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AUTHORIZATIONS FOR CERTAIN MARITIME PROGRAMS

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HEARING

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BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE AND TOURISM

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

S. 2322

TO AUTHORIZE APPROPRIATIONS FOR FISCAL YEAR 1981 FOR
CERTAIN MARITIME PROGRAMS OF THE DEPARTMENT OF
COMMERCE, AND FOR OTHER PURPOSES

MARCH 17, 1980

Serial No. 96-87

Printed for the use of the
Committee on Commerce, Science, and Transportation



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1980

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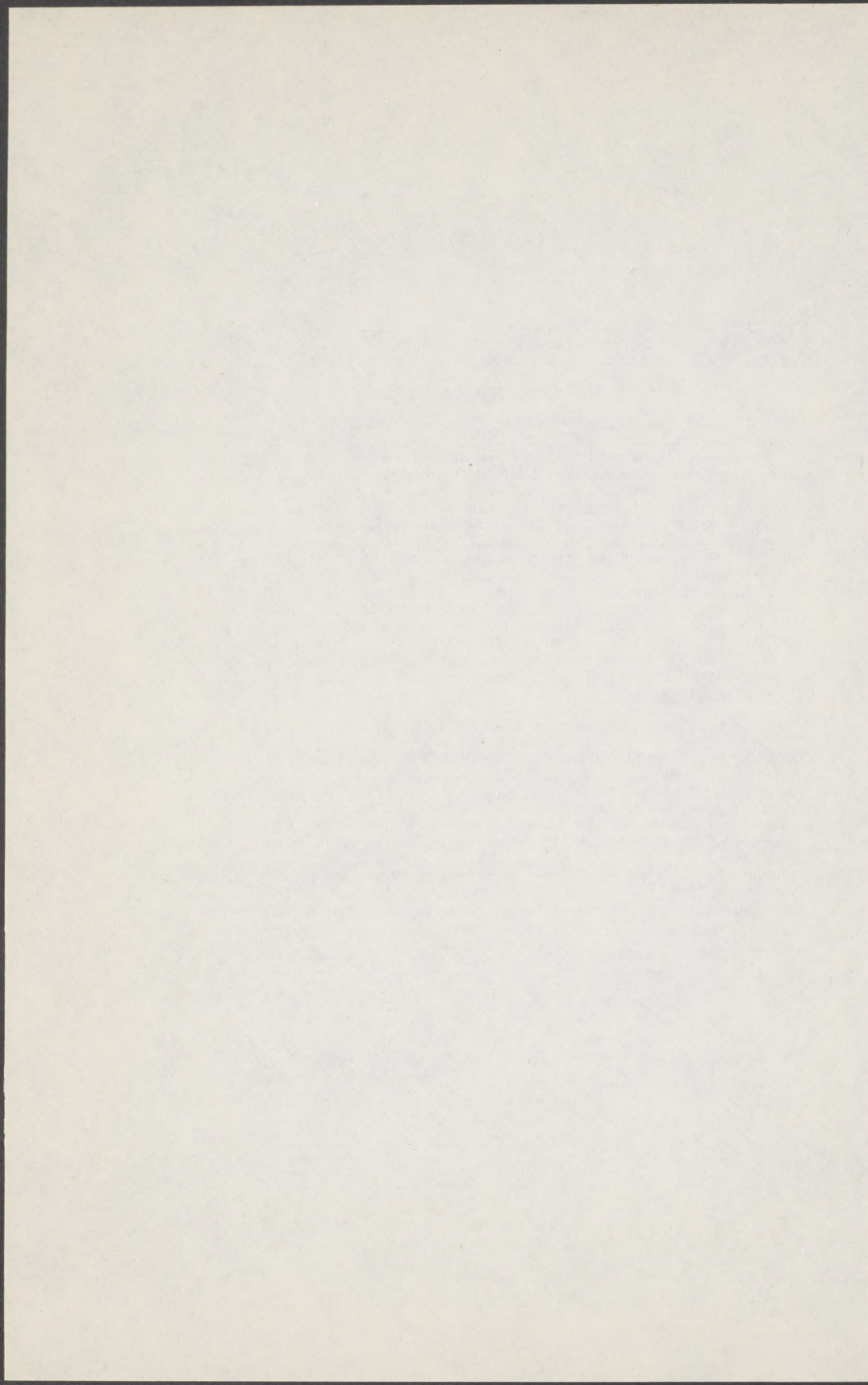
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MARITIME APPROPRIATION AUTHORIZATION ACT FOR FISCAL YEAR 1981

MONDAY, MARCH 17, 1980

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

The subcommittee met at 10 a.m. in room 235, Russell Senate Office Building, Hon. John W. Warner presiding.

OPENING STATEMENT BY SENATOR WARNER

Senator WARNER. The hour of 10 o'clock is upon us and we will begin promptly.

I am looking forward to this morning's testimony on the Maritime Administration's fiscal year 1981 authorization request. These funds will continue the promotional programs that are essential to the Nation's maritime strength and deserve our full support.

The \$135 million requested for construction differential subsidy is intended to equalize the cost of building a ship in an American yard with the cost of constructing a similar vessel in a foreign shipyard.

Shipbuilders are pursuing a number of construction opportunities. Moreover, the worldwide excess of shipping tonnage has resulted in some foreign shipbuilders offering below-cost prices for construction—often with their government's financial backing. This is increasingly true because foreign governments are recognizing the strategic and economic importance of ocean shipping. Competition for ship construction contracts has become more a function of government than of private industry. These funds are therefore vital to maintaining a viable industrial shipbuilding base in the United States.

The \$347.7 million requested for operating subsidy is intended to equalize the cost of operating a U.S.-flag vessel with the cost of operating a similar ship that is foreign registered. Clearly, the operating subsidy program is essential for the U.S. liner fleet to maintain their rightful share of America's ocean trade. Even though the liner companies represent the strongest component of the U.S. merchant fleet, there are only 10 U.S. liner companies surviving today, compared to 19 that operated in 1970. This loss of one company per year highlights the need for this crucial program.

The other major program area I would like to mention is the \$26.7 million requested for maritime education and training. We must not forget how essential it is to our maritime future to offer quality maritime training for young Americans who wish to go to

sea. This is particularly important as we become more aware of the effect ocean traffic and human error have on the marine environment.

The Congress is in the midst of a major reevaluation of the Nation's regulatory and promotional maritime policies. This subcommittee is now reviewing the comments we have received on the February 11, 1980, staff draft of the "Proposed Ocean Shipping Act of 1980." I am optimistic that this bill will make a positive, constructive contribution to the regulatory maritime policy of the United States.

It is my further understanding that when the subcommittee schedule permits, we will begin an intensive reevaluation of the subsidy and promotional programs that are reauthorized by S. 2322. Until that project is completed, this bill deserves prompt, favorable action.

Chairman Inouye contacted us, stating that a personal situation of an unexpected nature arose, and he asked that I chair the hearing this morning. The opening statement that the chairman had intended to present this morning will be placed in the record in its entirety, together with one by myself.

[The statement and bill follow:]

OPENING STATEMENT BY SENATOR INOUE

Today the subcommittee will consider legislation authorizing appropriations for the fiscal year 1981, for certain maritime programs of the Department of Commerce. Specifically, the authorization levels requested by the Administration are:

- \$135 million for ship construction-differential subsidies;
- \$347.697 million for operating-differential subsidies;
- \$18.750 million for research and developmental;
- \$26.763 million for maritime education and training expenses; and,
- \$38.864 million for Maritime Administration operating expenses.

The total amount authorized by the legislation is \$567.074 million.

The President, in his letter to the subcommittee of last July 20, expressly said he shared our belief that the American merchant marine is vital to the Nation's welfare. The President noted that "more than nine-tenths of all U.S. imports and exports move by sea, and that American ships play a large part in facilitating our trade." The maritime industry, including our ports, ocean shipping companies, and shipbuilding yards, provides jobs to about 1.5 million Americans and contributes \$22 billion to our economy.

"More importantly," he said, "our merchant marine provides a critical reserve and auxiliary to our Navy in time of war or national emergency."

The President's letter also expressly recognized that the Federal Government has played a significant role in the development of our maritime industry. For example:

Federal investments have helped to build most of our major harbors and port facilities;

Our military and commercial construction programs have provided a key source of employment for our Nation's shipyards; and,

Direct Federal subsidies and preferential cargo policies have greatly benefited our ocean shipping companies.

Significantly, the President said that *continued* Federal investment is necessary to strengthen our maritime industry.

It is fashionable in some quarters to criticize Federal subsidies to our merchant marine. Such criticism, I believe, is misinformed and ignores that world environment in which the U.S. program operates.

A 1977 MarAd study of the maritime aids of Japan, the United Kingdom, Norway, Sweden, West Germany, and France illustrates the point.

The study showed that in terms of quantifiable direct assistance, including grants, credit and financing help, and tax allowances (but excluding cargo reservation), aggregate maritime industry assistance provided by these six countries averaged about \$1.6 billion a year for the period 1971-1975. As a percentage of Gross National Product this is more than double the rate of U.S. assistance to our maritime industry.

The simple truth is that most of our other trading partners have integrated their national economic objectives with the activities of their merchant marines far more enthusiastically and successfully than we have.

At the end of 1960, our privately-owned fleet was the fourth largest in the world in terms of the number of ships and deadweight tons. Today the United States ranks tenth in both categories.

Moreover, our participation in our own trades is no where near the level of participation of other developed nations in their national water-borne trades.

As against the 4 percent of total U.S. trade carried by American-flag vessels, statistics I have seen indicate the Soviets carry about 50 percent of their foreign trade; the Japanese about 40 percent; Greece about 45 percent; Norway and Spain 37 percent; Great Britain 34 percent; and West Germany and France 30 percent.

Events of recent months have underscored the dangers of our dependence upon nations with uncertain loyalties or unstable governments for oil, other essential products, and carriage of those products. A strong merchant marine is therefore not only essential for our economic prosperity, it is vital for our national survival.

In my judgment, the funding levels requested by the Administration for fiscal year 1981, will support the current activities and programs of our merchant marine until Congress completes the revisions in our laws which are so necessary if our merchant fleet is to regain its proper place of leadership in the maritime world.

96TH CONGRESS
2D SESSION

S. 2322

To authorize appropriations for fiscal year 1981 for certain maritime programs of the Department of Commerce, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 20 (legislative day, JANUARY 3), 1980

Mr. INOUE introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

A BILL

To authorize appropriations for fiscal year 1981 for certain maritime programs of the Department of Commerce, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Maritime Appropriation
4 Authorization Act for Fiscal Year 1981".

5 SEC. 2. Funds are authorized to be appropriated with-
6 out fiscal year limitation as the appropriation Act may pro-
7 vide for the use of the Department of Commerce for fiscal
8 year 1981 as follows:

1 (1) for acquisition, construction, or reconstruction
2 of vessels and construction-differential subsidy and cost
3 of national defense features incident to the construc-
4 tion, reconstruction, or reconditioning of ships, not to
5 exceed \$135,000,000;

6 (2) for payment of obligations incurred for operat-
7 ing differential subsidy, not to exceed \$347,697,000;

8 (3) for expenses necessary for research and devel-
9 opment activities, not to exceed \$18,750,000;

10 (4) for maritime education and training expenses,
11 not to exceed \$26,763,000, including not to exceed
12 \$18,201,000 for maritime training at the Merchant
13 Marine Academy at Kings Point, New York,
14 \$6,680,000 for financial assistance to State marine
15 schools, and \$1,882,000 for supplementary training
16 courses authorized under section 216(c) of the Mer-
17 chant Marine Act, 1936; and

18 (5) for operating expenses, not to exceed
19 \$38,864,000, including not to exceed \$7,208,000 for
20 reserve fleet expenses, and not to exceed \$31,656,000
21 for other operating expenses.

22 SEC. 3. There are authorized to be appropriated for
23 fiscal year 1981, in addition to the amounts authorized by
24 section 2 of this Act, such additional supplemental amounts
25 for the activities for which appropriations are authorized

1 under section 2 of this Act, as may be necessary for increases
2 in salary, pay, retirement, or other employee benefits author-
3 ized by law, and for increased costs for public utilities, food
4 service, and other expenses of the Merchant Marine Academy
5 at Kings Point, New York.

Senator WARNER. We will start off this morning with the Secretary of Maritime Affairs.

If witnesses today have a special reason for seeking a priority position on the list of witnesses, please do not hesitate to let Mr. Hardy know the nature of your needs and we will try to accommodate you. Otherwise, we are going to expedite the hearing by putting the questions in the record and thereby detain the witnesses for a minimal period of time.

Mr. Nemirow, would you start off. Your statement will be included in the record.

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

Mr. NEMIROW. Thank you, Senator Warner.

I am happy to appear here this morning to present to you the Maritime Administration request for appropriations authority for fiscal year 1981. I had intended to review in some detail the status of our current maritime program and our fleet.

Senator WARNER. Please do so.

Mr. NEMIROW. I will do so now. On January 1, 1980, there were 727 privately owned deep-draft ships in the U.S. Merchant Marine, with a record total of 23.5 million deadweight tons, up 2.5 million deadweight tons from the level of January 1, 1979. During 1979, the oceangoing component of the deep-draft fleet decreased 15 ships from 584 down to 569 ships, but its capacity increased 1.5 million deadweight tons, from 19.0 million to 20.5 million.

The U.S. subsidized liner fleet will comprise an estimated 143 ships during 1980, down 15 from the end-1979 level. This reduction will be caused primarily by a 14- to 15-ship fleet reduction on the part of Farrell Lines, which is disposing of older breakbulk ships in order to upgrade and streamline its liner operations. Still, this subsidized fleet will account for almost 80 percent of our foreign trade liner fleet. Between 1970 and 1979 the U.S. share of our foreign trade liner cargo has climbed from slightly over 20 percent to about 30 percent.

With the continuing high rate of overtonnage in the world's tanker trades, there is no near-term prospect of tanker construction for the foreign trade. However, the deadweight tonnage of the U.S.-flag tanker fleet has increased by approximately 90 percent since 1970, and in contrast to the dismal world tanker situation, that fleet remains almost fully employed today.

Senator WARNER. What is your definition of "dismal"? Upside or downside? Shortage?

Mr. NEMIROW. The employment of shipping the foreign trade, namely foreign ships in the foreign commerce of the United States and world trade, is down. There are a number of ships that do not have employment at the moment.

Senator WARNER. That is my understanding.

Mr. NEMIROW. As far as the U.S.-tanker fleet is concerned, the U.S. fleet is fully employed at the moment. However, it should be clear to the committee and yourself that the employment is essentially in the domestic trade, much of it between Alaska and the continental United States.

Our dry bulk fleet is still limited to 19 ships, most of them old. However, legislation currently under review in the Congress would eliminate restrictions that have discouraged U.S. construction and operation of dry bulk ships, and we are seeking CDS funds in 1981 that could be used to expand the bulkier building program.

In 1979, subsidized ship construction contracts totaled \$417 million, the highest level since 1973. However, we anticipate a sharp decline in shipbuilding employment as ship deliveries shrink order-books in the next few years. Three of the shipyards that have been primarily CDS contractors since the 1970 act need contracts for new vessels now if they are to sustain currently available facilities and manpower. Nevertheless, 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 1981 budget request. The Maritime Administration request for 1981 appropriations authorization totals \$567,074,000. The requests by activity are: \$135 million for ship construction; \$347,697,000 for operating-differential subsidies; \$18,750,000 for research and development activities; \$26,763,000 for maritime education and training expenses. This includes \$18,201,000 for maritime training at the U.S. Merchant Marine Academy at Kings Point, N.Y., \$6,680,000 for assistance to State marine schools, and \$1,882,000 for supplementary training authorized under section 216(c) of the Merchant Marine Act, 1936; and \$38,864,000 for Maritime Administration operating expenses. This amount will provide \$7,208,000 for the National Defense Reserve Fleet, and \$31,656,000 for other operating expenses.

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

The level of construction-differential subsidy, or CDS, funds required for 1981 activity is \$135 million, and new appropriation authority in that amount is requested. The strongest prospects for 1981 are dry bulk ships, which would be in response to the legislation now under consideration by this committee. 1981 funds are sufficient for subsidy of five of these dry bulk ships. No replacement obligations are due for our liner fleet in 1981. Resumption of contracting in this area is anticipated in fiscal year 1982.

The total amount needed for operating-differential subsidies in 1981 is \$347,697,000. We are also requesting \$44,307,000 in supplemental funds for 1980 operating-differential subsidies. This supplemental amount will provide for increased costs for settlement of amounts due for prior year operations, previously unbudgeted activity in the Soviet grain trade, cost increases based on the 1980 tentative subsidy rates, and changes in the rate of payment for current year operations. The 1981 request for appropriation authorization represents an increase of \$47,182,000 over the 1980 amount adjusted for the supplemental request. This reflects an increase as of 1981 in the number of ships and ship years entitled to subsidy and the net effect of foreign and domestic cost escalations.

The 1981 appropriation authority requested for research and development activities is \$18,750,000. This includes an increase of \$2,450,000 from the 1980 appropriation. The additional funding will permit the development and implementation of research programs

for the Computer-Aided Operations Research Facility at Kings Point, N.Y., in support of the Port and Tanker Safety Act. The funding level for research in fleet management and port planning functions also will be expanded.

The appropriations authorizations requested for 1981 maritime education and training expenses total \$26,763,000, which is \$2,541,000 less than the 1980 appropriation. 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, 1936.

An amount of \$18,201,000 is requested for maritime training at the U.S. Merchant Marine Academy. This is \$1,069,000 above the 1980 appropriation. The additional funds will provide for mandatory pay increases and for other operating cost increases. The requested funding will continue the program to upgrade facilities at the Academy. In 1981, the modernization program includes funding for a new public works building, continuation of the program to renovate the utility system in the barracks, and four other projects of similar scope.

An amount of \$6,680,000 is requested for the six State marine schools. The requested amount is \$3,605,000 less than the level appropriated for 1980. As you will recall, the 1980 authorization included \$3,500,000 to replace the Massachusetts Maritime Academy schoolship. This was a one-time cost. The 1980 amount also included one-time funds for catch-up maintenance for the overall schoolship program; \$1,882,000 is requested for supplementary training courses, an increase of \$11,000 over the 1980 program.

The appropriations authorizations requested for 1981 operating expenses total \$38,864,000. This includes \$7,208,000 for National Defense Reserve Fleet expenses and \$31,656,000 for expenses related to the administration of several programs which contribute to the development and use of waterborne transportation systems, emergency planning and operations, and to general administration. The \$7,208,000 requested for reserve fleet expenses reflects an increase of \$1,031,000 over the 1980 program.

The additional funds are required for increased personnel and operating costs relative to expanded workload in the reserve fleet and for the expansion of the Ready Reserve Fleet. The Ready Reserve Fleet program, which was begun in 1977, is a joint Navy-Maritime Administration program to prepare and maintain a subset of selected ships within the reserve fleet in an advanced state of readiness to permit full activation within 5 to 10 days of notification. It is estimated that four ships will be added to the Ready Reserve Fleet in 1981, bringing the total to 29 ships.

The \$31,656,000 requested for other operating expenses includes an increase of \$2,549,000 over the amount appropriated for 1980. Additional resources are requested to cover:

First, the 1981 cost of the October 1979 pay raise and other operating cost increases;

Second, to initiate administrative programs implementing currently anticipated legislation converting State maritime school cadet allowances to forgivable loans and establishing a mandatory service obligation for Maritime Academy midshipmen;

And finally, for two additional positions to increase the effectiveness of our pollution prevention program.

Senator Warner, this concludes my prepared statement, and I will now be glad to answer the committee's questions.

Senator WARNER. You indicated your appropriation is 2.5 million. Would you explain why the reduction there?

Mr. NEMIROW. I think the total amount in that appropriation takes into account the one-time cost incurred in the selection of a new schoolship for the Massachusetts Maritime Academy and some maintenance costs that we incurred in the 1980 budget which will not be incurred in the 1981 budget.

Senator WARNER. To what extent do the graduates of these various institutions, having received public funds, find gainful employment in the maritime industry?

Mr. NEMIROW. We have had in recent years a very good record of employment, particularly for graduates of the Merchant Marine Academy at Kings Point in the maritime field. If my recollection is correct, I think somewhere between 93 and 96 percent of the graduating class of 1979 found employment at seagoing jobs. I think the record of the State schools has also been good in 1979. This experience indicates that when there is an opportunity, cadets at the merchant marine academy will go to sea. As you know, there has been no mandatory service obligation in force. However—

Senator WARNER. You say "in force" and "no mandatory"?

Mr. NEMIROW. "In force." Legislation is now being considered. It has been introduced in the House. I can't recall if it has been introduced in the Senate.

Senator WARNER. I am advised by counsel, it has not been introduced in the Senate.

Mr. NEMIROW. We anticipated action this year by the House on that bill, and we will recommend it to your consideration in the course of this session of Congress.

Senator WARNER. I am curious as to how we can enforce or require these obligations if there are no opportunities in the industry.

Mr. NEMIROW. The bill has not been introduced in the Senate. They are in the bill. I would say there have been opportunities for over 90 percent of the Kings Point graduating class to find employment in seagoing activities. We have, in that bill, specified a series of activities which would be acceptable employment, and it is our expectation—and we intend to monitor this very carefully—that all of the cadets graduating from the merchant marine academies will be able to comply with the provisions of that bill. There is a provision in the bill which would allow a case by case exemption on a cadet by cadet basis, in the event that employment is not available.

Senator WARNER. What is the benefit for 4-year training in dollars to each cadet? What is the total investment of the public?

Mr. NEMIROW. We had a debate on that. I am having that number reviewed. The costs, including all basically fully allocated costs, there are certain costs and improvements which are not included in this number. It was \$38,000, I believe, for cadets.

We have been asked that. I might comment just in passing, we were asked to review that number. There is a subcommittee of the

House which has been looking into maritime training, and they think the number should be higher than that. That is the number which we have been using, and we are reviewing that number at this time.

Senator WARNER. Can you also provide for the record the percentage of graduates remaining in the industry over the last 10 years? See if you can work out a curve showing, I presume, a dropoff and how steep that dropoff is over a 10-year period.

Mr. NEMIROW. Yes. We can provide that in both chart form and numbers.

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

The requested information on class by class attrition from the maritime labor market for Merchant Marine Academy and state marine school graduates for the past ten years is not available. There has been no systematic survey of these graduates which would provide this information.

MarAd developed retention rate assumptions for use in its marine work force supply and demand study. These assumptions were based on the number of graduates that initially enter the maritime labor force adjusted by attrition-by-age statistics derived from Coast Guard records of individuals having deck and engine licenses. The retention estimates for Merchant Marine Academy and state marine school graduates combined that were used in the supply and demand study are shown below:

ESTIMATED RETENTION OF FEDERAL AND STATE ACADEMY GRADUATES IN SEAFARING EMPLOYMENT

Years after entry in the licensed work force	Percent of original number estimated to remain in the work force	
	Deck	Engine
1.....	85.0	85.0
2.....	76.5	76.5
3.....	70.5	70.5
4.....	65.5	65.5
5.....	61.0	61.0
6.....	58.0	58.0
7.....	55.0	55.0
8.....	53.5	52.5
9.....	51.5	50.5
10.....	50.0	48.5

Notes: If a work force surplus condition exists where supply exceeds demand by more than 20 percent, attrition rates for graduates will double those reflected above for years 1 through 5. These assumptions are predicated on enactment of an enforceable mandatory service obligation.

Senator WARNER. I was handed this statement. According to an account in the press, MarAd has predicted a severe shortage of shipboard officers in the U.S. Merchant Marine by the mid-eighties.

In your judgment, is this prediction accurate? And if so, what can be done about it?

Mr. NEMIROW. We have analyzed four sectors of the U.S. maritime industry, and in certain of the sectors we do find that we expect a shortage in properly trained officers for ships. We are trying at the Merchant Marine Academy and through cooperation with the State schools and also in cooperation with the private schools to assure that this gap will be filled by properly trained U.S. personnel.

Senator WARNER. Last October in response to a committee request for a report on the current status of the U.S. Merchant

Marine Academy, MarAd submitted lists of nine completed management and operations improvement projects. Ten such projects are underway, and nine more were planned.

Can you supply for the record a written up-to-date report on that request, as well as any recommendations that you feel appropriate?

Mr. NEMIROW. Yes. I would be glad to. I can say from my own knowledge that we are basically working on the same programs. As you can see in our 1981 authorization request, we intend to comply with that program through additional modernizations in that time frame. I think you will find that we are on course with what we submitted to you in October and will submit an update at this time.

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

U.S. MERCHANT MARINE ACADEMY MANAGEMENT AND OPERATIONS IMPROVEMENT PROJECTS

I. RECENTLY COMPLETED, ONGOING REVIEW

1. On basis of a complete review of disciplinary procedures, completed a major restructuring, updating, and reissue of Midshipman Disciplinary System Regulations, Regimental Administrative Regulations, and Midshipmen Bearings Handbook. This review resulted in a significant improvement in, and clarification of the Academy discipline structure for the midshipmen.

2. Strengthened the Honor System by providing formal guidelines for Honor Board procedures, methods to insure greater degree of uniformity in Board decisions, and an improved method of election of members to the Board by the midshipmen. The decision review functions of the Superintendent were more clearly defined. This effort has resulted in a major improvement in the functioning of the Honor System at the Academy.

3. Reorganization of the Commandant's office to separate the disciplinary staff from the counseling staff; increased the counseling staff and their role.

4. Addition of psychiatric and gynecological professional services to medical program.

5. Major review, realignment and updating, in joint effort with the Department of the Navy, of the Naval Science curriculum and revision of USNR status. This effort increased the stress on material which a merchant marine officer requires to operate a merchant ship in a military auxiliary role, and decreased the purely Naval officer elements in the curriculum.

6. Major expansion of diesel laboratory and engineering curriculum modification to improve midshipmen training, in slow- and medium-speed diesels.

7. Initiation of Coast Guard approved extension course in slow- and medium-speed diesel engines for actively sailing engine officers.

8. Submittal to Congress of proposed legislation to strengthen service obligation of graduates.

9. Elimination of the unfair effect of out-of-state nominations by providing that competition for admission is based on state of residence of the applicant.

II. CURRENTLY UNDERWAY

*1. Clarification of regulations and literature descriptions of nomination and competitive selection processes to provide full information on these processes for nominating officials and potential applicants and to avoid misunderstandings or ambiguities.

*2. More accurate emphasis in Academy literature on primary mission of sea service for graduates so that applicants have a clearer understanding of the primary objective of the Academy and their obligation.

3. Design of automated demerit reporting system so that midshipmen accumulating demerits at a rate above class norms can be rapidly identified for counseling, and analyses made by charging officer to prevent abuses.

*4. Faculty upgrading and qualifications review program to provide continuing education opportunities for faculty development and to enhance their teaching capabilities.

*Denotes projects on which considerable amount of work has already been done.

*5. Development of an elective program in the Department of Engineering for accreditation by the Accreditation Board for Engineering and Technology.

*6. Modification of chemistry courses to incorporate updated material necessary for ship's officers in marine chemistry "(handling of hazardous chemical cargoes, dangers of noxious gases and protective measures, gas-freeing of tanks, assurance of breathable air and non-explosive air in tanks, etc.);" development of extension courses for Certified Marine Chemists.

7. Increased sea-time requirement to meet new IMCO requirements. The Academy has moved to a new target of 300 days on commercial ships.

8. Ongoing facilities modernization program. This program is now one-third complete and an additional one-third has been funded by Congress and is underway.

*9. Increased recruitment program for minorities and women on faculty and staff.

10. Commitment of additional resources to recruitment of minorities and women student applicants, and to recruitment in underrepresented states; increased related emphasis on use of special appointments and review of special appointments procedures in light of Bakke and Weber decisions of the Supreme Court.

11. Study of academic department organization and management procedures for improved program effectiveness and efficiency.

12. Development of ADP applications to processing nominations and to competitive appointment procedures.

13. Evaluation of alternative recruitment actions in terms of effectiveness in achieving geographic and qualitative goals.

14. Development of improved graduate employment tracking system. This is essential for enforcement of the proposed legislation on a strengthened service obligation for graduates.

15. Review of the balance between core curriculum and electives in meeting the Academy mission, with emphasis on the need of different sectors of the maritime industry, particularly deep-sea, Great Lakes, offshore oil support, and ocean towing.

16. Comprehensive review, with the Public Health Service, of the medical care program at the Academy.

17. Development of programs to strengthen the relationship between the academy and the industry through symposia, meetings, increased use of industry representatives for special lectures, etc. the purpose of this action plan is to improve the response of the Academy to changing industry training needs and to maintain the currency of the faculty and academic program to developments in the industry.

III. PLANNED

1. Major review of admissions policy and competitive appointment selection factors; development of correlation of post-graduation performance to key selection criteria employed in the past to determine effectiveness of selection criteria.

Senator WARNER. H.R. 6554, the MarAd authorization bill pending in the House, is \$10 million higher than the administration's budget requested. The extra amount was added for the specific purpose of funding of a sealift readiness exercise in order to ascertain our ability to respond to an emergency.

What is the administration's view on this amount?

Mr. NEMIROW. I am afraid I cannot be specific on the administration's view on that amount. We at the Maritime Administration have looked into that \$10 million additional authorization, and we have tried to determine what best use we could make of those funds, if those funds were made available.

As you know, there are various types of exercises. One is a command post exercise, basically a paper exercise. You could also have a mobility exercise or a ship readiness test. We would contemplate, if these funds were made available, that the most efficient use of those moneys, \$10 million, would be for additional test activations of ready reserve fleet ships to test their readiness more thoroughly than is possible with current spot-tests.

As you know, we have several ships in the ready reserve fleet which we are to make available to the Navy on a no-notice test basis within a period of 5 to 10 days from request. We have had

success in the past in meeting those time frames. My staff likes to point out, I must say, Senator Warner, that notwithstanding the fact that the request—the first request came on Saturday morning, we were still able to make the 5—I think it was a 7-day period.

We would expect that the most useful purposes to which we could put those funds would be to test the capacity of the reserve fleet in combined activation tests with the Department of Defense.

Senator WARNER. Does your Administration anticipate a budget cut as a consequence of the President's effort to balance the Nation's budget?

Mr. NEMIROW. I don't like to anticipate budget cuts, but we have had discussions within the Department and with the administration concerning appropriate cuts in our budget. Those discussions are ongoing, as recently as this morning. There was a meeting over at the old Executive Office Building this morning on the question of budget cuts. The Secretary has made it clear that the current rate of inflation calls for reductions in the administration's original budget proposal and that at the President's request, the Department of Commerce is examining our initial proposal to determine where we can make further cuts without compromising our ability to meet the commitments that the Administration has made and that the Department has made to these various programs.

We are in the process of reviewing our budget at this very hour.

Senator WARNER. Research and development is a subject that I personally find very interesting. As you may know, I dealt with it in the Pentagon for several years. Now I am the ranking minority member on the Department of Defense Subcommittee and have examined the Armed Services review of R. & D. I want to see what you are intending to do.

I am interested in the kinds of programs that you are conducting under R. & D. and to what extent you are profiting from the enormous amount of R. & D. done on parallel subjects in the Department of Defense. We have billions over there.

Do you have the same backup sheet that I have?

Mr. NEMIROW. I don't know if it is the same sheet. I do have backup.

Senator WARNER. It is peach colored.

Mr. NEMIROW. Mine didn't come out in peach, but—can you tell me the page of that document?

Senator WARNER. MA-22. Why don't you go ahead and articulate what you propose to do in research and development this year?

Mr. NEMIROW. Well, there are a great many individual projects in research and development which try to analyze the capability and efficiency of both ship operations and ship management and port technology. We spend a substantial amount of our funds on ship productivity, shipbuilding facility improvements, and joint programs, particularly with the shipbuilding industry, to see if we can more efficiently build ships in the United States.

Basically our funds are allocated in four different areas. One involves competitive shipping, and that is a means by which we endeavor to enhance management's capability to provide competitive U.S.-flag shipping services.

Next is the area of ship performance and safety. We do a substantial amount of work on hardware to make ships productive and

also to cut down fuel costs. We also spend resources on cargo handling and intermodal development.

Senator WARNER. To what extent does your staff study what the Navy has on this?

Mr. NEMIROW. I can't answer that of my own knowledge, but I can tell you this, Senator, that on a regular basis, on practically a daily basis, our design engineers and architects are in communication with the Department of the Navy on ship design, on hull design, on handling equipment, to try to see how compatible our program is with their program.

As you may know, on the PD-214 which is now being considered by the Navy is an adaptation of a Maritime Administration design. We discussed it with the Navy and with the Marine Corps, and in their judgment the vessel that we had been working on would provide unique capability for certain defense purposes. We are working with them now on an ongoing basis to try to upgrade our plans and to make them available to the Navy in the kind of interchange that you are talking about. We do maintain a liaison at that level, particularly on the design side.

I would like to say "daily," but I am sure several times a week.

Senator WARNER. It is a subject I'm interested in, and I will be personally looking at it in the coming year. I think there should be complete freedom of exchange of information back and forth. Maybe we can reduce some of the redundancy. There has to be some redundancy.

Mr. NEMIROW. In recent weeks, I've had meetings personally with the Secretary of the Navy and the Assistant Secretary of the Navy, with Deputy Secretary of Defense Claytor on the PD-214 and on the issues of the Merchant Marine and its relationship to the Department of Defense capability.

Senator WARNER. With the continuing and substantial increases in the cost of bunker fuel, do you believe there is a need for Marad to initiate accelerated R. & D. projects to conserve fuel? Have you been working in that area?

Mr. NEMIROW. Yes, we have been working in that area for several years. We have been working both on new designs for increased efficiencies in existing turbine engines and also on the potential for converting to diesel—many of the ships in the fleet. I think we have done some very good work in that area.

We have been sharing with the industry. Initially we thought conversion of a great number of ships to diesel power would both be cost effective and fuel efficient. However, for many of the ships in the fleet today, we now believe that we should pursue alternate courses to improve the efficiency of existing powerplants as opposed to conversion to diesel which can be very expensive and time consuming. Particularly for middle aged and older ships, conversion to diesel is probably not economical for the operator. We have an ongoing program in that area that has been coordinated regularly with the industry with respect to our findings and how we can better improve fuel efficiency of the U.S. fleet.

Senator WARNER. What are the major problems that shipyards face in trying to compete with foreign yards? Let's put aside the labor issue and just talk about plant investment and technology.

Mr. NEMIROW. Yes; I think that we have made some progress on the technology and hardware side of shipbuilding. We have done some experiments and cooperative projects with various shipyards in the United States under an R. & D. sharing type of contract. We are trying to make the shipyards more efficient.

We have looked at the question of grants, which is raised in the House bill, and our reactions at this time are that through the R. & D. program—and more importantly, if we can increase the level of shipbuilding activity in the United States—grants per se would not be necessary, but that our shipyards would be productive—and substantially more productive than they are today—if sufficient numbers of vessels were ordered.

Senator WARNER. I need not remind you that the time within which you respond to the questions will largely control the time within which this bill can be marked up and moved forward.

Mr. NEMIROW. There are certain bills that perhaps are not as timely as we would like. In terms of our responses to the authorizations, we will be timely, I assure you.

Senator WARNER. Thank you. I look forward to working with you and all of the people of your Administration during the coming year. Thank you.

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

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question 1. As a control for ODS, MarAd, of course, employs the Subsidy Index System contained in the Merchant Marine Act of 1970. It provides for the payment of seafaring wage subsidies in per diem amounts. The rate of change in the index, computed annually by the Bureau of Labor Statistics, is used as the measure of change in seafaring employment costs.

(a) Since 1971, have U.S. seaman's wages escalated at a higher rate than U.S. industry wages?

Answer. The following figures compare the employment costs increases (1971=100) for a 38-crew automated cargo ship, with the index provided by the Bureau of Labor Statistics specifically for use in wage subsidy calculations in accordance with Section 603 of the Merchant Marine Act of 1936 (as amended).

EMPLOYMENT COST INCREASES

Year	Index	A-1 ¹ automated ship
1971.....	100.0	100.0
1972.....	109.6	113.3
1973.....	119.6	126.0
1974.....	121.7	135.0
1975.....	141.3	147.0
1976.....	155.4	166.9
1977.....	168.0	181.1
1978.....	182.4	194.9
1979.....	197.9	215.8

¹ Includes wages, estimated overtime, fringe benefit contributions and estimated social security and payroll taxes.

Question 2. With respect to ODS, it has been suggested that there is no incentive for U.S. vessel operators to put a cap on their total operating costs and thus hold down the cost differential, because they know the government is going to pay whatever difference there is between their higher operating costs and those of their foreign competitors.

In addition, it is said that aside from the wage index system, there are no cost controls in the ODS program that limit the government from picking up unreasonable expenses which a vessel operator might incur.

Would you please comment?

Answer. It simply is not true that subsidized operators have no incentive to control costs because of ODS. Operating subsidies account for only about 35 percent of vessel operating costs on average (17 percent when depreciation, interest and voyage costs are included). For those costs which are subsidizable, about 62 percent of the total of vessel operating costs, the government picks up only about 56 percent of any cost increases. For the 38 percent of costs which are not subsidized at all, any cost increases must be borne entirely by the operator. Conversely, if an operator reduces operating costs, he benefits substantially from the reduction.

In answer to the second part of your question, the wage index system is the primary ODS cost control in the ODS program. Since wages account for 86 percent of total subsidy paid, this seems appropriate. The wage subsidy index system limits subsidy on wage increases to amounts determined by a non-maritime wage index developed by the Bureau of Labor Statistics. Wages paid in excess of this index or for crew members in excess of the crew size determined by MarAd as necessary must be fully borne by the operator. It should also be pointed out that expenses for maintenance, repair and insurance are audited to insure that: (1) they are eligible for subsidy under the terms of the operator's contract; and (2) they are fair and reasonable.

Question 3. Last October, in response to a Committee request for a report on the current state of the U.S. Merchant Marine Academy, MarAd submitted a list of 9 completed Management and Operations Improvement projects; 10 such projects underway; and 9 more which were planned.

Would you please supply for the record a written up-date of that report, as well as any recommendations you feel appropriate.

Answer. The answer to this question has been provided in the form of a transcript insert for the record.

Question 4. Towards the end of the last Congress the Administration submitted a proposal to strengthen service obligation of graduates of the U.S. Merchant Marine Academy.

Does the Administration intend to resubmit this legislation?

Answer. The Administration submitted a draft bill to the 95th Congress in September 1978 proposing to strengthen the service obligation of Academy graduates. This bill was never introduced in the 95th Congress. In January 1979, Representative Murphy introduced H.R. 604 with the same purpose, to impose a service obligation on graduates of the Merchant Marine Academy. The provisions of H.R. 604 have been incorporated in H.R. 5451 introduced by Representatives Murphy and AuCoin. H.R. 5451 proposes to consolidate legislation dealing with Maritime Education and Training into a new title in the Merchant Marine Act, 1936 and also includes establishment of a service obligation for Merchant Marine Academy midshipmen and graduates. Hearings have been held by the House Ad Hoc Select Subcommittee on Maritime Education and Training, but the bill has not been reported out of Committee. The Administration continues to support the proposal, and does not currently plan to submit the same bill.

Question 5. By letter dated February 26, 1979, OMB requested the Department of Commerce to review its regulations implementing the cargo preference provisions of section 901 of the 1936 Act, "to ascertain whether or not the application of the cargo preference regulations to domestic grant programs is justifiable."

(a) Is MarAd applying the Cargo Preference Act of 1954 (section 901) to domestic grant programs?

Answer. MarAd is applying the Cargo Preference Act of 1954 (section 901) to domestic grant programs. The Secretary of Commerce, by memorandum dated April 20, 1979, advised the Office of Management and Budget (OMB) of the basis for applying the Cargo Preference Act of 1954 to domestic grant programs. OMB has not commented further.

Question 6. Last year MarAd told the Committee that there "is only one significant area where 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."

(a) Has that difference been resolved?

(b) Are there any new disagreements between MarAd and another government agency?

Answer. (a) MarAd requested that the Comptroller General review applicability of the Cargo Preference Act to the STATE/AID cash transfer program for Israel. The Comptroller General issued a decision on March 3, 1980, determining that the cash transfer program for Israel is not subject to the Cargo Preference Act. MarAd is preparing an appeal to reconsider this decision.

(b) There are no disagreements with any other agencies on the applicability of the Cargo Preference Act.

Question 7. In 1979, MarAd informed the Committee that 1977 was the last year for which complete information was available on the question of what percentage of the total cargo carried by U.S.-flags in our liner trades is government-impelled cargo.

(a) Is MarAd's information more current now?

(b) From MarAd's answer last year, it appears that there was a one year information gap (1978). If this is the case, is MarAd fully carrying out its responsibilities under Section 901 of the 1936 Act to "review the Administration of the cargo preference laws and annually report to Congress?"

Answer. (a) Yes, data on the U.S.-flag share of government-impelled cargo in 1978 have been presented to the Senate Commerce Committee.

(b) To assure that the cargo preference provisions of Section 901 of the Merchant Marine Act of 1936 are followed, the Maritime Administration monitors the shipping activities of more than 65 Federal agencies, the Export-Import Bank of the United States (Eximbank) and the Military Assistance Program (MAP) and Foreign Military Sales Credit (FMS) programs of the Department of Defense.

In order to prepare the report on U.S.-flag carriage of government-impelled cargo in 1978, MarAd processed over 42,500 ocean bills-of-lading or computer tape equivalents. Processing of data begins as soon as information is made available from the various shipper agencies. Full-year shipment records are not available until May/June of the following year due to normal administrative delays and the lag time for recording shipments in transit. Final processing of full year data then takes approximately 2 months. Thus, there is a significant lag in the availability of the fully processed information: at the time of the March 1980 hearings the most recent year's data available cover 1978; at the 1981 hearings the data will cover 1979, and so on. However, there is no "gap" in the data.

Question 8. Although Export-Import Bank cargoes are subject to our cargo preference laws, last year MarAd informed the Committee that statistics for government-impelled cargo do not include Eximbank cargo.

(a) Is this still the case; and if so, why?

(b) If it is, does this failure hinder MarAd from carrying out its monitoring and reporting responsibilities under section 901 of the Merchant Marine Act of 1936?

Answer. The agreement between the Export-Import Bank and MarAd which provides the mechanism for MarAd to develop tonnage and revenue statistics for this program was concluded in 1977. We now expect to begin reporting this material for shipments which took place during calendar year 1979. The 1979 Eximbank data will be available by June 30, 1980. The data we initially compiled for calendar year 1978 was incomplete, but it did enable us to provide a more responsive report than in previous years.

Question 9. There is legislation in both the Senate and the House to encourage construction of dry bulkers.

In the meantime has MarAd taken any administrative actions to encourage dry bulk construction?

Answer. The main elements of the Administration dry bulk program are contained in companion bills H.R. 4945 and S. 1457. In addition, on September 6, 1979, MarAd published proposed regulations (46 CFR 254) to provide subsidy for capital cost, subsistence and stores, supplies and equipment expenditures on bulk vessels operating in the foreign trade. The capital cost element would allow subsidy for vessel depreciation and interest costs currently borne by operators who must forego construction-differential subsidy in order to operate in both domestic and foreign trades. The capital cost subsidy, combined with the above-mentioned subsidizable items currently available only to bulkers in the Russian grain program, should remove impediments to flexibility and cost comparability in the U.S. dry bulk sector, and make construction of these vessels financially attractive. The Agency is currently reviewing public comments on the proposed regulations which were received in January 1980.

Recent changes MarAd instituted in 46 CFR 252 and which became effective in January, permit use of single flag competition and constructed manning in computation of ODS. These changes will be applicable to bulk vessels and should further encourage the buildup of this sector.

In other areas of dry bulk shipping promotion, MarAd research and development funds are being used at Livingston shipyard, where three bulk vessels are currently being built, to improve production engineering on a standardized dry bulk vessel series. Also, the MarAd market development program is continuing the study and identification of potential markets and vessel designs for U.S. dry bulk exports and imports.

Question 10. The law presently puts a 50 percent ceiling on the payment of construction-differential subsidy to domestic shipyards. Is this a realistic ceiling in terms of what the actual differential is?

Answer. A 50 percent ceiling on the payment of construction-differential subsidy (CDS) to domestic shipyards is not an unrealistic ceiling. However, there are certain factors which affect the construction cost differential between a U.S. shipyard and a foreign shipyard. These factors include: (1) the dollar exchange rate and the currency involved; (2) the existing foreign and domestic market conditions for the particular type of vessel involved; (3) the type of propulsion plant, i.e., whether steam or diesel; and (4) the degree of cost recovery sought in foreign ship prices designed to capture orders for underutilized facilities.

Except for LNGs, which would involve a rate in the 25-30 percent range, the current CDS rate in the United States has generally been hovering around the 50 percent rate, but may be somewhat higher for some ship types. Due to the uncertainty that attaches to the factors listed above, it is difficult to predict whether or not CDS rates might exceed 50 percent at any given time in the future. Nevertheless, we believe that the 50 percent CDS rate is still generally attainable.

Question 11. According to an account I have seen in the press, "MarAd has predicted a severe shortage of shipboard officers within the U.S. Merchant Marine by the mid-1980's."

(a) Is this account accurate; and if so, what, if anything, can MarAd do to head-off the shortage?

Answer. The 1979-1988 merchant marine officer supply and demand study looked at four maritime sectors—commercial deep-sea; Great Lakes; the peripheral sector which includes the oil exploration and towing segments; and government (Federal civil service). The study includes a critical assumption that attrition rates of academy graduates entering the industry will be substantially reduced as a result of enactment of a statutory service obligation. Over the period 1979-1988, a close balance in the supply and demand of deck and engine officers is projected for the commercial deep-sea sector so long as this sector continues to offer the greatest compensation to new officer entrants and to senior officers. This is the sector which has received the greatest Federal emphasis. On the other hand, the Great Lakes sector has a current shortage particularly in engine officers, but the shortage disappears by the end of the forecast period. The peripheral and government sectors show significant shortages which are projected to grow substantially during the 1980's. There is evidence of limited mobility of personnel among the various sectors as mobility is influenced by comparative compensation, personal job preference and experience factors, pension plan coverage, vacation entitlements, and job seniority which does not move with the individual when changing from one job market to another.

Several steps could be taken to alleviate the shortage, although none would produce immediate results. MarAd has encouraged increased enrollment in the Great Lakes Maritime Academy and increased upgrading of unlicensed personnel to overcome the current Great Lakes shortage.

Manning requirements for small craft of the type predominant in the oil exploration and towing industry and sea-time requirements for personnel licensing in the peripheral sector are determined by laws and regulations which were developed for deep-sea vessels. These laws and regulations should be reviewed for applicability to small craft operating in the oil exploration and towing segment. Further, industry and state training programs could be encouraged to include a career pattern for training youth which is also tailored to the local population. This would increase the supply of new officers in this sector. MarAd will continue to monitor this sector to determine if this Agency should propose additional actions to alleviate shortages in this area.

Question 12. It has been said that "... some shipbuilders abroad continue to offer to build ships at prices below cost. Their governments, through an array of direct and indirect financing and tax incentives, over and above those normally available, continue to encourage and indemnify this practice of 'false' pricing."

(a) Do you believe this to be the case?

(b) If so, how widespread is it?

Answer. In recent years most foreign governments have given extraordinary assistance to their shipbuilding industries to sustain ship construction activity in the face of a diminishing market and fierce price competition. This aid takes many forms, from outright nationalization of shipyards to more subtle help, such as use of economic development funds to secure export orders from developing countries. In some instances ships appear to have been sold at prices below objective estimates of actual costs. Shipbuilding demand has improved somewhat in recent months, relieving downward pressure on prices. However, there remains a long-term supply/demand imbalance in world shipbuilding that can only be dealt with over time with a reduction in capacity. There has been an attempt by some European governments and Japan to tie extraordinary short-term assistance to shipbuilding to long-term capacity reductions, but in the countries most affected, shipbuilding is often a significant part of the industrial infrastructure, important for regional employment and export earnings and therefore a politically sensitive issue.

Question 13. (a) Are you aware of plans by any U.S.-flag operators to "retrofit" their vessels with medium or slow speed diesels?

(b) Is there any money in MarAd's budget request for this purpose?

Answer. (a) One U.S.-flag operator is considering changing the contract for three container vessels now under construction to install diesel power plants rather than steam turbines as originally planned. Another operator, who is constructing five dry bulk vessels, has indicated that slow speed diesels will power the last two of these ships. (Medium speed diesels will be installed in the first three.) However, no CDS applications for retrofit of vessels that are now operating have been received.

(b) The budget request does not include funds explicitly for this purpose.

Question 14. The current statutory limit on the ship financing guarantee program (Title XI) is \$10 billion.

(a) What is the total of the guarantees outstanding at the present?

(b) What is the amount of new guarantees MarAd expects to make for fiscal year 1981?

(c) What is the magnitude of shipbuilding orders that would have to be placed during fiscal year 1981, to reach the present statutory limit of \$10 billion?

Answer. (a) Commitments and guarantees outstanding as of February 29, 1980, totaled \$6,625,742,000.

(b) The budget request projects a fiscal year 1981 level of \$1,500,000,000 in new commitments and guarantees. This estimate does not assume commitments of this magnitude but reflects an attempt to maintain a degree of flexibility in view of uncertain demand by the industry. Current indications are that the fiscal year 1981 level may approximate the fiscal year 1980 level of \$970 million.

(c) If the projected level of commitments and guarantees outstanding at the end of fiscal year 1980 remains firm, the fiscal year 1981 program would have to include, in addition to CDS-eligible orders of \$250 million, non-CDS shipbuilding orders totaling approximately \$3 billion. Because of the wide variety among the types of craft involved, ranging from crew boats and barges to large tankers and LNG ships, and the variability in demand for each of the various types, it is impossible to interpret demand in terms of orders in any meaningful way. The remaining authority could cover between 15 and 20 LNG carriers, or thousands of river barges, or any one of countless alternate mixes.

Question 15. The Administration's budget request for CDS is \$135 million for five dry-bulkers.

(a) Does MarAd have the CDS contracts on file for these dry-bulkers?

(b) If not, what is the basis of MarAd's request for \$135 million for five dry-bulkers?

Answer. (a) MarAd is in the process of reviewing a construction proposal by Falcon Cargo Ships to build four dry bulk carriers of 64,000 DWT for fiscal year 1981. Projected cost increases in the shipyards would put the CDS cost for these ships at estimated \$130 million.

(b) The basis for our request is the potential market for these ships and the current level of interest expressed by U.S. operators.

Dry bulk cargoes represent a large and growing share of U.S. trade. In the first six months of Calendar Year 1979 about 161.2 million tons of these cargoes were carried in the U.S. trades, which represents an increase of 14.9 million tons over the first half of 1978. This trade is expected to continue to increase in the future, although at a somewhat slower rate than 4.3 percent experienced over the last decade. In contrast to this burgeoning trade, the U.S. dry bulk fleet capability has declined precipitously. In 1947 the U.S. fleet represented one-fourth of the world dry bulk fleet; now the U.S. fleet has declined to 19 ships, of which 13 are over 30 years old. They represent only 0.3 percent of the world fleet by tonnage. As a result of

this decline in the fleet, the U.S. carried less than 2.0 percent of its dry bulk cargoes in the first half of 1979. The U.S.-flag dry bulk carrier construction envisioned under a program of five ships per year would represent only a modest increment to U.S. fleet capacity and full employment of these would require the capture of only a portion of the annual increment in the total market for dry bulk U.S. foreign trade.

A second factor which argues for the success of the dry bulk program is the current high level of interest expressed by the operating industry. A large segment of the potential demand for new U.S.-flag dry bulk ships is anticipated from the owners of the more than 100 U.S. owned foreign-flag bulk ships. Eight of these ships are already over 25 years of age. Twenty-six more ships will have passed the age of 25 by 1985. As these ships are replaced, the dry bulk legislative package is expected to offset the factors which originally motivated these owners to register their ships foreign. With adequate Federal support, many are expected to build and register their new ships in the U.S. Additionally, the current worldwide overtonnaging in dry bulk ships is estimated to be eliminated in the early to mid 1980's due to projected increases in dry bulk trade.

Question 16. H.R. 6554, the MarAd authorization bill pending in the House, is \$10 million higher than the request appearing in the Administration's budget.

That extra amount was added for the specific purpose of funding a sealift readiness exercise in order to ascertain our ability to respond to an emergency.

(a) What is the Administration's view on adding this amount?

(b) In the event Congress does add \$10 million for this purpose, specifically how would a sealift readiness exercise be carried out, and what would MarAd's role be?

(c) How long would it take to develop the scenario for a sealift readiness exercise; how long would the exercise itself take?

(d) Could a sealift readiness exercise be carried out for less than \$10 million?

Answer. (a) Ten million dollars will not buy much in the way of testing sealift readiness and is therefore a questionable expenditure.

(b) MarAd cannot test military sealift readiness unilaterally. Full participation of the Army, Navy, Military Traffic Management Command and Military Sealift Command is necessary to provide cargo, move the cargo to ports, and load it aboard ships. A list of planned exercises with strategic mobility aspects is attached. The Reforger exercises are live exercises in which substantial forces are moved to Europe by air and sea. The movement of two brigades in Reforger 80 is expected to cost the Army nearly \$13 million, not including intercontinental transportation costs; the total cost of Reforger 80 could approach \$30 million. The projected cost of Reforger 81 is higher. For \$10 million we could not do as much to test sea mobility as is now accomplished in the sealift portions of the Reforger exercises.

The proposed \$10 million could be used specifically to test ship readiness, as contrasted with full sealift mobility testing. Ready reserve ship readiness is tested each year by no-notice activation of a single ship, selected at random by the Navy. The no-notice tests are funded from the same account that supports the upgrading of NDRF ships and their introduction to ready reserve status. While we do not consider the annual single ship tests inadequate, we would prefer to conduct the test activation of more than one ship each year. With \$10 million, we could conduct 8-10 activations, perhaps including one from the regular NDRF in addition to those from the ready reserve fleet. That would provide an expanded data base for assessment of RRF and NDRF capabilities and for possible revision of readiness evaluation procedures.

(c) A multiple ship activation exercise could be conducted prior to January 1, 1981. A full strategic mobility exercise with adequate Defense Department participation probably would take longer, mainly because it would have to be fitted into the already full DOD exercise schedule. A multiple ship activation exercise would take about 30 days, including return of ships to reserve status. The duration of a full strategic mobility exercise would depend on the exercise scenario. Movement of equipment to port, loading aboard ship, a 24-hour voyage, return to port, discharge and return of equipment to unit home station should take about a month.

(d) Exercises designed to enhance sealift readiness can be conducted for less than \$10 million. A Ready Reserve Fleet ship can be activated in a no-notice test for less than a million dollars. Large and small scale command post exercises, which are necessary on a continuing basis to test and provide the basis for improvement of MarAd-DOD joint operating procedures, can be conducted at costs ranging from a million dollars or so down to a few thousand dollars, depending on the scale of the test.

EXERCISES INVOLVING SEALIFT—FISCAL YEAR 1980-1984

Fiscal Year 1980

- Team Spirit 80—Regional exercise in Korea; land/air/sea forces.
- Solid Shield 80—Atlantic Command exercise; land/air/sea forces.
- Reforger 80—Reinforcement of NATO; land/air/sea forces.
- Opportunity Journey 80—Air/sea mobilization; strategic outloading and tactical deployment.
- Gate Latch 80—CPX for Transportation Operating Authorities (MSC, MTMC, MAC).
- Captive Lighting 80—Pacific Command deployment exercise.
- Tempo Caper 80—Joint amphibious exercise.

Fiscal Year 1981

- Same basic seven as fiscal year 1980 plus:
- Proud Spirit—National mobilization CPX.
- Poll Station/Wintex-Cimex—Exercise of NATO General War Plans (CPX).

Fiscal Year 1982

- Same basic seven as fiscal year 1980 plus:
- Premium Cut—Mobilization and deployment plan exercise.

Fiscal Year 1983

- Same basic seven as fiscal year 1980 plus:
- Polka Time/Wintex—CPX of NATO General War Plans.

Fiscal Year 1984

- Same basic seven as fiscal year 1980 plus:
- Post Parade—CPX of General War Plans.

Question 17. Does the Maritime Administration interpret the decision of the United States Supreme Court involving the tanker *Stuyvesant* as giving owners of CDS-built vessels the right to make total repayment of CDS and have domestic trading restrictions lifted, or merely as recognizing the discretion of the Maritime Administration to so revise CDS contracts in appropriate cases?

Answer. The Maritime Administration interprets the decision of the U.S. Supreme Court regarding the *Stuyvesant* as recognizing the discretion of the Maritime Administration to revise CDS contracts, under the appropriate circumstances. We do not interpret this decision as providing owners of CDS-built vessels the right to totally repay CDS and have domestic trading restrictions lifted.

Question 18. What is the position of the Maritime Administration as to domestic operation of CDS-built vessels whose 25-year useful lives have expired?

Answer. It has been understood by the Maritime Administration that once the statutory economic life of a CDS-built vessel has expired, domestic trade restrictions would no longer apply. It is not always the case that the useful life of a vessel is limited to 25 years (20 years in the case of tankers and other liquid bulk carriers). In some cases, before a vessel reaches the end of its statutory economic life, the vessel undergoes reconditioning or reconstruction; thus, extending its useful life.

Question 19. (a) Does the Maritime Administration intend to continue processing applications for amendments to CDS contracts permitting total repayment of CDS and lifting domestic trading restrictions pending conclusion of its public rulemaking proceedings? (43 F.R. 51045 et seq)

(b) If so, do you believe proceeding on an "ad hoc" basis will afford protestants adequate notice since there will be no ground rules for any party to follow? Under those circumstances couldn't a protestant legitimately claim it had been denied a meaningful hearing, and evaluation of its rights?

Answer. Currently, there are no applications pending for amendments to CDS contracts that would permit total repayment of CDS and would lift domestic trading restrictions. Unless unusual circumstances were to arise which would justify other action, we would expect to conclude rulemaking proceedings prior to processing any such applications. In any event, any action the Maritime Administration might take would be after assuring ourselves that the interests of affected parties are appropriately protected.

Question 20. Do you know what the cost-benefit ratio is for every dollar the government spends on CDS?

Answer. Our most recent analysis on the economic benefits of the construction subsidy program was published in May 1978, based on 1970 data. This study employed an input-output economic model to analyze the industry and the subsidy

program, and it indicates that each dollar of output by the shipbuilding industry produces a total output of \$2.10 in the economy.

As a result, \$115.2 million in subsidy was paid in 1970, and the shipbuilding industry generated the following direct and indirect economic activity which without the subsidy would probably not have occurred:

[Dollars in millions]

Domestic output.....	\$552.6
Personal income.....	\$181.5
Corporate income.....	\$53.1
Employment (jobs).....	21,700
Federal income tax revenues.....	\$34.5
State and local taxes.....	\$15.7

The shipbuilding industry probably generates about the same size multiplier impacts in 1980. Only a significant structural change in the economy would cause the multiplier to change greatly. Also, the above dollar impacts are in 1970 dollars; they would have to be increased substantially to reflect the same impact in 1980.

Question 21. It has been said that replacement of old vessels with new vessels built in domestic shipyards without benefit of CDS is a major problem for domestic operators and requires the most careful long-range planning.

Domestic operators must plan their fleets solely on the basis of the limited opportunities in the domestic trades, because vessels built in the United States without CDS are generally non-competitive in the foreign trades.

Thus, it is contended, the possibility that CDS-built vessels engaged in foreign trade may suddenly be transferred to domestic trades upon repayment of CDS raises the further possibility that domestic operators will be discouraged from making the huge investments required to maintain modern and efficient operations.

(a) If CDS-built vessels are permitted to engage in unrestricted domestic trade operations upon repayment of CDS, won't it pose a threat to the development and maintenance of an adequate domestic merchant marine?

Answer. Unrestricted entry into the Jones Act trades by CDS-built vessels would perforce destabilize that market and would result in a deterioration of the domestic fleet. The unsubsidized commitment in domestic ship operations currently required insures a supply-demand balance.

The United States Supreme Court decision in the *Stuyvesant* case recognizes the discretion of the Maritime Administration to control entry of CDS-built vessels into the domestic trades. This discretion allows for accommodation of exceptional market needs while protecting the integrity of the Jones Act fleet.

Question 22. Phase I of MarAd's Next Generation Cargo Liner study recommends that the government continue the deployment of the Next Generation Liner initiated by the study, and in particular:

encourage construction of standardized cargo-liners by offering incentives to the ship operating industry such as increased subsidy rates for purchases of standardized vessels, or inclusion of some of the vessel's equipment as defense features.

concentrate its ship research efforts (machinery outfit, hull form, structure, etc.) on optimizing the standardized ship.

Does MarAd agree with these recommendations; and if so, specifically how is MarAd implementing them?

Answer. We are currently considering the recommendations contained in Phase I of the study. This study was conducted by private contractors whose views are independent of those of the U.S. Government. Phase II, a study of how advanced technology can make a next generation ship more competitive, is underway.

We remain seriously interested in this area. Standard ships, produced in series, have served the U.S. merchant marine well in the past, most notably during W.W. II. It is generally recognized that such production is economical. The construction of a suitable ship, in a large series, helps enhance our competitive position in the years to come. For this reason, we are carefully evaluating the commercial features of the design that the contractor has proposed.

Question 23. There has been considerable discussion recently that any amendment to the law which would permit paying operating-differential subsidy to foreign-built U.S.-flag vessels should be balanced with other amendments which would assure maintenance of a minimal shipyard mobilization base.

What are your views?

Answer. It has been our position that ODS should be considered for foreign-built vessels only on an application-by-application basis, subject to approval by the Secretary of Commerce. We would also propose to set forth by regulation standards and

conditions intended to assure that no foreign-built ship would be covered by operating subsidy if the granting of such subsidy were to affect the flow of orders to U.S. shipyards.

Question 24. (a) Would you please explain the "essential trade route" concept?

(b) Do you believe that retention of the concept is in the best interests of ODS applicants, intervenors, shippers, and the public; and, if so why?

Answer. (a) The "essential trade route" concept is derived from the requirements of the Merchant Marine Act, 1936, as amended, for:

"... The creation of an adequate and well balanced fleet, including vessels of all types, to provide shipping service on all routes essential for maintaining the flow of foreign commerce of the United States ... (and) readily and quickly convertible into transport and supply vessels in a time of national emergency." (Section 210.)

Additionally, Section 211 of the Act authorizes the Maritime Administration, among other things, to investigate, determine and keep current records of:

(a) The ocean services, routes, and lines from ports in the United States ... to foreign markets, which are, or may be determined by the Secretary of Commerce to be essential for the promotion, development, expansion and maintenance of the foreign commerce of the United States ... and in reaching its determination the Secretary of Commerce shall consider and give due weight to ... the number of sailings and types of vessels ... type, size, speed ... and regularity of sailings of such vessels with a view to furnishing adequate, regular, certain and permanent service ...

Simply stated, the essential trade route concept requires a subsidized liner operator to commit to long-term regularly-scheduled common carrier services between designated U.S. and foreign ports.

(b) An explicit goal of government promotion of the Merchant Marine is the provision of shipping services "on all routes essential for maintaining the flow of foreign commerce of the United States" [see citation above, in answer (a)], and this requirement must therefore be integrated into the subsidy schemes. Despite its drawbacks, we know of no better way than the present system for marrying this requirement to the mandate to create an adequate liner fleet. The essential trade route concept as currently implemented works toward assuring shippers and the public an availability of U.S.-flag common carrier services over a broad geographic area. Implementation is flexible enough to allow for appropriate adjustments in service to accommodate changing market or operational needs—this protects the carriers. The provisions of Section 805(a) of the Merchant Marine Act, 1936, as amended, afford remedy to those who might claim their best interests are affected adversely by subsidized service on a given route.

Question 25. There is no request for CDS for construction of liner vessels in this year's MarAd budget request.

(a) What is your forecast for each of the next five years with respect to CDS applications for liner vessels?

(b) How many of these applications will be for slow speed diesels?

Answer. (a) The level of subsidized shipbuilding necessary for liner vessels over the next 5 years relates to replacement obligations which are required under the long-term ODS contracts for currently subsidized liner operators. Based on these replacement obligations alone, 30 ships will be replaced during the 5 year period fiscal year 1982-86 with at least 20 larger ships.

(b) It is difficult to predict at this point in time, the future demand for new liner construction powered by slow speed diesels. Recognizing that diesel power may be a significant economic issue for new construction, MarAd will continue to encourage the use of diesel engines in the interest of promoting a more competitive fleet.

Question 26. The Senate/House Conference rejected a House provision in the MarAd Authorization bill for fiscal year 1980, which provided "construction-differential subsidy (CDS) may not be used for any vessel which will have a subsidized manning level 50 percent above the minimum determined by the Coast Guard to be necessary for the safe operation of the vessel."

What are MarAd's views on this provision?

Answer. The manning scale certified by the U.S. Coast Guard refers to the number of persons required to navigate the vessel from one location to another safely. This does not include additional functions which are required for the actual operation of a merchant ship, such as maintenance and service of cranes, reefers, engines and pumps; and the steward and utility services. Thus, such classes of working personnel, while not a part of the navigation complement, are still essential to the total operation of the vessel.

To illustrate the relationship of the navigation crew to the total complement needed to operate the vessel, the list below is the minimum safe operating comple-

ment of the SS AUSTRAL PATRIOT, an automated ship operating in the U.S. to Africa trade which receives operating-differential subsidy.

Master	1	2d assistant engineer.....	1
Chief mate	1	3d assistant engineer.....	1
2d mate	1	Oiler.....	3
3d mate	1	Able seamen	6
Radio officer	1	Ordinary seamen.....	3
Chief engineer	1		
1st assistant engineer.....	1	Total	21

For this ship, deck, electrical and mechanical maintenance personnel are needed, as are cooks and mess/utility persons. Recognizing that such functions need to be performed aboard ship, the Coast Guard provides that additional unspecified crew may be carried. For the AUSTRAL PATRIOT, 18 other persons are allowed in the crew; thus, this vessel is operating with a total crew of 39.

The implication that disallowance of those positions that are greater than 50 percent in excess of the required USCG minimum manning scale (in this case, the 21 positions) would reduce subsidy costs is deceptive. The elimination of the maintenance and service personnel from ODS compensation would seriously disadvantage the subsidized operator, since the disallowed positions (six in the case of the AUSTRAL PATRIOT) could not in fact be eliminated from the operating crew. The work of the excluded personnel would still have to be performed, by unsubsidized personnel, or the subsidized complement working at overtime rates. The latter situation could actually increase total operating subsidy costs.

Question 27. It has been suggested that the law be amended to direct the Secretary of Commerce not to approve an ODS application unless he determines that "manning levels are no higher than necessary for the safe, efficient and economical operation of the vessel and that all subsidizable costs are reasonable."

What are your views?

Answer. Secretary Nemirow addressed this issue in his testimony of March 4, 1980, before the House Merchant Marine and Fisheries Committee. At that time he said:

"Another gratuitously limiting provision of the draft bill involves a stipulation proposed for inclusion in Section 601(a) that as a condition for ODS application approved manning levels be 'no higher than necessary for the safe, efficient, and economical operation of the vessel.' This does not refer to the number of crew members eligible for subsidy, which is an entirely different issue. Rather it would entail dictation by the government regarding the size and composition of a subsidized ship's crew irrespective of the number that might be eligible for subsidy. This strikes us as an unnecessary and undesirable intrusion of the government into the operator's business."

COMPARATIVE MANNING LEVELS, U.S. SUBSIDIZED SHIPS DESIGNED AND CONSTRUCTED AFTER 1970

Ship type	Average manning levels	
	U.S. subsidized	Foreign ¹
LASH.....	38	26-33
Container.....	41	26-35
Ro/Ro.....	33	31-37
35,000-38,000 dwt tanker	27	25-34
90,000 dwt tanker.....	26	25-34
80,000 dwt ore/bulk/oil carrier	26	25-34

¹ Averages derived from a range of manning levels found on similar ships of several foreign nations.

Question 28. Last year Congress enacted two amendments to the Merchant Marine Act of 1936, which:

Permits a vessel operator to suspend his operating-differential subsidy contract from one to five years.

Permits (for five years) a foreign-built U.S.-flag container type vessel engaged in the U.S. foreign trade to stop at an interim U.S. port to transfer cargo destined for a foreign port on another U.S.-flag vessel owned by the same operator.

As yet, as MarAd had any experience under these amendments?

Answer. No requests have been received for suspension of an operating subsidy contract. The transfer of cargo as described is not within our purview, but rather that of the U.S. Customs Service.

Question 29. Our present dry bulk fleet consists of 19 vessels. Has MarAd made any estimates on how many "dry bulkers" we will need in the next 20 years if we are to carry a "substantial portion" of the dry bulk cargo in our international trades?

Answer. The present U.S.-flag fleet actually comprises only 17 vessels; 2 older vessels were scrapped in 1979. It is difficult to determine with a great degree of accuracy the number of dry bulk ships required to carry a substantial portion (defined as 50 percent) of the U.S.-foreign trade over the next 20 years. Part of the problem lies in the assumptions which must be made regarding vessel size, speed, port capability, etc., assumptions which may vary from one estimate to another. Further, projections of cargo movements beyond five years tend to be best guesses. However, based on the information we have available to us at this time, we estimate the need for between 500 and 600 dry bulk ships in the 40-60,000 deadweight ton range over the next 20 years in order to carry a substantial share of the dry bulk cargo.

Question 30. Recently a British publication had this to say on reducing ship manning levels:

"On the vexed subject of crew reduction, . . . there is probably little room for further reduction. Sooner or later we have to consider the social problems of having a dozen men immured in a gigantic empty ship, rather like lighthouse keepers, and also the relative costs of maintenance ashore and afloat could itself halt the trend. Sooner or later there is going to be a casualty where the cause will be ascribed to undermining and insurance interests, we can assume will not remain silent over such issues."

What are your views?

Answer. The subject of crew reduction is complex. Few, if any valid generalizations can be made. Certainly there is the potential for further crew reductions using the most modern, up-to-date technology, both aboard existing ships and on new ships as obsolete ships are replaced. The extent to which this occurs should be determined by safety factors as well as technological and economic factors.

Question 31. Later this morning the Committee will hear testimony urging that it make clear that MarAd should include in Actual Cost for Title XI mortgage purposes the interest on existing bonds during the period of time that the vessel is in the shipyard as "construction period interest."

By so doing, when a vessel is laid up in a shipyard, for example, to convert from a steam-turbine power plant to a diesel power plant, the costs associated with debt service obligations could be capitalized into the capital cost of the reconstruction and bonds issued to finance 75 percent of them along with the shipyard reconstruction costs.

Would you please comment?

Answer. In the past we have denied requests for this type of treatment of debt service on vessels laid up for conversion work. Denial has been based on the fact that there has been no enhancement of the collateral value of the vessel which serves as security for Title XI guaranteed debts. The approval of additional debt secured on a converted vessel, the value of which has not been significantly increased, would jeopardize our ability to fully recover our payment of the entire debt from the Federal Ship Financing Fund in the event of default.

We feel that responsible administration of the Title XI program requires that this policy be continued on a case by case basis.

Question 32. This morning the Committee will hear testimony urging that language be put in the authorization bill report encouraging the Secretary of Commerce to exercise his authority to build and operate oil/bulk/ore carriers ("OBO") as well as dry bulk carriers under per diem subsidy.

The reason behind this recommendation is that if we did, MarAd would proceed to negotiate per diem contracts covering two OBO's, thus giving APEX Marine Corporation the incentive it needs to build these two OBO's.

Would you please comment?

Answer. Our interpretation of the intent of Title IV as it would be revised by H.R. 4769 is not to give any individual operator the incentive to build specific vessels.

Rather, the per diem subsidy is designed to provide all prospective vessel owners and operators a subsidy alternative to that which is currently offered under Titles V and VI of the Act. Specifically, Title IV would provide owners with an added degree of operating flexibility not currently available, thereby enabling them to operate in all U.S. trades, both foreign and domestic. We support this concept as it will foster the development of a modern fleet capable of meeting all of the country's maritime needs.

Question 33. (a) Do U.S. shipyards have the technological "know-how" and "ability" to construct slow speed diesel vessels?

(b) Do any of the components have to be imported?

(c) Over the past few years have any MarAd Research & Development programs dealt with this area?

Answer. (a) Three slow speed diesel containerships are currently under construction at Avondale Shipyard. These are the first vessels to be built in the U.S. using this type of propulsion.

(b) Yes, imported components of the propulsion plant, such as the crankshaft, thrustshaft, turbo-charger and piston heads are being used. However, the construction contract calls for a guaranteed 40 percent domestic component part utilization for the propulsion system in the first vessel and this requirement increases to 60 percent for the third ship. The use of foreign components in the construction of CDS vessels is allowed under a policy established by the Maritime Subsidy Board, Docket No. A-118 (August 12, 1977), waiving the "Buy American" provision of Section 505 of the Merchant Marine Act of 1936 on a case-by-case basis until a broader domestic capability slow speed diesel propulsion plants is attained.

(c) No, research is not needed to bring U.S. industrial manufacturing capability of the slow speed diesel to the level that already exists for other forms of marine propulsion. What is needed is a solid market demand for ships and this form of marine propulsion accompanied by some degree of protection for the manufacturing base—the "Buy American" provisions of the Merchant Marine Act provide protection.

Once a solid U.S. manufacturing base for the slow speed diesel comes into being, research efforts can be pursued on a cooperative cost-shared basis with the manufacturer(s). However, two factors should be recognized:

(1) The European manufacturers and their Japanese licensees are heavily committed in the area of research and improvements for the slow speed diesel.

(2) The results of these foreign research efforts will eventually be transmitted to all engine licensees including those in the U.S.

In essence, the license agreement between the foreign manufacturers and their U.S. licensees provides a form of reverse technology flow (foreign to U.S.). Thus, U.S. funded research must not duplicate foreign research and should be specifically oriented toward "U.S." market needs.

Question 34. The Senate/House conferees last year rejected a provision in the House version of MarAd's authorization bill which would have prohibited the payment by an operator of funds provided by operating-differential subsidy (ODS) to the Transportation Institutes, Joint Maritime Congress, American Maritime Officers Service, or any other organization which engages in lobbying activities.

That provision was rejected because, among other reasons, it was felt that it:

Singles out the maritime industry for what is in effect special labor legislation affecting collective bargaining.

Does so without regard to the general labor-management legislation to which the maritime industry is subject.

Singles out the maritime labor sector in a fashion which casts a shadow of illegitimacy on certain aspects of collective bargaining not otherwise proscribed by Federal law relating to industries generally in the United States.

Would seriously impair the ability of the named organizations to provide valuable information and recommendations to the Congress.

Do you believe those reasons for rejecting a provision are valid, and would you comment on them?

Answer. Yes, we agree with the cited reasons for rejecting the proposed provision. Collective bargaining and labor relations groups which may be formed by labor and management are governed by the National Labor Relations Act which applies to all industry sectors. Since many other industry sectors receive Federal support, the proposed provisions would have, indeed, singled out the maritime industry for more restrictive treatment.

Question 35. I understand that there is no statutory ceiling on the percentage of a ship's operating costs which can be paid by operating-differential subsidies.

What is the current percentage of a vessel's operating costs that are paid by ODS?

Answer. It is correct that there is no statutory ceiling on the percentage of a ship's operating costs paid by operating-differential subsidy (ODS). Specifically, four types of vessel operating costs are subsidizable: wage costs; costs of maintenance and repairs not covered by insurance; subsistence for crews of passenger vessels (including combination cargo-passenger ships); and for some operators, the costs of protection and indemnity and/or hull and machinery insurance. Subsidy outlays for each of these items vary not only from company to company, but from vessel to vessel.

In 1977, the latest year for which we have complete data, the percentage of vessel operating costs represented by ODS averaged 35 percent for the entire subsidized fleet. ODS averaged 17.13 percent of operating costs when depreciation, interest and voyage expenses are included in the calculation. Skyrocketing fuel costs reduce the proportion of operating costs represented by ODS; adjusted for 1979 fuel prices, the 1977 ODS percentages average 28 percent and 15.35 percent, respectively.

Question 36. How much research and development funds has MarAd spent since 1960 on new hull and propulsion technology?

Answer. The annual dollar amounts of research and development funds the Department of Commerce has spent since 1960 on new ship (hull and propulsion) technology are:

Propulsion and hull performance

Year:	
1960.....	\$500,000
1961.....	483,000
1962.....	1,423,000
1963.....	2,757,000
1964.....	3,963,000
1965.....	4,384,000
1966.....	3,558,000
1967.....	4,742,000
1968.....	4,167,000
1969.....	6,100,000
1970.....	4,000,000
1971.....	6,500,000
1972.....	3,869,000
1973.....	6,174,000
1974.....	7,821,000
1975.....	5,130,000
1976.....	5,000,000
1977.....	3,500,000
1978.....	4,132,000
1979.....	5,187,000
Total	83,390,000

Question 37. What considerations has the Department of Commerce given to insisting that the same high-performance standards that apply to U.S. airlift should also apply to U.S. sealift? Please explain fully.

Answer. The Department of Commerce insists on the highest possible standards of performance and safety for all ships constructed under the programs of the Merchant Marine Act, 1936.

The term "standards," of course, is technically most applicable to safety provisions and aspects of ship quality other than performance. In this area the responsible agencies are the Coast Guard and the classification societies, which receive strong support from the Department of Commerce. On the other hand, it is the Department of Commerce that is primarily concerned with performance objectives. In the area of performance the major objective is to improve the competitive position of the U.S.-flag fleet. To achieve this, major emphasis is placed on increasing cargo handling efficiency and on fuel costs savings through the use of more efficient propulsion systems.

Question 38. Please describe in detail what steps the Departments of the Navy and Commerce have taken to reduce shipping losses in the event of a NATO war.

Answer. The protection of merchant shipping in war is a function of the Department of Defense. The Maritime Administration works with the Defense Department on National Defense Features for subsidized merchant ships which are paid for by the Department of Commerce under the provisions of Title V of the Merchant Marine Act, 1936. There is also planning coordination for the Naval Control of Shipping.

Question 39. What specific arrangements does the Secretary of Commerce have with the Defense Department or Secretary of the Navy to (a) insure availability of U.S. Merchant ships within the time and numbers required for a NATO or other major emergency and (b) provide the necessary training and coordination for naval and merchant marine personnel to coordinate promptly and efficiently for protection of merchant shipping?

Answer. (a) Under the provisions of the Wilson-Weeks Agreement between the Departments of Defense and Commerce, the Joint Chiefs of Staff inform the Department of Commerce of the number and type of ships, in notional terms, required to support war operations. That information is provided, in practice, through continuing coordination of strategic mobility plans between the JCS, the Navy, and other military agencies and Marad.

Specific arrangements to ensure availability of U.S. merchant ships on berth within the time and in the numbers required for NATO or other major emergency are set out in MarAd Operations Plan 003, Reinforcement Sealift Operations. In general terms, the procedure is that the Military Traffic Management Command (MTMC) informs Military Sealift Command (MSC) of the amounts and types of deployment cargo to be loaded at specific ports at specified times; MSC notifies MarAd of the shipping capacity required, specifically the types and sizes of ships preferred; and MarAd provides ships by activating the Ready Reserve Fleet, marshalling U.S. ships from commercial trade, and, in a NATO war, coordinating the acquisition of European NATO ships with European authorities. Marad maintains a continuing plot of U.S. ship locations and European countries are prepared to inform MarAd immediately of the locations and itineraries of European ships earmarked for reinforcement support. Procedures for marshalling ships in response to DOD requirements have been developed and are tested periodically in exercises.

Coordination

General procedures for naval control of shipping are published in Chapter 10 of H.O. 117 and wartime merchant ship communications procedures are published in Chapter 11 of the same document, a publication which all U.S.-flag ships are required to have on board. Navy procedures call for briefing of ship masters by Naval Control of Shipping officers and convoy commanders before sailing in wartime. The briefings would include evasive routing instructions for independent sailers, operating procedures for ships sailing in convoy, and other detailed instructions appropriate to the situation.

Training

The Merchant Marine Naval Reserve Program has been revised and given the mission of reestablishing and maintaining in the U.S. merchant marine a nucleus of seagoing personnel trained in naval organization, administration and operational procedures, to ensure that effective interface and coordination are maintained with U.S. naval forces in time of peace, national emergency and war. Training offered Merchant Marine Naval Reserve officers will include underway replenishment operations, convoy procedures, communications, naval organization, roles and missions, naval engineering and maintenance, amphibious operations, escort and convoy tactics, and ordnance. The object of the program is not to train merchant marine officers for active Navy duty but for service on merchant ships in cooperation with the Navy.

Naval science courses at the U.S. Merchant Marine Academy and the State academies cover naval control and protection of shipping, among other Naval Science subjects. Naval Control of Shipping and Convoy Commodore courses at the Navy Anti-Submarine Warfare Center are given to U.S. Naval Reserve officers, and MarAd representatives brief the officers on planning for wartime operation of merchant shipping.

Question 40. I understand that Sea-Land's request to trade in their SL-7's under Section 510 of the Merchant Marine Act of 1936 has been withdrawn.

What is the present status of the SL-7 issue as far as the Maritime Administration is concerned?

Answer. The proposed trade-in of the Sea-Land SL-7's could not be accomplished through application of the provisions of Section 510 of the Merchant Marine Act of 1936, as amended. The Maritime Administration has therefore established, with the agreement of Sea-Land, a set of conditions that will allow for prompt consideration of the matter within the Government. The conditions are as follows:

1. That Sea-Land would agree to sell eight SL-7's to the United States at a price to be determined;
2. That it is the intent of Sea-Land to use all funds received in connection with said sale for the construction of U.S.-flag vessels in U.S. shipyards;

3. That all proceeds will be deposited in a Capital Construction Fund, the form of which shall be acceptable to both Sea-Land and the Secretary of Commerce as a vehicle to implement this proposal;

4. The extent and nature of the intended building program will depend upon the availability or nonavailability of construction-differential subsidy funds; and

5. In the event the Government does not appropriate or otherwise make available CDS funds for this purpose and no commercially acceptable opportunities exist for construction of domestic trade vessels by the end of January 1987, Sea-Land's agreement to use these funds in fulfillment of the building obligations set forth herein will no longer be binding.

Question 41. I understand the U.S. Lines, an American-flag liner company, recently gave up its operating-differential subsidy (ODS) presumably so they could operate more profitably than was possible while they were receiving operating subsidy. Isn't this backwards? Is our operating subsidy program such a failure that operators must give it up in order to make money?

Answer. U.S. Lines chose not to reapply for operating-differential subsidy when their 20-year contracts for ODS on Trade Routes 5-7-8-9 and 12 expires at the end of 1969 (a short-term ODS agreement actually extended U.S. Lines' subsidy on Trade Route 12 until August of 1970). At the time, U.S. Lines management believed that containerization and related technologies would allow the company to overcome operating cost disadvantages sufficiently to compete without subsidy. In addition, U.S. Lines sought to enhance their flexibility in scheduling and vessel deployment and to utilize foreign-flag feeder ships. In August of 1975, U.S. Lines reapplied for operating-differential subsidy, citing a number of factors, including inflationary pressures and government-supported third-flag competition, for doing so. In May of 1978, new management at U.S. Lines withdrew their request for subsidy.

The operating-differential subsidy is not designed to guarantee a profit for the shipowner but to help U.S. carriers achieve parity with foreign competitors on certain operating costs. Subsidized operators are obligated contractually in a number of ways, including minimum/maximum sailings to be performed, restrictions on ownership or use of foreign-flag vessels, etc. We are attempting to liberalize constraints related to subsidized operations without risking abuse of the commitment to service implicit in the subsidy arrangement.

Ideally, all carriers would find it more attractive to operate without help from the Government, and in some circumstances this has been possible, particularly where the advent of technology has shifted the concentration of costs from labor to capital. This has occurred only in a few of the fully-containerized trade between industrialized countries where there is a high-volume cargo movement evenly distributed between inbound and outbound legs of voyages. Technological advantage, however, is often short-lived. In any case, the operating-differential subsidy is but one element of many that might determine a carrier's profitability. Insofar as ODS helps a carrier achieve cost parity with foreign competitors in the area of vessel operations, it is an effective and successful program.

Senator WARNER. Mr. Hood?

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

Mr. Hood. Senator, this opportunity to support on behalf of the members of the Shipbuilders Council, the fiscal year 1981 budget request for \$135 million in new CDS funding, is very much appreciated.

As you heard Secretary Nemirow say, the Administration anticipates that these funds will be committed for the construction of five dry bulk carriers, and on the basis of tentative discussions now underway and assuming, of course, that the money is authorized and appropriated, there is good reason for optimism that a contract will materialize.

Assuming further that the five bulk carriers would compose a single contract placed with a single shipbuilder to enable the economies of scale that go with series construction, you might be interested in the economic effects of such an award, as demonstrated by analysis by Data Resources, Inc.

You may recall that the Shipbuilders Council retained DRI in mid-1978 to assess the economic impact of U.S. shipbuilding and ship operating industries, and that the results of this comprehensive study were cited as part of our testimony here on April 4 of last year. A CDS authorization appropriation in the amount of \$135 million at the currently prevailing CDS level would represent a total of new shipbuilding activity in the amount of \$270 million.

Using the economic model developed by DRI, this contract value of \$270 million would yield a total national economic impact of more than \$900 million and up to 5,000 man-years of direct shipyard employment, plus 15,000 man-years of employment elsewhere in the economy.

A further interpretation of the DRI findings indicates that each dollar spent in the CDS program actually decreases the Federal deficit by 93 cents in addition to full recovery of the initial subsidy outlay through increases in induced tax revenues. Among other plusses, the gross national product is increased by \$3.45, the trade balance is improved by \$1.90, and there is virtually no increase in the inflation rate—a meager four-tenths of 1 percent.

On the basis of this kind of analysis, it can be reasonably concluded that maintenance of a vital U.S. shipbuilding capability and significant expansion of the U.S. fleet to enhance national security and economic viability are jointly achievable at acceptable bottom line returns to the Public Treasury. These objectives are possible so long as there is realistic focus on net cost and economic benefits rather than on first round expenditures for subsidy.

Having said that, you are probably also interested in our view of the present state of merchant shipbuilding in the United States. The orderbook at the start of 1980 totaled 69 vessels, 36 of which are scheduled for delivery this year, 22 in 1981, 10 in 1982, and 1 in 1983. In 1979, 21 merchant ships were delivered, and new contracts for another 21 were received. Four of the latter involved CDS.

There are indications that the world shipping recession might be easing and some evidences of cutbacks in the world surplus of shipbuilding capacity. But the demand for newbuildings remains grim. The world orderbook was virtually static in 1979.

An increasing number of shipbuilders worldwide still are chasing a limited number of market opportunities. Competition is intense. Some shipbuilders abroad continue to offer to build ships at prices below cost. Their governments, through an array of direct and indirect financing and tax incentives over and above those normally available, continue to encourage and indemnify this practice of "false" pricing.

As abroad, U.S. shipbuilders felt a similar grimness in market demand for merchant ships in 1979 which was accentuated by the uncertainties of governmental policies. The backlog of contracts placed earlier in the decade is rapidly decreasing. It appears certain that the outlook for newbuildings, absent a change in national policy, will not support a stable workforce. The problem of overcapacity in the United States, however, will not likely become critical for another year, though one shipbuilder ceased operations in 1979. Two others turned to the production and assembly of railroad cars in an effort to minimize a projected downturn in shipyard employment.

In this regard, Senator, attachment A provides a picture of the total U.S. shipyard employment trend based on the current order-book. Attachments B and C relate to employment in the 26 private shipyards which compose the active shipbuilding industrial base as defined by the Maritime Administration. Attachment B shows the effect of Government projections on newbuildings prior to the submission of the fiscal year 1981 budget request.

Attachment C forecasts the Administration's 97-ship 5-year naval shipbuilding program as encompassed by the fiscal year 1981 budget request plus the 300-ship merchant program which has been advocated by the National Maritime Council, the Shipbuilders Council, and others. From attachment C, it will be noted that the Navy program alone will offset only part of the expected unemployment for nearly 50,000 shipyard workers. It will also be noted that the shipbuilding mobilization base will not be sustained.

Finally, Senator Warner, we support the Administration's fiscal year 1981 request for research and development funds as outlined by Secretary Nemirow. Over recent years, an effective infrastructure involving the Society of Naval Architects and Marine Engineers Ship Production Committee, individual shipbuilders and the Maritime Administration have developed, a number of projects have produced positive results. These have been in the areas of facilities, outfitting, and production AIDS; shipyard environmental effects; shipbuilding standards; welding; computer aids; and service preparations and coatings. In our judgment, more emphasis needs to be put on productivity. And productivity, of course, cannot improve without greater volume.

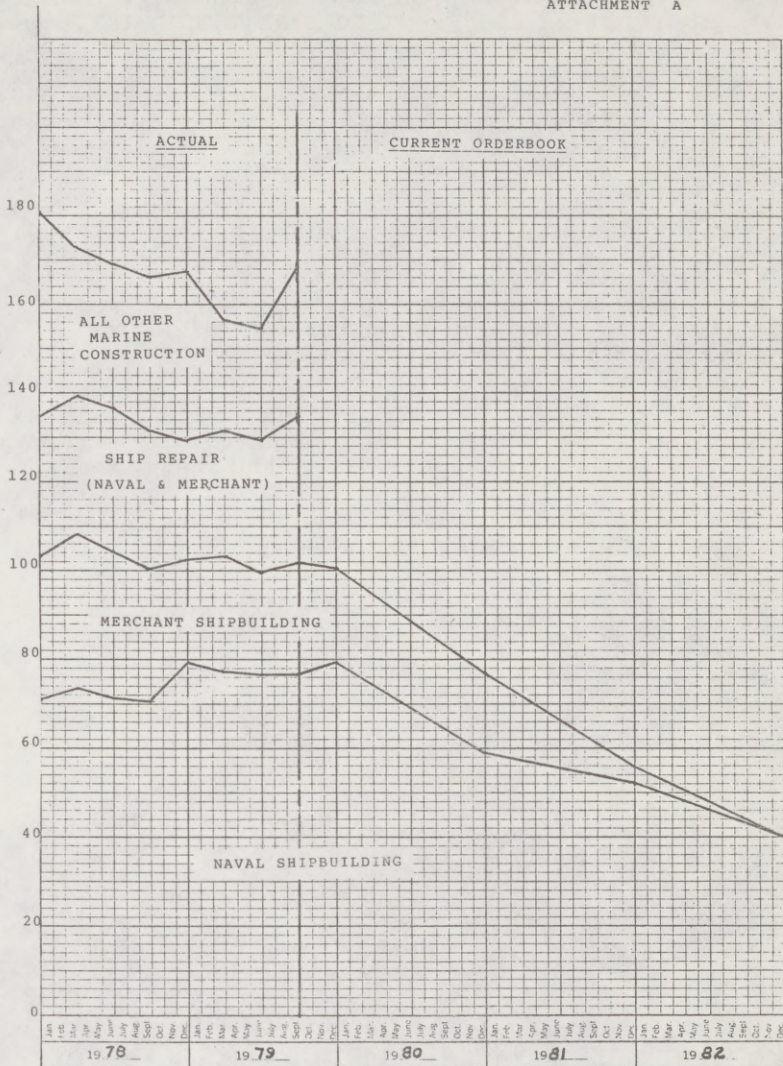
Currently, we are in discussion with the Maritime Administration and the Department of Commerce concerning the possibility of establishing a shipyard productivity center which would encompass not only MarAd programs but also certain of Navy programs.

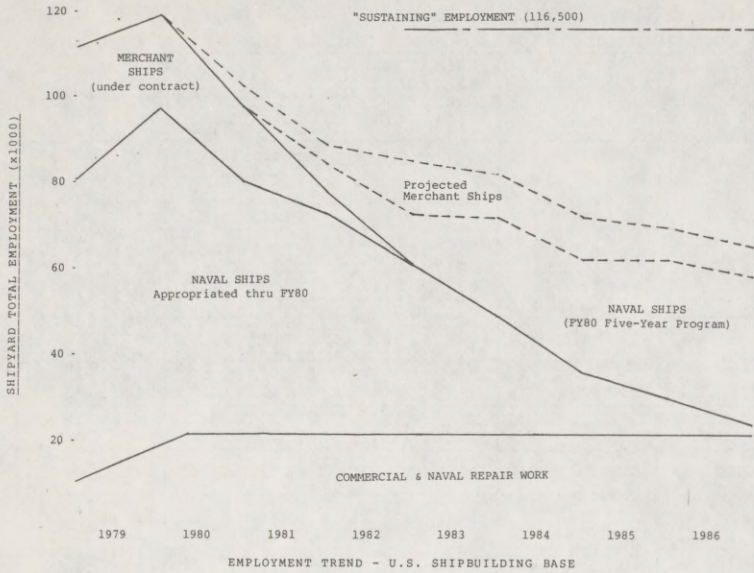
Mr. Hood. Thank you very much, Mr. Chairman, for giving me this opportunity to testify in connection with S. 2322. I will endeavor to answer any questions you may have.

[The attachments follow:]

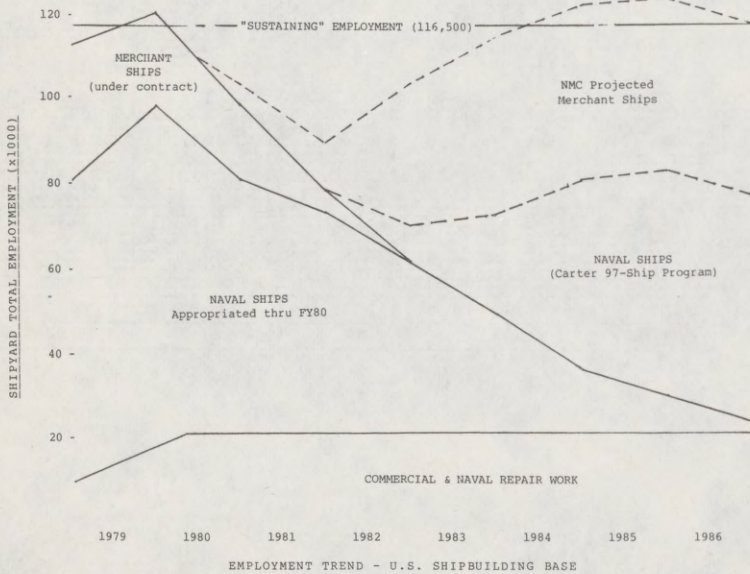
ATTACHMENT A

SHIPBUILDING & REPAIRING EMPLOYMENT - SIC 3731 (x100)





ATTACHMENT B



ATTACHMENT C

Senator WARNER. We always welcome your report each year, Mr. Hood. I think you personally and your organization make a substantial contribution to the industry and to the national security.

Mr. HOOD. Thank you.

Senator WARNER. You are familiar with my interest in this area.

Mr. HOOD. Very much so.

Senator WARNER. I am not here just to criticize the Administration, but I am concerned about the national maritime policy. Do you feel that has been sufficiently definitized yet to give us direction?

Mr. HOOD. No, sir. I still see no central thrust to the Administration's position, particularly with respect to much of the legislation which has been proposed to alleviate—to hopefully alleviate—some of our maritime ills.

Senator WARNER. In fairness to the present Administration, I think that the previous ones were also somewhat deficient in their overall national policy, wouldn't you say?

Mr. HOOD. Yes, sir. I have always been careful, Senator, to say that previous Administrations have been lacking, as well as the current Administration.

Senator WARNER. Do you know of any move within this Administration now to begin to put the Nation on a stronger course for maritime power? In other words, do you know of anything that is going on?

Mr. HOOD. I am aware of nothing other than that which relates to shipbuilding. And as you know, the Administration has indicated that the expanded naval shipbuilding plan will be helpful. But as I pointed out in my statement, it would solve only a part of the problem.

Senator WARNER. I am familiar with the naval program. Now it is expanded to some extent, but it is not that much expanded.

Mr. HOOD. As I read it, it does not improve the combatant strength of the fleet.

Senator WARNER. We are going to submit some questions to you. The law presently puts a 50 percent ceiling on payment of construction differential subsidies. Is this a realistic ceiling in terms of what the actual differential is?

Mr. HOOD. Taking into account the comments in my statement, Senator, certain foreign shipyards, with the encouragement and blessing of their governments, are now offering prices anywhere from 20 to 40 percent below costs. As prices are decreased abroad, the CDS ceiling in this country is increased.

At the present time, in my judgment, the 50 percent ceiling has been pierced and is probably in the vicinity of 60 percent or more.

Senator WARNER. How many countries are following that practice now? Are they identified? Do you wish to identify them?

Mr. HOOD. This is a good question. We are trying to pin it down with the view of initiating a proceeding under the Trade Act of 1979. However, in the Far East where South Korea is underbidding Japan, we have great difficulty in getting specific facts and figures.

Senator WARNER. What is the quality of work coming out of South Korea?

Mr. HOOD. It good.

Senator WARNER. Do U.S. shipyards have the technological know-how and ability to construct slow-speed diesel vessels?

Mr. HOOD. To construct into a ship, yes, sir. The problem relates to the adequacy of the industrial support base for slow-speed diesels.

Senator WARNER. In other words, we have to import the components?

Mr. HOOD. Until recently that was the case. There is one company which is now manufacturing slow-speed diesels under an agreement with Sulzer Bros. The company is Allis-Chalmers, and they are building slow-speed diesels for the container ships being constructed at Avondale Shipyards for American President Lines.

Senator WARNER. There have been discussions that any amendment to the law which would permit paying operational CDS to foreign-built U.S.-flag vessels would be balanced with other amendments to assure maintenance of a minimal shipyard mobilization base. What are your feelings?

Mr. HOOD. This refers to the provisions of the omnibus maritime bill. The omnibus maritime bill is predicated on the close integration of a number of factors. One is maintenance of the mobilization base. Two is availability of the CDS funding, and three is the availability of certain tax incentives which will enable the operators to have acquisition parity. If any one of these items is deficient or lacking, then I think the end results would be ODS for foreign-built ships. Yes, sir.

Senator WARNER. Do you know what the cost/benefit ratio is for every dollar the Government spends on CDS?

Mr. HOOD. I assume it would be what I mentioned—3.45-to-1. In other words, for every dollar that is spent in CDS, the national economic impact is \$3.45.

Senator WARNER. I noticed that in your statement. We won't detain you further on this. It is a subject of interest. We thank you, Mr. Hood, for giving us the benefit of your advice and counsel this morning.

Mr. HOOD. Thank you.

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

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question. A recent article in "American Shipper" magazine indicated the when Sealand wanted 12 new diesel powered container ships by 1981, it could not find an American shipyard able to fill the order. Apparently, the possibility was considered that a group of American yards, acting as a consortium, might be able to do the job but this would be illegal under American law.

Would the shipbuilding industry in the United States significantly benefit if they were given antitrust immunity to work cooperatively on large special projects?

Answer. The answer, of course, is yes. However, as will be noted in a memorandum dated December 11, 1978 prepared by our antitrust counsel, major statutory revisions would be necessary if a U.S. shipbuilding marketing environment comparable to that which exists in Japan is to be developed.

With regard to the reference to Sea-Land, there has been a strong suspicion within the U.S. shipbuilding industry that the procurement of these 12 large container ships was so structured as to foreclose U.S. participation. Sea-Land has yet to build a ship in this country.

Question. I understand that the steam turbine engines put in ships built by U.S. shipyards are much more costly to operate due to their inefficiency compared to the "slow speed diesel" engines that are being put in ships produced from foreign shipyards.

Is it true that U.S. shipyards are unable to build a slow speed diesel engine? Please explain why American yards do not have this capability?

Answer. The shipbuilder has the capability to install slow speed diesel engines delivered to the shipyard by an outside manufacturer. The problem has been in absence of a domestic manufacturing capability, but this situation is beginning to change. Allis-Chalmers Corporation, Milwaukee, WI is now building slow speed diesel engines, under a manufacturing agreement with Sulzer Bros. of Switzerland. These diesel engines are for the three containerships which Avondale Shipyards, Inc. is constructing for American President Lines, Ltd. of Oakland, CA.

Question. On April 4, 1979, the Shipbuilder's Council testified before this Subcommittee on the fiscal year 1980 Marad authorization bill. At that time, the Council predicted "that no more than eight or nine shipyards will hold major shipbuilding contracts in 1984."

Do you believe that this is still an accurate forecast? (At the time of this testimony, 19 of the 26 shipyards in the active U.S. shipbuilding base were currently building ships.)

Answer. On the basis of the present outlook, I would modify that forecast only slightly—primarily because of the expanded five-year naval shipbuilding programs—to 10 or 11 yards. It should be remembered, however, that the future promise of additional contracts will not preclude a 30 percent drop in employment between now and 1982 due to the lack of contract opportunities over the past year. Those shipyards active in 1984 will have experienced some lean years.

Question. Phase I of MarAd's Next Generation Cargo Liner study recommends that the government continue the development of the Next Generation Liner initiated by the study and in particular:

Encourage construction of standardized cargo-liners by offering incentives to the ship operating industry such as increased subsidy rates for purchases of standardized vessels, or inclusion of some of the vessel's equipment as defense features.

Concentrate its ship research efforts (machinery outfit, hull form, structure, etc.) on optimizing the standardized ship.

Do you agree with these recommendations?

Answer. Yes. Standardization leads to multiple or series production which leads to improved productivity which leads to lower unit production costs.

Question. The Administration advocates a \$1.5 billion ceiling for new Federal Ship Financing Fund commitments (Title XI) for fiscal year 1981.

What are your views?

Answer. We have no problems with the imposition of such a ceiling per contract. In the current scheme of things, it would seem adequate.

Question. What are the major problems which U.S. shipyards face in trying to compete with their foreign counterparts?

Answer. Major problems might be identified in this manner: (1) lack of a central and coordinated direction of national policy, (2) lack of enthusiastic governmental leadership at the top, (3) lack of continuity in market opportunities and production stability, (4) limited public and official awareness of the importance of shipbuilding to the Nation's economic and security structure, (5) declining productivity which is, at this moment, largely attributable to a decreasing orderbook and an uncertain future, (6) below-cost prices being offered by many shipbuilders abroad, and (7) disparate regulations and standards which equate to differing national and social customs.

Question. The Senate/House Conference rejected a House provision in the MarAd Authorization bill for fiscal year 1980, which provided "construction-differential subsidy (CDS) may not be used for any vessel which will have a subsidized manning level 50 percent above the minimum determined by the Coast Guard to be necessary for the safe operation of the vessel."

What are your views on this provision?

Answer. This is fundamentally an ODS-oriented problem, but I would have difficulty in rationalizing the application of ODS monies—or even CDS monies—for a vessel whose manning levels are considered to be excessive under any criteria.

Senator WARNER. Our next witness will be Albert E. May, executive vice president of the Council of American-Flag Ship Operators.

STATEMENT OF ALBERT E. MAY, EXECUTIVE VICE PRESIDENT,
COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

Mr. MAY. Thank you, Senator Warner. It is good to see you again.

Senator WARNER. This committee and the Congress as a whole values your contribution.

Mr. MAY. We have a prepared statement which has been filed with the committee.

Much of the ground in my statement has been covered by Mr. Nemirow.

There are three points I would like to make with regard to the ODS program, which of course supports the operation of most U.S.-flag liners and increasingly our bulk carrier fleet.

It has often been noted that our fleet has declined in size, and that includes the subsidized portion, but while the number of ships has declined since 1960 by 40 percent, the carrying capacity of the remaining ships is up a net of some 28 percent to some 55 million tons annually.

This has been achieved by having much more productive ships. It shows that if the resources are put into shipbuilding and ship operations in this country, we can be successful and competitive.

The second point that I want to make is that the ODS program is working. The ODS liner operators have ordered all but four or five of all of the liner vessels constructed in U.S. shipyards for foreign trade since World War II.

Finally, and perhaps most significant in this time of budget balancing is the fact that in the 28 years, since 1954, the cost in constant dollars of the ODS support program for U.S.-flag liners has declined by \$25 million. I think that is impressive. Again, it shows a high degree of productivity.

That completes my statement, Senator Warner, I would be happy to answer any questions.

Senator WARNER. We will be sending you additional questions for the record, but I would like to ask you a few now.

I understand that many of the world shipyards receive extensive government financial support. What forms of government backing do U.S.-flag liner companies encounter in your competition with foreign-flag operations?

Mr. MAY. There are a variety of foreign subventions. These are documented in a several hundred page study done by Temple, Barker & Sloan for the Maritime Administration. This study does not document the competition from the state-owned fleets where we are competing directly with the resources of the state, such as East German or the U.S.S.R.

In the Western World, we run into the subsidies and direct grants referred to by Mr. Hood, and in addition special tax treatment given to foreign operators. For instance, in Great Britain they have what is known as "free depreciation," which means that an operator with sufficient earnings can depreciate up to this total cost of a ship in a single year.

Senator WARNER. He makes the decision. That is a very important point.

Mr. MAY. The same thing is true in a great many other countries. I am told that in some of the Scandinavian countries you can fully depreciate a ship before it is delivered.

The benefit this provides to the operator is a very, real one, and it more than offsets the parity subsidies that we get here. I think the program here has been a sound one. I would like to comment on your question to Mr. Hood, as to why operators are convinced that the CDS cap has to be lifted.

The earnings of the subsidized U.S. liner companies—indeed, all of the U.S. liner companies—are below 5 percent return on investment for the past 10 years. Now with that sort of return in today's market, you simply can't afford to subsidize another industry, no matter how valuable and vital that industry is. No matter what the differential is, given the cost of today's ships, the operator has to be made whole, or he can't continue to build in the United States.

We think that the cap should be lifted. At a very minimum, we think that the Secretary of Commerce should be given discretion to pay full parity if he finds that is necessary and desirable.

Senator WARNER. You heard, I am sure, me talking about the R. & D. Do you find that this R. & D. is beneficial to the operator?

Mr. MAY. Generally, I would say yes. However we have been critical of parts of the program at times in the past.

Senator WARNER. You mean the R. & D. program?

Mr. MAY. Yes, sir. But overall, I think it has been quite beneficial. My office actually is a contractor under that program. We represent four of our member companies in a project to develop a new International Data Communications System. We are not looking at any new technology, but at application engineering.

There is a law in most countries that says that a ship cannot come alongside a discharge dock until a manifest has been filed with the appropriate government authorities. Now on these manifests, the governments want more and more information. They are becoming enormous. Some of these computer printouts are 2 or 3 inches thick for a very large ship. Even with computers, you can't get that information overseas in time. Companies have tried putting it on tape, using messengers, using special delivery services. None of these is completely satisfactory.

So in order to transmit this data faster and more efficiently we have this joint program where the government is putting up half the money, and the carriers are putting up the other half to develop a shared on-line data communication system.

Studies have convinced the companies—that there are some very real savings to be attained but they aren't sufficient to justify development costs for any one company. The industry is basically composed of rather small units, and projects such as this can be done only through a cooperative undertaking with the Government.

We do feel there are valuable programs of that type.

Senator WARNER. We thank you very much, Mr. May. We will ask you to respond promptly to written questions.

Mr. MAY. We will certainly do that.

[The statement follows:]

STATEMENT OF ALBERT E. MAY, EXECUTIVE VICE PRESIDENT OF THE COUNCIL OF
AMERICAN-FLAG SHIP OPERATORS

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 (CASO). CASO represents a majority of U.S. flag liner operators in the foreign commerce of the United States. Its members operate the most modern, diversified and productive vessels in the world.

The subsidized fleet, which consists of 40 percent fewer vessels than those operating in 1960, has, over the same period of time, increased its productivity as measured in estimated annual carrying capacity by 28 percent to 55.5 million tons. This increase in capacity has not been achieved without significant increase in capital costs. A break-bulk ship built in 1958 had a capital cost net of Construction Differential Subsidy of \$5.8 million and a Deadweight Capacity of 10,600 tons, while a containership contracted in 1979 has a capital cost net of CDS of \$45.5 million and a deadweight capacity of 32,800 tons. The latter cost does not include the investment in container, chassis, terminal and other gear necessary to support a Total Ocean Transportation System.

When preparing our remarks, we were aware that Assistant Secretary of Commerce Nemirow would be testifying before this Committee, regarding the details and justification for the appropriation requests in the Maritime Administration's proposed fiscal year 1981 Budget. We will not repeat this background detail but will address ourselves briefly to several areas of particular interest to ship operators.

These Authorizations 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 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 report on the results of the Interagency Task Force Study on Maritime Policies, which was issued under date of 20 July, 1979 "... the American Merchant Marine is vital to our nation's welfare. More than nine-tenths of all our imports and exports move by sea, and American ships play a large part in facilitating our world trade. The maritime industry, including our ports, ocean shipping companies and shipbuilding yards provides jobs to 1.5 million Americans, and contribute \$22 billion to our economy. Most importantly, our Merchant Marines provides a critical reserve and auxiliary to our Navy in times of war or national emergency."

We have reviewed the principal elements of the President's proposed Maritime Administration Budget for fiscal year 1981. The amounts requested appear adequate to meet minimum anticipated obligations and requirements for liner operators, and are fully supported by CASO.

Our comments on specific budgetary items are as follows:

CONSTRUCTION DIFFERENTIAL SUBSIDY

The Administration has requested authorization authority of \$135,000,000 in fiscal year 1981 for Construction Differential Subsidy in connection with the construction of five dry bulk ships. We are not aware of any liner vessel contracts that will be executed in fiscal year 1981.

All of the benefits which a nation receives from its merchant marine—defense—balance of payments—employment—protection of foreign trade—flow from ships. Thus, it is most significant that the companies having long term ODS contracts have ordered all but four or five of the liner vessels built in U.S. shipyards for our foreign trade since the second World War.

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 also scheduled to testify today.

OPERATING DIFFERENTIAL SUBSIDY

New authorization authority of \$347,697,000 has been requested for operating differential subsidies in fiscal year 1981. The total available funds are considered adequate to support operation of 147 liner vessels and 26 bulk vessels in the forthcoming year.

Earlier in my testimony, I noted the increase in ship carrying capacity. This increase in capacity has been achieved without any increase in ODS costs. During the 28 years, 1954 through 1981 inclusive, the cost of ODS for U.S. flag liner operators has actually decreased by \$25.4 million in constant dollars. Attached to my statement as Exhibit 1 is a table showing ODS payments for this 28 year period in both current and constant dollars.

RESEARCH AND DEVELOPMENT

The Administration has requested authorization of \$18,750,000 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 15% above the amount authorized for fiscal year 1980.

U.S. liner shipping has moved progressively from a labor intensive to a capital intensive industry over the past ten or twelve years. 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 1981 for National Security Support Capability has been established at \$3,083,000, which is an increase of approximately 27% over the fiscal year 1980 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.

TITLE XI

The budget authorization for fiscal year 1980 requested a \$1 billion ceiling be established as a limit for a total aggregate amount of new commitments to guarantee construction loans and mortgages during fiscal year 1980. CASO voiced its opposition to this proposal as an unnecessary additional constraint on the Federal Ship Financing Fund, since an overall statutory limit of \$10 billion has already been set by the Congress. Each year the OMB and the Congress are given a progress report in the budget on the operation of this fund, in which a full accounting of obligations and commitments is made. We felt this was ample check on the stewardship of the administration of the program. We strongly urged the deletion of the \$1 billion limitation.

The Congress compromised the issue by fixing a ceiling of \$1.5 billion for fiscal year 1980.

The budget proposal for fiscal year 1981 requests authority for a \$1.5 billion ceiling similar to that imposed in fiscal year 1980. We respectfully suggest that the imposition of the ceiling is a totally unnecessary and duplicative constraint and could, at some point in the future, inhibit 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.

[EXHIBIT 1]

OPERATING-DIFFERENTIAL SUBSIDY NET ACCRUALS—LINER OPERATORS ONLY

(Current and constant dollars)

	Current dollars (millions)	Deflator	Constant dollars (millions)
Calendar year: ¹			
1954.....	\$106.3	89.6	\$118.6
1955.....	104.1	90.9	114.5
1956.....	102.7	94.0	109.3
1957.....	122.8	97.5	125.9
1958.....	140.7	100.0	140.7
1959.....	158.8	101.6	156.3
1960.....	162.7	103.3	157.5
1961.....	168.8	104.6	161.4
1962.....	174.8	105.8	165.2
1963.....	190.5	107.2	177.7
1964.....	219.7	108.8	201.9
1965.....	182.9	110.9	164.9
1966.....	199.5	113.9	175.1
1967.....	215.4	117.6	183.2
1968.....	219.1	122.3	179.1
1969.....	227.4	128.2	177.3
1970.....	234.8	135.2	173.6
1971.....	200.0	141.4	141.4
1972.....	197.9	146.1	135.4
1973.....	207.5	154.6	134.2
1974.....	215.6	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: ²			
1978.....	261.2	222.2	117.6
1979.....	227.2	241.8	94.0
1980 estimate.....	247.5	263.0	94.1
1981 estimate.....	269.3	289.1	93.2

1 Implicit price deflator (1958=100), U.S. Department of Commerce, Survey of Current Business, October 1974, November 1978.

2 Annual rate based on \$186.8 million accrued through Sept. 30, 1976.

3 Deflator for fiscal years 1978 to 1981 are based on forecast from "Review of the U.S. Economy," Data Resources, Inc., February 1980.

Sources: 1954-60—MarAd Annual Report, 1973; 1961-74—MarAd Annual Report, 1975; 1975-76—Preliminary information, Maritime Administration, Office of Financial Management; 1977—Fiscal year 1979 Maritime Administration Budget, Highlights; Congressional Information Bureau, vol. 82, No. 15, Jan. 23, 1978. 1978-81—Maritime Administration.

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

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question 1. In last year's MARAD Authorization bill Congress added a provision requiring that vessels must be offered for enrollment in a Sealift Readiness program as a condition of receiving ODS. There is no such requirement in this year's bill. Should one be added?

Answer. The CASO member companies recognize that the merchant marine is vital to the defense posture of the United States and accordingly, are willing to make their vessels available for enrollment in a Sealift Readiness program. Any such provision should be phrased so as to require that vessels be "offered" but not necessarily "accepted" because there are some vessels that the military does not presently feel are essential for defense sealift purposes.

We would also suggest that the military be required to annually consult with liner vessel operators participating in the program so as to assure that essential defense requirements are met with minimum disruption to vital commercial shipping services.

Question 2. H.R. 6554, the MARAD Authorization bill pending in the House, is \$10 million higher than the request appearing in the Administration's budget. That

extra amount was added for the specific purpose of funding a sealift readiness exercise in order to ascertain our ability to respond to an emergency.

(a) What is your view on adding this amount?

Answer. CASO members have participated in a number of sealift readiness exercises and are completely willing to participate in future activities of this sort as they are deemed necessary and desirable by the Department of Defense. We believe that the desirability of holding such an exercise during this Fiscal Year should be left to the Department of Defense. If such an exercise is to be held, we support the appropriation of sufficient funds to adequately reimburse operators making ships, other equipment and personnel available.

Question 3. With respect to ODS, it has been suggested that there is no incentive for U.S. vessel operators to put a cap on their total operating costs and thus hold down the cost differential, because they know the government is going to pay whatever difference there is between their higher operating costs and those of their foreign competitors.

In addition, it is said that aside from the wage index system, there are no cost controls in the ODS program that limit the government from picking up unreasonable expenses which a vessel operator might incur.

Would you please comment?

Answer. The suggestion is completely untrue for a number of reasons. First, the subsidized lines have heard this charge almost endlessly over the past 25 years and are acutely aware that as recipients of government aid, their actions are constantly being studied, and that they must be even more vigilant than other operators to minimize wage and other operating costs. About four years ago, the Liner Council of the American Institute of Merchant Shipping made an analysis of the number of men employed on subsidized and non-subsidized U.S. flag liner vessels. The study showed that for the comparable vessels analyzed, the manning was generally the same or lower on subsidized than on non-subsidized U.S. vessels.

The fact that subsidized operators have been zealous in holding down subsidy costs is also demonstrated by experience with the wage index system. This requirement of the Merchant Marine Act of 1936 generally limits increases in subsidizable wage costs to the average percentage found in major U.S. industry during a year in question. It is our understanding that since 1970, seamen's wage increases have never exceeded and generally have been lower than increases received by workers in other U.S. industries.

Question 4. It has been suggested that the law be amended to direct the Secretary of Commerce not to approve an ODS application unless he determines that "manning levels are no higher than necessary for the safe, efficient and economical operation of the vessel and that all subsidizable costs are reasonable."

What are your views?

Answer. This suggestion has a certain surface appeal but the more we have reviewed it, we believe it is not desirable to interject the Secretary of Commerce into a collective bargaining process between management and labor. As we noted in response to a question by Senator Warner, the Wage Index System found in the Merchant Marine Act of 1936 is an effective control on excessive wage increases. In point of fact, as we noted, average increases for seamen have been less during the past decade than for most other labor groups of comparable skills in our economy.

In addition, and perhaps more importantly, there are a wide variety of factors that go into determining the optimum number of men on board a ship. These include length of voyage; size and type of vessel; amount of specialized equipment, e.g. large numbers of refrigerated spaces or hook-ups for refrigerated containers, cryogenic refrigeration equipment on LNG vessels, etc.; the operators decision as to whether it is most economical and competitive on his trade route to perform a substantial amount of maintenance repair work while the vessel is underway, or to maximize repair yard work in shoreside yards.

Even the most diligent and able of Secretaries of Commerce would find it difficult or impossible to effectively analyze all of these complex considerations in order to determine that management operating decisions and the results of collective bargaining, were unsafe, inefficient or uneconomical.

Question 5. Recently, a British publication had this to say on reducing ship manning levels:

"On the vexed subject of crew reduction, . . . there is probably little room for further reduction. Sooner or later we have to consider the social problems of having a dozen men immured in a gigantic empty ship rather like lighthouse keepers, and also the relative costs of maintenance ashore and afloat could itself halt the trend. Sooner or later there is going to be a casualty where the cause will be ascribed to

undermanning and insurance interests, we can assume will not remain silent over such issues."

What are your views?

Answer. Beyond question there is a point at which it is neither economically or socially desirable to reduce shipboard manning. A twelve man crew on a supertanker engaged in long voyages could well be too small for a variety of reasons. However, this is a dynamic area, which is affected as we noted in the answer to question 1 above by many factors, including type of ship, repair practices, length of voyage, etc.

Save only for the Coast Guard's right to specify minimum manning for safety purposes, the number of men on a ship should be left to the discretion of the vessel owner and the operating unions involved.

Question 6. (a) Do you believe that retention of the "essential trade route" concept is in the best interests of ODS applicants, intervenors, shippers, and the public; and if so, why?

Answer. Yes, we do believe that the retention of the "essential trade route concept" is in the best interests of the United States, shippers, liner vessel operators, and national defense. The companies operating pursuant to essential trade routes defined under the Merchant Marine Act of 1936 have placed the orders for all but three or four of the ships built for our foreign liner trade in U.S. shipyards since World War II. The elimination of the trade route concept could undermine the financing and economic viability of such ships in the future. However, we do believe that much could be gained by providing flexibility for carriers operating on essential trade routes. In this regard, we can not do better than to repeat the testimony of Mr. W. James Amoss, Jr., President of Lykes Bros. Steamship Company, who as Chairman of the National Maritime Council, had the following comments on essential trade routes during testimony before the House Merchant Marine and Fisheries Committee this month:

"The original Omnibus Maritime Bill proposed the abolition of the essential trade route concept. The Subcommittee's hearing record is devoid of any support for that proposal. On the contrary, the record contains strong opposition to the proposal both by government and industry. Its adoption would not be in the best interest of shippers, carriers, or the public and would be destructive to the liner industry.

The National Maritime Council did, however, respond to two concerns that were raised in connection with trade routes: (i) lack of operating flexibility; and (ii) unduly lengthy administrative proceedings before a carrier could serve a route served by another U.S. operator.

The NMC proposal provides greatly increased operator flexibility in maximum and minimum sailing requirements, up to 25 percent and 50 percent, respectively, and unlimited flexibility with respect to increased sailing that result through the introduction of new vessels or technology. The provisions represent a real breakthrough and improvement in the ODS program.

Our proposal also simplified the standards in trade route proceedings under section 605(c) to provide for expedited treatment and facilitate new entry. In the past, these proceedings have sometimes gone on for years while lawyers and economic consultants for each side debated cargo and vessel capacity projections to determine whether service will be adequate. The NMC proposal gives a presumption of correctness to government projections and requires that the agency reach an initial decision on an application for ODS within four months and a final decision within six months. With these provisions, any defects in the essential trade route concept have been corrected and the benefits preserved.

The staff draft attempted a totally unworkable compromise between the original bill and the NMC proposal. It eliminated trade route requirements for new applicants and for existing subsidized operators as their contracts expire.

We vigorously oppose this provision of the draft. It should be emphasized again that the provision was included based on a record devoid of supporting witnesses or any economic analysis of its wide-ranging implications for exporters, importers, the U.S. Merchant Marine and the public.

The NMC believes the provision should be rejected for the following reasons:

a. It could seriously damage shippers, particularly exporters, whose sales are dependent on the availability of assured transport service on a route months and even years in the future.

b. The provision could encourage U.S. operators to use subsidy dollars to cannibalize each other rather than meet foreign competition as the maritime program intends.

c. An important benefit of the existing essential trade route concept has been to promote trade and "maintain a presence" in developing countries, most of which are small trades. The proposal would likely result in disrupting these services as

other carriers moved into these trades to "skim the cream" during good times and move out again in bad times contrary to the national interest.

d. Eliminating trade routes could result in increased subsidies and waste of taxpayer dollars?

(i) ODS for liners is now calculated based on the costs of competitors on the trade route, which is frequently not the lowest cost internationally (e.g., Latin American or European costs). Elimination of trade routes would probably require that liner operators (like bulk operators now) receive a subsidy for the differential against the lowest cost or predominant fleets internationally (e.g. Liberian), thus increasing subsidies.

(ii) In instances where U.S. flag service is now substantial and therefore "adequate" under Section 650(c), the effect could be simply to spend more subsidy dollars to subsidize surplus capacity, contrary to present law and the entire philosophy of title II.

(iii) In bilateral trades, such as South America, where the trades are small and the American cargo share is limited by international agreement, the effect could simply be to spend more dollars to subsidize more companies to carry the same cargo.

e. In many instances, liner operators are required to undertake orderly replacement of their vessels just a few years before their existing contracts expire. Under the draft, trade routes would be eliminated before the end of the useful lives of these vessels and would make long-term financing and replacement difficult or impossible. This would likely have a serious impact on ship construction and maintenance of a viable U.S. flag merchant fleet.

f. The proposal could result in undesirable and unfair concentration in the industry paid for by taxpayer dollars:

(i) Given the high cost of ships and increasingly capital intensive nature of the industry, even the most efficient small operator will be unable to move into new trades. However, the large operator, with a capital base and cross-subsidization from shippers in other trades, would be subsidized by the government to move in on the smaller operator at will and with little risk.

(ii) The proposal could easily result in a U.S. Merchant Marine consisting of one or two large companies. That would not be in the national interest. If one of those companies made a serious mistake (e.g. in equipment selection), given the national security interest in the fleet, the Government would be virtually required to bail out the company (e.g. Chrysler).

(iii) Loss of diversity in the industry through concentration could result in a reduction of efficient specialized services in small trades as large operators employed standard, but sub-optimal tonnage. It could also have an impact on the diversity and health of U.S. shipyards and the shipbuilding mobilization base.

g. The Secretary of Commerce would find it difficult or impossible to administer such a system:

(i) Some operators might be free to use subsidy dollars to enter part or all of the trade route of another operator who is restrained from doing the same.

(ii) If, as is apparently intended, existing operators have Section 605(c) protection from new applicants during the lives of their contracts, the result would be to write into new contracts restrictions tantamount to trade routes.

(iii) If there were no trade route provisions in a new applicant's contract, it is unclear what mechanism would afford existing operators Section 605(c) protection after the subsidy award to the new applicant.

(iv) The provision automatically approving the application if the six month deadline is not met, would give applicants every incentive to delay the proceeding. If the Secretary determines that the applicant caused the delay, the application should be denied.

h. The administrative difficulties and uncertainties would result in protracted and expensive litigation, all without discernible benefit.

Important gains in flexibility and expedited proceedings, as provided in the NMC proposal, would truly help the U.S. flag merchant fleet. On the other hand, adoption of the draft would result in the most serious damage to the fleet and those who rely on it, all without any basis of support in the record.

Question 7. The Senate-House Conferees last year rejected a provision in the House version of MARAD's Authorization bill which would have prohibited the payment by an operator of funds provided by operating-differential subsidy (ODS) to the Transportation Institute, Joint Maritime Congress, American Maritime Officers Service or any other organization which engages in lobbying activities.

That provision was rejected because, among other reasons, it was felt that it:

Singles out the maritime industry for what is in effect special labor legislation affecting collective bargaining.

Does so without regard to the general labor-management legislation to which the maritime industry is subject.

Singles out the maritime labor sector in a fashion which casts a shadow of illegitimacy on certain aspects of collective bargaining not otherwise proscribed by Federal law relating to industries generally in the United States.

Would seriously impair the ability of the named organizations to provide valuable information and recommendations to the Congress.

Do you believe those reasons for rejecting such a provision are valid, and would you comment on them?

Answer. We do believe that the stated reasons for rejecting proposed House provision limiting payments to certain transportation groups are valid.

Senator WARNER. Our next witness will be Mr. Peter Luciano, director of policy, planning, and development, Transportation Institute.

Good morning.

STATEMENT OF PETER LUCIANO, DIRECTOR OF POLICY, PLANNING, AND DEVELOPMENT, TRANSPORTATION INSTITUTE, WASHINGTON, D.C.

Mr. LUCIANO. Thank you, Senator Warner. I have a brief statement which I would like to read.

The Transportation Institute is a nonprofit research and education organization which directs its efforts toward the preservation and promotion of a strong marine transportation capability in the United States. Our 174 member companies operate U.S.-flag vessels in the Nation's foreign and domestic shipping trades including the inland waterways and the Great Lakes.

We appreciate the opportunity to express our views on S. 2322, the authorization of appropriations for maritime programs for fiscal year 1981. This bill authorizes the following expenditures in the coming fiscal year: \$135 million for vessel construction, \$348 million for operating differential subsidies, \$19 million for research and development, \$27 million for education and training programs, and \$39 million for administrative expenses including maintenance of the National Defense Reserve Fleet.

It is our view that this authorization is necessary for the maintenance of U.S. maritime policy as set forth in the 1936 and 1970 Merchant Marine Acts. This authorization takes on heightened importance in view of the growing awareness that the U.S.-flag merchant fleet is statutorily responsible for supplying essential national security services. Events in Southwest Asia have made us realize, as never before, that we are critically dependent on the free movement of strategic materials in vessels on which we can safely rely.

As the members of this subcommittee know quite well, the U.S.-flag merchant fleet is in trouble. This fact has been aired quite thoroughly in both Houses of Congress over the past year. There is no place where U.S. maritime deficiencies are more apparent than in this critical area of national defense.

Admiral Kidd, appearing before this subcommittee last November, outlined the problem in very precise and compelling terms. Too much of our strategic planning has been devoted to a short-war NATO scenario, with the concomitant notion that airlift could meet a major portion of our defense needs. Yet in a very short

period of time, we have become what Admiral Kidd called a "Nation of have nots."

Commodities that are essential to the economic security of the United States do not originate in NATO countries, but in distant areas such as the Persian Gulf. They must move by ship over long sea lanes. So, too, must the military and naval equipment needed for the defense of these areas. We agree with what Admiral Kidd said here in November:

* * * We must be credible in the adequacy of our capabilities to insure that there is no adventuristic attempt at some place far removed from the central plain of Europe.

Mr. Chairman, we believe that there is a developing consensus that the U.S. Merchant Marine is a vital national asset and that it is suffering badly from neglect. As it suffers, so too does the security of the Nation.

I do not recite this litany of our maritime deficiencies for rhetorical effect. Rather, as the Congress continues to grapple with the complicated and difficult task of strengthening our national maritime policy, we think it is absolutely essential to continue to provide support for existing programs. We think that the proposed maritime authorizations are in order and minimal.

The vessel construction program provides necessary orders for the Nation's shipyards. Our shipyards are an obvious and quite critical component of U.S. defense. We neglect them at our peril.

The operating differential subsidy funds are maintained to help our fleet strive for parity in a world marketplace that is based on anything but free and open competition. The world's major maritime nations grant very substantial supports to their fleets, direct and indirect, which would give them an unfair advantage over the U.S. fleet if it were not for this vital program. Most governments, especially the Soviet government, recognize that their merchant fleets are unique instruments of national policy. The U.S. subsidy program is remarkably modest when compared with those of other major maritime nations.

The amounts proposed for the maritime education and training programs are also quite modest. The most substantial fleet in the world would be nothing without a steady supply of well trained competent seamen to man it.

In these inflationary times, the proposed increases over last year's authorization for research and development and for administrative expenses are impressive in their restraint. Very little real growth is reflected in these areas.

Senator Warner, in view of the frequent debate over these past months concerning the Nation's sealift readiness, we respectfully urge this subcommittee to consider adding \$10 million to the maritime program's authorization for the specific purpose of conducting an actual sealift readiness exercise prior to the end of 1980, with a report on the outcome of this exercise to be made to the appropriate Congressional committees.

In addition, we would urge you to stipulate that such an exercise include specific industry involvement at every stage—from planning through implementation to the final preparation of the report to the Congress.

The fact of the matter is, for the merchant marine to function as the fourth arm of defense, it must be treated as the fourth arm of defense. Industry experts should and must be consulted.

Taken as a whole, the maritime authorization for fiscal year 1981 constitutes a modicum of recognition that a strong U.S.-flag merchant fleet is vital to the national economy and security. It includes no costly departures from existing programs. We trust that this authorization will be seen as a basic component of the overall actions that are needed to revitalize this critical national asset.

We deeply appreciate the tremendous efforts you have been expending in behalf of a strong, healthy, U.S.-flag fleet.

Thank you very much.

Senator WARNER. Thank you very much.

Has your organization undertaken an evaluation of the near-term manpower needs of the U.S. merchant fleet?

Mr. LUCIANO. No, we have not conducted such a study. We understand the Maritime Administration has recently completed one.

Senator WARNER. There is some concern that we are approaching a shortage of trained American seamen. Do you want to comment at all on that?

Mr. LUCIANO. We have not examined that, but we believe any shortfalls in this area are probably reflective of the larger phenomenon of national neglect that we have seen with respect to the Merchant Marine. We think certainly, having allowed the merchant fleet to decline to the point where it carries between 4 or 5 percent of the nation's commerce, that is a clear indication of the lack of effectiveness of our national policy.

It is reflected in many areas. Perhaps the problem of providing a sufficiently large pool of trained seamen is part of that problem.

Senator WARNER. We thank you for your contribution.

Mr. LUCIANO. Thank you.

Senator WARNER. We now have the Honorable Robert L. Leggett, president, Joint Maritime Congress.

STATEMENT OF ROBERT L. LEGGETT, PRESIDENT, JOINT MARITIME CONGRESS, WASHINGTON, D.C.

Mr. LEGGETT. Good morning, Mr. Chairman.

Senator WARNER. Nice to see you, sir. As always, you make a very forceful and dramatic contribution to this hearing.

Mr. LEGGETT. Very good. Well, certainly Newport News made a forceful and dramatic contribution to the U.S. Navy.

Senator WARNER. Don't you wish you had that kind of money for the Merchant Marine?

Mr. LEGGETT. Well, I think Newport News ought to achieve the status of a balloon capital of the world after the launching.

Senator WARNER. I judge you were present?

Mr. LEGGETT. Yes, I was there.

Senator WARNER. You probably knew Mr. Vinson quite well, did you not?

Mr. LEGGETT. I recall walking down the hall with him one day, and we were in the old Cannon Building, and he said, "Congressman"—he was walking with his cane—"Do you have any idea how

many of these I have answered through the years?", and obviously he had answered literally thousands and thousands.

I would ask you to put my statement in the record.

In our statement, we talked at the outset of the history of where we have been. Last year we were eagerly awaiting the President's Maritime Task Force recommendations—some with anticipation, and some groups with not too much anticipation. Suffice it to say that the President's recommendations, as finally evolved through the task force, even with the budget not quite in the crunch it is today, did not meet his campaign oratory, which we supported. That is unfortunate, because now we are faced with the problem of trying to write a bill in one or both houses of the Congress, and that is an extraordinarily difficult thing to do.

We are at status quo with the Merchant Marine. I quote statistics of the dismal 5 percent cargo carried by the U.S.-flag fleet that everybody talks about in every speech that they give. We talk about the ship construction systems program. We have developed a chart laying out the maritime subsidy outlays both in current dollars and in real dollars. As indicated, from 1961 where we had \$100 million programed for construction differential subsidies, we are now down to about \$50.5 million in real dollars, and the big funding surge in the middle is generally representative of the 1970 act.

As shown on page 4, a large portion of that construction, however, was accompanied by similar construction of Jones Act ships for our coastal trade, particularly Alaska.

We currently have some \$150 million in CDS funds on hand from last year, and we also have on hand the \$135 million programed for the current year. These funds have not been precisely committed, though, as I understand it, from the Maritime Administration, they have generally committed bulkers and tankers to be constructed with the subsidy funds. The companies are not proceeding to date until they find out how the omnibus bill either will or will not come out. But the CDS program is moving, and there is reason to authorize and appropriate these funds.

We point out the current Jones Act program on page 6 where we have some 70 Jones Act ships constructed since 1970. We talk about other ships that are being constructed at a number of yards. And on page 7, we lay out for the committee in a rather comprehensive fashion, the number of ships constructed during the last 10 years.

We show generally, that 110 ships have been constructed under CDS and 118 ships under the Jones Act—all in American yards. So it is almost a balanced program.

You wonder where we've constructed these ships? We lay out a chart showing where these ships are constructed around the country. In my State of California, we still have NASSCO in business and a little bit of Todd, but by and large the West Coast is out of the new shipbuilding program, as they have been for 10 years. Most of the shipbuilding in the country takes place on the east and gulf coasts. That, in large part, is because of labor costs. There is a differential.

We point out the tonnages of both the Jones Act and the CDS ships. As you can see, they are roughly equal—6½ and 7 million tons.

Senator WARNER. The statement is put together very well. I had a chance just to look at it briefly this morning.

Mr. LEGGETT. What we are concerned about is, where the ships are built, how they are built, and what the mobilization base really is: I think if you look at that chart and try to figure out what a mobilization base is from that chart, the chart would not have too much resemblance to the expenditure of Navy shipbuilding funds.

For example, Avondale, I do not think has any Navy ship contracts. Livingston does not have any. Ingalls is building the DDG-47. Newport News has shared only modestly through the years on CDS, though obviously Newport News is the biggest yard in the country building primarily new ships. Groton, General Dynamics does not show on this chart because it has not built a single private ship; they build all Navy submarines; they don't build any surface ships.

Quincy, again, has been building the LNG's. Bath has a mix of commercial ships, and then those Navy FFG ships built by Todd do not show on the chart. But to show what would be an ideal shipbuilding base, as they are doing over in the House of Representatives, I don't think is really a very constructive exercise. It is trying to make something out of a program which is extraordinarily fractured.

This material doesn't really show where the repairs are going, and yet, the repairs are considerable. Some of the yards do repairs which do not have anything to do with new shipbuilding.

Also I talk about ship operating assistance. In general, while the current dollars are going up, the actual dollars are going down. We show that chart and what it shows is that compared to 1962—when we were expending approximately \$150 million in real dollars for ODS, today we are spending about \$110 million. We point up on pages 30 and 31 that while in 1972 we had 27,900 people on board ships at sea, moving some 513 million tons of cargo, today with a third less shipboard jobs. Actually—less than 20,000 people are at sea—we are moving, some 800,000 tons of cargo.

So, we think that the commercial cost effectiveness is good. The committee on the other side was told that operators are planning to exchange ships at a rate of three for one; that is, they are exchanging 3,000-, 10,000- and 12,000-thousand-ton ships for one 30,000-plus ship. That is what will happen with the replacement contracts over the next 10 years. The ships operating at 70-percent utilization obviously have a growth capacity within the framework of the existing ship capacity. So, unless we get a new shipbuilding program, we can increase more than one-third of our container cargo, and we still are going to have fewer men at sea on a smaller number of ships carrying those cargos.

We point out that due to diesel costs going up, manning as a percentage of total cost of operation of a ship is going down, from 31 and 26 percent in recent years. Today they are even less.

Our ships, American ships, are operating at a disadvantage vis-a-vis the foreign ships with respect to wages. We receive a subsidy

per ship right at \$1 million to \$1½ million, which brings up theoretically to ship operating cost parity.

On the other hand, we have no subsidy for fuel, and, as is indicated by the recent launching of the D-9's for Sealand and the resulting publicity, you can operate a diesel ship today on many of the trade routes at a cost of roughly \$1 million cheaper than the competitive ships.

But as long as everybody is operating on a common rate, we are able to survive.

Sealand, very frankly, has looked at this situation and said that we can't continue to operate like we are, we have to get more cargo. And the way you get more cargo is to be more competitive, so they go outside the conference.

Of course, what happens then is we have a situation where we are fighting over scraps, and we have found that situation in navy shipbuilding and many of our other programs. In essence, what we are doing right now with the budget readjustment is fighting over scraps because most people do not feel they have enough. And what they have to do is really readjust to considerably less.

We show the subsidized bulkers on page 33. Those are not really bulkers, they are tankers. We talk about R. & D., and there, unfortunately, while our budget numbers have remained roughly at \$16, \$17, \$18 million per year, from my preliminary inspection of R. & D. over at MarAd, I was wondering why are they not on top of the diesel problem; why do we keep surfacing that issue before the committees?

What I find is that, in large part, we do not have an assistant secretary or deputy assistant secretary of R. & D. over at MarAd, and maybe this is by tradition, that the director not appear to be the leader with respect to advanced technology.

If you would ask the question of MarAd or the director why our American shipyards are not as competitive as foreign, you would find they would not probably really know.

When they are launching 40 percent of the ships of the world in one country—Japan—and when they are launching those ships at a rate faster than we did in the peak years of World War II, even when they are in a depression, the answer is fairly clear. They have volume.

Mr. LEGGETT. It appears to me, looking at that Japanese shipyard, that the people appear to be multidisciplined, and not single-crafted.

As you know, we run a big tag at our shipyards. As an example, down in Newport News we put together all of the steel yesterday and we launched a ship. There is very little steel work left to be done in that ship. You might wonder what happens with those steel people. Do we have another carrier to take the place of Vincson? I don't know about that.

Senator WARNER. We do.

Mr. LEGGETT. But it will be a while before all of those people can work at one time. But I have looked at shipyard manning curves and one of the real problems is that you have a peak for one period and a peak for another period and a peak for another trade. Unless you have follow-on series or follow-on work, you find that these people run out of work.

So, you get considerable volume discounts. We run tests on costs at the Mare Island Naval Shipyard when we constructed ballistic missile submarines there and *Thresher*-class submarines. We found that the cost of the ship—the cost of the ship at every single naval shipyard—was directly proportional to the time that that ship was tied up alongside dock.

So, the key is to get a ship in and out. If you can get your ship with materials prepositioned so you do not have to wait for materials and things like that, you can build a ship cheaper.

Japan has been better able to do that than we can. They will take, as an example, at IHI, a 300,000-ton tanker, and that 300,000-ton tanker will be in the water in 3 months.

Now, in one drydock they can launch four 300,000-ton tankers per year, which is really more shipbuilding than we launch in an entire year in all of our shipyards put together. And that is how they get volume discounts.

Mr. LEGGETT. The point on R. & D. is that I think we ought to have somebody in charge of R. & D. over at MarAd. I don't know Marvin Picken, but you've got to lay the blame somewhere preliminarily, and I am going to lay the blame there. We ought to know how we get diesels. He should have warned us about the diesel problem 5 years before he did. He ought to know about every single competitive advantage of the Soviets and the Japanese. We ought to be tailoring that into our shipyards. We ought to be operating an integrated program of national shipyard production, construction, repair.

Instead of that, it appears we are issuing R. & D. grants very much like a college professor issues thesis assignments. The thesis are awarded. They go to very talented people. We gave a nuclear population assignment as late as 1976, which was at least 5 years after the *Savannah* was laid up. It could well be that what we really need are some nuclear-powered icebreakers. The Soviets have them.

I lay out the research projects in my statement—you can compare them for yourself. I am not satisfied with the way they have been awarded.

I support the \$10 million authorization over in the House for a sealift readiness exercise. I think that will be authorized by both Houses. I suspect, however, that the appropriations committee will eclipse the authorization so that the program will never be appropriated, particularly with the new budget cutting program of the President.

At the end of my statement—after we talked about maritime education, operating expenses—we talk about the maritime prepositioning of ships. I looked at a way to terminate this program in 1966 and 1968, when Senator Russell and Chairman Rivers thought it was not what it was cracked up to be. Had it been that we had prepositioned material through those years, we would never have used it; it would have been obsolete at this time. It is an extraordinarily expensive program to take a complete separate set of equipment different from what the men are working with and put that in some remote location and try to keep it up to date.

We looked in the newspaper this morning, and found that Representative Jones was trying to explain why only half of the F-15's

and F-14's were operational. If you look at the C-5A's, you would be utterly embarrassed and amazed at that situation, because they cannibalized those.

We don't have enough money for supplemental supplies and equipment and things like that.

We all know that the Soviets have the capacity to take out targets 500 miles away. Very, very large. And they take them out at a mach 4½ speed.

So, to tie up a tremendous amount of assets into several targets is a very precarious thing. It does not mean that you do not prepare, but you use your head when you do prepare. I don't want to replan the Navy, but I am afraid that some folks will say that we spent \$1 billion for FDL's, or \$2 billion, and we have these 12 ships—and the cost of those ships has escalated over the last 2 weeks from \$101 million per ship to \$179 million per ship.

Senator WARNER. How does that escalation take place?

Mr. LEGGETT. They changed the design a little bit.

Senator WARNER. A little bit?

Mr. LEGGETT. They went from 2—they went from 14 smaller FDL's to 8 larger FDL's and 4 Ro-Ro's—instead of 14, they are going with 12. And instead of the cost being \$100 million a unit, they have escalated to \$170 million.

You can have FDL's, if you have a merchant marine. What I am afraid of is you will take all of the money, the \$1 billion or \$2 or \$3 billion, and put that into a dozen ships and say, "This is our fourth arm of defense." I think it is the responsibility of this committee to carry out the charge given to this committee by the Congress that says that you are to provide for a merchant marine capable of serving as an auxiliary in times of peace and war.

On top of that, we have the 1936 act, and we haven't abandoned that yet. I believe, in order to do that, we have to get an administration that has a commitment to build a merchant marine. We have to put an adequate number of ships there.

I would just lay out this example for NATO. Now, General Hollingsworth has said that the Soviets can get to the Rhine River in 48 hours. Another report takes issue on that, and they have a debate on that point. And that is with multidivisions available to the Soviets and also to the United States and also to our allies. And we have programed 400 of the 600 NATO merchant ships to act as auxiliaries that are integrated into a MarAd support program that would be available to us.

Now we plan to possibly take on the Soviet Union on the soft underbelly of Asia. They can't move into NATO or China, but we will take them on in the soft underbelly of Asia with only 12 prepositioned ships that are going to be located 1,200 miles south of Sri Lanka at Diego Garcia. I am sure this scares the Soviet Union.

I think we ought to have consistent thinking with respect to NATO and with respect to the soft underbelly of Asia. We ought to have a program for building a merchant marine and having these ships integrated into a South Asian support program. Bulk carriers can be built. You can build collapsible decks and utilize them to carry all of the heavy hardware we have. But the President's bunker program has not gotten off the ground. It is tied up in the omnibus

bill. Unless we do something, we are not going to be able to move with that program for some time.

I appreciate the time you have given me.

Senator WARNER. We thank you for your usual very frank statement. It provides a great deal of helpful information to the committee.

Mr. LEGGETT. Thank you.

Senator WARNER. Thank you.

[The statement and questions follow:]

STATEMENT OF ROBERT L. LEGGETT, PRESIDENT, JOINT MARITIME CONGRESS

Mr. Chairman and Members of the Subcommittee, once again, the Joint Maritime Congress appreciates the Subcommittee's invitation to bring some of the views of nearly 100 U.S.-flag ship operating companies and segments of organized labor to your consideration on Federal program support and planning for our Nation's merchant marine.

Last year, the Fiscal 1980 hearings occurred at a time when the Congress and the industry were still awaiting—as they had for a year and one-half—the results of the President's Interagency Maritime Task Force work on maritime policy initiatives.

In the interim, the President released the Task Force Recommendations—meager as they were—and there has ensued great debate over maritime policy initiatives as a result of the introduction by Chairman Inouye of the proposed package of legislation covering maritime promotional program and regulatory options. As the Subcommittee is aware the Joint Maritime Congress has testified in response to those bills which the Subcommittee has under consideration relating to regulatory reform and intergovernmental maritime agreements.

The Administration has proposed legislation specifically designed to increase the size of the U.S.-flag dry-bulk fleet. The measure has been introduced for Senate consideration.

During the authorization hearings a year ago, my statement covered the specific condition of the U.S.-flag merchant fleet in considerable detail. Suffice to say, a year has passed and the status quo barely has been maintained.

At this time last year, according to Maritime Administration (MarAd) data, the U.S.-flag oceangoing merchant fleet numbered 745 ships, with a capacity of 21.7 million deadweight (dwt) tons. Today, MarAd reports a fleet of 727 ships having a capacity of 23.5 million dwt. Of the total, the U.S. has only 191 ships with a total capacity of 4.7 million dwt engaged in overseas foreign trade. As a result, U.S.-flag ships still carry a dismal five percent of this Nation's international trade.

Certainly, we could spend hours reviewing statistics only to reaffirm that U.S.-flag shipping is finding it difficult even to remain static. As I observed in a statement some weeks ago, 1979 was a year of maritime consideration, while 1980 would be a year of maritime action. We face a formidable challenge to meet in the remaining months of the 96th Congress to reverse many trends if our "Island Nation" ever is to regain its full status as a maritime power in peace, and fully equipped to meet its seapower obligations in time of war.

Before the Subcommittee today is S. 2322, a bill to authorize appropriations for the Maritime Administration and its programs for Fiscal Year 1981. By way of reference, the House version, H.R. 6554, provides an open ended authorization for Fiscal Year 1982. I will, however, confine my remarks to the bill's provisions for Fiscal 1981, its specific funding authorizations, and related matters.

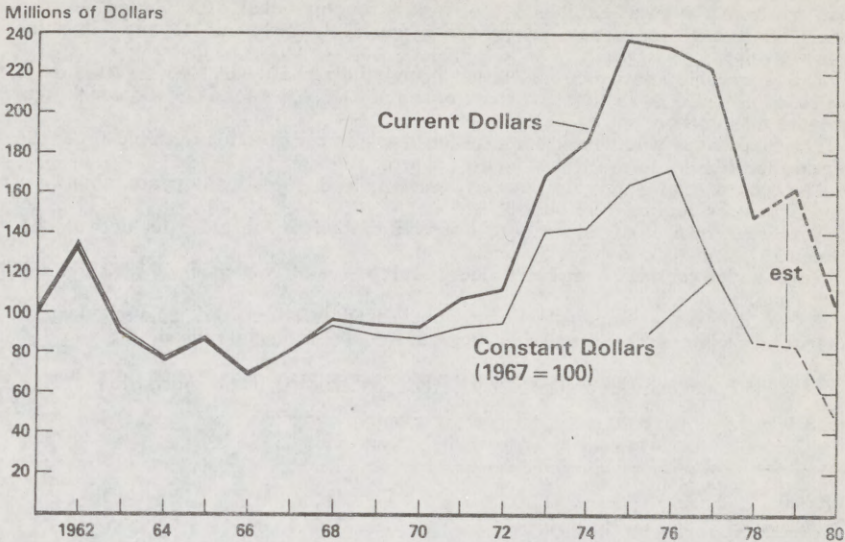
SHIP CONSTRUCTION ASSISTANCE

Section 2(1) of S. 2322, would authorize Fiscal 1981 budget authority of \$135,000,000, the sum requested by the Administration for the Construction-Differential Subsidy (CDS) Program.

The request is in line with program funding levels of recent years: (\$135,000,000 in Fiscal 1978; \$157,000,000 in Fiscal 1979; \$157,154,000 in Fiscal 1980 (includes Fiscal 1980 authorization of \$101,000,000, plus a \$56,154,000 unobligated balance carried over from the previous year).

The following graph plots the downward trend in CDS outlays in both constant dollars and current dollar outlay levels:

Maritime Subsidy Outlays, 1961-1980 CDS



The proposed CDS authorization represents an actual \$22,154,000 decrease from the Fiscal 1980 obligation level, and the Joint Maritime Congress is advised that MarAd has yet to obligate approximately one-half—or some \$70-plus million—of the Fiscal 1980 CDS funds remaining available.

The \$135,000,000 has been slated by MarAd to assist in the construction of five new dry-bulkers in the 35,000 to 45,000 dwt range. The amount, however, MarAd advises, should be considered a "planning figure" as the agency has received no new CDS applications recently.

MarAd officials have emphasized, however, that there is considerable interest within the industry to enter into new CDS contracts, but that interest is tempered by the entire legislative climate of uncertainty with respect to the Omnibus Maritime bill and related initiatives designed to revise the CDS program.

That operators are holding back in signing new CDS applications is understandable. Prudent business practice requires a firm degree of certainty before committing the millions in outlays and debt obligations required to build each new ship. The sooner that the Congress, in its work with industry and the Administration, can come to terms with long-range ship construction assistance policy, the sooner the industry will respond by ordering new ships.

To this end, the Joint Maritime Congress has been informed that dry-bulk operators are standing in line—pending development of a positive long-term legislative initiative—to order in excess of 20 new ships to be built at four yards.

Under the existing program at least 12 CDS-assisted ships are scheduled for delivery this year, and keels have been laid for three Liquid Natural Gas ships at the Avondale Shipyard in New Orleans. Nine other CDS-assisted ships are scheduled for completion during 1981 and 1982. CDS assistance for these vessels ranges from 16.5 percent to 49.98 percent.

Overall, MarAd reports that currently there are nearly 70 Jones Act, CDS-assisted, and privately funded ships under contract in U.S. yards. Coupled with the Administration's proposed accelerated naval shipbuilding program, there is renewed hope that the U.S. will retain its ship construction mobilization base, which is programmed to decline by some 66,000 jobs during the next few years.

Passage of improved CDS legislation with provisions permitting dry-bulkers the operating flexibility to enter in and out of domestic trade under the per diem subsidy concept, would move the Nation forward in reaching a balanced ship construction program. A stabilized ship construction mobilization base in peace is an essential strategic building block of our national defense policy.

I know the Subcommittee is concerned with the contribution of the CDS program to the maritime mobilization base. I have, therefore, attached to my statement various charts we have developed showing:

The overall number of ship types constructed between 1971 and 1982, and as you can see from the data (Exhibit 1), the work is roughly equally distributed between the CDS section and Jones Act/private constructed section, 110 and 118 ships respectively;

The geographic location of our Nation's shipbuilding base which constructed these ships, as provided in Exhibit 2, a chart of the past 11 years for CDS and Jones Act/private construction;

The total dollar volume and tonnage for new ship construction (Exhibit 3) per the work allocation by shipyard and funding source;

The construction of privately-owned vessels in U.S. yards by shipyard, ship type, and sources of funding (Exhibit 4);¹

The breakdown of containership construction—built or on order for delivery between 1971 and 1982 (Exhibit 5);¹ and,

Ships under contract—various funding sources—as of November 1, 1979 (Exhibit 6).¹

As we can see, undoubtedly due to unchecked inflation and lack of adequate maritime programs, the completion program for 1982 is dismal indeed.

EXHIBIT 1.—NUMBER OF SPECIFIC VESSEL TYPES CONSTRUCTED, OR ON ORDER, 1971-82¹

Vessel type	Total	Delivered 1971-79	On order	CDS	Other
T (tanker)	74	64	10	11	63
Cn (containership)	24	16	8	21	3
O (ore carrier)	23	18	5	0	23
L (lighter-aboard-ship)	21	19	2	21	0
LNG (liquefied natural gas carrier)	19	10	9	11	8
Ro/Ro (roll on-roll off)	18	16	2	9	9
CT (crude tanker)	11	11	0	11	0
TB (tug barge)	11	4	7	5	6
PT (product tanker)	8	7	1	7	1
DB (dry bulk carrier)	5	0	5	5	0
C (cargo carrier)	4	1	3	4	0
S (seabarge)	3	3	0	3	0
B (bulk carrier)	3	2	1	0	3
OBO (ore/bulk/ore Carrier)	2	2	0	2	0
Ch (chemical Carrier)	1	1	0	0	1
DS (drill ship)	1	1	0	0	1
Total	228	175	53	110	118

¹ 53 ships on order, or under construction as of Nov. 1, 1979.

¹ Exhibits 4-6 are in the committee files.

EXHIBIT 2

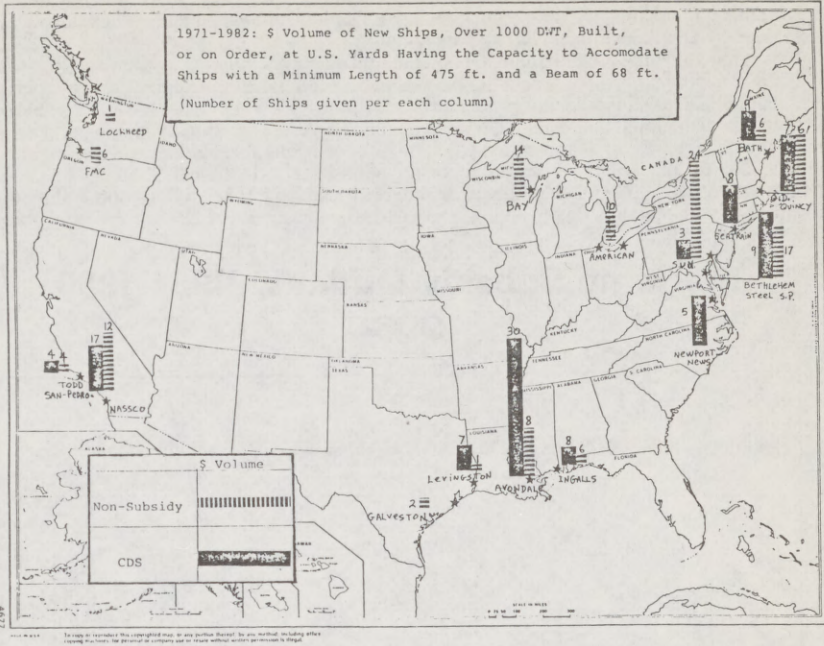


EXHIBIT 3.—TOTAL DOLLAR VOLUME AND TONNAGE: NEW SHIP CONSTRUCTION, 1971-82 FOR YARDS ACCOMMODATING A MINIMUM LENGTH OF 475 FT. AND A BEAM OF 68 FT.

Shipyard	CDS (millions)	Nonsubsidy (millions)	Number of ships CDS—other	Tonnage CDS	Tonnage nonsubsidy
American (Lorain & Toledo)	0	\$266.1	0-10	0	445,000
Avondale	\$1,341.5	473.2	30-8	1,258,760	1,050,300
Bath Iron Works	286.8	130.7	9-6	234,500	126,600
Bay Shipbuilding	0	387.6	0-14	0	642,200
Maryland Shipbuilding	0	14.9	0-1	0	25,000
FMC Corp.	0	153.8	0-6	0	210,000
Galveston Shipbuilding	0	54.0	0-2	0	40,000
General Dynamics	521.4	555.0	7-6	386,800	381,600
Ingalls/Litton	172.8	68.2	8-6	157,350	241,000
Levingston Shipbuilding	252.0	12.0	7-1	216,000	20,000
Lockheed Shipbuilding	0	15.0	0-2	0	56,000
Bethlehem Steel S.P.	631.1	547.6	9-18	1,397,140	1,270,500
Nassco	442.1	557.8	17-12	1,147,400	1,171,300
Newport News	477.3	0	5-0	620,850	0
Seatrain Shipbuilding	343.4	0	8-0	952,200	0
Sun Shipbuilding	189.9	932.6	3-24	77,550	1,227,100
Todd-San Pedro	79.3	64.0	4-4	140,000	100,000
Total	4,737.6	3,670.5	107-119	6,587,450	7,006,000

SHIP OPERATING ASSISTANCE

S. 2322, Section 2(2), would authorize the Administration's request for \$347,697,000 in Fiscal 1981 to fund the Operating Differential Subsidy (ODS) Program. As proposed, the funding level reflects a net increase of \$4,761,000 in ODS

program outlays—considerably less than annual inflation, thus reflecting the greater productivity of the American merchant marine.

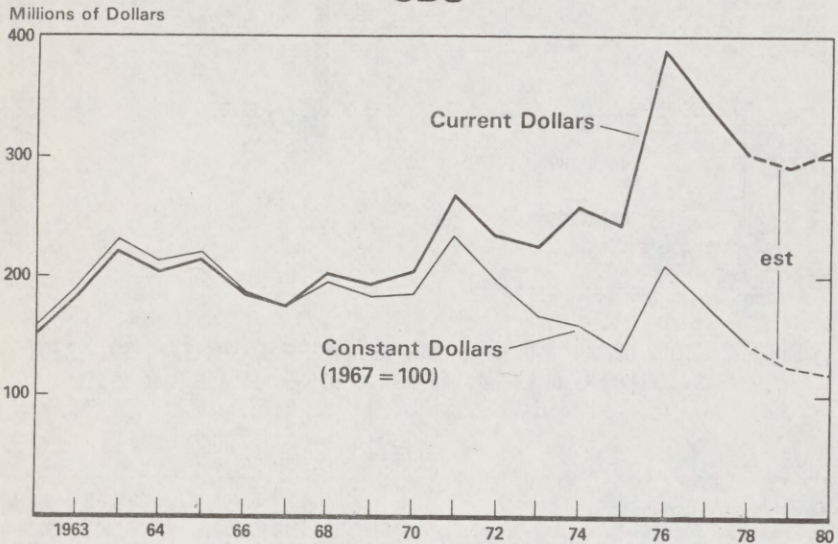
The Joint Maritime Congress supports the ODS funding level for Fiscal 1981 as requested by the Administration and provided for in S. 2322.

According to MarAd, additional ODS funds totalling \$9,201,000 would assist in the operation of five liners for Great Lakes Atlantic Steamship Company, a new operator, and \$2,148,000 would help support additional Farrell Lines ship. For bulk carriers, added funds would assist in operating one vessel for Equity Carriers, a new operator, \$1,358,000, and annualize the cost of operations for Suwanne River Group, which MarAd advises is expected to begin service in late Fiscal 1980, \$3,088,000.

Comparing both the ODS program in current and constant dollars the following graph shows the actual downward trend in the program level during recent years.

Maritime Subsidy Outlays, 1961-1980

ODS



By way of additional perspective, graphs on the following page illustrate that also in recent years:

Manning levels per ton of cargo shipped have been reduced; and

The relative costs of manning ships has declined in relation to other operating expenses.

In addition, while steps have been taken in recent years as a result of technological change to reduce vessel manning levels, we may very well have reached the time when they can be reduced no further for some classes of vessels. Addressing the matter, the "Look Out" section of a recent Fairplay International Shipping Weekly, a British publication, commented in part:

"On the vexed subject of crew reduction, dare we suggest that there is probably little room for further reduction (I hesitate to say improvement). Sooner or later we have to consider the social problems of having a dozen men immured in a gigantic empty ship, rather like lighthouse keepers, and also the relative costs of maintenance ashore and afloat could itself halt the trend. Sooner or later there is going to be a casualty where the cause will be ascribed to undermanning and insurance interests, we can assume, will not remain silent over such issues."

U.S. OCEANBORNE FOREIGN TRADE

Year	Commercial shipboard jobs	Commercial cargo carried	
		Tonnage (millions)	Value (billions)
1972.....	27,939	513.6	\$60.5
1975.....	20,624	612.0	127.3
1978.....	21,040	775.3	171.2

Source: Maritime Administration.

RELATIVE DECREASE IN MANNING COSTS IN RELATION TO OTHER OPERATING COSTS

	Per diem total operating cost ¹ (current dollars)	Per diem total operating cost ¹ (constant dollars)	Per diem manning cost ¹ (current dollars)	Per diem manning cost ¹ (constant dollars)	Percent of manning costs in relation to operating costs
1968.....	9,031	8,814	2,830	2,762	31.3
1978.....	22,300	10,726	5,955	2,864	26.7

¹ For C-4 breakbulk vessel (14,000 to 15,000 dwt).

Source: Maritime Administration.

Manning levels are constantly being reduced on new ships, and we would note further—with respect to development of a bulk program—that the normal manning level of bulk ships is much lower than that of other types of vessels. Exhibit 7 shows the ODS funding in Fiscal 1979 for non-liner vessels.

EXHIBIT 7.—NONLINER VESSELS CURRENTLY RECEIVING ODS: DECEMBER 1979

Vessel name	Dead-weight tons	(Mil- lions) cost	Deliv- ered	Owner	Shipyard	(Thou- sands) ODS	Percent CDS	Vessel type
Ultramar.....	80,500	\$30.1	1973	Aries Marine.....	Nassco.....	\$1,250	(44.2)	OBO
Ultrasea.....	80,500	30.1	1973	...do.....	...do.....	1,250	(44.2)	OBO
Cherry Valley.....	38,300	18.2	1974	Margate Shipping.....	...do.....	1,398	(43.0)	T
Chelsea.....	38,300	18.2	1975	...do.....	...do.....	1,398	(43.0)	T
Coronado.....	38,300	18.2	1973	...do.....	...do.....	1,398	(43.0)	T
Golden Dolphin.....	89,700	27.8	1974	Aeron Marine.....	...do.....	1,433	(43.0)	T
Golden Endeavor.....	89,700	27.9	1974	...do.....	...do.....	1,433	(43.0)	T
Golden Monarch.....	39,700	27.9	1975	Aquarius Marine.....	...do.....	1,300	(43.0)	T
Mormacstar.....	38,300	21.7	1975	Moore-McCormack.....	...do.....	915	(35.18)	PT
Mormacsun.....	38,300	21.7	1976	...do.....	...do.....	915	(35.18)	PT
Mormacsky.....	38,000	21.7	1977	...do.....	...do.....	915	(35.18)	PT
S.S. Worth.....	89,700	28.2	1976	Worth Oil Transport.....	...do.....	1,224	(36.47)	CT
Zapata Patriot.....	35,000	19.9	1976	Zapata Products.....	Todd-San Pedro.....	501	(42.93)	PT
Zapata Ranger.....	35,000	19.8	1976	...do.....	...do.....	501	(43.0)	PT
Zapata Courier.....	35,000	19.8	1977	...do.....	...do.....	501	(43.0)	PT
Zapata Rover.....	35,000	19.8	1977	...do.....	...do.....	501	(43.0)	PT
Rose City.....	89,700	28.2	1976	Pacific Shipping.....	Nassco.....	1,400	(36.47)	CT
Chestnut Hill.....	90,000	32.9	1976	Chestnut Shipping.....	...do.....	1,364	(33.38)	T
Kittaning.....	89,000	32.9	1977	...do.....	...do.....	1,364	(35.18)	PT
American Heritage.....	89,700	28.2	1976	Atlas Marine Co.....	...do.....	1,291	(36.47)	T
Beaverstate.....	89,700	28.2	1976	American Shipping.....	...do.....	940	(36.47)	CT

Total ODS received in fiscal year 1979 by nonliner vessels = \$23,202,800.

RESEARCH AND DEVELOPMENT

Section 2(3) of S. 2322 would provide a Fiscal 1981 authorization of \$18,750,000 to support MarAd's research and development activities.

The sum requested by the Administration represents a \$2,450,000 increase above the Fiscal 1980 funding level of \$16,300,000. By activity, MarAd proposes the following Fiscal 1981 allocations as compared with Fiscal 1980:

RESEARCH AND DEVELOPMENT

(Amounts in thousands of dollars)

	1980	1981
Advanced ship development	4,990	4,990
Advanced ship operation	2,980	3,965
Research facilities	3,805	5,765
Advanced maritime technology	4,525	4,030
Total	16,300	18,750

As proposed, the increases will cover implementation of a project to apply information systems technology to fleet management, \$685,000; expansion of research into port planning and the Great Lakes Inland Feeder Services, \$300,000; expansion of the maintenance and operation of the computer invested Operations Research Facility at Kings Point, New York, \$210,000; and development of human performance measures and certification standards required by the Port and Tanker Safety Act of 1978, \$1,750,000.

The above items represent most of what we know today regarding MarAd's proposed R & D program for the coming year. Specific projects and details thereof either are not yet determined by the agency, or have yet to be released to the public.

For the past several years, MarAd's R & D funding level in terms of overall outlays has remained relatively static: \$17,227,000 in Fiscal 1978; \$17,166,000 in Fiscal 1979; \$16,300,000 estimated for Fiscal 1980; and, the \$18,750,000 requested for Fiscal 1981.

The Fiscal 1981 request would maintain the Advanced Ship Development category at a status quo funding level in terms of dollar amounts. Considering inflation, however, the proposed funding level represents an actual decrease in that element's activity level. This could prove unfortunate. As summarized by the Budget Appendix, Advanced Ship Development:

"... involves projects to achieve greater productivity in the building of new ships and projects directed toward the development of new and improved ship machinery. Improved ship machinery performances is heavily oriented toward energy savings. Shipbuilding productivity improvement and new, less costly machinery benefit the Government by reducing ship construction costs and related subsidized."

Clearly, there is a growing requirement—what with bunker fuel costs doubling in the last year—for accelerated ship propulsion R & D projects. Such activity should address means to conserve fuel, the practicability of diesel system retrofitting, and other alternative fuels and propulsion systems.

For example, while conversion to diesel may not always be practical from an overall economic standpoint, there appears to be significant advantages to diesel propulsion in new ship construction.

In this respect, the Joint Maritime Congress has become concerned with the direction of MarAd's R & D program. In recent weeks, we have been reviewing the program. Preliminarily we have noted that from 1972 through 1978, more than \$11 million was spent on nuclear propulsion R & D as compared with less than \$1 million devoted to diesel propulsion (See Exhibit 8). That amount channeled to diesel R & D approximates the annual savings diesel propulsion would provide over steam power for a single ship.

The hour is at hand for the United States to begin a vigorous, innovative, and well-balanced maritime energy conservation program. The Maritime Administration's Research and Development Program should be leading the initiative.

EXHIBIT 8.—MARAD CONTRACTS RELATED TO SHIP POWER SYSTEMS—PROPULSION (EXCLUSIVE OF TRANSMISSION AND DRIVE TRAIN)

Year and project	Vendor	Dollar value of contract
1972:		
Consolidated nuclear steam generator—Nuclear propulsion system-pump diffuser evaluation.	Babcock & Wilcox.....	190,000

EXHIBIT 8.—MARAD CONTRACTS RELATED TO SHIP POWER SYSTEMS—PROPULSION (EXCLUSIVE OF TRANSMISSION AND DRIVE TRAIN)—Continued

Year and project	Vendor	Dollar value of contract
Consolidated nuclear steam generator—Preconstruction engineering.....do		1,693,179
Consolidated nuclear steam generator—Critical heat flux characteristics.....do		114,047
Commercial nuclear propulsion.....	Todd Shipyards Corp.....	134,500
1973: Consolidated nuclear steam generator—Pump bearing test.....	Babcock & Wilcox.....	101,120
CNSG design and development.....do		19,669
Self-regulating steam generator.....	Combustion Engineering Corp.....	47,192
Competitive marine propulsion.....	Booz-Allen.....	5,940
Power system study.....	J.J. McMullen.....	5,640
1974: CNSG pump bearing test.....	Babcock & Wilcox.....	37,000
CNSG pump diffuser tests.....do		56,409
CNSG vessel model flow test.....do		335,000
CNSG first of a kind engineering (phase V).....do		2,900,000
CNSG fuel assembly and control rod drive.....do		849,000
CNSG helical steam generator performance test.....do		444,114
Nuclear VLCC design study.....do		628,222
Operational performance; gas turbine technology.....	General Electric Co.....	400,000
1975: Nuclear powerplant.....	Babcock & Wilcox.....	1,596,158
CNSG phase V.....do		74,627
CNSG flow test.....	Todd R&T.....	18,000
Gas turbine marine boilers.....	Hague International Corp.....	98,963
Reheat steam propulsion plant.....	General Electric Corp.....	97,150
D-cycle marine propulsion (steam).....	D-Cycle Power Systems Inc.....	83,500
Industrial gas turbine.....	J.J. Henry.....	59,540
1976: Nonreheat steam powerplant for retrofit and design.....	DeLaval Turbine Co.....	155,000
Reheat steam propulsion system design study.....	General Electric.....	224,325
Marine shafting system bearing analysis, phase I.....	Mechanical Technology.....	239,950
Powerplant engineering (nuclear).....	Babcock & Wilcox.....	2,238,409
Steam turbine prototype.....	Prudential Lines.....	49,444
1977: COGAS powerplant equipment (combined cycle powerplant).....	George G. Sharp Inc.....	146,722
Astern power requirements.....	DeLaval Turbine Inc.....	98,255
Diesel demonstration improvement techniques.....	Seaworthy Engine Systems.....	144,196
Higher performance marine burner, phase III.....	Hague International.....	147,800
Marine burner atomizer optimization.....	Combustion Engineering.....	172,039
1978: Effect of fuel quality on diesel engine performance.....	Seaworthy Engine Systems.....	69,260
Marine burner atomization (diesel).....	Combustion Engineering.....	556,470

Number of contracts, and dollar value of contracts, given for propulsion studies

Nuclear propulsion (17).....	\$11,429,554
Steam turbine (and turbine electric) (11).....	1,154,196
Gas turbine (4).....	765,225
Diesel (4).....	941,965

Today, fuel accounts for as much as 75 percent of a vessel operator's total cost. Fuel efficiency is critical. The differential in fuel costs between a steam-powered ship and a comparable low-speed diesel-powered vessel can be as much as \$1 million per year. Second generation diesel systems developed during the last five years, if

installed on U.S.-flag ships, would provide fuel efficiency of as much as 5 or 10 percent above the earlier generation low-speed propulsion units.

By way of perspective, the U.S.-flag ship operator cannot be faulted for not moving more quickly with the global trend toward diesel propulsion. As a result of technological advances in the United States, the past low differential in fuel costs for steam and diesel systems, and governmental policy mandating that all ships built under the Merchant Marine Act of 1936 have a service speed of 18 knots for national defense purposes, steam propulsion remained the primary system.

For the years ahead, with increasing bunker fuel prices, the U.S.-flag operator will continue to operate at a growing competitive disadvantage. So we must look to diesel and alternative propulsion and fuel systems to retain a commercially competitive position.

Diesel propulsion also has the added advantage of being capable of using degraded fuels—a vital consideration in light of the steadily deteriorating quality of bunker fuels. In addition, diesel systems have the potential to burn alternative fuels, such as coal slurries.

The United States is a coal rich nation. We may see the day come again when ships are primarily powered by coal. There is work underway, such as that in Sweden (See Exhibit 9)² to develop a liquidified coal process to power ships in an economically competitive and environmentally sound manner. No doubt there are other such systems being developed and tested.

Additionally—and this ties in with the policy of the 1936 Merchant Marine Act—less than one-half of one percent of MarAd's R & D project expenditures between 1972 and 1978—were related to national defense aspects of the U.S. merchant marine (Exhibit 10). We do understand, however, that other MarAd program elements may fund some defense-related research.

In this regard the Joint Maritime Congress fully supports the proposed \$10 million authorization as provided in Section 2(3) of the companion House Maritime Authorization Bill, H.R. 6554 "for the sole purpose of conducting a sealift readiness exercise prior to the end of calendar year 1980, with a report of the outcome of the exercise to be made to the appropriate committees of the Congress prior to February 1, 1981."

The additional authorization was proposed by House Merchant Marine and Fisheries Committee Chairman John M. Murphy. The Joint Maritime Congress shares his views that the information derived from the exercise will be essential in properly developing a rational merchant marine sealift capability in peacetime to meet wartime requirements.

EXHIBIT 10.—MARAD R&D PROJECTS RELATED TO IMPROVING MILITARY DEFENSE CAPABILITIES OF VESSELS (1972-78)

Project	Vendor	Dollar value of contract
Mobilization ship design model tests (1977).....	NSRDC, Carderock, Md.....	200,000
Containership conversion for military sea-lift command (1978).	M. Rosenblatt & Son, N.Y., N.Y.....	174,911
Mobilization ship model design (1978).....	M. Rosenblatt & Son.....	19,915
Ship response monitoring and guidance system—ship installation (1978).	Military Sealift Command, Washington, D.C.....	25,200
Emergency berth utilization reporting system (module 1) (1978).	Systems Development Corp., McLean, Va.....	90,000
Design of a port and terminal capacity handbook (for national emergencies) (1978).	Moffat & Nichol.....	97,200
Total.....		608,226

Note: One of the 1979 projects still under contract, is for a study on mobilization ships.

Given the current propensity for military spending, R&D project directors will be increasing their interest in analyzing research projects relating to improving military defense features on merchant vessels.

As the Subcommittee will recall, the Joint Maritime Congress expressed its comprehensive views regarding the maritime defense mobilization base to this Subcommittee on November 21, during hearings on S. 1460, S. 1462 and S. 1463.

To secure a more detailed view of MarAd's R & D program, we have requested the agency to provide additional information for our study. Our initial view is that

² Exhibit 9 is in the committee files.

many R & D projects have not been integrated with the practical needs of the industry by providing meaningful change and technological advances widely applicable and sorely needed within the industry.

MARITIME EDUCATION AND TRAINING

Section 2(4) of S. 2322 would provide, in line with Administration requests, authorization ceilings of \$18,201,000 for the Merchant Marine Academy at Kings Point, New York; \$6,680,000 for state marine schools' assistance; and \$1,882,000 for supplementary training courses as authorized by the Merchant Marine Act of 1936.

While the Joint Maritime Congress supports the Maritime Education and Training provisions of S. 2322, we are aware of the debate now underway in Congress and throughout the industry, on the quality and direction of the education and training at the Merchant Marine Academy at Kings Point.

Moreover, we are concerned that the House Ad Hoc Select Subcommittee on Maritime Education and Training apparently has been unable to secure certain requested information on the grades achieved on the Coast Guard licensing examination by the Academy's Class of 1979. Such information is critical in the evaluation of the Academy's program. The test data can be compared with the pass/fail rates achieved by graduates of the state academies and schools operated by maritime labor and management.

AGENCY OPERATING EXPENSES

Section 2(5) of S. 2322 provides \$31,656,000 for MarAd operating expenses and \$7,208,000 for reserve fleet expenses. Section 3 provides authorizations for pay, fringe benefits, and "housekeeping" expenses for MarAd and the Merchant Marine Academy.

These requests appear to be justifiable, and short of agency oversight the Subcommittee may believe to be necessary in the coming fiscal year, are supportable by the Joint Maritime Congress.

MARITIME PREPOSITIONING SHIPS

An item not in S. 2322, but which is moving in parallel to the authorization—and which may well seriously impact the maritime industry during Fiscal 1981 and future years—is the proposal advanced by the Department of Defense to create a fleet of Maritime Prepositioning Ships (MPS).

Among the more questionable proposals coming from the Carter Administration as it reorders its priorities—in light of the Middle East Crisis—to increase our Nation's defense capability, is the resurrection of the Fast Deployment Logistic Ship (FDL) concept resoundingly rejected by the Congress in the mid-1960's.

At specific issue is the Administration's proposal to develop by the mid-1980's, a flotilla of 14 (and perhaps up to 30) Maritime Prepositioning Ships—floating supply depots—to be placed near various potential hot spots on the globe so the U.S. could rapidly send three heavily armed brigades of marines into combat.

The proposal is an element of the Pentagon's work to improve the Rapid Deployment Force program that envisions a force of 100,000 men available for quick response to international conflicts that might endanger non-NATO nations friendly to the United States, or of strategic importance.

The Marine Prepositioning Ship concept, as I mentioned, is not new—but rather one that was conceived and promoted during Robert McNamara's tenure as Secretary of Defense. The arguments advanced then for creation of the floating supply depot fleet are the same as advocated by the Pentagon today. Accordingly, the sound arguments against the proposal remain stone-etched valid as they were a decade and one-half ago.

As the Subcommittee is well aware, Pentagon officials have already begun the work to convince the Congress that the Maritime Prepositioning Ships are needed today. Thus, the work must move forward with dispatch to counter the mover to establish this program that was twice rejected by Congressional Floor action in 1967 and 1968.

The Joint Maritime Congress already has expressed its concern about the proposed Maritime Prepositioning Maritime program to the House. Similarly, the Joint Maritime Congress would request that the Subcommittee on Merchant Marine and Tourism consider:

Conducting its own hearings on the proposal in view of its implications contrary to the Merchant Marine Act of 1936; and

Meet, confer and otherwise provide the Senate Committee on Armed Services with all pertinent information on the proposal so that necessary action to thwart the program may be taken.

By way of additional background, the FDL/MPS concept, as I mentioned, was first proposed in 1966 as the result of joint Army-Navy studies on global logistic problems likely to confront the U.S. during the 1970's. In early 1965, Secretary McNamara approved the plan to develop a 30-ship FDL fleet, and sought \$131.8 million in Fiscal 1966 to build the first four ships. Congress cut the request to \$67.6 million to fund only two vessels.

Because he wanted to try his "total package procurement" idea on the FDL concept that would result in all of the ships being constructed in one yard, McNamara held back development.

In 1967, the Pentagon sought another \$233.5 million to build five additional FDL ships. In final Congressional Floor action, the new request was denied, and the prior year's unspent appropriation for the first two ships was rescinded.

Then, in 1968, the Defense Department again sought funding for the FDL program, but Congress again rejected the proposal by voting down the request for \$183.6 million to build four FDL's.

Former Merchant Marine and Fisheries Chairman Edward A. Garmatz, testifying before the House Armed Services Committee on April 4, 1967, provided an essential perspective on the FDL proposal and its relationship with the U.S. merchant marine. His testimony—which could be stated without change and remain totally valid—emphasized in part:

"The Department of Defense is attempting to supplant one of the basic functions of the merchant marine, as outlined in our maritime policy embodied in the Merchant Marine Act of 1936; that is, to serve as an auxiliary arm to the military in times of emergency.

"If our seriously declining merchant marine had been properly supported over the years, it would have the capabilities today to successfully meet this Nation's military and commercial needs, as called for in the basic Merchant Marine Act.

"If congressional intent had been followed instead of circumvented, DOD would not now be in such a frenzied hurry to develop a dubious system to meet maritime inadequacies to which it has itself contributed—by both its hostility and indifference toward the maritime industry."

Back in the 1960's, the FDL plan had projected costs in excess of \$1 billion.

Under the new name—Maritime Prepositioning Ships—the Pentagon is requesting Fiscal 1981 funding of \$286.7 million in start-up costs for two ships (\$207 million for procurement, \$66.7 million for equipment to be stored on board, and \$13 million for related construction).

For Fiscal 1982, three additional ships are proposed at a projected cost of \$573.8 million (\$337.8 million for procurement, \$173 million for stored-on-board equipment, and \$63 million for related construction).

Three additional ships would be added to the MPS fleet each year during Fiscal 1983, 1984 and 1985. Overall, the program carries a projected \$3.5 billion price, not including costs to operate and maintain the ships and protect them while stationed in international waters. Alone, we estimate these costs could amount to \$2.5 billion additionally, when the 14 ships are operational. Still to be determined are the annual operational, maintenance, and protection costs during the two or more decades the ships would be serving as floating supply depots.

Of added concern, are the indications that the 14 ships are but a precursor to an ultimate 30-ship program as first envisioned 15 years ago. Should that come to pass, overall costs could very well escalate above \$12 billion during the next 10 years.

The Joint Maritime Congress believes that it would be more prudent to channel additional funds to develop U.S. merchant fleet capability to provide viable sealift readiness in time of conflict. Vessels used commercially in time of peace would return funds to the government.

The public interest has not been served by allowing the Nation's merchant marine to decline, nor will it be served by permitting the Pentagon to move forward in implementing the new FDL program previously rejected by the Congress.

Should the substantially enhanced U.S. merchant marine contemplated by the Subcommittee be enacted into law, then our merchant marine will—in truth and fact—be the American fourth arm of defense, hundreds of ships strong in all oceans of the world. Then, a dozen or so prepositioned ships will be a remote consideration.

Again, may I express the appreciation of the Joint Maritime Congress for the opportunity presented by the Subcommittee to present our views as you consider the coming year's Federal Government support of the U.S.-flag merchant marine.

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question. The Senate/House conferees last year rejected a provision in the House version of MarAd's authorization bill which would have prohibited the payment by an operator of funds provided by operating-differential subsidy (ODS) to the Transportation Institute, Joint Maritime Congress, American Maritime Officers Service, or any other organization which engages in lobbying activities.

That provision was rejected because, among other reasons, it was felt that it:

Singles out the maritime industry for what is in effect special labor legislation affecting collective bargaining.

Does so without regard to the general labor-management legislation to which the maritime industry is subject.

Singles out the maritime labor sector in a fashion which casts a shadow of illegitimacy on certain aspects of collective bargaining not otherwise proscribed by Federal law relating to industry generally in the United States.

Would seriously impair the ability of the named organizations to provide valuable information and recommendations to the Congress.

Do you believe those reasons for rejecting such a provision are valid, and would you comment on them?

Answer. The Joint Maritime Congress believes that these reasons are without a doubt valid.

I should point out that the Joint Maritime Congress was created pursuant to a collective bargaining agreement and is exclusively funded and administered by ship operators. It has been the long standing policy of Democratic and Republican administrations to promote the harmonious integration of the Merchant Marine Act and the National Labor Relations Act. The structure and integrity of the collective bargaining process has consistently been protected from tampering intrusions which violate the fundamental rights of American workers. Section 7 of the National Labor Relations Act unequivocally declares that:

"Employees shall have the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection."

In 1970 Congress specifically addressed the issue of subsidy payments and the uses to which they could be put. In order to create an incentive to hold down wage increases, Congress created an index system: wage increases above a certain amount would reduce the subsidy. It was thought that it would be unfair for MarAd to determine that a collective bargaining agreement was "unreasonable" after the negotiators had, in good faith, done their best to maintain wage increases below the established rate. Therefore, subsidies were, in the future, to be based on "collective bargaining costs," rather than "fair and reasonable wage costs." The Merchant Marine Act was then amended in 1970 so that the new operating subsidy provision clearly stipulated that all costs required of operators by collective bargaining agreements shall be part of collective bargaining costs and, therefore, eligible for subsidies.

It was Congress' clear determination that the federal government should not dictate to the operators and their contracted unions how to allocate the wage settlement package by approving certain items for subsidy and not others. Union members, exercising their rights to collectively bargain and determine the allocation of wage benefits, have agreed, through their elected officials, to fund the Joint Maritime Congress and Transportation Institute from a portion of their wage settlement. Note that the United States Court of Claims, in ruling on a subsidy disallowance claim under the pre-1970 Act, concluded that the federal government is legally bound to subsidize collective bargaining costs which are negotiated at arms length and in good faith (*American Export Isbrandtsen Lines, Inc. v. United States*, No. 402-70).

There is one exception. All negotiated cost items disallowed prior to 90 days before the enactment of the 1970 Act were disallowed during the first base period. Since the first base period, however, and at the present time, Transportation Institute and Joint Maritime Congress contributions made for members of the approved crew complement have been allowed for subsidy.

Subsidies are granted to the maritime industry to help fulfill the purpose set forth in the Merchant Marine Act. Operating differential subsidies are authorized to ship operators in an essential foreign service for

"The excess of the subsidizable wage costs of the U.S. officers and crews, the fair and reasonable cost of insurance, subsistence of officers and crews on passenger vessels, maintenance, and repairs not compensated by insurance incurred in the operation under U.S. registry of the vessel or vessels covered by the contract, over

the estimated fair and reasonable cost of the same item of expense * * * if such vessel or vessels were operated under the registry of a foreign country whose vessels are substantial competitors of the vessel or vessels covered by the contract."

Joint Maritime Congress performs vitally needed services for our members. First and foremost, we provide our members with continually updated information. U.S. maritime affairs, American foreign policies, decisions, rules and regulations are continuously in the process of formulation and/or implementation and American owners and operators need to have ready access to this information. Furthermore, international ocean shipping is currently receiving the ever-increasing attention of the world's governments. Such developments affect American owners and operators equally, if not more so than the others. In order to inform our membership in an efficient yet comprehensive manner, the JMC issues two weekly newsletters: technical reviews for our membership and a broader, issue analysis for Members of Congress, their staffs, and various elements of the maritime community.

To a significantly lesser extent, our organization serves our members by discussing pending legislation with Members and their Congressional staffs. These interactions are simply a means to exchange and disseminate information. Members of Congress, therefore, are able to look to our organization, which, due to our concentrated effort, provides accurate and useful data on the pressing maritime issues of the day.

The JMC engages in a limited amount of legislative lobbying which is qualitatively different from grass-roots lobbying. This activity is clearly permitted by all applicable law and the degree to which our organization engages in this activity is further restricted by our respective articles of incorporation and/or by-laws.

The subsidized fleet, which consists of 40 percent fewer vessels than those operating in 1960, has, over the same period of time, increased its productivity as measured in estimated annual carrying capacity by 28 percent to 55.5 million tons. This increase in capacity has not been achieved without significant increase in capital costs. A break-bulk ship built in 1958 had a capital cost net of Construction-Differential Subsidy of \$5.8 million and a deadweight capacity of 10,600 tons, while a containership contracted in 1979 has a capital cost net of CDS of \$45.5 million and a deadweight capacity of 32,800 tons. The latter cost does not include the investment in container, chassis, terminal and other gear necessary to support a Total Ocean Transportation System.

As proposed, the funding level reflects a net increase of \$4,761,000 in ODS program outlays—considerably less than annual inflation, thus reflecting the greater productivity of the American merchant marine.

The Joint Maritime Congress supports the ODS funding level for Fiscal 1981 as requested by the Administration and provided for in S. 2322, but overall would favor a system of full parity reflecting the accurate differential between U.S. and foreign operating costs.

According to MarAd, additional ODS funds totalling \$9,201,000 would assist in the operation of five liners for Great Lakes Atlantic Steamship Company, a new operator, and \$2,148,000 would help support an additional Farrell Lines ship. For bulk carriers, added funds would assist in operating one vessel for Equity Carriers, a new operator, \$1,358,000, and annualize the cost of operations for Suwannee River Group, which MarAd advises is expected to begin service in late Fiscal 1980, \$3,088,000.

In addition, while steps have been taken in recent years as a result of technological change to reduce vessel manning levels, we may very well have reached the time when they can be reduced no further for some classes of vessels.

The hope is at present that improved competitiveness can be obtained through conversion to diesel. Today, fuel accounts for as much as 75 percent of a vessel operator's total costs. The differential in fuel costs between a steam-powered ship and a comparable low-speed diesel-powered vessel can be as much as \$1 million per year.

Question. You mentioned the "per diem subsidy concept." Please explain the per diem concept and how it differs from the existing construction differential subsidy program.

Answer. The per diem subsidy would be composed of a daily operating-differential subsidy sufficient to place the vessel on a full operation-cost parity with the vessels of the country with the largest number of foreign-flag, bulk vessels; plus a daily depreciation and interest subsidy sufficient to place the vessel on a full capital-cost parity (including Coast Guard and ABS differing requirements) with a foreign-built vessel, if the latter were contracted for in the low-cost world shipbuilding center at the same time. This per diem subsidy would be paid from the day the vessel begins to load cargo in the United States for a foreign port or departs the United States in ballast to load cargo in a foreign port.

We agree with the objective of simplifying the subsidy system and of evolving a single per diem subsidy payment that will include an operating-differential subsidy allowance as well as a capital element. Care must be taken, however, to assure that any new subsidy will be calculated to achieve the purpose for which it was intended and that it will not merely be a device for subsidizing existing obsolete vessels. Any realistic and sensible program must necessarily envisage the construction and operation under the United States-flag of new vessels.

The proposed House version of the Maritime Authorization Bill provides a per diem subsidy program on an experimental basis. The provision merits support as it will permit the Congress and the Maritime Administration to determine if such a program, would, in fact, be viable.

Question. Your Charge in your statement shows a downward trend in the amount of constant dollars spent for vessel operating assistance.

Is this decrease solely a result of the fact that manning levels on today's modern ships has declined?

What other factors have made it possible for us to reduce the ODS program level?

Has the amount of cargo moved on U.S. vessels increased or decreased during the period in which the ODS level has declined.

Answer. The downward trend in the amount of constant dollars spent for vessels operating assistance can be explained in several ways:

Increased utilization of containerized cargo has eliminated the need for large crew complements.

Manning levels per ton of cargo shipped have been reduced through increased bulker utilization as well as containerization of cargo.

The relative costs of manning ships are declining in relation to other vessel operating expenses.

Manning levels are constantly being reduced on new ships and with respect to bulk ships—their manning level is much lower than that of other types of vessels.

Question. With respect to ODS, it has been suggested that there is no incentive for U.S. vessel operators to put a cap on their total operating costs and thus hold down the cost differential because they know the government is going to pay whatever difference there is between their higher operating costs and those of their foreign competitors.

In addition, it is said that aside from the wage index system, there are no cost controls in the ODS program that limit the government from picking up unreasonable expenses which a vessel operator might incur.

Would you please comment?

Answer. The suggestion that there is "no incentive for U.S. vessel operators to put a cap on their total operating costs" is clearly false and misleading.

As you know, the Merchant Marine Act of 1936 is based on the premise of placing the U.S.-flag ship operators on a capital and operating cost parity with foreign competitors. To the extent that claims are made that ODS payments are out of line it should be pointed out that Section 603(c) of the Merchant Marine Act of 1936 sets forth clear parameters for subsidizable wage costs. This index system, which was added to the 1936 Act in 1970, has served to limit increases in wage-related costs for purposes of ODS payments. Moreover, it has been shown time and again that subsidized manning levels are well below those of unsubsidized operators.

The fact that the operator must bear all of the cost for positions above the number determined by the Secretary of Commerce has proven to be sufficient economic disincentive to keep manning levels down. Let me reiterate that over the last decade manning levels on subsidized U.S.-flag vessels have drastically decreased while the productivity of such vessel has increased just as dramatically.

Question. The Senate/House Conference rejected a House provision in the MarAd authorization bill for FY '80, which provided "construction-differential subsidy (CDS) may not be used for any vessel which will have a subsidized manning level 50 percent above the minimum determined by the Coast Guard to be necessary for the safe operation of the vessel."

What are your views on this provision?

Answer. The provision to which you refer would have required that no funds (ODS/CDS) authorized may be used for any vessel which has a subsidized manning level in excess of 50 percent of the minimum manning scale established for that vessel by the U.S. Coast Guard.

This provision, rejected in the Senate/House conference on the fiscal year 1980 MarAd authorization, defeated its own presumed purpose: reducing subsidy costs. Instead of reducing subsidies, it would have increased the cost of vessel maintenance, thereby raising the cost of vessel operations. The provision was based upon a total misunderstanding of the Coast Guards faction. The Coast Guard establishes

minimum safe manning solely from the perspective of "safe navigation." It does not concern itself with vessel maintenance, sanitation, specialized operational activities, caring for passengers, or feeding the crew. The crew charged with such tasks—deck and engine room personnel, stewards, cooks, and pursers—are not included in the Coast Guard minimum manning scale. Nevertheless, it is impossible for a vessel to function without this part of the crew.

Question. It has been suggested that the law be amended to direct the Secretary of Commerce not to approve an ODS application unless he determines that "manning levels are no higher than necessary for the safe, efficient and economical operation of the vessel and that all subsidizable costs are reasonable."

What are your views?

Answer. We partially addressed this suggestion in the previous question.

The key phrase here is "all subsidizable costs are reasonable." What is reasonable? and what is not reasonable? To direct the Secretary of Commerce to set manning levels subjectively in each and every ODS application would clearly be arbitrary and impossible to administer. Moreover, such a subjective judgment would undoubtedly face the same problems we outlined in the previous question.

Present law, Section 603 of the Merchant Marine Act of 1936, as amended, provides the Secretary of Commerce authority to exclude from subsidizable wage costs those which are attributable to manning requirements contained in collective bargaining agreements which he determines, before the awarding of a contract for the construction or reconstruction of a vessel, to be "unnecessary for the efficient and economic operation of such vessel." Prior to the Secretary's finding, collective bargaining units responsible for the manning of the vessel are required to be given an opportunity to comment.

In effect, current law provides a narrowly circumscribed authority of the Secretary to pass judgment on collective bargaining agreement provisions.

The language quoted in the question, by way of significant contrast, would direct the Secretary of Commerce to *interfere* in the collective bargaining process to a degree unparalleled under any existing statute applicable to the maritime industry or any other industry. Such interference directly would counter the United States policy provided by the Labor Management Relations Act of 1947, which provides in part that:

"It is declared to be the policy of the United States to eliminate the causes of certain substantial obstructions to the free flow of commerce and to mitigate and eliminate these obstructions when they have occurred by encouraging the practice and procedure of collective bargaining."

Moreover, there is absolutely no evidence whatsoever to support any position that current manning levels are too high or that labor has made unreasonable demands that would contribute to current problems in the U.S. Maritime industry.

Question. Recently, a British publication had this to say on reducing ship manning levels:

"On the vexed subject of crew reduction . . . there is probably little room for further reduction. Sooner or later we have to consider the social problems of having a dozen men immured in a gigantic empty ship, rather like lighthouse keepers, and also the relative costs of maintenance ashore and afloat could itself halt the trend. Sooner or later there is going to be casualty where the cause will be ascribed to undermanning and insurance interests, we can assume will not remain silent over such issues."

What are your views?

Answer. The Joint Maritime Congress agrees completely and wholeheartedly with this quote.

Clearly, the ability of vessel crews to perform underway maintenance and repairs promotes the safe operation of the vessel. Fewer crew would seriously impair the safe operation of these huge vessels.

Furthermore, there has been some specification that a drastic reduction of crew would limit or totally eliminate the ability of an ocean-going vessel to participate in ocean rescue or other life-saving assistance so necessary on the high seas.

To reduce manning levels for the sole purpose of reducing manning costs runs the serious risk of endangering not only the crew members of these undermanned vessels but also could pose serious threats to safe navigation not only in the already congested harbors and ports but also on the high seas in the well travelled se-lanes.

Question. According to an account I have seen in the press MarAd has predicted a severe shortage of shipboard officers within the U.S. merchant marine by mid-1980's.

(a) In your judgment is this prediction accurate; and, if so, what can be done about it?

Answer. The "account" to which I believe you refer is the result of a two volume study released by the Maritime Administration on March 7, 1980 entitled, "U.S. Merchant Marine Workforce Supply and Demand Analysis, 1979-88—For Unlimited License Deck and Engine Officers."

The study purports to show that if current trends continue, the maritime industry will face a shortage of deck and engine officers by 1989.

The Joint Maritime Congress has uncovered certain discrepancies both in the study's conclusions and the statistical methodology employed by the study. We are currently re-evaluating the MarAd report and hope to present a substantially more accurate merchant marine workforce forecast in the near future.

In the meantime, I would like to caution the Committee on placing too much emphasis on the study's preliminary analysis at this time.

Question. The Administration advocates a \$1.5 billion ceiling for new Federal Ship Financing Fund commitments (Title XI) for fiscal year 1981.

What are your views?

Answer. The Administration's request for a \$1.5 billion ceiling for Federal Ship Financing Fund commitments under Title XI for fiscal year 1981 is an unnecessary constraint on one of the most successful government programs now serving the maritime industry.

OMB has given the Congress each year a progress report in the Budget on the operation of this program. A full accounting has been made of this program and year after year it passes the test with flying colors. To impose a ceiling is totally unnecessary and would be an unfair constraint, eventually inhibiting future construction of vessels in U.S. shipyards.

Question. H.R. 6554, the MarAd authorization bill pending in the House, is \$10 million higher than the request appearing in the Administration's budget.

That extra amount was added for the specific purpose of funding a sealift readiness exercise in order to ascertain our ability to respond to an emergency.

(a) What is your view on adding this amount?

Answer. The Joint Maritime Congress fully supports the proposed \$10 million authorization as provided in Section 2(3) of the companion House Maritime Authorization Bill, H.R. 6554, "for the sole purpose of conducting a sealift readiness exercise prior to the end of calendar year 1980, with a report of the outcome of the exercise to be made to the appropriate committees of the Congress prior to be made to the appropriate committees of the Congress prior to February 1, 1981."

The additional authorization was proposed by House Merchant Marine and Fisheries Committee Chairman John M. Murphy. The Joint Maritime Congress shares his views that the information derived from the exercise will be essential in properly developing a rational merchant marine sealift capability in peacetime to meet wartime requirements.

As the Subcommittee will recall, the Joint Maritime Congress expressed its comprehensive views regarding the maritime defense mobilization base to this Subcommittee on November 21, during hearings on S. 1460, S. 1462 and S. 1463.

To secure a more detailed view of MarAd's R & D program, we have requested the agency to provide additional information for our study. Our initial view is that many R & D projects have not been integrated with the practical needs of the industry by providing meaningful change and technological advances widely applicable and sorely needed within the industry.

Senator WARNER. We have Mr. Mark P. Schlefer, attorney for the APEX Marine Corp.

Would you be kind enough to summarize your statement?

STATEMENT OF MARK P. SCHLEFER, ATTORNEY, APEX MARINE CORP.

Mr. SCHLEFER. Yes, sir. I don't intend to read this entire statement. I have two points—three points to make.

The second one relates to the Snyder amendment which was attached to the authorization bill last year. I think it might be academic. I understand that it is unlikely that the House committee will add that amendment to the authorization bill. Last year it

was added on the floor after the Senate hearings when we had no opportunity.

I would appreciate it if my statement were included in the record.

Senator WARNER. It will be included in the record.

There were two other points?

Mr. SCHLEFER. There are points I would like to make to the committee. One point relates to the vessels which the APEX group would like to build. We have had—as you may see from this statement, we have one ship presently being—a tanker being built in Newport News and another ship being built at Bethlehem. We—the company has been negotiating with both of those yards for the possible construction of two OBO type vessels. Newport News has redesigned its tanker design into an OBO design, a general schematic plan to accomodate this project.

The plan for those two vessels is to put them under what has been called the per diem subsidy. That is to say, no construction differential subsidy would be utilized. Instead, the vessels would be built with operating—under contract for an operating differential subsidy for 20 years. Included in the operating differential subsidy would be a capital increment or an element which would be paid on a per diem basis, depending upon whether the vessel was in domestic trade or in the foreign commerce of the United States.

That approach has been used for many years by the Maritime Administration under existing law, with respect to the Soviet grain program. There, a large number of Jones Act ships, so-called, have come under short term operating differential subsidy agreements which are paid while they are carrying grain—they come off that subsidy as soon as they are through with that program and can go back into the domestic trades.

I have stated in my statement the legal basis for the maritime judgment on that, and they have also very recently issued proposed regulations for dry bulk vessels under the per diem subsidy program, and I have attached to my statement a copy of their proposed regulations for your review.

For some reasons maritime has decided not to apply that per diem program to OBO's, although they are dry bulk vessels as well as liquid bulk vessels—they can carry both—what I am urging the committee to do here is to put perhaps a statement in its report indicating that it has no objection and would urge the application of the per diem subsidy approach to OBO-type vessels such as these.

No authorization is really needed because maritime has continuing authorization to enter into operating differential subsidy agreements, and there is apparently no limit to that. It is controlled by the Bureau of the Budget. No operating differential subsidy would be actually payable until after the vessels are delivered 2 years from now and probably more than that, considering the time it would take to negotiate these contracts.

This would be a rather significant test of the per diem approach which is being considered specifically in the so-called omnibus bill by the House committee at the moment, and we have also urged the House to put a similar supportive statement in its report on the authorization bill.

I will omit my discussion of the Snyder amendment to the authorization bill last year. I want to talk about one other program which might be included in this authorization bill, inasmuch as you do fix the ceiling for title XI in the authorization bill. In connection with complying with the Port and Tanker Safety Act and also conversion from steam turbine to diesel vessels—and the fuel saving that that would involve—vessels are off-hire for a considerable period of time—about 3 months to comply with the Port and Tanker Safety Act and environmental requirements, and about six months for conversion from steam to diesel.

What we are suggesting is that the off-hire expenses, the out-of-pocket expenses—that is to say, the payments on the existing bonds, insurance, minor maintenance and related items—that have to be expended during that conversion period, be capitalized and included in the title XI costs for mortgage purposes.

This doesn't cost anything in the long run so far as the Government is concerned. The payback would be paid over the life of the vessel, with a guarantee fee. The vessels are all on long-term charter, and that is generally true in the bulker and tanker field.

It would stimulate—without, as I say, additional appropriations authority, although it would include a departure from Maritime's practice so far as actual cost is concerned. In our opinion, they can do it under present law. They have never done such a thing, and their view is that the costs have to be costs actually paid to the shipyard, although the distinction between those costs and the costs of paying existing bonds, existing title XI debt is hard to see. They both would be capitalized under ordinary accounting practices, in any event.

Those are the two suggestions which I am making to the committee. One does not involve an amendment; the other does.

I would be glad to submit to the staff statutory language if that is desired.

Senator WARNER. I think it is perfectly in order for you to submit that. The committee has asked MarAd to submit its written comments on recommendations concerning operating OBO-type vessels under per diem subsidy and include actual costs for purposes of title XI, of the off-hiring expense and disbursements when a vessel is undergoing construction.

According to the administration's budget request, the \$135 million for CDS is intended for construction of five dry bulkers. Is it APEX intention to apply for CDS for fiscal year 1981 for the two OBO's it intends to construct?

Mr. SCHLEFER. These would not require any CDS. As I indicated, they would be built without subsidy at full domestic cost. When the vessels are delivered by the shipyard to the owner, they will then receive an operating differential subsidy which would include capital elements. That is, the difference in depreciation and interest costs between a similar foreign ship and these ships. And that amount would be paid only when the vessel is in foreign commerce, so that no CDS is required for these two vessels.

As I indicated, the Maritime Administration has continuing authority to enter into operating differential subsidy agreements, and the capital costs here would be included in the operating differen-

tial subsidy agreement. No CDS is requested or required for these ships.

Senator WARNER. We thank you very much, counselor. We appreciate your advice.

[The statement follows:]

STATEMENT OF MARK P. SCHLEFER, ATTORNEY, APEX MARINE CORP.

Mr. Chairman, I am Mark P. Schlefer, an attorney at law, of Washington, D.C. I am here on behalf of Apex Marine Corp.

For the record, Apex Marine Corp. under managing agency agreements operates two subsidized 82,000 deadweight-ton oil/bulk/ore carriers ("OBO") and seven subsidized 91,000 deadweight-ton tankers. Captain Leo V. Berger is the controlling stockholder or controlling general partner of the companies that hold operating-differential subsidy contracts on these nine vessels. In addition, Apex Marine Corp. operates as general or managing agent several smaller non-subsidized U.S.-flag vessels, which the Berger Group owns. The Berger Group now has under construction at the Bethlehem Steel Corporation's Sparrows Point shipyard a 47,000 deadweight-ton CATUG product tanker which will cost in the neighborhood of \$60,000,000 and at the Newport News shipyard a 40,000 deadweight-ton product carrier which will cost almost \$30,000,000.

Today I have three distinct matters to take up with this Subcommittee which are relevant to the 1981 authorization legislation: One relates to Apex's objective of building and operating two new 50,000 to 55,000 deadweight-ton OBO type vessels under per-diem subsidy on the basis of existing law; the second relates to a particular provision of last year's "Snyder" Amendment to the authorization bill which requires abatement of CDS when carrying preference cargo. The third, in connection with the ceiling on Title XI financing, suggests inclusion in Actual Cost of off-hire expenses and disbursements when a vessel is in a shipyard to effect repowering with a diesel plant or for the purpose of meeting Port and Tanker Safety Act environmental requirements. Let me turn first to the construction of the two OBOs.

The Maritime Administration already has the authority, under the second proviso of section 603(b) of the Merchant Marine Act, to enter into a contract for per-diem subsidy for bulk vessels. Section 603(b) was added by the 1970 Act and provides in material part "that the Secretary of Commerce may, with respect to any vessel in essential bulk cargo carrying service . . . pay in lieu of the operating-differential subsidy . . . such sums as he shall determine to be necessary to make the cost of operating such vessel competitive with the cost of operating similar vessels under the registry of a foreign country."

Under this provision of law, the Maritime Administration has been paying a per-diem-type subsidy in its Soviet grain program since about 1972. In addition it has recently proposed regulations for a dry bulk vessel subsidy program, which provide for payment of a per-diem subsidy. A copy of those proposed bulk regulations is attached to my testimony as Exhibit A.

An OBO is, of course, capable of transporting all dry bulk cargoes that a dry bulk carrier can, such as coal, iron ore, bauxite, scrap iron, grains, etc. But because it can also carry petroleum and petroleum products the Maritime Administration has apparently decided not to proceed with the construction of the two vessels under its bulk program. The Administration may be deferring action until Congress enacts the Omnibus Bill. But meanwhile the cost of construction is rising at a rate exceeding 1 percent per month. This will increase enormously the capital cost of the ships, the interest charges she must bear and will necessarily result in much higher subsidy cost to the government.

Captain Berger testified on the Omnibus Bill before the House Merchant Marine and Fisheries Committee last November that if a per-diem subsidy program were to be enacted we would immediately contract for two OBOs of approximately 50,000 DWT. The real advantages of the per-diem subsidy provided in the Omnibus legislation are: first, it tells the Commerce Department that per-diem subsidy for bulk and tanker vessels is consonant with the will of the Congress; and second it eliminates the restrictions of section 605(c), section 804 and section 805(a) of the Act.

The Berger Group has already been through a section 605(c) hearing with respect to these two vessels and has prevailed. They have also complied with the requirements of section 804 by phasing-out the foreign-flag fleet which they had before they began to build a subsidized U.S.-flag fleet. The requirements of section 805(a) have already been satisfied in respect to these two OBOs at the time the hearing under section 605(c) was held. Accordingly, since the Berger Group, as a company, do not face these obstacles, and since the Maritime Administration does have the present

authority to pay a per-diem subsidy, they would like to build those two ships with per-diem subsidy now.

There is a strong need now for bulk ships in the foreign trade and for tankers in the domestic trade. The price to build these ships grows higher every day. By building these ships immediately they would save both themselves and the government money. And, of course, the ships will be more competitive the lower the capital cost. This Subcommittee, the House Merchant Marine and Fisheries Committee, and the Maritime Administration would have a first-hand look at how the program will work, and the major purpose of the program, i.e., to build new bulk vessels—would be immediately realized. If the Senate ultimately considers the Omnibus Bill, these two vessels would be positive proof that the per-diem subsidy program will indeed cause new bulk vessels to be built. The Maritime Administration is, rightfully so I think, a little reluctant to go ahead with our proposal while the concept of per-diem subsidy is being considered in Congress.

Additional authorization is not required since Maritime has authority, without appropriations, to enter into operating-differential subsidy contracts under sections 603 (a) and (b) of the Act. However, if the Subcommittee were to put language in its report on the authorization bill indicating clearly that the Subcommittee encourages the Secretary of Commerce to exercise his authority to build and operate OBOs as well as dry bulk carriers under per-diem subsidy, I believe the Maritime Administration would proceed to negotiate per-diem contracts covering these two ships. I am therefore asking this Subcommittee for a clear indication to the Maritime Administration to go ahead with these two vessels and not to await final legislative action on the Omnibus Bill.

I would now like to change the subject. Last year's Maritime Administration authorization bill included a clause which has come to be known as the Snyder Amendment. This amendment allowed holders of long-term ODS agreements, such as the Berger companies, to suspended their ODS agreements together with all obligations and responsibilities thereunder for a period of not less than one year. We have no objection to that provision. But as finally passed, the Snyder Amendment included a proviso that vessels precluded by law or contract from carrying preference cargo and which took advantage of the Snyder Amendment could not carry preference cargoes without a pro-rata payback of CDS. This added a restriction which does not exist in the present CDS contracts. In the guise of releasing a subsidized operator from all ODS restrictions, the amendment as finally enacted imposed a new and additional restriction. If the Snyder Amendment is to be reoffered this year, the CDS payback proviso with respect to preference cargo should be eliminated. There are a number of reasons for this which I will now discuss.

First, and foremost, foreign-built vessels are permitted under present law to carry preference cargo. True, foreign-built vessels have a three year sanitation period—that is, they must be documented under U.S.-flag for three years before carrying most preference cargoes—but they may nevertheless carry those cargoes after that period of time. All of the Berger subsidized vessels, and all other bulk vessels built with CDS, have been documented under U.S.-flag for more than three years without the privilege of carrying preference cargo. Yet under the Snyder Amendment as passed last year, those vessels would not be permitted to carry preference cargo under suspension of their ODS agreements without paying back CDS, while a bulk vessel built in Japan, at less than half the construction cost, would be permitted to do so.

Second, a major express policy of the 1970 amendments to the Merchant Marine Act was that subsidized vessels would carry preference cargo, and that unsubsidized vessels carrying preference cargoes at exorbitant premium rates would be phased-out. During the consideration of the 1970 amendments, the matter of competition between subsidized and so-called "unsubsidized" U.S.-flag vessels was carefully considered and resolved. Fully depreciated unsubsidized vessels were not deemed to need any protection from vessels built with CDS and operated with ODS. Indeed there is little question that the 20-30 year old vessels now carrying preference cargoes have significantly lower capital costs than any bulk vessels built with CDS under the 1970 Act. As to those unsubsidized vessels which were not fully depreciated, i.e., the Jones Act tonnage with substantial unrecovered investment, those vessels were to be offered ODS contracts. Their "price of admission" to the subsidy program, so to speak, was compliance with section 804 requiring those operators to phase-out by 1990 their foreign-flag fleets. In any case those ships have profitable employment in the domestic trades. As I mentioned earlier, the Berger Group did phase-out its foreign-flag vessels when they embarked on their subsidized construction program.

Further, when one looks at what ships have been carrying preference cargo one would see that, by and large, preference cargoes were carried by over-aged, obsolete and inefficient ships, whose operators have not themselves built any new ships or otherwise contributed to the enhancement of the U.S.-flag bulk fleet. They have received tremendous government subsidies in the form of premium rates—approximately \$500 million since 1972—and have not built a single U.S.-flag bulk vessel in the United States. (Some new tankers have been built for the Alaskan oil trade and those ships have been fully employed there.) Moreover, when the 1970 amendments to the Merchant Marine Act were enacted it was made abundantly clear that U.S. vessels built with CDS and operated with ODS were to carry preference cargo. There is no reason for the Berger ships to abate CDS for carriage of preference cargoes if we take advantage of the Snyder Amendment. Liners do not have to do so. Nor do bulkers built solely with CDS.

There is a third matter which the Subcommittee may find appropriate to address in the Maritime Administration's authorization bill. In establishing the ceiling for Title XI obligations we ask that the Subcommittee consider a matter which entails no additional costs to the government but which is crucial to any effort to repower existing steam-driven vessels with energy-saving diesel engines and in addition would be very helpful in meeting the Port and Tanker Safety Act requirements. In our view, the Maritime Administration presently has authority, although it is reluctant to utilize it, to include the Actual Cost for Title XI mortgage purposes the interest on existing bonds during the period of time that the vessel is in the shipyard as "construction period interest." What we ask the Subcommittee to do is to make clear that Actual Cost may include interest on existing debt and other out of pocket disbursements relating to the vessel during the period of time she is in the shipyard for conversion to a diesel power plant or to meet Port and Tanker Safety Act environmental requirements, such as amortization of existing debt, insurance and whatever small crew expense there may be.

To convert from a steam-turbine power plant to a diesel power plant may take up to six months in a shipyard. Similarly, to meet the Port and Tanker Safety Act requirements may take as long as 90 days for our ships. During the period of time the vessel would be "off-hire," which is to say that the charterers would not be paying charter hire or if the vessel is free of charter she would have no income. Meanwhile, enormous debt service obligations continue to mature and related expenses must be disbursed. Our thought is to capitalize these costs into the capital cost of the reconstruction and issue bonds to finance 75 percent of them along with the shipyard reconstruction costs which would enable them to be paid off over the balance of the life of the vessel. This procedure would involve no additional cost to the government; it would merely enable the amount of the bonds to be increased and thereafter to be paid off during the operating life of the vessel. We believe that the Maritime Administration would, if requested, extend the life of the vessel because of the repowering or the meeting of Port and Tanker Safety Act requirements for purposes of Title XI.

To give the Committee an idea of the magnitude of the problem let me take a specific example. The debt service alone on one of the Berger Group subsidized tankers for a period of 6 months during any proposed program to repower the vessel with diesel engines would be about \$650,000 and for our nine ships about \$5,850,000. There would be certain other expenses of smaller nature such as insurance; a very small amount of crew expense and certain minor related expenses. But during this period there would be no income earned by the vessels and that cash would have to be borrowed in some manner or contributed by the shareholders or partners. The likelihood of being able to repay the amount if it were included in the Title XI mortgage base, as we are suggesting, would seem to be reasonably secure. The vessel itself would have enormously greater value after the work is done than it had before. In addition, the fuel differential between a U.S.-flag vessel and a foreign-flag diesel is now approximately \$9,000 a day for each day of steaming time. Accordingly, the savings accruing to the ship from the conversion would be able to amortize the cost over a reasonable period of time provided market conditions permit it to operate competitively in the world market.

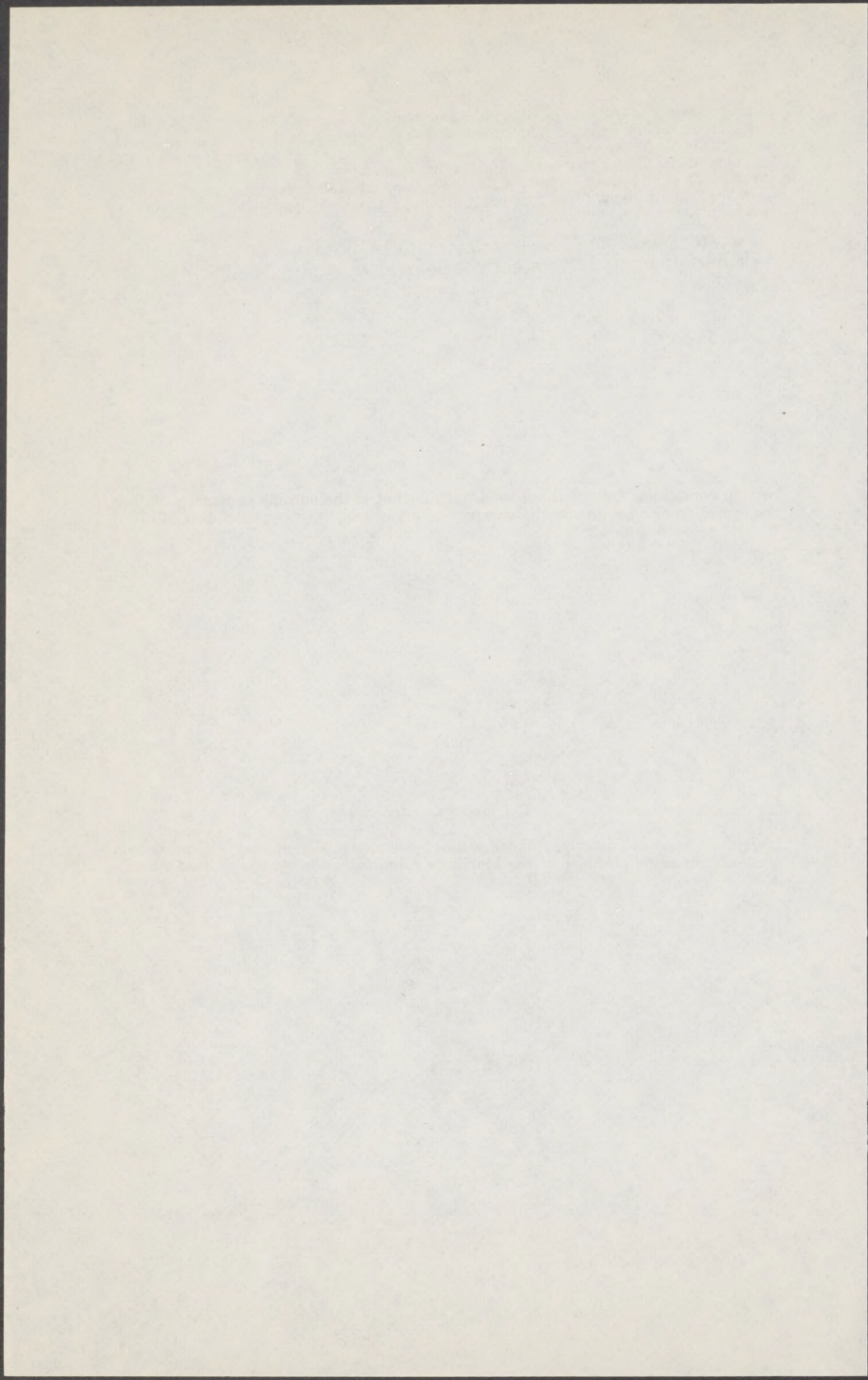
The term "actual cost" is presently defined in section 1101(f) of the Merchant Marine Act to mean "as determined by the Secretary of Commerce . . . all amounts which the obligor is . . . obligated to pay . . . for the construction, reconstruction or reconditioning of [a] vessel. . . ." We believe that existing language is sufficiently broad to include amounts to be paid on the existing mortgage during the reconstruction period, but the Maritime Administration is unlikely to include those amounts. Indeed they had been requested to do so in similar situations in the past and have rejected the notion saying that only construction interest on the borrowing for the

reconstruction itself could be included and Marad would not include the principal and interest on the existing mortgage or expenses relating to the existing ship, such as insurance. We would be happy to furnish the staff with proposed statutory language if the Committee thinks well of our suggestion.

I wish to thank the Committee for permitting me to express the views of Apex Marine Corp. on these three matters and I hope that the Committee will give them careful and favorable consideration. Thank you.

Senator WARNER. This hearing stands adjourned.

[Whereupon, at 11:40 a.m., the hearing was adjourned.]



ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

AMERICAN MARITIME ASSOCIATION,
Washington, D.C., March 19, 1980.

HON. DANIEL K. INOUE,

Chairman, Subcommittee on Merchant Marine and Tourism, Committee on Commerce, Science, and Transportation, Dirksen Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: At the hearings of March 17, 1980 respecting maritime authorizations, S. 2322, the Subcommittee on Merchant Marine received testimony requesting a modification of the Snyder Amendment to the maritime authorization bill enacted last year.

As you may recall, the Snyder Amendment allows subsidized companies to suspend their operating-subsidy contracts with the Maritime Administration under certain conditions. One of these conditions is that if the subsidy contract prohibits the vessel from engaging in the carriage of preference cargoes under Sec. 901(b) it repays an equivalent proportion of construction subsidy theretofore received. The testimony received on March 17 asked that this provision be eliminated.

The American Maritime Association has strongly supported this part of the Snyder Amendment as constituting an essential protection for the unsubsidized American merchant marine, and continues to do so.

The testimony offered on March 17 failed to mention that elimination of the clause would have the effect of overturning an important decision of the Maritime Administration in the case of an application by the same witness to eliminate from his operating-subsidy contracts a prohibition (voluntarily assumed for practical business reasons) against engaging in the carriage of preference grain under Public Law 480. In that case, the Administration authorized two of the applicant's vessels to enter the trade on condition that they charge world rates, as contemplated by Congress in enacting the Merchant Marine Act, 1970. The Administration denied the application as to the sister ships pending study of the impact upon unsubsidized operators of the operation of the two vessels authorized. The applicant appealed to the Secretary of Commerce and, when the Secretary denied review, to the United States District Court. The appeal is now pending decision.

The Association respectfully submits that the Committee, which has in the past always declined to enter into matters that were sub judice, should not overturn a carefully measured decision of the Maritime Administration, which while not favorable to the unsubsidized industry, at least allows for a period of transition into the preference trade. Repeal of the protective clause in the Snyder Amendment would flood the preference trade: if the nine ships in question were admitted, that alone would exceed by four times the deficiency of tonnage found by the Maritime Administration to exist in 1978.

It was mentioned during the testimony that foreign ships may carry cargo under Sec. 901(b) three years after transferring to American flag. That would not appear to be a reason for adding to the disadvantage of unsubsidized vessels by throwing an additional mass of low-cost subsidized tonnage into competition. The three-year rule, which our members also supported, has in fact served as an effective barrier against wholesale transfers, but if deemed inadequate should be strengthened.

Reference also was made in the testimony to the age of the fleet engaged in preference trade. It should be remembered that during the last 20 years this trade has never been large enough in itself to sustain a separate fleet, and has therefore been served by ships in the domestic trade, to which it has been a vital adjunct (only a few dry bulk vessels have operated almost exclusively in grain). The domestic fleet as a whole cannot be characterized in the manner suggested. Moreover, there is a strong current surge in new construction of product tankers suitable for the grain trade. Recent contracts include no fewer than 24 new tankers, as well as one dry bulk carrier, amounting in all to about 1 million deadweight tons. In addition, options for seven tankers exceeding 300,000 dwt were taken by two of the contracting owners. This large program is proceeding without subsidy and at full

American cost under the Jones Act. No shortage of suitable modern tonnage can therefore be alleged for the immediate future.

Finally, I point out that the nine vessels mentioned are all under profitable long-term charter ("hell or high water") in the foreign commercial trade for which they were subsidized, and have no apparent requirement for the relief sought.

The Association urges that the protective clause in the Snyder Amendment be retained, and requests that these views be included in the permanent record of the hearings.

Sincerely,

ALFRED MASKIN,
Executive Director.

AMERICAN INSTITUTE OF MERCHANT SHIPPING,
Washington, D.C., March 21, 1980.

Hon. HOWARD W. CANNON,
Chairman, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The American Institute of Merchant Shipping (AIMS), a national trade association which represents the interests of U.S.-flag shipowners and operators, appreciates this opportunity to indicate its support for S. 2322, a bill to authorize the appropriation of funds requested by the Administration for its Fiscal Year 1981 maritime programs. AIMS has 29 member companies which own and operate tankers and other types of vessels in the U.S. foreign and domestic trades.

AIMS supports the Administration's proposed funding level of \$567,074,000, which should be adequate in light of the current state of the maritime industry. Of particular interest to us, of course, are the funds programmed for construction-differential subsidy and operating-differential subsidy. These amounts are to assist in a projected 1980-1981 building program of five dry bulk vessels in U.S. shipyards and in the operation of nearly 200 liners and bulk carriers in foreign commerce.

Moreover, AIMS support the efforts of the Maritime Administration to assist in the education and training of maritime personnel through continuing aid to the federal and state maritime academies and offering certain supplementary training courses. We do urge, however, that the authorization level for maritime programs be increased to allow the maximum possible appropriations for education and training facilities and fuel assistance. The United States places a high value on having a skilled cadre of merchant mariners as is evidenced by the extensive scope of Federal Government requirements for personnel qualifications. AIMS believes that it is appropriate and desirable for the Federal Government to provide a commensurate degree of financial assistance to ensure that adequate education and training facilities are available on a non-discriminatory basis.

The demand for these facilities is high and will be significantly higher in the years ahead as new and expanded Government requirements for maritime education and training take effect. Specifically, we anticipate increased requirements for radar and firefighting training and for other skills and capabilities as a result of imminent Coast Guard regulations. Additionally, as you are aware, the anticipated coming into force and implementation several years from now of the Convention on Standards of Training, Certification and Watchkeeping for Seafarers will have the effect of increasing the time which must be spent by individuals in training at sea (or engaged in equivalent training programs) to qualify for certain officers positions. Existing firefighting and radar facilities and the academies' training ships are already over-taxed and we consider the Administration's budget requests in these areas to be at the absolute minimum levels.

AIMS considers adequate time at sea to be invaluable to maritime personnel training. Government assistance in meeting the skyrocketing cost of bunker fuel is imperative to insure the continuing operation of training vessels. We respectfully request that S. 2322 contain authority for such assistance.

One problem which we did identify in the Budget is the Administration's proposal to impose a \$1.5 billion ceiling on the annual amount of new Title XI ship financing obligations to be approved. AIMS successfully opposed the Administration's attempt last year to limit new financing guarantees. We contend that fixing 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 that controls the program level at any one time. Timing is crucial to vessel financing and construction activi-

ties in our cyclical industry, so working under this added constraint would only aggravate what is at best already a complicated process.

Title XI guarantees are imperative if this capital-intensive maritime industry is to accomplish the goals of the 1936 Merchant Marine Act. This self-sustaining program was established in 1938 pursuant to that Act, and we strongly recommend that it be allowed to continue without additional constraint.

In summary, AIMS urges the maximum possible funding for maritime education and training programs. Also, if this Committee can properly 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. 2322 and appreciate this opportunity to express our views for the record of your hearings.

Sincerely,

W. M. BENKERT, *President.*

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, D.C., March 28, 1980.

Hon. EDMUND S. MUSKIE,
Chairman, Senate Budget Committee,
Washington, D.C.

DEAR CHAIRMAN MUSKIE: It is our understanding that in order to balance the Federal budget for fiscal year 1981, your Committee is considering several possible cuts in the budget for that year, including two in the maritime subsidy programs.

We respectfully urge that your Committee reject the first alternative under consideration.

In our view, the first of the suggested "possible cuts from current law" in the maritime subsidy budget under consideration would be seriously damaging to the U.S. maritime industry and to our defense posture. (Function 400: Mission 5—Other Transportation)

This alternative—eliminate maritime subsidies—would, in our judgment, be disastrous, and might well involve total long-term costs far in excess of ostensible short-term budget savings.

Termination of the operating differential subsidy (ODS) and construction differential subsidy (CDS) programs, would undermine national defense by reducing the already inadequate number of U.S.-flag vessels available for deployment of U.S. forces in wartime and by reducing the size of the shipyard mobilization base. In a time when world tensions are high, we cannot afford a reduction in this vital national defense program.

Operating subsidy is paid to equalize the costs of certain operating expenses incurred in operating U.S.-flag ships in competition with lower cost foreign-flag competition. Few, if any, of the 165 subsidized U.S.-flag vessels could continue operation without their ODS contracts. ODS contracts cover periods of up to 20 years. Such contracts cannot be legally suspended by the government. Abrogation could make the government liable under civil suits. The magnitude and likely outcome of such suits is uncertain but the eventual costs to the government could be much greater than the ostensible fiscal year 1981 savings.

Further, greater additional costs would in all likelihood be incurred by the government under the Federal Ship Financing Program. At present the government has under this loan guarantee program, mandated by Title XI of the Merchant Marine Act, 1936, an exposure of \$1.3 billion on guaranteed mortgages on 165 subsidized vessels and 1,706 associated barges and lighters. The government is obligated to fully repay this debt plus accrued interest in the event of default by the vessel owners—a likely event should operating subsidy contracts be suspended.

Moreover, shipowners who receive operating differential subsidy are obligated to replace obsolete vessels with new, U.S.-built ships. Over the next decade, 102 vessels are expected to be built under the replacement obligations of currently subsidized operators. Termination of either the CDS program or ODS program would result in the denial of this business to the U.S. shipbuilding industry, business that is sorely needed if U.S. shipbuilding capabilities are to be preserved for mobilization purposes.

Finally, today's ODS fleet produced \$1.5 billion in annual revenue, which adds about \$2.2 billion to GNP. Shipboard employment of ODS ships today is 14,500. As U.S. ODS operators were forced out of business, these benefits would be lost to the economy. There would also be a significant balance-of-payments outflow; the \$1.5 billion revenue now being earned by U.S. operators would flow to foreign companies.

The second alternative sustains the President's request for \$135 million for CDS in fiscal year 1981. While this represents a very austere program, it is consistent with the budget austerity of the times and we consider it appropriate.

We support your efforts to balance the fiscal year 1981 budget and thereby help solve our economic problems, and urge that in the process that nothing be done to weaken our national defense posture. The suggested first alternative under consideration would, we believe, seriously weaken that posture.

Sincerely yours,

HOWARD W. CANNON,
*Chairman, Senate Committee on Commerce,
Science, and Transportation.*

DANIEL K. INOUE,
*Chairman,
Subcommittee on Merchant Marine and Tourism.*

JOHN W. WARNER,
*Ranking Minority Member,
Subcommittee on Merchant Marine, and Tourism.*

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