regards always, I am

Cordially,

EDWIN M. HOOD, *President.*

Enclosure.

RECOMMENDATIONS OF COMMERCIAL SHIPBUILDING COMMITTEE, SHIPBUILDERS COUNCIL OF AMERICA

SHIPBUILDERS COUNCIL OF AMERICA, COMMERCIAL SHIPBUILDING COMMITTEE

Edwin M. Hood, Chairman, Shipbuilders Council of America.

Richard C. M. Calvert III, Tenneco/Newport News Shipbuilding.

Roland V. Danielson, Bethlehem Steel Corporation, Shipbuilding Division.

Robert Galloway, Sun Shipping & Dry Dock Co.

Robin King, General Dynamics Corp., Quincy Shipbuilding Division.

Gerald A. Livingston, Ogden/Avondale Shipyards, Inc.

E. L. Pickler, Jr., Norfolk Shipbuilding & Drydock Corp.

Ralph E. Ryan, Seatrain Shipbuilding Corp.

David J. Rylander, Todd Shipyards Corp.

R. W. Thorpe, Jr., Bath Iron Work Corp.

Samuel D. Timmons, National Steel & Shipbuilding Co.

The Committee is especially indebted to James W. Charrier, Jr. (Charrier, McAteer & Fetting), Robert Fiorelli (Bethlehem Steel Corporation, Shipbuilding Division) and Frank R. Kesterman (Shipbuilders Council of America) for their valued assistance.

Late in 1978, the (N.Y.) Journal of Commerce (Nov. 20, 1978), saw fit to observe that "United States maritime policy is indeed a shambles...there is no consensus...neither is there any visible leadership." Earlier in the year, Britain's Marine Week (June 16, 1978), from the vantage point of distance, made this statement: "...the U.S., as the world's largest trading nation, not only lacks a merchant fleet commensurate with true requirements but will also shortly lack the means to achieve it."

These pronouncements reflect the tenor of a crescendo of opinion which has developed here and abroad over the past decade. Progress with respect to U.S. shipping and U.S. shipbuilding—and there has been considerable, technologically and otherwise—has been overshadowed by a devolution in cargo carriage penetration by U.S.-flag merchant ships and in ship construction potentials for U.S. shipyards. A variety of factors have shaped this phenomenon which has serious implications in terms of national security, industrial momentum, economic growth and shipyard workforce/operational stability:

At the highest level of government, noble platitudes have not been translated into clear and positive policy direction.

Among and within agencies of the Federal Government, there has been little harmony with respect to key issues and problem solutions.

Political, statutory and functional mechanisms have been ineffective in assuring needed shipping and shipyard resources.

National reliance on imports of critical and strategic materials (liquid and bulk) has been steadily expanding.

Volumes of U.S. exports and imports (except for liner cargoes) carried by U.S.-flag shipping have been steadily declining for more than ten years.

Public impressions of U.S. maritime affairs have been formed by superficial and misleading images of excessively high costs, internecine disputes and litigation, poor efficiency and productivity, questionable business practices and faulty management.

Profits for U.S. shipping and shipyard companies have been exceptions rather than general.

Application of the concept of series construction of merchant ships of identical or near-identical design as a means of lowering shipyard unit cost/prices and enlarging the shipping fleet has not been generally possible because of the scarcity of major market opportunities for U.S.-flag vessels.

These detractions, however, need to be viewed in a longer perspective. Ocean shipping worldwide, by reason of adverse economic repercussions following the 1973 Middle East oil embargo, has been in a state of oversupply and depression. This condition is expected to persist on most trade routes until the mid-1980's.

The demand for new merchant ships has accordingly dropped substantially. More than 30 million dwt of tankers and about 10 million dwt of dry cargo vessels are currently idle throughout the world. Some recently delivered ships have gone immediately into lay-up. The result has been a global surplus of shipbuilding capacity. An increasing number of shipbuilders are chasing a decreasing number of ship construction opportunities. Amid international discussions of ways to reduce overcapacity, below-cost prices are being offered by many foreign shipbuilders: in many cases, with the approval and financial indemnification of their governments. A demoralization subsidy war is rapidly evolving. Some nations, previously openly critical of maritime assistance programs, have now added direct subsidy to a subtle array of indirect credit and tax mechanisms. Acknowledgment of the continuing strategic and economic importance of shipping and shipbuilding has been the motivation.¹

The governments of most U.S. trading partners obviously appreciate more sensitively than the U.S. Government the importance of a strong maritime industry to national economic and security interests. With other countries, control of substantial portions of national cargo is rapidly becoming the rule rather than the exception. Meanwhile, spokesmen and policy-makers for the United States naively espouse free market premises. In these contexts, it is important to recognize that much of the world's cargo is already subject to unilateral control, either through cargo reservation laws² or more importantly through nationally-coordinated policies of buying imports FOB at origin and selling exports at delivered prices.³

The maritime strategies of Japan, Russia and China though different, are all significantly based on control of import/export cargoes. Securing a substantial share of petroleum export shipping by OPEC nations is the announced policy for the future. And many developing economies—Brazil, Chile, Ecuador, Korea, Taiwan, to name just a few—clearly regard national fleet development based on national cargo reservations as an integral part of their overall economic growth programs.

In light of this international environment, the effects of the lack of a strong, coherent and responsive U.S. maritime policy should hardly be surprising. The overall volume of U.S. exports and imports carried by U.S. flag shipping has continued to decline and is now less than five percent. Only one to two percent of dry bulk cargoes and three to four percent of imported oil cargoes are carried by U.S.-flag, U.S.-built vessels. Competition from foreign flag shipping has intensified as the recent focus on liner rebating has illustrated.

Soviet shipping has engaged in predatory rate cutting to permit the rapid expansion needed to complement the movement of the Soviet Navy toward supremacy on the seas. More recently, there has been evidence that Norwegian operators have engaged in similar practices to enable greater utilization of their cross-trading fleets. Meantime, several U.S. shipping lines have filed for or face bankruptcy. Shipowners have thus not been enthusiastic about ordering new vessels or replacing

¹ Schoedel, Alan F., et. al., "Shipbuilding: The World Picture in 1978," *The Journal of Commerce* (New York, NY: Twin Coast Newspaper Inc.; 1978), pp. 1-54.

² Heine, Irwin, M., "The United States Merchant Marine—A National Asset," *The National Maritime Council* (1976), pp. 122-137.

³ Maritime Administration, U.S. Department of Commerce, "Maritime Subsidies," (Washington, D.C.: U.S. Government Printing Office, December 1978).

old ones.⁴ In any event, existing vessels covered by operating differential subsidy (ODS) contracts will not be replaced in substantial numbers before the mid-1980's. Question exists as to whether or not such replacements will indeed occur without change in certain ODS conditions, considered to be onerous.

In total effect, the backlog of merchant shipbuilding contracts in U.S. shipyards, placed earlier in this decade, is rapidly diminishing, and the present unpromising outlook for new business will not support a stable workforce.⁵ More than 30 percent of the U.S. shipyard workforce now faces the prospect of unemployment, much of which will apply to minority workers in areas of chronic unemployment, over the next several years.⁶ Additionally, a lack of new orders and sharply shrinking profit margins will support neither proper facility maintenance nor investment in productivity improvements. The specter of idle facilities is inescapable.

In concert, these facts dramatize (1) in inefficacy of recent national maritime endeavors, and (2) the imperativeness of a comprehensive national maritime policy which will sustain sufficient shipping and shipyard resources under sovereign control to assure national security requirements with respect with respect to the seas.⁷ Equivocation as to national purpose must be ended.

For the purpose of developing a shipbuilding consensus with respect to suitable elements to be considered in organizing an effective national maritime policy, the Commercial Shipbuilding Committee of the Shipbuilders Council of America has marshalled industry personnel and resources over the past 12 months in the conduct of an in-depth analysis of historical, economic, foreign trade, regulatory, marketing and geopolitical patterns that bear on shipping demand and responsive construction of new ships.

This intensive effort has produced ten recommendations which, in the collective judgment of the Council's Board of Directors, merit priority attention if presently forecasted downward trends are to be promptly reversed. These recommendations—or market initiatives—center on opportunities for selective bilateral shipping agreements affecting bulk and also liner movements between the United States and other nations. They are intended to be compatible with the objectives of the Trade Act of 1974. They are designed to encourage flexibility in shipping operations to maximize capacity utilization and return on investment capital. They are predicated on the following realities.

The intent of the Congress, as declared precisely in various statutes, and frequently reaffirmed, has been circumvented, consciously or otherwise.

U.S. shipbuilders will thrive only to the extent that the U.S.-flag shipping fleet thrives, and U.S.-flag shipping operators will thrive only to the extent that U.S. national maritime policy is effective.

Ships should not be built purely for the sake of building ships. They should be put to productive and profitable use.

Shipbuilding policy cannot be rationally or realistically formulated in a vacuum without cognizance of other equally important national policy considerations. The shipbuilding problem clearly cannot be solved in isolation from all other national problems.

There has not been for some while, the degree of cohesion of purpose and coordination among and within agencies of the Federal Government which is basic to enunciation, enhancement and effectiveness of a shipbuilding industrial strategy in support of U.S. national interests.

Shipyards in one country are not competing with shipyards in another country. Governments are competing with governments to capture ship construction opportunities—wherever, whenever and at whatever price—to serve what is considered to be their own self-interest.

At least two major U.S.-flag shipping companies have already moved to take advantage of pricing manipulations in other shipbuilding nations.

⁴ Shipbuilders Council of America, "Merchant Vessels Building or on Order in Private Shipyards," January 1979 (Appendix B).

⁵ Shipbuilders Council of America, "Shipyard Workload Forecast," April 7, 1978 (Appendix C).

⁶ U.S. Department of Commerce "U.S. Ocean Policy in the 1970s: Status and Issues," (Washington, D.C.: U.S. Government Printing Office, October 1978) p. V-48.

⁷ "The loss of jobs in shipbuilding and allied industries and in other sectors of the economy could be substantial and would be concentrated in areas which already face serious employment difficulties. According to Department of Labor data, 16 of the Nation's 20 major shipyards are in areas which now have substantial unemployment.

"A major loss of jobs in the shipbuilding industry would also seriously affect the employment levels of minorities and women in shipbuilding. A large portion of the recent gains in this area would be lost because of the generally lower seniority of minorities and women in a 'last-in, first-out' labor environment."

⁷ U.S. Department of Commerce, Maritime Administration, "Report of U.S. Shipbuilding: Third Quarter 1978," October 1978. (Appendix D.)

It must be emphasized that the following ten recommendations are not all-inclusive. The viewpoints of Federal policy-makers, Congressional leaders, ship-owners/operators, shippers and the investment community need to be fully registered as well and appropriately recognized. It has, however, been evident that the principle of bilateralism or cargo sharing has considerable support, in and out of government, as an effective mechanism for stimulating a logical expansion of U.S. shipping resources, and, in turn, as a basis for sustaining an essential shipbuilding mobilization base.

These, then, are the Committee's primary recommendations endorsed by the Council's Board of Directors: (Supplementary recommendations are listed in Appendix A.)

1. Legislation to encourage and facilitate bilateral ocean cargo sharing agreements (Appendix F)

In furtherance to the preamble to this set of recommendations, it must be emphasized—and reemphasized—that improvement in the presently self-defeating posture of U.S. maritime affairs is most unlikely without decisive changes in some of the fundamental premises of U.S. foreign policy. Against the background of recent events in the Middle East, Professor Irving Kristol of New York University in *The Wall Street Journal* and *The Washington (DC) Star* (Jan. 18 and 21, 1979 respectively), has characterized the “utopian moral intentions” of the Wilsonian liberalism of the past 50 years as “decadent” and U.S. foreign policy today as “patently bankrupt.” This opinion is widely shared.

In Professor Kristol's words: “Our policy is not only bankrupt in the sense of our being unable to act, but bankrupt in the sense that we have obviously lost the ability even to think coherently about foreign policy . . . this earth will be a place where American ideals are respected only if the world also respects out interests—which it is not likely to do if we show no respect for our own interests.” As has been indicated, U.S. maritime interests suffer from both domestic and international disrespect, and the relevant policies of the past two decades have only been delusory.

Specifically as concerning U.S. maritime self-interests, it is deemed essential that the Congress adopt as an adjunct to the Merchant Marine Act of 1936, as amended by the Merchant Marine Act of 1970, an unequivocal statement of policy, purpose and direction which declares that:

(1) The United States will move sealifted cargoes of all types to and from the United States in such manner that a specified fair proportion of such cargoes will be carried upon vessels of U.S. registry built in the United States.

(2) The economic well-being and national security of the United States are vitally dependent upon maintenance of a modern, efficient U.S.-flag merchant fleet coupled with the maintenance of a modern and effective U.S. shipbuilding capability; and

(3) The Executive Departments and Agencies of the Federal Government will promptly negotiate with other nations bilateral cargo sharing agreements to effect movements of cargoes between trading partners—nations to be parties to these agreements—in accord with minimum cargo sharing as follows: (a) as to general cargoes (breakbulk, containerized or roll-on/roll-off)—40 percent to each trading partner and 20 percent to third parties; (b) as to dry bulk cargoes (grain, ores, solid fuels, lumber, chemically produced or natural fibers, and so on)—20 percent to each trading partner and 60 percent to third parties; and, (c) as to liquid bulk cargoes (crude or refined petroleum products, chemically manufactured products, or naturally occurring gases or liquids whether changes in state by heating or cooling)—10 percent to each trading partner and 80 percent to third parties. In the case of short haul of liquid bulk cargoes, sharing based on 20 percent to each trading partner and 60 percent to third parties would seem feasible.

As to implementation of these objectives, it is envisioned that:

(1) Responsibility for negotiation of such agreements should rest with the Department of State with the explicit assistance of the Maritime Administration and the ordained instruction that the results and status of such negotiations—treaties and/or agreements and compliance thereto—will be reported annually within 90 days following the beginning of each calendar year to the Congress.

(2) The Department of State, the Maritime Administration, the Federal Maritime Commission, and all other agencies and bureaus of the government should be specifically directed to augment their own efforts in these responsibilities by encouragement and assistance to individual U.S. companies and/or U.S. shipping conference members to make possible rational bilateral trading and cargo sharing arrangements between the commercial interests within trading partners. Implicitly, administrative waiver of established cargo carriage percentages would be permissi-

ble for limited periods of time only if third party carriage of such cargoes can be shown to be in the national interest by the President of the United States.

(3) Authorizing and implementing statutes should be reviewed from time to time to change and/or modify percentages of cargo shares as deemed appropriate.

These actions are imperative to the self-preservation of the United States in a world which is becoming more and more protectionist in terms of movements of trade through national law or by administrative policy. For too long, the United States has allowed its commerce movements to be monopolized by foreign interests who have been able to capitalize on out-dated free trade premises which influence U.S. policy and decision-making. These foreign interests have thereby been able to dump excess shipping into the U.S. market, to use shipping as a major source of hard currencies, and to exploit the U.S. market for shipping as a means of fostering their own national policies and ideologies.

Self-protection should become a frontpiece of U.S. foreign policy, and the shipping policy here recommended can be the basis of such a turn-around in direction and policy.

It also needs to be mentioned that to the degree that bilateralization as a policy is adopted by the U.S. Government, private investors will more favorably consider U.S. shipping projects, and vessels will be built in the United States for operation under the U.S. flag. Furthermore, a significant increase in cargo carriage by U.S.-built, U.S.-operated merchant vessels could substantially contribute toward reduction of the persistent balance of payments deficit. Bilateral arrangements are particularly desirable with principle trading partners, such as Japan and Korea, and would provide protection against interruption of oil supply as unilateral preferences are undertaken by Saudi Arabia, Nigeria, Algeria, Venezuela, and others. The United States would thereby achieve an essential degree of functional independence of maritime capacity.

2. Expand enforcement and broaden scope of present cargo preference law (Public Law 664)

Over the years, there have been various complaints from U.S.-flag vessel operators concerning the manner in which this long-standing statute is administered by agencies of the Federal Government. By this statute, "at least 50 percentum of the gross tonnage" of equipment, materials or commodities purchased by the public treasury are to be transported on privately-owned U.S.-flag, U.S.-built commercial vessels. Even so, there have been contrary interpretations by Executive Agencies and Departments to the effect that certain U.S. government-impelled cargoes are exempt from the provisions of Public Law 664. Legislative clarification to assure uniform application to all programs and transactions involving U.S. Government assistance and financing is overdue. It is not intended that the export promotion purposes of these programs would be compromised.

Because of the almost complete absence of viable opportunities for dry bulk movements in U.S. domestic trades, cargoes defined as "government-impelled" under Public Law 664 represent the only protected market for unsubsidized dry bulk carriers and the growing trend to circumvent enforcement of this law offers neither depth or stability. The recent transfer in funding for one of the largest U.S. foreign aid (Agency for International Development) grain programs from a commodity to cash grant basis seems to pave the way for further evasion of the 50 percent requirement.

More importantly, the present narrow interpretation of the intent of Public Law 664 excludes certain cargoes exported under Commodity Credit Corporation (CCC) credits. It is therefore proposed that legislation be enacted to create a 50 percent U.S.-flag shipping reservation for cargo exported under CCC short and intermediate term credits and any other similar bulk commercial export promotion program supported by government funding or guarantees. These actions would enable rebuilding of the U.S. dry bulk fleet to commence immediately, while continued orderly growth would spring from bilateral shipping agreements as described in recommendation No. 1 above. Furthermore, use of subsidized vessels built under an improved tax structure, as outlined in recommendation No. 4 below, should enhance the ability of U.S.-flag owners to compete with foreign-flag rates.

3. Restructure CDS and ODS for bulk vessels into single per diem subsidy including capital element

The Merchant Marine Act of 1970 was enacted with the hope that the construction and operation of liquid and dry bulk vessels under the U.S.-flag would be stimulated. Unfortunately, the intentions of the Congress have hardly been realized.

Under present law, a vessel constructed for domestic (Jones Act) trade, i.e. without Construction Differential Subsidy (CDS), Operating Differential Subsidy (ODS)

and Capital Construction Fund (CCF) assistance, is unable to enter U.S. foreign trade because it would obviously not be competitive with other U.S.-flag vessels built with U.S. government financial assistance, nor would it be competitive with low cost foreign competition. Conversely, U.S.-flag vessels built for the foreign trade which are recipients of the types of government assistance enumerated above cannot enter the U.S. domestic trade without approval of the Maritime Administration and then only for limited periods of time with the provision that CDS and ODS will be rebated to the U.S. government for the time the vessel is employed in the coastwise trade. In addition, the policy of the Maritime Administration has been to permit such domestic operation only under certain restrictive conditions.

This market fragmentation is presently inhibiting investment in U.S.-flag ships, particularly tankers. The age profile of the U.S. domestic product carrier fleet (average 27 years) and the potential effects of strict enforcement of the recently-passed Tanker Safety legislation suggest a need to replace tanker tonnage. On the other hand, there is substantial uncertainty concerning future demand for Jones Act vessels.

The possibility of energy policy initiatives which encourage replacement of U.S. Gulf/U.S. East Coast product movements with imports, the growing exploitation of the Virgin Islands Jones Act loophole to displace U.S.-flag, U.S.-built tonnage in Alaskan movements and other uncertainties about national policy concerning disposition of Alaskan crude all combine to cloud demand analysis. The ability to move into U.S. foreign tanker trades on subsidy if the present domestic market collapses would substantially alter the risk perception of investing in Jones Act replacement tonnage.

Legislation is proposed permitting qualified owners ordering new liquid or dry bulk vessels from U.S. shipyards to receive a subsidy commitment for the economic life of the vessel payable on a per diem basis for each day the vessel is engaged in non-domestic trades. Structured along the lines of the Russian grain subsidy, it would contain both a capital and an operating element. This new subsidy system would be available to newly-built bulk ships only. No changes would be made with respect to existing unsubsidized or subsidized vessels.

In the long term, this recommendation would have the desirable effect of integrating the movement of rates (although not completely the level of rates) in the domestic and foreign markets. This would tend to moderate the exaggerated disparity between Jones Act and foreign rates that has sometimes occurred. These disparities which merely reflect the proper functioning of supply and demand in discrete markets have been widely misused by critics of the U.S. maritime industry to support unfounded charges of inefficiency.

4. Reduce the minimum allowable asset depreciation range life of a U.S.-built ship from the present 14½ years to 7 years

The allowable tax life of a merchant vessel is the most glaring deficiency of the financial incentives package available to owners investing in U.S.-built tonnage when compared to laws and/or practices prevailing in other major free world maritime nations. Seven-year tax lives are common abroad, and in some nations even more favorable capital consumption allowances exist.* Analysis indicates that a reduction from 14½ years to 7 years in the Asset Depreciation Range life for U.S.-built vessels would nearly close the gap between total U.S.-flag costs and foreign-flag competition for U.S./foreign commerce without increasing direct subsidy levels.

In the broader context of national economic policy, the growing concern about deterioration of the capital base in the United States and the associated decline in productivity growth has begun to focus attention on the inadequacy of depreciation allowances in the U.S. tax structure. There appears to be considerable opinion to the effect that the tax depreciation approach to reversing this very serious trend is appropriate, and it is accordingly proposed that it be applied to investment in U.S. shipping as well. More prompt tax writeoffs will stimulate more rapid reinvestment and result in fleet expansion by operators.

5. Permit repatriation of subpart F shipping income for deposit into a capital construction fund without triggering tax liability

Subpart F of the Internal Revenue Code of 1954, as amended by the Tax Reduction Act of 1975, permits deferral of current taxation on foreign-flag shipping income by U.S.-owned foreign corporations to the extent that these earnings are reinvested in qualified shipping assets, including construction of vessels abroad.†

* Ibid., Reference 2 (Appendix E).

† Ibid., Reference 5, p. V-47.

Similarly, Section 607 of the Merchant Marine Act of 1936, as amended by the Merchant Marine Act of 1970, permits deposits of earnings from U.S.-owned, U.S.-flag vessels into a tax deferred Capital Construction Fund (CCF) for future construction of ships by U.S. shipbuilders.

It is proposed that repatriation of Subpart F shipping income for deposit into a CCF be permitted without incurring tax liability (1) to create a source of equity capital for investment in the U.S. maritime industry, and (2) to encourage a flow of capital from U.S.-controlled foreign-flag shipping operations into U.S. newbuilding projects.

With these added inducements, it is further anticipated that there would be a significant surge of interest on the part of private investors to build bulk vessels for both foreign and domestic commerce.

6. Expand definition of term "qualified vessel" to permit tax deferred funds held in capital construction funds to be used for construction of U.S.-flag vessels to be operated in U.S. domestic trades

Under existing law, tax deferred funds contained in a Capital Construction Fund (CCF) can be used for construction of U.S.-flag vessels to be employed in the foreign, Great Lakes and noncontiguous domestic trades of the United States. The purpose of this recommendation is to permit the use of CCF for construction of vessels in all U.S. domestic trades.

A cumulative balance of approximately \$650 million in currently approved Capital Construction Funds could be used toward the construction of new or replacement vessels to meet whatever demand for domestic waterborne service which may develop over the next two decades. For inland waterway operators, problems involved in attracting equity capital and retaining earnings for fleet expansion and vessel replacements would be substantially alleviated.

This proposal is compatible with the concept of a per diem subsidy, as set forth in recommendation No. 3, and would accelerate replacement of the aging U.S. domestic fleet.

7. Repeal sections 804 and 805 of the Merchant Marine Act of 1936 so that U.S.-flag subsidized operators may own and operate nonsubsidized U.S.-flag and foreign-flag vessels in the bulk trades of the United States

Section 804 of the Merchant Marine Act of 1936 is designed to prevent U.S.-flag subsidized liner companies from employing foreign-flag tonnage on essential trade routes and thereby creating an unfair competitive situation for other U.S.-flag vessels operating on the same trade routes. Similarly, Section 805 of the Merchant Marine Act of 1936 prohibits a subsidized operator from employing U.S.-flag tonnage, built with CDS assistance, on domestic trade routes to obviate unfair competition with U.S. companies engaged solely in the domestic trade without subsidy. Under present law, waivers of these restrictions are permissible and have been granted by the Maritime Administration in certain circumstances.

Nevertheless, these provisions of law inhibit any expansion of the woefully inadequate U.S.-flag bulk carrier fleet. Sections 804 and 805 should therefore be repealed so that the U.S.-flag subsidized operators may own and operate non-subsidized U.S.-flag and foreign-flag vessels in the bulk trades of the United States. This added flexibility could well stimulate bulk carrier construction in U.S. shipyards for U.S. companies owning and operating foreign-flag bulkers which might also want to engage in U.S.-flag operations.

From analysis, it is clear that major U.S. interests with operational experience and financial strength to participate in a meaningful rebuilding of the American bulk shipping fleet are, for the most part, precluded from U.S.-flag operations by virtue of owning foreign registered vessels. This body of knowledge obviously needs to be transmitted to U.S. application and should not be barred by law.

8. Amend section 905(a) of the Merchant Marine Act of 1936 to authorize liquid and dry bulk ODS vessels unlimited worldwide trading with no abatement of subsidy

Present law requires that subsidized vessels operate in U.S. foreign trade during a certain percentage of time annually to qualify for ODS. Elimination of this requirement for bulk carriers would give U.S.-flag operators additional flexibility to be competitive on the world scene.

Footnotes continued from last page

"Since the Subpart F shipping income exclusion still provides a significant tax benefit to foreign-flag shipping (Treasury estimates place the tax revenue loss at between \$90 million and \$140 million per year), it has been argued that it encourages foreign registry and is therefore contrary to U.S. maritime policy. This issue will, no doubt, continue to be raised in conjunction with future deliberations relating to both U.S. maritime policy and U.S. tax policy.

9. Allow foreign sale of CDS-built vessels after 10 years of U.S. operation on condition proceeds are placed in capital construction fund to construct replacement vessels in U.S. within specified period

Present law requires retention of subsidized vessels under U.S.-flag for 25 years. Permitting foreign sale of subsidized vessels after ten years would give operators flexibility to replace economically or technologically obsolete vessels and thereby stimulate shipbuilding in the United States.

10. Vessels constructed for the account of the U.S. Government should be required to be built in the United States

Ships built with public funds under the provisions of the Merchant Marine Act of 1936, as amended by the Merchant Marine Act of 1970, must be constructed in U.S. shipyards. By a standing general provision affecting the yearly budget appropriations for the Department of Defense, construction of U.S. Navy vessels in foreign shipyards with public funds is prohibited. In addition, the Jones Act prohibits the commercial operation of foreign-built vessels in U.S. domestic waters.

The combined rationale of these policies is fundamentally to maintain an adequate shipbuilding and support industrial base to serve U.S. national interests. The U.S. Coast Guard, a branch of the Nation's armed services, is not similarly restrained. Its funding legislation does not contain prohibition against the expenditure of public funds in foreign shipyards. In the recent past, foreign yards have been active in soliciting construction of Coast Guard cutters and icebreakers. Considering the depressed state of the shipbuilding industry in this country and the acute balance of payments problem, there is no justification for expenditure of Federal funds for construction of government-owned vessels in foreign yards, and it is recommended that legislation be enacted to treat all vessel procurements with public monies uniformly: by prohibiting construction abroad.

CONCLUSION

The overriding consideration of the Council's Commercial Shipbuilding Committee has been to advance recommendations which are realistic of attainment, can be promptly implemented with a minimum of statutory revision, will not necessarily require massive outlays of Federal funds, and will enhance opportunities to lower U.S. shipbuilding costs.

They do, however, constitute an integrated, symmetrical package: the suggested elements are mutually supportive. Prompt correction of influences that bear on the present adverse state of U.S. maritime affairs is envisioned. An eventual, orderly rebuilding of a balanced U.S.-flag merchant fleet by U.S. shipbuilders is contemplated. It has, however, become increasingly apparent to the Council's Commercial Shipbuilding Committee during the course of the past 12 months of study that the market, financial and operational problems facing U.S. ship owner/operators must be addressed in concert for a significant newbuilding program to ensue.

These recommendations are likewise not intended to diminish the continuing importance of certain existing policies and programs such as (1) provisions of the Merchant Marine Act of 1920 (the Jones Act) which require operation of U.S.-flag, U.S.-built vessels in U.S. domestic, coastal, intercoastal and noncontiguous trades, and (2) Title XI of the Merchant Marine Act of 1936, as amended, which pertains to the availability of Federal ships mortgage guarantees as a financing incentive for ship construction in the United States.

Nor are these recommendations for change intended to be all-inclusive, as stated earlier. Other segments of the U.S. merchant marine, labor and management, will undoubtedly have separate ideas and perhaps differing thoughts to offer. Liner operators, for example, have already urged action on measures to counter malpractices, to foster fair competition, to achieve parity of regulation and to encourage intermodal rate-making. These and others which are designed to introduce stability and growth in U.S.-flag shipping will have the endorsement and support of the Shipbuilders Council of America.

It is clear that the correlative roles of U.S. ship construction and operation in the U.S. economic and security structure are at best poorly understood and at worst purposely misconstrued. With the view of providing unbiased enlightenment, the Council has also engaged Data Resources, Inc. to develop a set of econometric tools to quantify, in a consistent way, the costs and benefits to the economy of various policy options for increasing the share of U.S. international commerce transported by ships built and registered in the United States. Harbridge House, Inc. has been commissioned to define the facility and manpower dimensions of a required shipbuilding mobilization base under varying market circumstances and war scenarios. Temple, Barker and Sloane, Inc. has been retained to provide needed trade move-

ment and ship demand information, and the Center for Strategic and International Studies at Georgetown University has undertaken to compile a compact history of U.S. shipping and shipbuilding with particular emphasis on political and economic occurrences which have influenced decision-making since early Colonial days. In each instance, detailed reports will soon be completed.

APPENDIX A.—SUPPLEMENTARY RECOMMENDATIONS

The Council's Commerical Shipbuilding Committee has prepared a supplementary set of recommendations which has also been submitted to the Board of Directors for consideration. These additional recommendations are purposed to stimulate appropriate Council positions on any relevant legislation which may come before the Congress and have these objectives:

Extension of Section 27, Merchant Marine Act of 1920 (the Jones Act) to the Virgin Islands.

Application of the Buy American principle for "articles, materials and supplies" required in the U.S. construction of vessels for operation in Jones Act trades.

U.S. documentation of foreign-built vessels for operation on essential U.S. foreign trade routes in only severely limited circumstances: if U.S.-flag, U.S.-built vessel is not available, and then only if concomitant commitment is made to place a definite and precise contract with a U.S. shipbuilder within two years.

Revision of vessel trade-in procedures and allowances under Section 510 of the Merchant Marine Act of 1936, as amended, to improve economics of, and opportunities for, new construction in U.S. shipyards.

Amendment to the Outer Continental Shelf Lands Act to require U.S. construction of vessels, rigs, platforms, or other vehicles or structures, used in the exploration, development or production of oil, gas and/or mining resources on the Outer Continental Shelf.

Possibility of bilateral market sharing agreements with Canada, excluding third-flag participation, predicated on flexible per diem subsidy (see recommendation No. 3 in main text).

Creation of a modest tax credit to users of U.S.-flag, U.S.-built shipping in foreign commerce.

Funding of CDS in excess of 50 percent statutory ceiling as national defense features for vessels with sound commercial application which DOD considers essential for national security.

Elimination of the requirement under Section 1104 of the Merchant Marine Act of 1936, as amended, for interim financing during the construction period.

Prohibition of foreign-flag "shuttle" tanker operations in domestic waters through amendment to Jones Act or immigration laws.

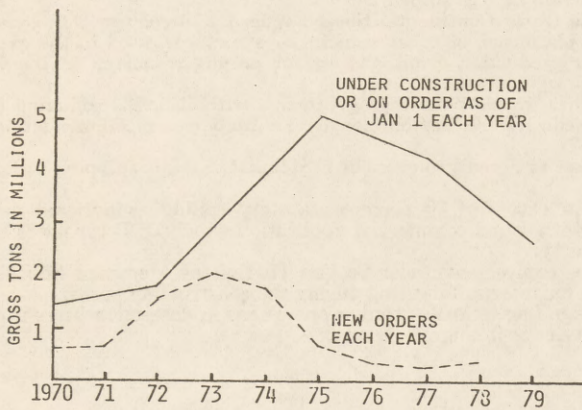
[Charts follow:]

APPENDIX B
U.S. SHIPYARD ORDERS

Merchant Vessels Over 1000 Gross Tons
Backlog Under Construction or on Order
(January 1)

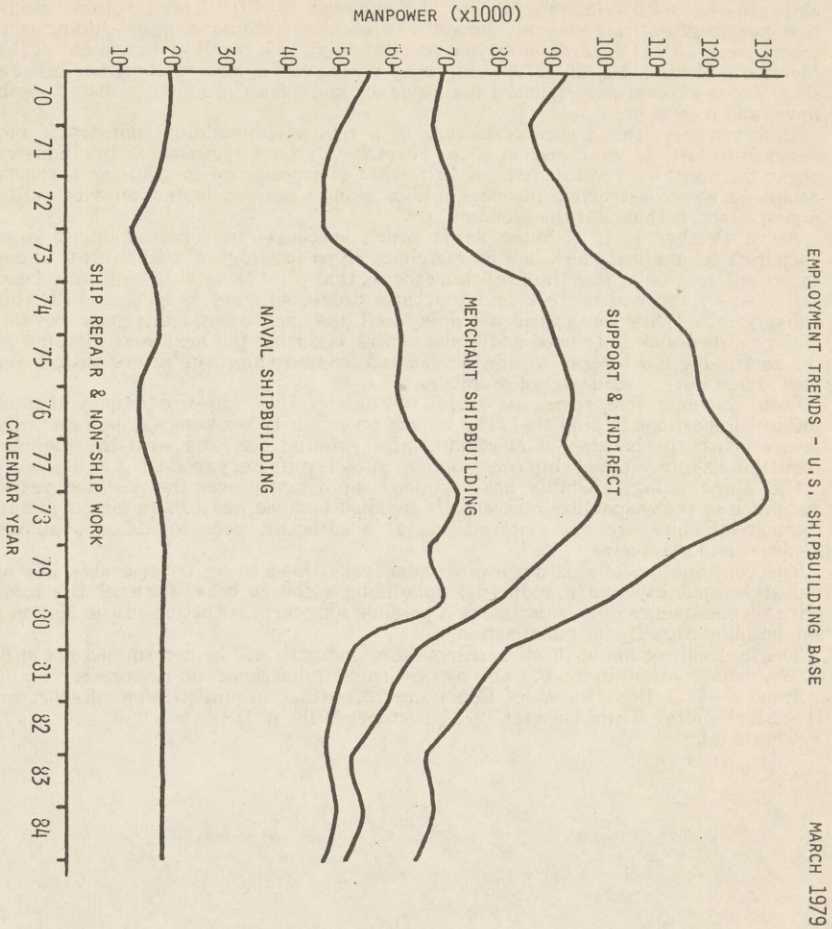
Merchant Vessels Over 1000 Gross Tons
Ordered by Calendar Year

Year	No. of Ships	Gross Tons	No. of Ships	Gross Tons
1979	70	2,635,000	--	--
1978	60	3,467,000	30	399,000
1977	72	4,238,000	13	266,000
1976	79	4,647,000	16	339,000
1975	96	5,053,000	14	635,000
1974	97	4,005,000	25	1,766,000
1973	88	2,879,000	43	2,013,000
1972	59	1,819,000	48	1,551,000
1971	49	1,609,000	24	617,000
1970	49	1,399,000	13	580,000



SOURCE: SHIPBUILDERS COUNCIL OF AMERICA

APPENDIX C



APPENDIX D.—OVERVIEW OF TOTAL U.S. SHIPBUILDING INDUSTRY

Notwithstanding a slight decline compared with this time last year, production and employment levels with regard to ship construction in major private U.S. shipyards were still relatively high as of September 30, 1978. This favorable condition has resulted from several factors: a substantial volume of new building contracts placed with U.S. yards in earlier years mainly as a result of enactment of the Merchant Marine Act of 1970, continuing contracts for the construction of new ships for the Navy, and essential maintenance and repair of existing vessels, both naval and merchant.

Unfortunately, this favorable picture of a robust shipbuilding industry is not destined to last. An examination of the current orderbook reveals that the industry began during the second quarter of 1978 what is expected to continue as a steady decline in new construction business, and is facing a serious depression with multiplying effects throughout the economy.

As of October 1, 1978, those yards which specialize in construction of large deepdraft commercial ships had 52 merchant ships totaling 3.6 million dwt. under construction or on order. The disturbing fact is that 37 of these ships will have been delivered by the end of 1979 and that new orders will not keep pace with this delivery rate. While some yards are doing well, the overall outlook is grim. Several major yards desperately need additional contracts during the next year. Because of the continuing low level of worldwide demand for new ships, the future outlook for new orders in U.S. yards is not promising.

Over the next five years, an overall decline in U.S. shipyard employment of serious proportions is predicted. The impact on minority workers will be especially severe. With the backlog of merchant ships running out, and with the planned reduction in future naval ship construction, mass layoffs are expected.

U.S. shipbuilding capability has expanded significantly over the past ten years, but much of that capability may shortly be idled because new orders for naval and commercial ships are not materializing at a sufficient pace to utilize available facilities and manpower.

The continuation of this downward trend could lead to an irretrievable loss of industry capability and a reduced shipbuilding resource base. Perhaps the most critical consequence of this decline is a possible long-term reduction in the Nation's shipbuilding capacity for mobilization.

The future direction of the U.S. shipbuilding industry will be determined not only by the usual market forces, but also by Governmental actions and responses.

SOURCE.—U.S. Department of Commerce, Maritime Administration "Report on U.S. Shipbuilding: Third Quarter 1978," (October 1978). p. 1-2

[Charts follow.]

APPENDIX E

VESSEL DEPRECIATION LAWS IN SELECTED FOREIGN COUNTRIESBELGIUM (8 years)

First Year	20%
Next two years each	15%
Each succeeding year	10%

CANADA (3 years)

First user of a Canadian built ship is allowed depreciation at 33-1/3% per annum. All other ships are eligible for depreciation at 15% per annum on a diminishing balance basis.

DENMARK (Advance Depreciation)

May start depreciation at signing of contract and take up to 30% advance depreciation before vessel is delivered.

FRANCE (8 years)

First three years	50%
Next two years	25%
Next three years	25%

IRELAND (1 year)

100% of the cost of the ship may be written off in the first year.

JAPAN

20% in first year, straight line or declining balance methods thereafter.

LIBERIA

Payment of income taxes is not required, therefore depreciation as a deductible expense is irrelevant.

PANAMA

Payment of income taxes is not required, therefore depreciation as a deductible expense is irrelevant.

SWEDEN (3-5 years)

30% per year including 30% advance depreciation prior to delivery.

Source: U.S. Maritime Administration, "Maritime Subsidies," December 1978.

APPENDIX F

Example of How Bilateralism Would Function
in a Specific Trade Context

Trade: Crude oil and petroleum products from Mexico to the United States.

Background: Oil production in Mexico is expanding rapidly with announced target exports by 1982 of 1.1 million barrels per day. In the absence of a complete breakdown in U.S. foreign policy, 65 percent of these exports could reasonably be expected to reach the United States. Mexico's exportable surplus could easily exceed 2.5 million barrels per day by the mid-1980's. Mexico has also announced intention to export refined products as well as crude, and will shortly be in a position to move either crude or product from both the East and West Coasts of Mexico. The Mexican tanker fleet is small and fully committed, and it is reasonable to expect that the nationalized oil structure will wish to expand the Mexican-flag carriage of expanding exports, either through government action or encouragement of private interests.

Suitability of Bilateral Maritime Approach

1. Both countries have a mutual national interest in expanding fleets for foreign commerce.
2. Centralized decision-making in Mexico should facilitate implementation on that end.
3. Proposed tax rules revisions (see recommendation No. 4) should permit U.S. vessels to compete at, or very close to, long-term world market rates for tonnage in the class suitable for Mexico/U.S. trading. The fact that Mexican crewing is more expensive than typical flags of convenience crewing may, from the Mexican point of view, justify slight premium rates in the bilateral shares of the trade.
4. The envisioned bilateral agreement should be targeted at the growth in the trade in which event no existing third-flag tonnage would be displaced.

Ancillary Benefits

1. Vessels suitable for the Mexico/U.S. trade would primarily be handy-size product tankers, capable also of carrying crude. This is the most valuable type of tanker tonnage from a defense viewpoint.

2. Such vessels, built to the new Tanker Safety Act standards, are likewise ideal for service in the U.S. domestic coastal market. The proposed revised method for providing both capital and operating subsidy on a per diem basis (see recommendation No. 3) would allow vessels in this and other short haul subsidized tanker trades to forego subsidy and move quickly to supplement the base domestic fleet in times of market strain or strategic crisis (such as a call-out of the Strategic Petroleum Reserve).

Demand Created By Bilateral Agreement

Assumptions: (1) Mexican exports to the United States (derived from recent staff report of Senate Committee on Energy and Natural Resources): 715,000 barrels per day in 1982 and 1,625,000 barrels per day in 1985; (2) Transportation share to each trading partner under bilateral target proposal (see recommendation No. 1): 20 percent; and (3) Destination distribution: 50 percent to U.S. Gulf Coast, 25 percent to U.S. East Coast and 25 percent to U.S. West Coast.

Under these assumptions, tanker tonnage demand would equate to 205,000 dwt (about 4-6 ships) in 1982 and 470,000 dwt (about 10-12 ships) in 1985.

Summary: Many U.S./foreign trades with characteristics similar to the Mexico/U.S. petroleum trade can be readily identified. These potentials are especially fertile among U.S. developing trading partners where trade is growing, the trading partner is moving to develop its own merchant marine, and vessels to be constructed are of high defense value. Detailed trade analyses (performed by Temple, Barker and Sloane, Inc.) indicate that conforming the initial bilateral thrust to situations selected with such parameters in mind should provide timely opportunity for a satisfactory beginning to a reversal of the Nation's presently moribund shipping and shipbuilding policies.

STATEMENT OF TALMAGE E. SIMPKINS, EXECUTIVE DIRECTOR, THE AFL-CIO
MARITIME COMMITTEE

The AFL-CIO Maritime Committee appreciates the opportunity to submit the following statement in support of S. 640, the Maritime authorization request for fiscal year 1980.

Provision for \$101,000,000 for ship construction over the next fiscal year represents a sharp drop over prior years and even with a carry-over of \$23,000,000 will allow for the construction of not more than four ships in fiscal 1980. This is a far cry from the thirty ships per year envisaged in the 1970 Act and reflects the depressed state of the industry.

The operating-differential subsidy request of \$256,208,000 with a projected carry-over of \$50,506,000 for a total of \$306,714,000 is about \$30 million less than the request for 1979. It is our understanding that this is the result of the removal of twelve ships from service in 1979, ten of which relate to the financial difficulties of Pacific Far East Lines and States Steamship Company.

We support these and other requests for federal funds to assist the American merchant marine as necessary to carry on existing programs. It should be noted, however, that these programs by themselves have only been able to keep our merchant fleet tenth in the world. It is quite obvious to us that at current levels of support, the future of the American merchant marine looks very bleak.

We note with great interest the recent testimony of the Department of Defense before the House Merchant Marine and Fisheries Committee, which seemed to say that they do not know what is needed in terms of U.S. shipbuilding capability. This, in conjunction with a warning bell sounded earlier that the current U.S. flag fleet is inadequate for defense purposes and that even in a limited engagement it would only be adequate in the initial phase of operations, should create a real concern in every citizen.

The appropriation requests in question merely reflect the current state of the development of the American flag merchant marine. Without these funds we would lack even the rather limited capability that we now possess.

We are the only maritime nation in the world today that continues to function under the traditional concept of "commercial freedom of the seas." Most maritime nations reserve cargoes in one form or another to sustain their merchant marines to include such tools as bilateral agreements, equal access agreements and cargo preference. They also provide direct and indirect economic assistance. Recently, your Committee noted the level of aid granted to various national flag merchant fleets per capita as follows:

"The United States repeatedly gives 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 \$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."

Our latest efforts to reserve cargoes failed in the Congress. We find it quite interesting to recall the debate over the cost implications per gallon on gasoline which ranged between .2 cent and 2 cents per gallon depending upon who did the calculation and the method of calculation. Since then, prices at the pump have risen about 16 cents per gallon and the oil companies are pushing hard to achieve decontrol. We now hear prophecies of \$1.00 per gallon without the creation of a single job or any contribution to the national economy or security. Such a move will further add to the fuel of inflation.

We bring this point up to support our position that cargo availability is the key to any merchant marine program or policies. Public policy calls for 50 percent of our foreign waterborne trade to move in U.S. flag ships. Yet in the liner trade we have traditionally moved between 20 to 30 percent and in the bulk trades less than three percent. At today's costs, capital will not be freely invested in new bottoms without cargo availability over the 20-year life of a new ship. A number of supertankers were built on the assumption that cargo preference legislation would be enacted. In today's depressed world market, there is little business available for those ships and a number have sought entry into the Alaskan trade. For the time being, the Alaskan oil movement and the strategic storage program are keeping our aging tanker fleet fully employed. But the ultimate construction of a pipeline for Alaskan oil will reduce tanker demand as will the fulfillment of the strategic storage program.

Future building without a realistic cargo program will only result in a limited replacement program of high technology ships to replace break bulk freighters and

first generation container ships. If the current trend continues our liner fleet will continue to shrink in size and job opportunity, while general purpose ships could well become a thing of the past. Existing bulk tonnage will be pushed far beyond the anticipated operating life and eventually phased out unless we develop a realistic cargo policy.

A decade ago (1968) Marad reported 54,150 seagoing berths as compared with about 20,000 berths today. A few illustrations should suffice to show why this has happened. In 1968, U.S. flag ships carried 25 million long tons of cargo or 6 percent of out oceanborne foreign trade whereas in 1977 we carried 34.8 million long tons or 4.5 percent of our trade. Larger, faster ships with new technology (the container of LASH system) have reduced manpower requirements per ton of cargo carried. For example, a supertanker in the 250,000 dwt range with a crew of 30 compared with a T-2 tanker of 16,000 dwt or jumboized T-2 of 22,000 dwt with a crew of 40 represents an enormous increase in productivity. Similarly, the fast new container ships with a crew of about 37, depending upon size, can replace 5 to 10 C-2 type ships, each having crews of about 47.

The operator who is able to generate full shiploads of cargo does not worry about labor costs; whereas the operator who is unable to generate adequate cargo must lay up his ships irrespective of labor costs. We estimate that a modern tanker under U.S. flag can operate over a 350-day year at a labor cost of about \$1,750,000 per year. A container ship would be about \$2 million per year. We would point out that the fuel costs, capital costs and interest and certain other costs exceed that of labor and have changed the economics of the business. On an LNG at \$150 million cost, labor costs become insignificant.

Seamen's wages since 1968 have increased at a lesser percentage than those in the other modes of transportation.

Twenty-five years ago seamen's wages represented approximately 30 percent of the steamship's total operating expense. This is compared with the labor cost of approximately 45 percent in the aviation industry, 65 percent in the railroad industry and 43 percent in the trucking industry.

Today seamen's wages represent less than 20 percent of the total operating expenses. The approximate labor cost in the railroad industry is 51 percent; airlines, 41 percent; and motor carriers, 50 percent.

In summary, we believe the subsidy program has worked reasonably well. As we have pointed out, U.S. flag carriage has dropped from 6 percent to 4.5 percent; however, in the liner trades where most of the subsidized carriers operate, U.S. flag carriage has increased from 11 million tons (or 24 percent) to 14.4 million tons (30 percent) of the trade. We believe this demonstrates the need in value of the subsidy program.

From the seaman's viewpoint the picture is quite different. We have lost ground. We have seen an absolute rise in total trade and liner cargo carried but have wound up with fewer ships and fewer jobs for seamen.

We in maritime labor have continued to measure our successes in terms of how little we lost rather than how much we progressed. That is how we again characterize this year's budget request.

STATEMENT OF ROBERT L. LEGGETT, PRESIDENT, JOINT MARITIME CONGRESS

Mr. Chairman and members of the subcommittee, I appreciate the invitation to talk to you with my colleagues from industry respecting the future of the U.S. Merchant Marine and particularly the 1980 budget.

President Carter has said that we should improve all laws and expand our cargoes—Let's help him.

I would hope that the review of the U.S. Merchant Marine posture by this important Senate Committee would not be limited to the rather austere numbers that appear in the President's authorization budget. I am not suggesting a dramatic expenditure escalation at this time. I am suggesting, however, that we fully review, perhaps after the authorization bill is enacted, some of the important deficiencies in our current Maritime Administration programs.

We all know what we said we were going to do in the 1936 and 1970 Acts about carriage of goods in peace and war. We can't do it! The United States Merchant Marine might be good for six months in any major confrontation. We rely on flags of convenience, European ships and even Russian ships for 95 percent of our daily commerce at sea. To think that a miracle will occur when the "balloon goes up" is wishful thinking.

The problem is that as Secretary of Defense, Harold Brown, says "we must provide a proper balance between the short range encounter and the long range encounter and frankly we give our priority to the short range"!

Unfortunately in Maritime Affairs as will be apparent from the statistics that follow, we give our priority to neither. Assistant Navy Secretary Woolsey, whom I respect, has indicated that the pressures are so great in his department for naval shipyards, navy ships, navy planes, bases and other logistics and personnel questions that he is simply not equipped to prognosticate massive movements of cargo and logistics support to remote earth locations on short notice.

If the Navy can not envision these charades and other committees don't have jurisdiction in this subject area, then this committee has a formidable mission.

I testified on the 1970 Act; it was intended to make an impact on the Macro percentage figures respecting U.S. Cargo participation. It has not, as is evidenced by the following three charts:

OUR CURRENT ACTIVE FLEET AS OF FEBRUARY 1, 1979 CONSISTS OF
THE FOLLOWING:

U.S. OCEANGOING MERCHANT MARINE						
	<u>PRIVATELY OWNED</u>		<u>GOVERNMENT OWNED</u>		<u>TOTAL</u>	
	DEADWEIGHT		DEADWEIGHT		DEADWEIGHT	
	TONS		TONS		TONS	
	SHIPS	(000)	SHIPS	(000)	SHIPS	(000)
ACTIVE FLEET:						
COMBO PASS/CARGO	4	37	5	38	9	75
FREIGHTERS	115	1,593	19	215	134	1,807
BULK CARRIERS	15	484	0	0	15	484
TANKERS	258	12,624	2	21	260	12,644
INTERMODAL	127	2,550	0	0	127	2,550
TUG/BARGE	8	242	0	0	8	242
LNG	<u>7</u>	<u>469</u>	<u>0</u>	<u>0</u>	<u>7</u>	<u>469</u>
TOTAL ACTIVE FLEET	534	17,999	26	273	560	18,272

THESE NUMBERS COMPARE TO 1960 AS FOLLOWS:

U.S. OCEANGOING MERCHANT MARINE
DECEMBER 31, 1960

	PRIVATELY OWNED		GOVERNMENT OWNED		TOTAL	
	DEADWEIGHT		DEADWEIGHT		DEADWEIGHT	
	TONS		TONS		TONS	
	SHIPS	(000)	SHIPS	(000)	SHIPS	(000)
ACTIVE FLEET:						
COMBO PASS/CARGO	930	228	2	13	32	281
FREIGHTERS	539	5,851	32	309	571	6,160
BULK CARRIERS	51	742	0	0	51	742
TANKERS	293	6,085	0	0	293	6,085
INTERMODAL	<u>10</u>	<u>77</u>	<u>0</u>	<u>0</u>	<u>10</u>	<u>77</u>
TOTAL ACTIVE FLEET	923	13,023	34	322	957	13,345

THESE TWO CHARTS POINT TO A CHANGE BOTH IN THE NUMBER AND IN THE COMPOSITION OF THE U.S. FLEET FROM 1960 TO 1979.¹ WHEREAS IN 1960 THE U.S. FLEET HAD CONSIDERABLY MORE SHIPS, TODAY'S FLEET HAS CONSIDERABLY MORE DEADWEIGHT TONNAGE. AND WHILE FREIGHTERS MADE UP 60% OF THE 765 SHIPS IN THE ACTIVE FLEET IN 1960, THEY MAKE UP ONLY 24% OF THE 560 SHIPS IN THE 1979 ACTIVE FLEET. CONVERSELY, TANKERS REPRESENTED 31% OF THE 1960 FLEET, WHILE THEY REPRESENT 46% OF TODAY'S FLEET. UNFORTUNATELY, TODAY 72% (186 SHIPS) OF OUR TANKERS AND 34% (45 SHIPS) OF OUR

¹WHEN INACTIVE VESSELS ARE ADDED TO THE 1979 FLEET, THE TOTAL REACHES 880, HOWEVER, THE BULK OF THE INACTIVE SHIPS ARE CANDIDATES FOR THE STEEL SCRAP YARD.

FREIGHTERS ARE INVOLVED IN OUR JONES ACT COASTAL TRADE. IN ADDITION, 71 SHIPS ARE PRIMARILY EMPLOYED IN U.S. AGENCY OPERATIONS (MSC OR PL 480 BREAK BULK CHARTER). THAT LEAVES US WITH APPROXIMATELY 255 SHIPS THAT ARE ELIGIBLE FOR PARTICIPATION IN OCEAN-GOING, INTERNATIONAL COMMERCE. OF THOSE SHIPS WE KNOW THAT 180 (INCLUDING 9 GOVERNMENT OWNED) ARE SUBSIDIZED UNDER THE ODS PROGRAM INCLUDING SEVEN LINER COMPANIES AND 11 BULKER COMPANIES. THE BALANCE OF 75 SHIPS THEN IS LARGELY IN THE HANDS OF TWO LARGE COMPANIES THAT OPERATE ON SPECIAL HIGH TRAFFIC ROUTES WITH LARGE PORTAL INVESTMENT.

THE NEXT TABLE SHOWS BOTH THE SUBSIDIZED AND THE UNSUBSIDIZED LINER AND BULKER COMPANIES. FROM THIS LIST WE CAN SEE THAT OUR UNSUBSIDIZED LINERS OPERATE CONTAINERSHIPS FOR THE MOST PART.

THE COMPANIES AND THEIR SHIPS FOLLOW:

SUBSIDIZED LINERS

AMERICAN PRESIDENT LINES

<u>SHIP</u>	<u>TYPE</u>
EISENHOWER	CONTAINER
HARRISON	CONTAINER
JEFFERSON	CONTAINER
KENNEDY	CONTAINER
MADISON	CONTAINER
MCKINLEY	CONTAINER
MONROE	CONTAINER
PIERCE	CONTAINER
POLK	CONTAINER
ROOSEVELT	CONTAINER
TAFT	CONTAINER
TRUMAN	CONTAINER
FILLMORE	CONTAINER
JOHNSON	CONTAINER

SUBSIDIZED LINERSAMERICAN PRESIDENT LINES CONTINUED

<u>SHIP</u>	<u>TYPE</u>
VAN BUREN	CONTAINER
ADAMS	PARTIAL CONTAINER
CLEVELAND	PARTIAL CONTAINER
JACKSON	PARTIAL CONTAINER
LINCOLN	PARTIAL CONTAINER
TAYLOR	PARTIAL CONTAINER
TYLER	PARTIAL CONTAINER
WILSON	PARTIAL CONTAINER

DELTA STEAMSHIP LINES

DEL ORO	FREIGHTER
DEL RIO	FREIGHTER
DEL SOL	FREIGHTER
DELTA ARGENTINA	FREIGHTER
DELTA BOLIVIA	FREIGHTER
DELTA BRAZIL	FREIGHTER
COLOMBIA	FREIGHTER
MEXICO	FREIGHTER
PANAMA	FREIGHTER
PARAGUAY	FREIGHTER
PERU	FREIGHTER
URUGUAY	FREIGHTER
VENEZUELA	FREIGHTER
CARIBE	FREIGHTER
MAR	CONTAINER BARGE
NORTE	CONTAINER BARGE
SUD	CONTAINER BARGE
SANTA MAGDALENA	PARTIAL CONTAINER
SANTA MARIA	PARTIAL CONTAINER
SANTA MARIANA	PARTIAL CONTAINER
SANTA MERCEDES	PARTIAL CONTAINER
DELTA AFRICA	FREIGHTER
DELTA AMERICA	FREIGHTER
DELTA EQUADOR	FREIGHTER

FARRELL LINES

<u>SHIP</u>	<u>TYPE</u>
AFRICAN COMET	FREIGHTER
AFRICAN DAWN	FREIGHTER
AFRICAN MERCURY	FREIGHTER
AFRICAN METEOR	FREIGHTER
AUSTRAL PATRIOT	FREIGHTER
AFRICAN NEPTUNE	FREIGHTER
AFRICAN SUN	FREIGHTER

FARRELL LINES CONTINUED

SHIP	TYPE
AUSTRAL PATRIOT	FREIGHTER
AUSTRAL PILGRIM	FREIGHTER
AUSTRAL PILOT	FREIGHTER
AUSTRAL ENDURANCE	CONTAINER
AUSTRAL ENSIGN	CONTAINER
AUSTRAL ENTENTE	CONTAINER
AUSTRAL ENVOY	CONTAINER
C.V. LIGHTNING	CONTAINER
C.V. STAG	CONTAINER
EXPORT FREEDOM	CONTAINER
EXPORT LEADER	CONTAINER
EXPORT PATRIOT	CONTAINER
AUSTRAL RAINBOW	CONTAINER
DEFIANCE	CONTAINER
GREAT REPUBLIC	CONTAINER
RED JACKET	CONTAINER
YOUNG AMERICA	CONTAINER
EXPORT ADVENTURER	PARTIAL CONTAINER
EXPORT AGENT	PARTIAL CONTAINER
EXPORT AIDE	PARTIAL CONTAINER
EXPORT AMBASSADOR	PARTIAL CONTAINER
EXPORT BANNER	PARTIAL CONTAINER
EXPORT BAY	PARTIAL CONTAINER
EXPORT BUILDER	PARTIAL CONTAINER
EXPORT BUYER	PARTIAL CONTAINER
EXPORT CHALLENGER	PARTIAL CONTAINER
EXPORT CHAMPION	PARTIAL CONTAINER
EXPORT COMMERCE	PARTIAL CONTAINER
EXPORT COURIER	PARTIAL CONTAINER
AUSTRAL LIGHTNING	CONTAINER
AUSTRAL MOON	CONTAINER

LYKES BROTHERS STEAMSHIP COMPANY

SHIP	TYPE
ADABELLE	FREIGHTER
AIMEE	FREIGHTER
ALLISON	FREIGHTER
CHARLOTTE	FREIGHTER
CHRISTOPHER	FREIGHTER
DOLLY TURMAN	FREIGHTER
ELIZABETH	FREIGHTER
FREDERICK	FREIGHTER
GENEVIEVE	FREIGHTER
GULF BANKER	FREIGHTER
GULF FARMER	FREIGHTER
GULF MERCHANT	FREIGHTER
GULF SHIPPER	FREIGHTER
GULF TRADER	FREIGHTER

LYKES BROTHERS STEAMSHIP COMPANY CONTINUED

SHIP	TYPE
HOWELL LYKES	FREIGHTER
LETITIA LYKES	FREIGHTER
LOUISE LYKES	FREIGHTER
MALLORY LYKES	FREIGHTER
MARGARET LYKES	FREIGHTER
MASON LYKES	FREIGHTER
MAYO LYKES	FREIGHTER
ALMERIA LYKES	FREIGHTER
ASHLEY LYKES	FREIGHTER
LILLIE LYKES	FREIGHTER
HOMPSON LYKES	FREIGHTER
STELLA LYKES	FREIGHTER
SOLON TURMAN	FREIGHTER
SHIRLEY LYKES	FREIGHTER
SHELDON LYKES	FREIGHTER
RUTH LYKES	FREIGHTER
NANCY LYKES	FREIGHTER
MARJORIE LYKES	FREIGHTER
LESLIE LYKES	FREIGHTER
JOSEPH LYKES	FREIGHTER
JOHN LYKES	FREIGHTER
JEAN LYKES	FREIGHTER
JAMES LYKES	FREIGHTER
DR. LYKES	FREIGHTER
BRINTON	FREIGHTER
VELMA LYKES	FREIGHTER
ZOELLA LYKES	FREIGHTER

MOORE-McCORMACK LINES, INCORPORATED

MORMACALTAIR	PARTIAL CONTAINER
MORMACARGO	PARTIAL CONTAINER
MORMACCAPE	FREIGHTER
MORMACDRACO	PARTIAL CONTAINER
MORMACGLEN	FREIGHTER
MORMACLYNX	PARTIAL CONTAINER
MORMACRIGEL	PARTIAL CONTAINER
MORMACSAGA	FREIGHTER
MORMACSEA	FREIGHTER
MORMACTIDE	FREIGHTER
MORMACTRADE	FREIGHTER
MORMACVEGA	PARTIAL CONTAINER
MORMACWAVE	PARTIAL CONTAINER

PRUDENTIAL LINES, INCORPORATED

LASH ATLANTICO	LASH
LASH ITALIA	LASH
LASH PACIFICO	LASH

SUBSIDIZED LINERSWATERMAN STEAMSHIP CORPORATIONSHIPTYPE

ALEX STEPHENS	FREIGHTER
JEFF DAVIS	FREIGHTER
ROBERT TOOMBS	FREIGHTER
THOMAS JEFFERSON	FREIGHTER
THOMAS NELSON	FREIGHTER
JOHN B. WATERMAN	FREIGHTER
JOHN TYLER	FREIGHTER
JOSEPH HEWES	FREIGHTER
ROBERT E. LEE	LASH
SAM HOUSTON	LASH
SAMUEL CHASE	FREIGHTER
STONEWALL JACKSON	LASH
THOMAS LYNCH	FREIGHTER
JOHN PENN.	FREIGHTER
GEORGE WALTON	FREIGHTER
ARTHUR MIDDLETON	FREIGHTER

UNSUBSIDIZED LINERSCENTRAL GULF LINESSHIPTYPE

GREEN FOREST	FREIGHTER
GREEN LAKE	FREIGHTER
GREEN PORT	FREIGHTER
GREEN SPRINGS	FREIGHTER
GREEN WAVE	FREIGHTER
GREEN HARBOUR	CONTAINER BARGE
GREEN ISLAND	CONTAINER BARGE
GREEN VALLEY	CONTAINER BARGE

*

CENTRAL GULF, LOCATED IN NEW ORLEANS, IS NON-SUBSIDIZED AND OPERATED THE FOLLOWING SHIPS:

4. C4SA1's CONVERTED TO DRY CARGO THAT ARE TIME CHARTERED TO
MILITARY SEALIFT COMMAND
- 1 CONTAINER BARGE OPERATES TRANSATLANTIC, EAST AND SOUTH AFRICA
- 2 CONTAINER BARGES OPERATE TRANSPACIFIC, ATLANTIC, PACIFIC
STRAIGHTS AND THE ORIENT.

UNSUBSIDIZED LINERSREYNOLDS LEASING CORPORATION - SEA-LAND

<u>SHIP</u>	<u>TYPE</u>
AFOUNDRIA	CONTAINER SHIP
ALEUTIAN DEVELOPE	CONTAINER SHIP
ANCHORAGE	CONTAINER SHIP
BOSTON	CONTAINER SHIP
CHARLESTON	CONTAINER SHIP
HOUSTON	CONTAINER SHIP
LONG BEACH	CONTAINER SHIP
MAYAGUEZ	CONTAINER SHIP
NEWARD	CONTAINER SHIP
CAKLAND	CONTAINER SHIP
PANAMA	CONTAINER SHIP
PITTSBURGH	CONTAINER SHIP
PONCE	CONTAINER SHIP
PORTLAND	CONTAINER SHIP
SAN PEDRO	CONTAINER SHIP
ADVENTUR	CONTAINER SHIP
COMMERCE	CONTAINER SHIP
CONSUMER	CONTAINER SHIP
ECONOMY	CONTAINER SHIP
EXCHANGE	CONTAINER SHIP
FINANCE	CONTAINER SHIP
GALLOWAY	CONTAINER SHIP
LEADER	CONTAINER SHIP
MARKET	CONTAINER SHIP
MCLEAN	CONTAINER SHIP
PACER	CONTAINER SHIP
PIONEER	CONTAINER SHIP
PRODUCER	CONTAINER SHIP
RESOURCE	CONTAINER SHIP
TRADE	CONTAINER SHIP
VENTURE	CONTAINER SHIP
SEATTLE	CONTAINER SHIP
LAMPA	CONTAINER SHIP
HARRIOR	CONTAINER SHIP

UNITED STATES LINES, INC.

<u>SHIP</u>	<u>TYPE</u>
CHALLENG	FREIGHT
CHAMPION	FREIGHT
CHARGER	FREIGHT
CHIEFTAI	FREIGHT
CORSAIR	FREIGHT
COURIER	FREIGHT
RACER	FREIGHT
RANGER	FREIGHT
RELIANCE	FREIGHT
PIONEER COMMANDER	FREIGHT
PIONEER CONTENDER	FREIGHT
PIONEER CONTRACTO	FREIGHT
PIONEER CRUSADER	FREIGHT

UNSUBSIDIZED LINERSUNITED STATES LINES INC. CONTINUED

<u>SHIP</u>	<u>TYPE</u>
PIONEER MOON	FREIGHT
ACCORD	CONTAINER SHIP
ACE	CONTAINER SHIP
ALLIANCE	CONTAINER SHIP
APOLLO	CONTAINER SHIP
AQUARIUS	CONTAINER SHIP
ARCHER	CONTAINER SHIP
ARGOSY	CONTAINER SHIP
ASTRONAU	CONTAINER SHIP
LANCER	CONTAINER SHIP
LARK	CONTAINER SHIP
LEADER	CONTAINER SHIP
LEGACY	CONTAINER SHIP
LEGEND	CONTAINER SHIP
LEGION	CONTAINER SHIP
LIBERTY	CONTAINER SHIP
LYNX	CONTAINER SHIP

SUBSIDIZED BULK CARRIER COMPANIES (AS OF JANUARY 1, 1979) [OIL]

<u>COMPANY</u>	<u>NUMBER OF SHIPS</u>
AERON MARINE SHIPPING	2
AMERICAN SHIPPING INC.	1
AQUARIUS MARINE COMPANY	1
ARIES MARINE SHIPPING	2
ATLAS MARINE COMPANY	1
CHESTNUT SHIPPING COMPANY	2
MARGATE SHIPPING	3
MOORE-MCCORMACK	1
PACIFIC SHIPPING	1
WORTH OIL TRANSPORT SHIPPING COMPANY	1
ZAPATA	4

THE QUESTION IS: ARE 255 SHIPS ENOUGH? THE ANSWER DEPENDS ON WHAT WE VIEW AS THE PURPOSE OF A MERCHANT MARINE. WHILE A DEFINITIVE NUMBER OF SHIPS NECESSARY FOR NATIONAL SECURITY HAS NOT YET BEEN ASSESSED, WE DO KNOW THAT NATIONAL SECURITY CANNOT ONLY BE DEFINED IN TERMS OF THE NUMBER OF SHIPS AND DEFENSE FEATURES ON THOSE SHIPS; ECONOMIC VITALITY IS AN INTEGRAL PART OF NATIONAL SECURITY AS WELL. A STRONG MERCHANT MARINE IS A COMPONENT AND A VISIBLE SIGN OF A PROSPERING ECONOMY. THE FOLLOWING TABLE SHOWS THAT ALTHOUGH THE U.S. IS A PREEMINENT NATION, OTHER NATIONS ARE ABLE TO MESH THEIR SHIPS WITH THEIR CARGOES FAR BETTER THAN THE UNITED STATES:

SHIP CARGO RATIO IN OCEAN TRADE

COUNTRY	SHIPS IN OCEAN TRADE	TOTAL EXPORTS/ IMPORTS (IN BILLIONS)	SHIPS/MILLION \$ CARGO
LIBERIA	2,627	\$.875	1/.3
GREECE	2,379	9.51	1/4
PANAMA	2,041	3.9	1/2
JAPAN	1,846	151.3	1/82
U.S.S.R.	1,694	85.98	1/51
UNITED KINGDOM	1,377	121.23	1/88
NORWAY	918	21.53	1/23
ITALY	603	80.40	1/133
WEST GERMANY	592	218.57	1/369
SINGAPORE	574	18.71	1/33
SPAIN	479	28.08	1/59
FRANCE	415	134.06	1/323
INDIA	363	10.93	1/30
UNITED STATES	350	275.79	1/788
SWEDEN	286	38.39	1/134

U.S. CARGO GROWTH OVER THE PAST 15 YEARS HAS TOTALLY OUTSTRIPPED
OUR SHIP CAPACITY.

Table 13: U.S. OCEANBORNE FOREIGN TRADE/COMMERCIAL CARGO CARRIED
Tonnage (Millions)

Calendar Year	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Total-Tons	392.3	387.6	418.6	427.5	473.2	457.4	513.6	631.6	628.9	615.6	698.8
U.S.-Flag Tons	26.2	20.5	25.0	19.8	25.2	24.4	23.8	39.9	40.9	31.4	33.8
U.S. Percent of Total	6.7	5.3	6.0	4.6	5.3	5.3	4.6	6.3	6.5	5.1	4.8
Liner Total Tons	49.9	47.9	46.1	41.9	50.4	44.2	44.6	51.3	51.4	44.3	49.8
Liner U.S.-Flag Tons	11.4	10.6	11.1	9.7	11.8	10.1	9.8	13.2	15.3	13.6	15.4
Liner U.S. Percent	22.9	22.2	24.0	23.1	23.5	22.9	21.9	25.8	29.8	30.7	30.9
Non-Liner Total Tons	189.5	190.4	209.5	212.1	240.7	220.7	242.6	281.9	282.7	275.3	289.6
Non-Liner U.S.-Flag Tons	6.9	5.4	6.4	4.6	5.4	4.8	3.8	4.5	5.0	3.8	4.9
Non-Liner U.S. Percent	3.6	2.8	3.0	2.2	2.2	2.1	1.6	1.6	1.8	1.4	1.7
Tanker Total Tons	152.8	149.3	163.1	173.5	182.1	192.5	226.4	298.4	294.8	296.0	359.4
Tanker U.S.-Flag Tons	7.9	4.5	7.5	5.5	8.0	9.5	10.2	22.2	20.5	14.0	13.6
Tanker U.S. Percent	5.2	3.0	4.6	3.2	4.4	4.9	4.5	7.4	7.0	4.7	3.8

U.S. OCEANBORNE FOREIGN TRADE/COMMERCIAL CARGO CARRIED

Dollar Value (\$ Billions)											
Total Value	36.4	36.6	41.1	41.9	49.7	50.4	60.5	84.0	124.2	127.5	148.4
U.S.-Flag Value	8.2	7.9	8.5	8.1	10.3	9.9	11.1	15.9	22.0	22.4	26.5
U.S. Percent of Total	22.5	21.7	20.7	19.3	20.7	19.6	18.4	18.9	17.7	17.5	17.8
Liner Total Value	24.8	24.8	26.8	27.2	33.5	32.4	37.4	49.6	63.4	64.0	75.8
Liner U.S.-Flag Value	7.5	7.4	7.8	7.5	9.7	9.2	10.3	14.4	19.4	20.0	23.9
Liner U.S. Percent	30.4	29.8	29.0	27.6	28.8	28.4	27.7	29.1	30.6	31.2	31.5
Non-Liner Total Value	8.2	8.6	10.8	11.1	12.2	13.2	17.4	25.2	34.7	36.6	38.2
Non-Liner U.S.-Flag Value	.4	.4	.5	.4	.4	.4	.4	.7	.8	1.0	1.1
Non-Liner U.S. Percent	4.9	4.5	4.6	3.6	3.3	3.1	2.4	2.5	2.3	2.8	2.8
Tanker Total Value	3.4	3.2	3.4	3.6	4.0	4.9	5.7	9.2	26.0	26.9	34.4
Tanker U.S.-Flag Value	.3	.2	.2	.2	.2	.3	.4	.8	1.8	1.4	1.5
Tanker U.S. Percent	7.7	4.8	6.6	5.6	5.6	5.5	6.2	9.1	6.9	5.1	4.2

NOTE: Includes Government-sponsored cargo; excludes Department of Defense cargo and U.S./Canada translake cargo.

THE QUESTION THEN MIGHT BE "HOW DO WE CHANGE THESE NUMBERS?" AMERICAN COMPANIES ARE CURRENTLY BUILDING 40 TO 50 SHIPS OF ALL TYPES IN THE FOREIGN YARDS OF 11 DIFFERENT COUNTRIES. THE SHIPS WILL BE REGISTERED IN A HALF DOZEN LESSER DEVELOPED COUNTRIES AND IN A FEW DEVELOPED BUT NONE IN THE U.S. IT IS THE STRONG MARITIME POLICIES OF THE ABOVE REFERENCED COUNTRIES THAT MANY TIMES DICTATE THE COUNTRY OF CONSTRUCTION REGISTRY RATHER THAN PRICE. WOULD THE U.S. DARE HAVE SUCH AN AGGRESSIVE POLICY?

AS HAS ALREADY BEEN INDICATED TO THIS COMMITTEE BY MR. EUGENE SPECTOR OF N.M.U., MANY COUNTRIES SPEND MORE PER CAPITA ON THEIR MARITIME THAN DOES THE U.S.

["THE UNITED STATES REPEATEDLY GIVES 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 \$78.86 PER CAPITA; SWEDEN SPENDS ABOUT \$15.90; AND GREAT BRITAIN GIVES \$5.81 PER CAPITA IN TOTAL ASSISTANCE AND AID."]

THE UNITED STATES EXPENDS THE FOLLOWING AMOUNTS FOR VARIOUS
PROGRAMS AS REPORTED IN THE 1980 BUDGET DOCUMENTS:

HIGHWAYS:		1978	1979	1980
TOTAL FEDERAL FUNDS	BA	228,537	114,563	34,338
FEDERAL HIGHWAY	0	<u>163,373</u>	<u>233,485</u>	<u>196,445</u>
ADMINISTRATION				
TOTAL TRUST FUNDS	BA	6,806,379	8,176,763	8,661,512
FEDERAL HIGHWAY	0	<u>5,912,516</u>	<u>6,651,515</u>	<u>7,033,555</u>
AIR:				
TOTAL TRUST FUNDS	BA	1,119,800	1,372,963	1,238,120
FEDERAL AVIATION	0	<u>1,115,360</u>	<u>1,176,701</u>	<u>1,156,802</u>
ADMINISTRATION				
RAILROADS:				
A. RAILROAD RESEARCH AND DEVELOPMENT	401			
APPROPRIATION, CURRENT	BA	53,600	52,980	56,255
OUTLAYS	0	62,381	55,450	50,675
RAIL SERVICE ASSISTANCE	401			
APPROPRIATION, CURRENT	BA	83,000	84,370	85,210
AUTHORITY TO BORROW, CURRENT	BA	8,024		250,000
OUTLAYS	0	-4,601	121,600	96,000
				40,000
NORTHEAST CORRIDOR IMPROVEMENT PROGRAM	401			
APPROPRIATION, CURRENT	BA	400,000	455,000	481,000
OUTLAYS	0	203,830	35,000	370,200
			465,000	10,500
			17,500	
GRANTS TO NATIONAL RAILROAD PASSENGER CORPORATION	401			
APPROPRIATION, CURRENT	BA	716,000	660,000	760,000
OUTLAYS	0	716,000	119,000	634,000
			660,000	
			119,000	
PUBLIC ENTERPRISE FUNDS:				
ALASKA RAILROAD REVOLVING FUND	401			
APPROPRIATION, CURRENT	BA	3,000	9,300	5,000
OUTLAYS	0	7,493	8,050	6,500

		1978	1979	1980
RAILROAD REHABILITATION AND IMPROVEMENT FINANCING FUND	401			
AUTHORITY TO BORROW, CURRENT	BA	200,000	170,000	
OUTLAYS	0	<u>66,247</u>	<u>85,000</u>	<u>78,000</u>
TOTAL FEDERAL FUNDS FEDERAL	BA	1,490,564	1,617,381	1,671,110
RAILROAD ADMINISTRATION	0	<u>1,075,484</u>	<u>1,568,454</u>	<u>1,316,306</u>

- B. CONRAIL HAS EXPANDED \$2.3 BILLION SINCE 1976. A \$974 MILLION SUPPLEMENTAL IS PENDING FOR 1978. AS COMPARED, THE MARITIME BUDGETS FOR THE ITEMS IN THIS AUTHORIZATION BILL HAVE FLUCTUATED AS FOLLOWS:

		1973	1974	1975	1976	1977	1978	1979	1980
	(IN MILLION \$)								
C.D.S.	(BA)	455	275	275	213	---	135	157	101
O.D.S.	(BA)	226	257	243	386	343	284	278	308
RESEARCH	(BA)	29	19	25.9	12.1	18.5	18.3	17.5	16.3
MARITIME EDUCATION	(BA)	<u>34.4</u>	<u>36.8</u>	<u>41.2</u>	<u>45.9</u>	<u>49.7</u>	<u>53</u>	<u>62</u>	<u>61</u>
TOTALS		750	550	580	650	400	490	500	470

THE FIGURES ARE SELF-EVIDENT -- THE UNITED STATES' EMPHASIS ON MODES OF TRANSPORTATION OTHER THAN AT SEA IS SUBSTANTIAL.

FLEETS HAVE RUN AWAY FROM THE UNITED STATES BECAUSE OF CHEAP FOREIGN TAXES (INCLUDING REGISTRATION, LICENSING AND INCOME) AND THE ABILITY TO RECRUIT FOREIGN SEAMEN AT 25% TO 50% OF DEVELOPED COUNTRY RATES. LICENSED OFFICERS FROM DEVELOPED COUNTRIES ARE USED TO MAN ALL THE FLEETS OF THE WORLD AT SOMEWHAT COMPARABLE WAGES. UNFORTUNATELY, THE UNITED STATES HAS ALMOST CONSPIRED IN THIS

RESULT BY PROMOTING INVESTMENT TAX CREDITS FOR EVEN FOREIGN SHIP INVESTORS, AND IN ADDITION, SECTION 954(B) OF THE I.R.S. CODE EXCLUDES TAXES ON AMERICANS OR RESIDENT ALIENS WHO HAVE CONSTRUCTIVE INCOME FROM FOREIGN COMMERCE SHIPPING. [AS LONG AS LIBERIAN SHIPPING PROFITS ARE NEVER RETURNED TO THE UNITED STATES, THEY ARE TAXED NEITHER IN THE UNITED STATES, NOR LIBERIA.] THE COMMITTEE SHOULD RECOMMEND ACTION IN THIS AREA AS ASSISTANT SECRETARY BLACKWELL HAS INDICATED.

THE COMMITTEE ACTION ON CONTROLLED FOREIGN CARRIERS LAST YEAR IS SIGNIFICANT. THIS PROGRAM MUST AGAIN BE CLOSELY REVIEWED.

WITH RESPECT TO REGULATORY CHANGE IN MARITIME REDEVELOPMENT, THE COMMITTEE WAS CONCERNED AT ITS HEARINGS LAST YEAR THAT THE INTERAGENCY TASK FORCE WOULD NOT ACT BEFORE OCTOBER LAST. IT IS NOW MARCH OF THE FOLLOWING YEAR AND WE NOW KNOW THAT AT BEST THE TASK FORCE RECOMMENDATIONS WILL BE FRAGMENTARY.

AFTER THE PENDING AUTHORIZATION BILL IS COMPLETED OUR INDUSTRY WOULD HOPE THAT THE COMMITTEE WOULD WORK DILIGENTLY BOTH IN THE HOUSE AND SENATE, AND BIPARTISANLY WITH INDUSTRY AND LABOR TO PRODUCE A COMPREHENSIVE PACKAGE OF REDEVELOPMENT PROGRAMS.

1. A RATIONAL LINER PROGRAM IS NEEDED THAT WOULD PROVIDE FOR EFFECTIVE CONFERENCE RATE AGREEMENTS THAT WOULD ALLOW THIS SEGMENT OF THE INDUSTRY TO GROW. A SHIPPERS COUNCIL BALANCING MECHANISM PROPERLY CONSTRAINED SHOULD THEN BE ALLOWED. THESE AGREEMENTS SHOULD GENERALLY NOT BE COERCED BY JUSTICE DEPARTMENT ANTI-TRUST INTIMIDATION. RATES SHOULD BE ENFORCED BY STANDARD ANTI-REBATING ENFORCEMENT AND DATA COLLECTION. ANTI-DUMPING LEGISLATION SHOULD BE EXTENDED TO ALL CARRIERS.

2. THE COMMITTEE SHOULD STRONGLY SUPPORT REVISED UNCTAD CARGO SHARING POLICIES AND BILATERAL AND MULTILATERAL AGREEMENTS THAT MUST BE SEPARATELY TAILORED TO LINERS, BULKERS, TANKERS AND PARTICULAR COUNTRIES.
3. THE JONES ACT CABOTAGE PROGRAM SHOULD BE CAREFULLY REVIEWED WITH RESPECT TO LOOPHOLES AND SHIP REPLACEMENT.
4. THIS COMMITTEE SHOULD TAKE ACTION AGAIN TO SEE THAT PROPER PROVISIONS ARE MADE FOR THE UNITED STATES MARITIME PROGRAMS IN THE NEW OCEAN MINING INDUSTRY IN WHICH WE WILL BE PIONEERS.
5. THIS COMMITTEE SHOULD TAKE ACTION TO INSURE THAT MINERALS IN THE AMERICAS AND PARTICULARLY ALASKA STAY IN THE AMERICAS WITH THE ASSISTANCE OF OUR OWN MERCHANT MARINE.
6. THE NEW BULKER C.D.S. PROGRAM SUGGESTED BY MARAD SHOULD BE TAILORED SUCH THAT CARGOES WILL BE AVAILABLE FOR ANY SHIPS THAT ARE BUILT.
7. THE O.D.S./C.D.S. PROGRAM SHOULD BE COMPREHENSIVELY REVIEWED REGULARLY AND CHANGES EFFECTED THAT WILL IMPROVE THE SIZE OF OUR MERCHANT MARINE.
8. THE COMMITTEE SHOULD REVIEW CAREFULLY THE SUGGESTIONS OF MARAD FOR A 15,000 TON MULTI-PURPOSE NATIONAL DEFENSE NOTIONAL SHIP IN CONJUNCTION TO POSSIBLY CONTAINERIZE OUR "OVER THE BEACH" CAPABILITY.
9. THE COMMITTEE SUGGESTION TO PROMOTE A NAVY/MARAD POLICY BOARD SHOULD BE PUSHED. THE NAVY CONTINUES TO IGNORE MERCHANT SEALIFT AS A PARTIAL NAVY RESPONSIBILITY. THE MERCHANT MARINE SHOULD BE CLOSELY INTEGRATED IN A COST EFFECTIVE FASHION WITH NAVY SUPPORT AND LOGISTIC ACTIVITIES INCLUDING OPERATIONAL TRAINING.

10. THE COMMITTEE SHOULD CAREFULLY REVIEW THE L.N.G. AND L.P.G. PROGRAMS BEING DEVELOPED ON TWO DOZEN ROUTES AROUND THE WORLD. WE SHOULD RECOGNIZE THAT WE HAVE THE FINEST L.N.G. SHIPBUILDING CAPABILITY ANYWHERE, UNDERSTAND THAT OUR CHEAP GAS SUPPLY WILL RUN OUT IN 50 YEARS OR LESS AND TAKE ACTION TO BLEND REASONABLE ACQUISITIONS OF L.N.G. FUEL FROM OTHER COUNTRIES WITH OUR CONTINENTAL UNITED STATES SUPPLY.
11. FINALLY, THE COMMITTEE SHOULD EXPLORE METHODS OF ACQUIRING A REASONABLY SIZED LIQUID BULK FLEET OTHER THAN THE JONES ACT CONSIDERING THE TAX AND OTHER G.N.P. ASPECTS OF THIS TRADE BEFORE REFERENCED.

THE INDUSTRY AND LABOR STAND READY TO ASSIST THE COMMITTEE IN WRITING THE LAWS AND HELPING THE WHOLE COMMITTEE IN ANY OTHER WAY TO ACCOMPLISH THESE OBJECTIVES.

STATEMENT OF EARL W. CLARK AND TALMAGE E. SIMPKINS, Co-DIRECTORS, THE
LABOR-MANAGEMENT MARITIME COMMITTEE

The Labor-Management Maritime Committee appreciates the opportunity of presenting this statement in support of the Fiscal Year 1980 Authorization for the Maritime Administration in the Department of Commerce.

First, a few words about our organization. The Labor-Management Maritime Committee was founded in June of 1950, and is approaching its 30th year of operation. It is the oldest maritime association in the operating field at the Washington level, and consists of major steamship lines and maritime labor involving subsidized and unsubsidized liner companies and liquid bulk carriers. The Labor membership includes the largest maritime union in the unlicensed category. The program of LMMC includes basically four principal programs and covers the fields of legislation, promotion, education and research. We thus have a most vital interest in the subject of these hearings.

SHIP CONSTRUCTION SUBSIDY

The Administration is requesting only \$101,000,000 for construction subsidy for fiscal 1980. This, with a carry-over of \$23,000,000, will provide a total of \$124,000,000 for such purpose. It is intended to cover construction subsidy costs for one LASH ship for Waterman Steamship Corporation and three dry bulk carriers. This is a far cry from the overall program level of \$443,077,000 for fiscal 1979, which will provide construction subsidy for some 13 ships. It is a farther cry from the program envisaged by the 1970 Merchant Marine Act, which called for some 30 new ships a year for a ten year period with the objective of constructing 300 new ships for our foreign commerce. Certainly, with commercial ship construction at one of its lowest ebbs in history, there would appear to be little question of the necessity for authorizing the comparatively modest \$101,000,000 appropriation.

On the more favorable side is the statement of the Assistant Secretary of Commerce for Maritime Affairs before the House Merchant Marine and Fisheries Committee concerning our cargo-carrying capability. He noted that, on January 1, 1979, there were 745 privately owned deep-draft ships in the U.S. Merchant Marine, constituting 21.7 million deadweight tons, and that this was up by 1.3 million deadweight tons over the previous year. However, this relatively bright note is dimmed by the fact that, in terms of both numbers of ships and deadweight tonnage, our merchant fleet is far from adequate to meet the objectives of either the Merchant Marine Act of 1936 or that of 1970.

The figures quoted by the Assistant Secretary of Commerce for Maritime Affairs encompass all privately owned deep-draft U.S. flag ships including the Great Lakes. Excluding the Great Lakes active deep-draft ocean-going U.S. flag ships shape up as follows: 572 (of which 26 are government owned); 234 in the domestic trade; 17 operating foreign to foreign; 73 operated by U.S. agencies of government; and only 248 in the foreign commerce of the United States.

Let us compare where we stand in terms of competing with the U.S.S.R. fleet.

As of the same date (January 1, 1979) the U.S.S.R. deep-draft ocean-going fleet consisted of 17,025 ships with 18.4 million deadweight tonnage. This is ocean going only and does not include any river fleet or Caspian Sea fleet.

Furthermore, testimony given previously by the Under Secretary of the Navy clearly revealed that appropriate inter-agency planning had not been achieved to determine a commercial shipyard and merchant marine base adequate to serve the nation and meet its military needs in time of war or national emergency. This failure had transpired in spite of recurring requests by the Congress for such a determination. At the same time, it has been amply testified on numerous occasions that our merchant fleet is inadequate to fulfill its defense responsibilities in case of an international confrontation of any magnitude.

This raises the very pertinent point of what's to be done about it. It seems patent that even if the Department of the Navy and the Department of Commerce had fully discharged their full coordinative responsibilities in this regard, the solution would have only been partly addressed. In short, you can build all the ships necessary to achieve a given objective, but, if they cannot be commercially employed in peacetime, they are left to deteriorate or be placed in the Reserve Fleet to languish at great expense to the government. Actually, the answer to the matter of building and sustaining an active merchant fleet capable of its defense or national security responsibilities, is Cargo.

The solution to the Cargo problem is also the answer to meeting ship construction needs. In this connection, it should be observed that the world appears to be rapidly moving toward a practice of "Controlled Cargo"; be it in the form of bilateral agreements, equal access agreements, cargo sharing or cargo preference. The devel-

oping nations are fast moving in this direction. In the liner trade, such practices were given impetus by the development of the Code of Conduct for Liner Conferences by the United Nations Conference on Trade and Development (UNCTAD). It will come into effect when at least 24 countries, whose fleets represent a minimum of 25 percent of the world liner gross tonnage, ratify the Code. It is anticipated that it will be adopted shortly. The Code calls for 40 percent of Cargo for each of two trading nations and 20 percent for third flag countries. In an addendum to a recent publication titled "The United States Merchant Marine—A National Asset" by Irwin M. Heine, the controlled cargo practices of the various nations in both the government and commercial fields are outlined in great detail showing the rapidly increasing worldwide trend in this regard. If these trends continue, it seems obvious that the United States would be courting disastrous effects if it failed to move with this tide of world shipping practices, particularly in the area of bilateral agreements, if not, indeed, expanded cargo preference as well. It seems obvious that keeping pace with world cargo trends is the only viable solution to expanding our U.S. flag fleet and keeping it operative and ready to serve both our commercial and national defense needs. Only when we address ourselves adequately to the cargo problem can U.S. flag shipping move to meet the full program envisaged by Section 101 of the 1936 Merchant Marine Act and its supporting legislation. Meanwhile, the \$101,000,000 requested for construction differential subsidy should be authorized.

OPERATING DIFFERENTIAL SUBSIDY

The Administration's needs for operating differential subsidy for fiscal year 1980 are \$306,714,000. This is required to cover total estimated ODS needs for existing and/or anticipated contractual obligations for this item. The above figure consists of a requested appropriation of \$256,208,000 and an estimated carry-over of some \$50,506,000, the latter resulting primarily from removal of certain ships from the service and thus also from subsidy, during 1979. This is some \$30,000,000 less than the request of last year and reflects a declining condition in our merchant marine. The amounts requested to be authorized are principally for the liner trade as tanker participation in the U.S./U.S.S.R. grain trade was reduced due to demand elsewhere in oil transport. We are advised that total ODS funds are deemed sufficient for the operation of 159 liner vessels and 21 bulk ships during the coming year. We have no way of detailing these ODS requirements, but the statements of the Assistant Secretary of Commerce for Maritime Affairs are convincing and we accept their accuracy. We support the request for ODS authorization in the amounts recommended, including an authorization for \$256,208,000. We hold that these funds redound appreciably to the U.S. economy aside from the Merchant Marine and national defense factors.

A study by the Planning and Development Department of the Port Authority of New York and New Jersey recently concluded that each dollar of sales by the U.S. Merchant Marine produces \$1.80 in sales throughout the economy while shipyard sales produce an overall output of \$2.10. It also concluded that, up to one-half of the subsidy granted returns approximately one-half of its value to U.S. Treasury in tax accruals.

RESEARCH AND DEVELOPMENT

A figure of \$16,360,000 is requested by the Administration for Research and Development expenditures. This is \$1,140,000 less than appropriated in 1979 due, in part, to eliminating the Exploratory Research program at the National Maritime Research Center at King's Point. Reductions in certain expenses connected with research on advanced ship systems also accounts for part of the reduction. We assume the necessary work planned in Research and Development can proceed adequately under the reduced funds requested. We do know that a program has been worked out between CASO and MARAD for the development and operation of a prototype International Data Communication System whereby participating companies' home offices can be linked with their major overseas offices.

MARITIME EDUCATION AND TRAINING

An increase for this item of \$3,241,000 above 1979 appropriations for a total of \$25,874,000 reflects anticipated expenses at both the King's Point Academy and the six state marine academies, and, to some extent, supplementary training courses. The Administration has already described these increases to the committee and they are deemed required to meet increased needs in the Education and Training program.

In the category of supplementary training, the fire fighting training establishments are, of course, involved. For the first time, such training is being developed

for the Gulf in the construction of facilities on land formerly belonging to NASA and now given over to Del Gado College, which, in turn, has dedicated over 3 acres for a fire fighting establishment there under a 25-year lease. Proposals are also under way for a new fire fighting establishment on the West Coast to supplant the work now performed at naval facilities on Treasure Island. The fire fighting program at Earle, New Jersey, will, of course, continue. Plans are also under way for a fire fighting establishment on the Great Lakes. We believe the funds requested are proper.

MARITIME ADMINISTRATION OPERATING EXPENSES

We have no particular comment on Marad's request of \$35,598,000 for operating expenses and have no basis for judgment since these deal with operating needs within the administrative organization itself. We would hope, however, that adequate provision has been made for promoting in the best possible terms, the development and maintenance of the National Defense Reserve Fleet, for which \$6,377,000 has been included.

TITLE XI

Guaranteed construction loans and mortgages under Title XI of the 1936 Act have provided for the financing of the construction of virtually 100 percent of liner vessels in the existing U.S. merchant marine fleet built in U.S. shipyards. This support, normally at no cost to the government, is provided through the Federal Ship Financing Fund for vessels engaged in the foreign commerce of the United States. In addition, it is available for vessels employed in the domestic trades, as well as in research, on inland waterways, in fishing and for offshore drilling.

It is the general practice that some overall limitation on guarantees and commitments to guarantee has been established as a ceiling. This overall ceiling was raised from \$7 billion to \$10 billion in 1978.

The current budget authority request, however, includes an annual provision to limit new guarantee commitments to \$1 billion during fiscal year 1980. We believe this to be too restrictive and that it would inhibit new construction at the very time when our shipyards need new contracts to support their existence. As has been indicated by prior witnesses, the flexibility of the current program to meet the needs of the wide variety of vessel operators utilizing the Title XI program should not be constrained by an artificial annual limitation. We support that view.

GENERAL

We would hope that the maritime industry, coupled with the good work of this distinguished committee, can resolve many of the impediments to achieving a stronger U.S. flag merchant marine and we are prepared to cooperate in any way within our sphere of effort to achieve that end. Meanwhile, we believe that the authorization request submitted by the Administration is a modest one in terms of total needs for a stronger American Merchant Marine. We thank the committee for this opportunity to express our views.

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 and operators, appreciates this opportunity to indicate its support for S. 640, a bill to authorize the appropriation of funds requested by the Administration for its fiscal year 1980 maritime programs. AIMS has 27 member companies which own and operate tankers and other types of vessels in this nation's foreign and domestic trades.

In our view, the Administration's proposed funding level of \$435,040,000 is generally adequate in light of what we know about 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 amounts, in conjunction with carry-over funding from the present fiscal year, total \$430,714,000 and will assist in a projected 1979-1980 building program of 17 vessels in American shipyards and in the operation of almost 200 liners and bulk carriers in foreign commerce.

Deputy Assistant Secretary Nemirow's April 4 statement to this Subcommittee provides a thorough review of MARAD's various programs, and there is certainly little that we could add to it. We would, however, like to express our interest in the Administration's planned release of bulk carrier initiatives, which are intended to loosen operating restrictions in hopes of stimulating such vessel construction.

As this Subcommittee is well aware, the Administration currently has the entire maritime promotional program under review by an inter-agency task force. AIMS does not at this time have any alternative to parity based subsidies and other aids offered by the Maritime Administration in support of the American Merchant Marine. We will, of course, carefully review any changes in the maritime program that may be proposed by the Task Force.

One problem which we identified in the President's budget may or may not be a proper matter for discussion in connection with these authorization hearings. It is the Administration's proposal to impose for the first time a \$1 billion ceiling on the annual amount of new Title XI ship financing obligations to be approved. This limitation would be established in addition to the total \$10 billion maximum on outstanding loans set last year in Public Law 95-298. AIMS contends that imposing an arbitrary limit could handicap efforts to build U.S.-flag vessels by restricting MARAD's flexibility under the Federal Ship Financing Program. In addition, this limitation is unnecessary in view of the statutory \$10 billion ceiling, which I just mentioned, that controls the program level at any one time. As you know, timing is crucial to vessel financing and construction activities in our cyclical industry, so working under such an added constraint would only aggravate what is at best already a complicated process. The Title XI program has for over 40 years been self-sustaining and run efficiently at no expense to the U.S. taxpayer; indeed, it is even a profitable government enterprise since each recipient of its benefits is required to pay an initial investigation fee as well as an annual guarantee fee for the life of the obligation. These fees are paid into the Federal Ship Financing Fund which, at the end of fiscal year 1977, had a balance of \$117.1 million. From this Fund are deducted all of the salaries and other expenses incurred by the Government in administering the Title XI program, with the balance being available to make payments in the event of default.

Title XI guarantees are imperative if this capital intensive maritime industry is to accomplish the goals stated in the 1936 Merchant Marine Act. The program was established in 1938 pursuant to that Act, and it is not unreasonable, I think, for us to recommend that its level and administration remain unchanged.

If this Subcommittee can properly do something to counter the Administration's move to curb the Title XI program AIMS would urge that this be done. In conclusion, we support enactment of S. 640 and appreciate this opportunity to express our views.

STATEMENT OF ALFRED MASKIN, EXECUTIVE DIRECTOR, AMERICAN MARITIME ASSOCIATION

Mr. Chairman and members of the subcommittee, I am Alfred Maskin, the Executive Director of the American Maritime Association, and I appreciate the opportunity to appear here today to present the views of our association on the maritime authorization bill for fiscal year 1980.

At the outset, I might note that AMA, as shown by the appended membership list, consists of 37 companies operating 114 American-flag merchant ships, of which 74 are liners in regularly scheduled services and 40 are tankers and dry bulk carriers.

With the exception of 24 liners operated by Delta Steamship Lines, our vessels—liners, tankers and bulk carriers—were built without construction-differential subsidies and operate without operating-differential subsidies except for the carriage of Russian grain—a movement which incidentally, was virtually non-existent for our members during the past year.

Moreover, we expect none of our companies to be the recipient of the construction subsidy funds called for in the present authorization bill; nor, again with the exception of Delta, which holds a 20-year operating subsidy contract, and those companies which occasionally may carry Russian grain, will any of our members benefit from the operating subsidies which the bill authorizes.

although the interest of our members in the award of subsidy money thus is extremely limited, this limited involvement, I believe, makes it possible for me to view the bill in a more detached and dispassionate manner than can those who would be more directly affected.

In this sense, what interests me principally about the bill is not what it would provide, but what it will not provide.

Significant, from the standpoint of our association, one of the major spokesmen for the independent U.S.-flag tanker fleet, is the fact that the bill provides no funds for new subsidized tanker construction.

This omission underscores the point that we have made to this subcommittee on previous occasions—that unless the market will stimulate shipbuilding, and sustain

viable ship operations, no amount of subsidy—construction or operating or both—will induce operators to come forward and seek it. And this, of course, is particularly true in the bulk trades where there are no conferences to foster rate stability, as in the liner trades.

The 1970 amendments to the Merchant Marine Act of 1936, as we all know, extended construction and operating subsidies to dry and liquid bulk carriers and were intended to bring about a resurgence in the building of such vessels.

But the subsidized tanker building program, as we see from the lack of funds in the current bill, has come to a halt—indeed, no viable new contracts for subsidized tanker construction have been awarded since June of 1974.

Moreover, although the 1970 amendments made construction and operating subsidies available for dry bulk carriers as well as tankers, not a single dry bulk carrier thus far has been built under the program. And although the Maritime Administration last year approved the subsidized construction of eight dry bulk ships, of which at least two may yet be cancelled, the agency apparently still feels the dry bulk building program under the 1970 amendments to be so unsuccessful as to require a restructuring of the program in a manner which essentially would provide greater inducements for operators to apply for subsidy.

Finally, our subsidized liner fleet, which has been eligible for construction and operating subsidies since 1936, and which often has been cited to illustrate the success of the subsidy program, has been experiencing increasing difficulties in coping with the complexities of today's shipping world; and to our dismay we recently have seen the financial collapse of two more major subsidized liner companies.

Despite what I consider to be the obvious shortcomings of the subsidy program, I am not here today to oppose the authorization bill or to advocate that the subsidy program be abandoned, at least until such time as we have something better with which to replace it.

What I do wish to do is to reiterate to the subcommittee our view that the subsidy program, certainly never a panacea for the American-flag fleet, shows signs in today's complex and competitive world of ocean shipping of becoming increasingly ineffective as a competitive tool.

Further, I would reiterate our hope that this subcommittee, during the days which lie ahead for the 96th Congress, would commit itself to the concept that if we are truly to develop a merchant fleet commensurate with our commercial and defense requirements, we must exert all of our efforts to develop programs of assistance for the fleet either as adjuncts to the subsidy program or, possibly, eventually in lieu of it.

During the last Congress, as you know, amid the welter of bills which were considered on such matters as trade malpractices and third-party competition, there was one piece of legislation introduction which would have provided a positive inducement to the building and operation of U.S. ships by assuring cargo. That measure was not enacted. But there are other devices which could provide cargo for U.S. vessels. For example, as you know, there recently has been considerable attention paid, both in industry and government circles, to the desirability of bilateral shipping arrangements, and this is one approach I believe the subcommittee might take under advisement.

Finally, and I think this is of great importance, I would hope that the subcommittee, insofar as it is able to exert any effectiveness in this area, would take steps to maximize the participation of U.S. ships in new markets which are opening up for us.

What I have in mind specifically, of course, is the recent recognition of the People's Republic of China.

Thus far, of course, no bilateral shipping agreement with China has been negotiated, as was done with the U.S.S.R., and I would certainly hope that an agreement is concluded.

It is my view, however, that the U.S.S.R. agreement brought only minimum returns to the U.S. fleet; and, in one respect, at least, positive harm. And I therefore would urge the subcommittee, to the extent that it has any jurisdiction in this sphere, to attempt to assure that any U.S.-China trade agreement negotiated will indeed bring positive benefits to U.S. vessels.

