

The original documents are located in Box C20, folder “Presidential Handwriting, 5/12/1975 (1)” of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

MEETING ON THE
TANKER INDUSTRY

Monday, May 12, 1975

2:00 p.m.

THE PRESIDENT HAS SEEN *def*

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAY 9 1975

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: JAMES T. LYNN ^{Signed Paul H. O'Neill}
SUBJECT: U.S. Tanker Industry Problems

Representatives of both labor and management from the ship operating and ship construction industries have requested Federal assistance to assure employment for U.S. flag tankers. Over 30 U.S. tankers are now laid up, and there is concern that more will be laid up in the months to come.

The lay-up of tankers reflects two separate problems:

1. A number of small tankers, built for the U.S. coastal trade, are without employment primarily due to the long-term decline in coastal oil shipments; and
2. A few of the large, new tankers, built for the international trade, are affected by the recent excess supply of tankers in the world resulting from reduced oil trade since the oil embargo and price increases.

Analysis of the Problems and Definition of the Issues

A. Long-term decline in demand for small tankers for domestic shipping.

The Issue

Should the Government provide assistance to assure the availability of small tankers for national security purposes?

Analysis

Prior to the Merchant Marine Act of 1970, the U.S. tanker fleet was almost entirely dependent on the cargoes which were legally reserved for U.S. ships, including all petroleum shipments moving between U.S. ports, military shipments and some of the P.L. 480 and AID cargoes. Because of the higher costs of U.S. ships, the U.S. shippers did not build tankers to compete in the unprotected international market.

There are about 225 of these relatively small (under 100,000 dead-weight tons) tankers in the U.S. fleet which were intended for the domestic trade. About 60% of the tonnage is owned by the oil companies, and 40% by independent operators.

Presently, 30 of these small tankers are laid-up. All but three of these are owned by independent operators. About 2000 union jobs are lost due to the lay-up of these tankers. Attachment A shows the trends in seafaring employment, by unions, in recent years.

The demand for small tankers has been dwindling for the past 10 to 15 years, primarily due to the increased use of pipelines which has reduced the tanker shipment of oil from the Gulf to the East Coast. Tanker shipments of crude in the domestic trade fell from 600,000 barrels per day in 1969 to about 100,000 barrels per day now.

The current lay-up of 30 of these tankers is not a new state of affairs for this fleet. In 1971, for example, 44 of these small tankers were laid-up. These tankers were employed again temporarily during the past two years carrying grain to the Soviet Union, and carrying some oil on single voyage contracts in the international trade during peak demands for oil tankers.

There is very little prospect that these tankers will be employed extensively in the Alaskan trade. They are too small and costly for that trade.

The Departments of Defense and Commerce are concerned about the national security implications if many of these small tankers are scrapped or mothballed now. These tankers are particularly suitable for wartime activities such as direct military supply support and intercoastal deliveries. The permanent loss of a large number of these ships from the fleet could reduce national security capabilities. It would be desirable to assure retention of the best of these small tankers in the fleet for the next couple years, until there has been time to carefully study and determine the long-term needs for tankers for national security.

The principal concern is for the tankers owned by the smaller independent operators, because most of those now laid-up are owned by the independent operators, and these are most likely to be scrapped or mothballed. They cannot afford the cost of long-term lay-ups of their ships, and may be forced to permanently dispose of them. The oil companies and the large independent operators probably will be able to adjust their markets to avoid lengthy lay-ups, and also are in a better position to absorb the costs of lay-ups.

B. Recent drop in market for tankers in international trade.

The Issue

Should special assistance be provided to help the few large tankers, which do not have good charters, through the transition period until the international tanker market adjusts to the changed energy situation?

Analysis

The Merchant Marine Act of 1970 initiated a major Federal effort to produce a fleet of modern ships to be operated in international trade under the U.S. flag. Special attention was given to bulk carriers; less than 3% of the U.S. bulk commodities trade was carried in U.S. ships prior to 1970. This program was intended to help make U.S. shipyards and U.S. ship operators more competitive in international markets, and end the long-term decline in U.S. seafaring and shipyard employment.

Since 1970, the Maritime Administration has provided subsidy contracts to help build 59 new U.S. merchant ships, valued at more than \$3 billion. Of these 59 new ships, 33 have been oil tankers. Ten of these tankers have been completed; 20 are still under construction and 3 are on order.

This large tanker building program was based on the expectation, by both the Government and the industries, that the world oil trade in general, and U.S. oil imports in particular, would continue a rapid growth.

Based on the high expectations for world oil trade, world tanker tonnage increased from 75 million deadweight tons in 1963 to 232 million deadweight tons in mid-1974. The U.S. flag tanker tonnage increased from 7.7 million DWT in 1970, to 8.9 million DWT in 1975. U.S. tanker tonnage is expected to increase to 14.8 million DWT when the ships under construction and on order are completed.

The Arab oil embargo and the subsequent multiplication of oil prices has drastically changed all the projections for world oil trade. Because of the high prices, and the concern about future embargoes, the United States government, as well as other countries, have taken actions to reduce oil imports or at least to slow the increases in imports. Now, instead of a sharply rising demand for oil tankers, there are some projections that by 1980 the total world oil trade will be less than in 1973. Meanwhile, tanker deliveries continue coming out of the yards to meet the previously expected increased demand.

The result is that many tankers around the world are without work today; about 10% of the total world tanker fleet is now without employment, and some projections indicate as much as 30% could be laid up in the next year.

The impact on the U.S. international tankers has not been great. Eight of the 10 ships already built continue to be employed on firm, long-term charters; only two are laid up. These two ships involve about 160 jobs. Of the 23 ships under construction and on order, all but two have long-term charters, and are expected to have employment when completed. The two ships being built at Seatrain yards do not have charters and have no immediate prospects for employment, although they might be employed in the Alaskan trade when it begins.

The continuing efforts by the Administration and the Congress to reduce the U.S. dependence on oil imports in the future indicates that there may be some continuing difficulties for a few of these new U.S. flag tankers for several years. If the Administration's efforts to restrain oil imports are successful, imports by the end of 1977 will be 5.8 million barrels per day, compared with present imports of about 6.5 million barrels per day. Over a 10 year period - by 1985, it is anticipated that imports will be in the 3 to 5 million barrels per day range. This means that there are no expectations in the long term for increased demands for ships carrying U.S. oil imports.

There is some prospect that some of these large, modern tankers could obtain employment in the Alaskan trade when it begins. In any case, as older tankers leave the fleet, the world tanker situation will again return to an equilibrium position, and the newer tankers will have a viable market. We do not know how long it will take to make this adjustment. It may not be until the early 1980's.

There are not significant national security interests involved with these tankers. It is agreed by Defense and Commerce that the available U.S. fleet, plus the large fleets of allied countries and the large "Effective U.S. Control" fleets would adequately meet the U.S. needs for essential oil imports.

Analysis of Alternatives

The following is a discussion of whether or not assistance should be provided, and if so, which parts of the industry should be assisted and how much assistance should be provided. The paper then discusses options for providing the assistance, through administrative action or legislative action.

Alternative #1: Provide Assistance or Protection to Assure Employment for All U.S. Tankers

This would provide assistance or protection, upon request for such assistance, for any U.S. tanker now in existence or under construction which is less than 25 years old (or less than 15 years since a major rebuilding). Assistance would be intended to provide for recovery of all costs, to permit the ships to compete in international trade. It is believed that the assistance should not provide for a profit to the owners, because this would attract owners to use the assistance even though they already have charters for their ships which might be less profitable. Assistance would be available as long as necessary to provide employment for the tankers.

This general assistance to the industry might be justified on the basis of the need to retain the smaller tankers in the fleet for national security purposes and to help the new, larger tankers through the problems caused by reduced world oil trade.

This alternative would avoid the need to discriminate among types of tankers or to make judgments regarding the needs of the owners for assistance. All tanker owners would be able to obtain assistance or protection on an equal basis. Owners would likely use the assistance or protection whenever there was no other work readily available for their ships at rates that would at least cover all costs. It would provide employment for the 2500 seamen now unemployed due to the lay-ups.

This would be the most costly alternative. Commerce estimates an annual cost of about \$220 to \$270 million, based on current market conditions. The cost would decline in the future as ships exceed the age limits and become ineligible. Attachment B provides an estimate of the rate at which ships would become ineligible due to age.

This alternative would not clearly recognize that there are two separate problems involved which may require different solutions. The domestic tanker surplus is a long standing problem which almost certainly will require a long-term solution. The international tanker surplus is a recent problem, with relatively little impact on U.S. tankers, and may be resolved more quickly than the domestic problem.

This approach also would not provide for selected application of assistance to only those for which assistance is really needed. Oil companies and other major corporations could receive assistance as well as the small independent operators.

It is expected that any program that provided employment for all existing tankers and those under construction would effectively reduce pressures on Congress, to prevent enactment of expansive cargo preference legislation. It is believed that many Senators and Congressmen would prefer not to reenact the cargo preference bill if they can point to a reasonable alternative.

Assistance or protection to U.S. tankers to allow them to operate in international trade would result in substituting U.S. tankers for tankers of other nations. Tankers owned by U.S. oil firms which are registered under foreign flags (Liberia, Panama, Honduras) would probably not be significantly affected because the oil firms would first drop their charters with independent ships of other countries, such as Norway, United Kingdom and Greece.

Alternative #2: Provide Assistance or Protection As Needed to Retain Small Tankers for National Security

This alternative would provide assistance or protection only to selected tankers, as follows:

- Under 100,000 deadweight tons;
- Less than 25 years old (or less than 15 years since a major rebuilding);
- Only those ships now in the fleet;
- Only those ships meeting the above conditions which Commerce and Defense determine are desired for national security; and
- Only those ships which Commerce and Defense determine would be lost for national security purposes if assistance were not provided.

Assistance would provide for recovery of all costs, to permit the ships to compete in international trade. The assistance would not provide for profit. It is believed that the owners would be willing to continue to operate the ships indefinitely without profit, if they could recover all capital and operating costs. Assistance would be terminated as the ships exceeded the age limits or were determined to be unnecessary for national security.

It also may be appropriate and feasible to obtain some commitments from the owners in return for the assistance. Such commitments might include agreements regarding use of the ships for national security purposes as needed, preferential considerations if the Government wishes to purchase the ships, or agreements regarding eventual disposal of the ships.

This approach would provide the basis to avoid assistance for ships when the owners are willing and able to maintain the ships without assistance. Assistance would not be provided whenever it was determined that the lack of assistance would not result in the permanent loss of the ship to the U.S. fleet. This should avoid the need for assistance to ships which could otherwise find work in the domestic trades, and to ships which are only temporarily laid up. It also would generally avoid assistance to ships of major corporations which are able to absorb the costs of lay-ups for significant periods.

It is expected that this alternative would permit assistance to about 22 of the 33 ships now in lay-up, and meet the principal demands for assistance for the smaller independent operators. It also would provide a basis for the relatively slow attrition of the domestic fleet, to minimize the economic and political impacts. It is expected that jobs would be provided immediately for about 1800 of the 2500 seamen now unemployed due to lay-ups.

This alternative would provide maximum flexibility to target assistance where it is most needed. It also would minimize the cost of keeping most of the small tankers employed. It is estimated that this alternative would cost about \$75 million a year if it were provided to the 22 tankers under 25 years old, now in lay-up, which are owned by small independent operators that are most likely to have financial difficulties. Costs could increase up to a maximum of about \$180 million, if the bulk of the small independent tankers are laid-up. These annual costs would decline as the tankers exceeded the age limits (see Attachment B).

Because this approach gives the agencies maximum discretion, it would result in criticisms and pressures regarding the use of that discretion.

It is believed that this alternative would substantially reduce pressures by industry representatives on Congress to reenact the cargo preference bill, but it would make sense to obtain the views of industry representatives as to their intentions in this regard if this alternative were adopted.

Alternative #3: Provide Assistance or Protection to Help the Large New International Trade Tankers Through A Transition Period

Assistance would be provided only to those tankers, built since 1970 for the international trade, which do not have employment or income under charters. Assistance would terminate when world rates for tankers reached the level which would cover the operating costs of the average world tanker.

The Federal Government has encouraged and supported the maritime industry to develop an international tanker fleet. The current problem of excess world tanker supply is due to the actions of foreign governments, and U.S.

government actions to reduce oil imports. It can be argued that it is a proper Government role to help the industry adjust to this problem which is not the fault of the industry. Also, the Federal Government has invested \$28 million in the two tankers now in lay-up, and \$24 million in the two under construction without charter. It also has loan guarantees on these four tankers that could cost an additional \$50 million or more if the owners cannot make mortgage payments. A program to assist these tankers would help protect that investment.

It is not clear that assistance for these international trade tankers is really essential. Only four of the 33 tankers are in trouble now, and it is expected that most of the other 29 will be protected by their firm, long-term charters. Also, there is some prospect for these ships in the Alaskan trade, which may provide enough hope to the owners and creditors to carry the ships until that trade begins.

The cost of assistance to these tankers in difficulty is likely to be relatively small -- about \$15 to \$30 million a year. It would provide jobs to only about 200 seamen in the near term. It is expected that this alternative by itself would not significantly reduce pressures on Congress for cargo preference legislation. If this alternative were undertaken along with alternative #2, the combination should effectively reduce pressures for cargo preference legislation.

Alternative #4: Take No Action

The U.S. flag international tanker fleet is not in serious difficulty and may be able to adjust to the current world market without any serious losses. It may be desirable to wait to see how conditions develop during the next several months before deciding on any action.

It is clear that there is an excess supply of tankers for the domestic trade. It may be best to just let several of these tankers be scrapped now, to help reduce the long-term over-supply problem. If the oldest tankers are scrapped, it wouldn't have a significant national security impact. However, we can't be assured that only the oldest ships would be lost. There would be a risk that several of the best, small tankers, which may be needed for national security purposes, would be lost.

Failure to take any action will result in strong pressures for legislation to mandate cargo preference, which may be much more undesirable than any of the selective alternatives being considered here. It is believed that there would be a high probability of passage of an oil cargo preference bill this session, if no action is taken. It is thought that the probability is increased because of the fairly widespread expectation now that some action will be taken to assist the industry.

Analysis of Options For Implementing Assistance or Protection

Option 1: Administratively require oil importers to give preference to designated U.S. tankers.

The Trading With the Enemy Act could be used as authority to require preference for U.S. tankers. This Act has been used in times of economic crisis and emergencies, and is believed to be sufficiently broad to minimize the likelihood of legal challenges as to adequate authority. There is some concern about using this authority, however, because of likely Congressional charges that the authority is being misused or abused. This option could fully implement alternatives 1, 2 or 3, although it would be easier to justify using it for alternative #2 (assistance to selected small tankers for national security purposes).

Pros

- . The program would be developed within the Executive Branch, and tailored to meet the needs.
- . Action could be taken quickly.
- . Would not require an additional appropriation request, and would not be a "new spending program."
- . Could be revised or terminated more easily than legislation.

Cons

- . Would be an historic reversal of the long-standing "open competition" stance of the U.S., and would damage the attainment of U.S. objectives in a wide range of international economic matters.
- . Would result in strong objections from foreign maritime nations, most of which are close allies.
- . Would be a violation of treaties of Friendship, Commerce and Navigation (FCN) and other international agreements. See listing in Attachment C.
- . Would be inconsistent with several points made in your message upon vetoing the cargo preference bill last December. Copy of message is Attachment D.
- . It would establish an international precedent which would make it easier for oil exporters (primarily the Middle East countries) to proceed with similar requirements.
- . Would make it difficult to oppose cargo preference in principle in the future, with foreign nations or with the Congress.

- Since the domestic tanker problem is clearly a long-term matter, it is difficult to rationalize the need for emergency Executive action rather than requesting legislation.
- Congress has expressed concern about misuse of the Trading With the Enemy Act authorities. Excessive use could lead to its repeal.
- The cost of the protection would be passed on to the consumers of the imports, which would place the burden of assisting the maritime industry on those regions of the country primarily dependent on imports. This would be a further burden on those consumers, on top of the costs of the new oil import fee.

After thoroughly studying all cargo preference actions of other countries, we believe that those actions do not provide a basis for the U.S. to initiate oil cargo preference. Although many nations (primarily LDCs) have preference statutes or practices, no major trading nation, with the exception of France, has instituted cargo preference. The great bulk of the trade of the world moves in ships not protected by cargo preference.

Option 2: Administratively waive oil import fees for oil imported in designated U.S. tankers.

The current oil import fees are adequate to allow the smaller U.S. tankers to compete with foreign ships if the fees were partially waived for oil imported in designated U.S. tankers. This option could be used to implement alternative #2 (assistance to small tankers for national security purposes). It would not be adequate to allow the very large tankers to compete (under alternatives 1 or 3). The Trading With the Enemy Act could be used as the authority for this waiver.

Pros

- The program would be developed within the Executive Branch, and tailored to meet the needs.
- Action could be taken quickly.
- It would not require an additional appropriation request, and would not be a "new spending program."
- Could be revised or terminated more easily than legislation.
- Although it would be viewed by foreign countries as a form of cargo preference, this option would not exclude foreign access to the U.S. commercial cargoes. It would generally give U.S. tankers a cost advantage, but would not preclude foreign flag ships from competing on the basis of price.

- . It is less likely to be viewed as cargo preference by Congress and the public, and would be less likely to be considered a precedent by Congress for its own cargo preference actions.
- . The cost of assistance would be borne by all taxpayers (through loss of general revenues) rather than being borne by the consumers.

Cons

- . The State Department believes it would violate FCN treaties with many countries, because it would give special treatment to importers who use U.S. flag ships. See Attachment C.
- . It would provoke protests from foreign countries, and would be viewed by many as a violation of treaties.
- . Congress may object to the use of the Trading With the Enemy Act for this purpose.
- . It is not certain that a fee waiver would result in oil importers using U.S. flag tankers to the extent desired. Some importers may prefer to stay with existing shipping arrangements even if that may be more costly.
- . This option would not be effective for assisting the large international trade tankers (under alternatives 1 or 3) unless the oil import fee is increased by the second dollar.

Option 3: Request legislation to require oil importers to give preference to designated U.S. tankers.

This option could be used to implement any of the three alternatives.

Pros

- . Would avoid Congressional criticism that might arise from use of the Trading With the Enemy Act.
- . Would provide for Congressional participation in the decision, which Congress may think is appropriate in view of the relatively long-term nature of any assistance effort.
- . Might be accepted by Congress as an adequate substitute for more expansive cargo preference legislation which would encourage new construction as well as protect existing ships.

Cons

- . Would be a high risk that Congress would amend the proposal in unfortunate ways, to provide the undesirable features of the vetoed cargo preference bill.

- . Would have all of the undesirable international repercussions of administratively requiring cargo preference.
- . The legislation would almost certainly be permanent.
- . May take several months to obtain the legislation. This may not be a serious problem. It is expected that almost all operators can survive such a period if there is a reasonable expectation of eventual assistance.
- . A legislative request for cargo preference would have only one significant advantage over a legislative request for direct subsidy assistance, i.e., it would avoid the need for additional direct appropriations. On the other hand it would have several disadvantages compared with direct subsidies, particularly the more severe international consequences.

Option 4: Request legislation and appropriations for direct subsidies to the operators.

Direct subsidies would be provided to pay the difference between world shipping rates and the cost of U.S. tankers. This would require new legislation because current authorities only permit payment of the difference between foreign costs and U.S. costs. World rates are now below foreign costs. This option could be used to implement any of the three alternatives.

Pros

- . Would be viewed as generally consistent with current policy of providing direct subsidies to the maritime industry. In that respect it would give less of an appearance of being a new form of protection than either cargo preference or an oil import fee waiver.
- . Would avoid clear violations of FCN treaties and other international agreements.
- . Would minimize adverse reaction of our maritime allies, compared with cargo preference or oil import fee waiver.
- . Would provide more direct Federal control over the application of the assistance, and would be less of an administrative burden than cargo preference.

Con

- . Requires requests for increased appropriations, which may be viewed as a "new spending program." On the other hand, it would be no more costly to the economy than cargo preference. Also, if the subsidies were used for alternative #2, they could be presented as a "national security" exception to your "no new spending programs" position, in accordance with your statement upon signing the tax reduction bill.

- . Direct subsidies to make up the difference between world rates and U.S. tanker costs is a greater subsidy than has been provided previously. It would place foreign flag ships at a cost disadvantage. There is likely to be some protests from foreign maritime nations.
- . May take several months to obtain the legislation and appropriations.
- . Legislation may result in a permanent assistance program.

Recommendations

Secretaries Simon and Dunlop, Mr. Seidman and I would like to meet with you early next week to discuss this, and make our recommendations.

Decisions

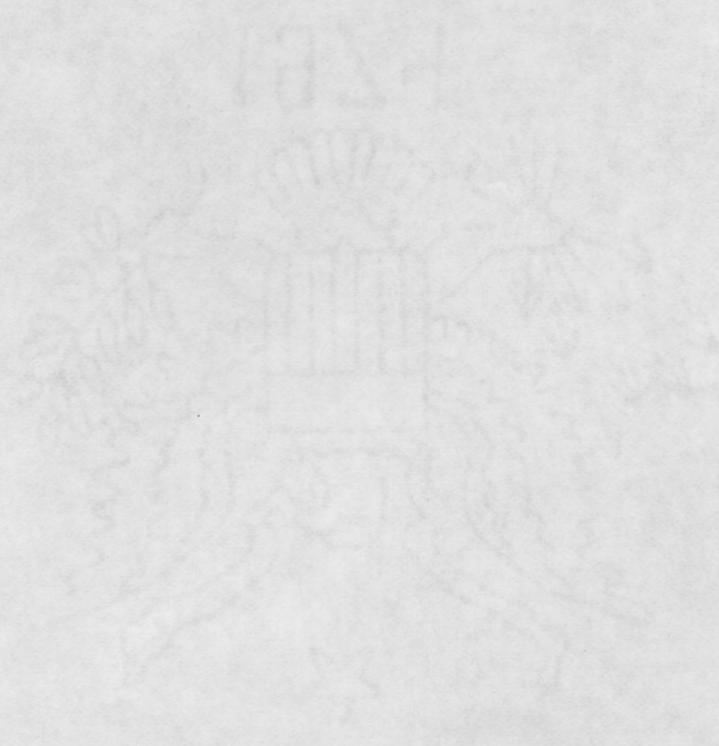
Decision on Assistance

- _____ Alternative #1: Provide Assistance or Protection to Assure Employment For All U.S. Tankers
- _____ Alternative #2: Provide Assistance or Protection As Needed to Retain Small Tankers for National Security
- _____ Alternative #3: Provide Assistance or Protection to Help the Large, New, International Trade Tankers Through A Transition Period
- _____ Alternative #4: Take No Action

Decisions on Means of Implementing Alternatives 1, 2 or 3

- _____ Option 1: Administratively require oil importers to give preference to designated U.S. tankers.
- _____ Option 2: Administratively waive oil import fees for oil imported in designated U.S. tankers.
- _____ Option 3: Request legislation to require oil importers to give preference to designated U.S. tankers.
- _____ Option 4: Request legislation and appropriations for direct subsidies to the operators.

Attachments



ATTACHMENT A

Seafaring Employment

We have data available on seafaring employment, by union, for 1965 and 1974. The Maritime Administration says that seafaring employment increased from 1965 to a peak in 1967 (during the Vietnam war) and has been declining continuously since 1967.

<u>Unions</u>	<u>Estimated Employment</u>	
	<u>1965</u>	<u>1974</u>
SIU, Paul Hall, President	17,000	10,300
NMU, Shannon Wall, President	41,910	16,425
MEBA, Jesse Calhoun, President	9,614	6,063
MMP, Captain O'Callahan, President	7,700	5,393
MCS, Ed Turner, President	5,170	4,510
Other	<u>21,375</u>	<u>13,827</u>
Total	102,769	56,518

B

ATTACHMENT B

Estimate of Attrition of Ships from Eligibility for Assistance Program as They Exceed 25 Years of Age (or 15 Years since a Major Rebuilding)

A. Total U.S. Tanker Fleet

Current Total U.S. Tanker Fleet	244
Number Which Would Likely Be Excluded Now	55
Number Which Would Be Excluded by 1980	95
Number Which Would Be Excluded by 1985	139

B. U.S. Tankers Now in Lay Up

Total Now in Lay Up	33
Number Which Would Be Excluded Now	5
Number Which Would Be Excluded by 1980	9
Number Which Would Be Excluded by 1985	15

Note: It is not possible to estimate which tankers might receive assistance under each alternative, so it is not possible to estimate how fast the cost of assistance might be reduced through attrition due to old age. It is expected, however, that many of the tankers now in lay-up, under 25 years old, would receive assistance under alternatives #1 or #2.

FBI



C

ATTACHMENT C

Information on Treaties that the State Department
Believes Would Be Violated by
Cargo Preference, or Oil Import Fee Waiver

The United States has applicable shipping provisions in Friendship,
Commerce and Navigation Treaties with the following nations:

Argentina	Israel
Austria	Italy
Belgium	Japan
Bolivia	Liberia
China, Republic of	Luxembourg
Colombia	Muscat
Costa Rica	Nepal
Denmark	Netherlands
Ethiopia	Nicaragua
Federal Republic of Germany	Norway
Finland	Paraguay
Greece	Thailand
Honduras	Turkey
Iran	Yemen
Iraq	Yugoslavia
Ireland	

Samples of the Shipping Clause in Current
Friendship, Commerce & Navigation Treaties
with various countries

Belgium -- Treaty of Friendship, Establishment & Navigation. Entered
into force October 3, 1963. 14 UST 1284:

Article XIII (2): "Vessels of either Party en route to or from the
territories of the other Party shall be accorded national
treatment and most-favored-nation treatment with respect
to the right to carry all cargo that may be carried by
vessel."

Denmark -- Treaty of Friendship, Commerce & Navigation. Entered into
force July 30, 1961. 12 UST 908:

Article XIX (4): "Vessels of either Party shall be accorded
national treatment and most-favored-nation treatment by
the other Party with respect to the right to carry all
articles that may be carried by vessel to or from the
territories of such other Party; and such articles shall

be accorded treatment no less favorable than that accorded like articles carried in vessels of such other Party, with respect to: (a) duties and charges of all kinds, (b) the administration of the customs, and (c) bounties, drawbacks and other privileges of this nature."

Federal Republic of

Germany -- Treaty of Friendship, Commerce & Navigation, with protocol and exchanges of notes. Entered into force July 14, 1956. 7 UST 1839:

Article XX (2): "Vessels of either Party shall be accorded national treatment and most-favored-nation treatment with respect to the right to carry all cargo that may be carried by vessel to or from the territories of the other Party."

GATT Agreements

Article III of the General Agreement on Tariffs and Trade guarantees national treatment to the imported products of the contracting countries. Paragraph 8(b) states that the provisions do not prevent payment of subsidies exclusively to domestic producers.

A case in which domestic purchasers were given favorable government loans if they purchased tractors from domestic producers was found to violate the national treatment obligation -- whereas a scheme of subsidies to domestic producers would be permitted in accordance with paragraph 8(b). A scheme of subsidies to purchasers discriminated against imported goods. This may be likened to the oil tanker situation where the carriers are in essence the producers -- the sellers of a service -- and the importers the purchasers of the service. A subsidy to the "producers" (U.S. carriers) would be permissible; a subsidy to the purchasers (importers) would discriminate against the "imported goods" (the foreign carrier service) and therefore violate the national treatment obligation.

D

Office of the White House Press Secretary
(Vail, Colorado)

I am withholding my approval from H.R. 8193, the Energy Transportation Security Act of 1974.

The bill would initially require that 20 percent of the oil imported into the United States be carried on U.S. flag tankers. The percentage would increase to 30 percent after June 30, 1977.

This bill would have the most serious consequences. It would have an adverse impact on the United States economy and on our foreign relations. It would create serious inflationary pressures by increasing the cost of oil and raising the prices of all products and services which depend on oil. It would further stimulate inflation in the ship construction industry and cut into the industry's ability to meet ship construction for the U.S. Navy.

In addition, the bill would serve as a precedent for other countries to increase protection of their industries, resulting in a serious deterioration in beneficial international competition and trade. This is directly contrary to the objectives of the trade bill which the Congress has just passed. In addition, it would violate a large number of our treaties of Friendship, Commerce, and Navigation.

Although this bill would undoubtedly benefit a limited group of our working population, such benefit would entail disproportionate costs and produce undesirable effects which could extend into other areas and industries. The waiver provisions which the Congress included in an effort to meet a few of my concerns fail to overcome the serious objections I have to the legislation.

Accordingly, I am not approving this bill because of the substantial adverse effect on the Nation's economy and international interest.

I wish to take this opportunity to reiterate my commitment to maintaining a strong U.S. Merchant Marine. I believe we can and will do this under our existing statutes and programs such as those administered by the Maritime Administration in the Department of Commerce.

GERALD R. FORD

THE WHITE HOUSE
December 30, 1974

MAY 27 1975

THE WHITE HOUSE
WASHINGTON

May 26, 1975

MEMORANDUM FOR: JERRY JONES
FROM: DICK CHENEY



Jerry, attached is the original memo on the Tanker Industry.

It ought to go into the files.

Attachment

THE PRESIDENT HAS SEEN *df.*

THE WHITE HOUSE

WASHINGTON

May 10, 1975

MEETING ON THE TANKER INDUSTRY

May 12, 1975

2:00 p.m.

Oval Office

From: L. William Seidman

*Part - told for Dec -
Just brief -
NSC & march not -
Each side dump out
see tabs C -*

I. PURPOSE

To discuss the problems of the U.S. tanker industry and to consider possible alternative relief measures.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: On March 7 you met with union leaders, shipbuilders, and ship operators to discuss the problems facing the U.S. tanker industry. On March 26 you again reviewed the problems of the tanker industry at an economic and energy meeting.

At that time you requested that Secretary Dunlop coordinate a series of discussions with representatives of the tanker industry to further explore the problems and alternatives. Those discussions have proceeded as you requested.

James Lynn has prepared a memorandum on the problems of the industry outlining the current issues and analyzing various alternatives under consideration. The memorandum is attached at Tab A.

B. Participants: William E. Simon, John T. Dunlop, James T. Lynn, L. William Seidman, James M. Cannon

C. Press Plan: None.

III. AGENDA

A. Review of Issues and Alternatives

Secretary Dunlop and Jim Lynn will report on the current situation and review the alternatives under consideration.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAY 9 1975

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: JAMES T. LYNN *Oliver*
SUBJECT: U.S. Tanker Industry Problems

Representatives of both labor and management from the ship operating and ship construction industries have requested Federal assistance to assure employment for U.S. flag tankers. Over 30 U.S. tankers are now laid up, and there is concern that more will be laid up in the months to come.

The lay-up of tankers reflects two separate problems:

1. A number of small tankers, built for the U.S. coastal trade, are without employment primarily due to the long-term decline in coastal oil shipments; and
2. A few of the large, new tankers, built for the international trade, are affected by the recent excess supply of tankers in the world resulting from reduced oil trade since the oil embargo and price increases.

Analysis of the Problems and Definition of the Issues

A. Long-term decline in demand for small tankers for domestic shipping.

The Issue

Should the Government provide assistance to assure the availability of small tankers for national security purposes?

Analysis

Prior to the Merchant Marine Act of 1970, the U.S. tanker fleet was almost entirely dependent on the cargoes which were legally reserved for U.S. ships, including all petroleum shipments moving between U.S. ports, military shipments and some of the P.L. 480 and AID cargoes. Because of the higher costs of U.S. ships, the U.S. shippers did not build tankers to compete in the unprotected international market.

There are about 225 of these relatively small (under 100,000 dead-weight tons) tankers in the U.S. fleet which were intended for the domestic trade. About 60% of the tonnage is owned by the oil companies, and 40% by independent operators.

Presently, 30 of these small tankers are laid-up. All but three of these are owned by independent operators. About 2000 union jobs are lost due to the lay-up of these tankers. Attachment A shows the trends in seafaring employment, by unions, in recent years.

The demand for small tankers has been dwindling for the past 10 to 15 years, primarily due to the increased use of pipelines which has reduced the tanker shipment of oil from the Gulf to the East Coast. Tanker shipments of crude in the domestic trade fell from 600,000 barrels per day in 1969 to about 100,000 barrels per day now.

The current lay-up of 30 of these tankers is not a new state of affairs for this fleet. In 1971, for example, 44 of these small tankers were laid-up. These tankers were employed again temporarily during the past two years carrying grain to the Soviet Union, and carrying some oil on single voyage contracts in the international trade during peak demands for oil tankers.

There is very little prospect that these tankers will be employed extensively in the Alaskan trade. They are too small and costly for that trade.

The Departments of Defense and Commerce are concerned about the national security implications if many of these small tankers are scrapped or mothballed now. These tankers are particularly suitable for wartime activities such as direct military supply support and intercoastal deliveries. The permanent loss of a large number of these ships from the fleet could reduce national security capabilities. It would be desirable to assure retention of the best of these small tankers in the fleet for the next couple years, until there has been time to carefully study and determine the long-term needs for tankers for national security.

The principal concern is for the tankers owned by the smaller independent operators, because most of those now laid-up are owned by the independent operators, and these are most likely to be scrapped or mothballed. They cannot afford the cost of long-term lay-ups of their ships, and may be forced to permanently dispose of them. The oil companies and the large independent operators probably will be able to adjust their markets to avoid lengthy lay-ups, and also are in a better position to absorb the costs of lay-ups.

B. Recent drop in market for tankers in international trade.

The Issue

Should special assistance be provided to help the few large tankers, which do not have good charters, through the transition period until the international tanker market adjusts to the changed energy situation?

Analysis

The Merchant Marine Act of 1970 initiated a major Federal effort to produce a fleet of modern ships to be operated in international trade under the U.S. flag. Special attention was given to bulk carriers; less than 3% of the U.S. bulk commodities trade was carried in U.S. ships prior to 1970. This program was intended to help make U.S. shipyards and U.S. ship operators more competitive in international markets, and end the long-term decline in U.S. seafaring and shipyard employment.

Since 1970, the Maritime Administration has provided subsidy contracts to help build 59 new U.S. merchant ships, valued at more than \$3 billion. Of these 59 new ships, 33 have been oil tankers. Ten of these tankers have been completed; 20 are still under construction and 3 are on order.

This large tanker building program was based on the expectation, by both the Government and the industries, that the world oil trade in general, and U.S. oil imports in particular, would continue a rapid growth.

Based on the high expectations for world oil trade, world tanker tonnage increased from 75 million deadweight tons in 1963 to 232 million deadweight tons in mid-1974. The U.S. flag tanker tonnage increased from 7.7 million DWT in 1970, to 8.9 million DWT in 1975. U.S. tanker tonnage is expected to increase to 14.8 million DWT when the ships under construction and on order are completed.

The Arab oil embargo and the subsequent multiplication of oil prices has drastically changed all the projections for world oil trade. Because of the high prices, and the concern about future embargoes, the United States government, as well as other countries, have taken actions to reduce oil imports or at least to slow the increases in imports. Now, instead of a sharply rising demand for oil tankers, there are some projections that by 1980 the total world oil trade will be less than in 1973. Meanwhile, tanker deliveries continue coming out of the yards to meet the previously expected increased demand.

The result is that many tankers around the world are without work today; about 10% of the total world tanker fleet is now without employment, and some projections indicate as much as 30% could be laid up in the next year.

The impact on the U.S. international tankers has not been great. Eight of the 10 ships already built continue to be employed on firm, long-term charters; only two are laid up. These two ships involve about 160 jobs. Of the 23 ships under construction and on order, all but two have long-term charters, and are expected to have employment when completed. The two ships being built at Seatrain yards do not have charters and have no immediate prospects for employment, although they might be employed in the Alaskan trade when it begins.

The continuing efforts by the Administration and the Congress to reduce the U.S. dependence on oil imports in the future indicates that there may be some continuing difficulties for a few of these new U.S. flag tankers for several years. If the Administration's efforts to restrain oil imports are successful, imports by the end of 1977 will be 5.8 million barrels per day, compared with present imports of about 6.5 million barrels per day. Over a 10 year period - by 1985, it is anticipated that imports will be in the 3 to 5 million barrels per day range. This means that there are no expectations in the long term for increased demands for ships carrying U.S. oil imports.

There is some prospect that some of these large, modern tankers could obtain employment in the Alaskan trade when it begins. In any case, as older tankers leave the fleet, the world tanker situation will again return to an equilibrium position, and the newer tankers will have a viable market. We do not know how long it will take to make this adjustment. It may not be until the early 1980's.

There are not significant national security interests involved with these tankers. It is agreed by Defense and Commerce that the available U.S. fleet, plus the large fleets of allied countries and the large "Effective U.S. Control" fleets would adequately meet the U.S. needs for essential oil imports.

Analysis of Alternatives

The following is a discussion of whether or not assistance should be provided, and if so, which parts of the industry should be assisted and how much assistance should be provided. The paper then discusses options for providing the assistance, through administrative action or legislative action.

Alternative #1: Provide Assistance or Protection to Assure Employment for All U.S. Tankers

This would provide assistance or protection, upon request for such assistance, for any U.S. tanker now in existence or under construction which is less than 25 years old (or less than 15 years since a major rebuilding). Assistance would be intended to provide for recovery of all costs, to permit the ships to compete in international trade. It is believed that the assistance should not provide for a profit to the owners, because this would attract owners to use the assistance even though they already have charters for their ships which might be less profitable. Assistance would be available as long as necessary to provide employment for the tankers.

This general assistance to the industry might be justified on the basis of the need to retain the smaller tankers in the fleet for national security purposes and to help the new, larger tankers through the problems caused by reduced world oil trade.

This alternative would avoid the need to discriminate among types of tankers or to make judgments regarding the needs of the owners for assistance. All tanker owners would be able to obtain assistance or protection on an equal basis. Owners would likely use the assistance or protection whenever there was no other work readily available for their ships at rates that would at least cover all costs. It would provide employment for the 2500 seamen now unemployed due to the lay-ups.

This would be the most costly alternative. Commerce estimates an annual cost of about \$220 to \$270 million, based on current market conditions. The cost would decline in the future as ships exceed the age limits and become ineligible. Attachment B provides an estimate of the rate at which ships would become ineligible due to age.

This alternative would not clearly recognize that there are two separate problems involved which may require different solutions. The domestic tanker surplus is a long standing problem which almost certainly will require a long-term solution. The international tanker surplus is a recent problem, with relatively little impact on U.S. tankers, and may be resolved more quickly than the domestic problem.

This approach also would not provide for selected application of assistance to only those for which assistance is really needed. Oil companies and other major corporations could receive assistance as well as the small independent operators.

It is expected that any program that provided employment for all existing tankers and those under construction would effectively reduce pressures on Congress, to prevent enactment of expansive cargo preference legislation. It is believed that many Senators and Congressmen would prefer not to reenact the cargo preference bill if they can point to a reasonable alternative.

Assistance or protection to U.S. tankers to allow them to operate in international trade would result in substituting U.S. tankers for tankers of other nations. Tankers owned by U.S. oil firms which are registered under foreign flags (Liberia, Panama, Honduras) would probably not be significantly affected because the oil firms would first drop their charters with independent ships of other countries, such as Norway, United Kingdom and Greece.

Alternative #2: Provide Assistance or Protection As Needed to Retain Small Tankers for National Security

This alternative would provide assistance or protection only to selected tankers, as follows:

- Under 100,000 deadweight tons;
- Less than 25 years old (or less than 15 years since a major rebuilding);
- Only those ships now in the fleet;
- Only those ships meeting the above conditions which Commerce and Defense determine are desired for national security; and
- Only those ships which Commerce and Defense determine would be lost for national security purposes if assistance were not provided.

Assistance would provide for recovery of all costs, to permit the ships to compete in international trade. The assistance would not provide for profit. It is believed that the owners would be willing to continue to operate the ships indefinitely without profit, if they could recover all capital and operating costs. Assistance would be terminated as the ships exceeded the age limits or were determined to be unnecessary for national security.

It also may be appropriate and feasible to obtain some commitments from the owners in return for the assistance. Such commitments might include agreements regarding use of the ships for national security purposes as needed, preferential considerations if the Government wishes to purchase the ships, or agreements regarding eventual disposal of the ships.

This approach would provide the basis to avoid assistance for ships when the owners are willing and able to maintain the ships without assistance. Assistance would not be provided whenever it was determined that the lack of assistance would not result in the permanent loss of the ship to the U.S. fleet. This should avoid the need for assistance to ships which could otherwise find work in the domestic trades, and to ships which are only temporarily laid up. It also would generally avoid assistance to ships of major corporations which are able to absorb the costs of lay-ups for significant periods.

It is expected that this alternative would permit assistance to about 22 of the 33 ships now in lay-up, and meet the principal demands for assistance for the smaller independent operators. It also would provide a basis for the relatively slow attrition of the domestic fleet, to minimize the economic and political impacts. It is expected that jobs would be provided immediately for about 1800 of the 2500 seamen now unemployed due to lay-ups.

This alternative would provide maximum flexibility to target assistance where it is most needed. It also would minimize the cost of keeping most of the small tankers employed. It is estimated that this alternative would cost about \$75 million a year if it were provided to the 22 tankers under 25 years old, now in lay-up, which are owned by small independent operators that are most likely to have financial difficulties. Costs could increase up to a maximum of about \$180 million, if the bulk of the small independent tankers are laid-up. These annual costs would decline as the tankers exceeded the age limits (see Attachment B).

Because this approach gives the agencies maximum discretion, it would result in criticisms and pressures regarding the use of that discretion.

It is believed that this alternative would substantially reduce pressures by industry representatives on Congress to reenact the cargo preference bill, but it would make sense to obtain the views of industry representatives as to their intentions in this regard if this alternative were adopted.

Alternative #3: Provide Assistance or Protection to Help the Large New International Trade Tankers Through A Transition Period

Assistance would be provided only to those tankers, built since 1970 for the international trade, which do not have employment or income under charters. Assistance would terminate when world rates for tankers reached the level which would cover the operating costs of the average world tanker.

The Federal Government has encouraged and supported the maritime industry to develop an international tanker fleet. The current problem of excess world tanker supply is due to the actions of foreign governments, and U.S.

government actions to reduce oil imports. It can be argued that it is a proper Government role to help the industry adjust to this problem which is not the fault of the industry. Also, the Federal Government has invested \$28 million in the two tankers now in lay-up, and \$24 million in the two under construction without charter. It also has loan guarantees on these four tankers that could cost an additional \$50 million or more if the owners cannot make mortgage payments. A program to assist these tankers would help protect that investment.

It is not clear that assistance for these international trade tankers is really essential. Only four of the 33 tankers are in trouble now, and it is expected that most of the other 29 will be protected by their firm, long-term charters. Also, there is some prospect for these ships in the Alaskan trade, which may provide enough hope to the owners and creditors to carry the ships until that trade begins.

The cost of assistance to these tankers in difficulty is likely to be relatively small -- about \$15 to \$30 million a year. It would provide jobs to only about 200 seamen in the near term. It is expected that this alternative by itself would not significantly reduce pressures on Congress for cargo preference legislation. If this alternative were undertaken along with alternative #2, the combination should effectively reduce pressures for cargo preference legislation.

Alternative #4: Take No Action

The U.S. flag international tanker fleet is not in serious difficulty and may be able to adjust to the current world market without any serious losses. It may be desirable to wait to see how conditions develop during the next several months before deciding on any action.

It is clear that there is an excess supply of tankers for the domestic trade. It may be best to just let several of these tankers be scrapped now, to help reduce the long-term over-supply problem. If the oldest tankers are scrapped, it wouldn't have a significant national security impact. However, we can't be assured that only the oldest ships would be lost. There would be a risk that several of the best, small tankers, which may be needed for national security purposes, would be lost.

Failure to take any action will result in strong pressures for legislation to mandate cargo preference, which may be much more undesirable than any of the selective alternatives being considered here. It is believed that there would be a high probability of passage of an oil cargo preference bill this session, if no action is taken. It is thought that the probability is increased because of the fairly widespread expectation now that some action will be taken to assist the industry.

Analysis of Options For Implementing Assistance or Protection

Option 1: Administratively require oil importers to give preference to designated U.S. tankers.

The Trading With the Enemy Act could be used as authority to require preference for U.S. tankers. This Act has been used in times of economic crisis and emergencies, and is believed to be sufficiently broad to minimize the likelihood of legal challenges as to adequate authority. There is some concern about using this authority, however, because of likely Congressional charges that the authority is being misused or abused. This option could fully implement alternatives 1, 2 or 3, although it would be easier to justify using it for alternative #2 (assistance to selected small tankers for national security purposes).

Pros

- . The program would be developed within the Executive Branch, and tailored to meet the needs.
- . Action could be taken quickly.
- . Would not require an additional appropriation request, and would not be a "new spending program."
- . Could be revised or terminated more easily than legislation.

Cons

- . Would be an historic reversal of the long-standing "open competition" stance of the U.S., and would damage the attainment of U.S. objectives in a wide range of international economic matters.
- . Would result in strong objections from foreign maritime nations, most of which are close allies.
- . Would be a violation of treaties of Friendship, Commerce and Navigation (FCN) and other international agreements. See listing in Attachment C.
- . Would be inconsistent with several points made in your message upon vetoing the cargo preference bill last December. Copy of message is Attachment D.
- . It would establish an international precedent which would make it easier for oil exporters (primarily the Middle East countries) to proceed with similar requirements.
- . Would make it difficult to oppose cargo preference in principle in the future, with foreign nations or with the Congress.

- . Since the domestic tanker problem is clearly a long-term matter, it is difficult to rationalize the need for emergency Executive action rather than requesting legislation.
- . Congress has expressed concern about misuse of the Trading With the Enemy Act authorities. Excessive use could lead to its repeal.
- . The cost of the protection would be passed on to the consumers of the imports, which would place the burden of assisting the maritime industry on those regions of the country primarily dependent on imports. This would be a further burden on those consumers, on top of the costs of the new oil import fee.

After thoroughly studying all cargo preference actions of other countries, we believe that those actions do not provide a basis for the U.S. to initiate oil cargo preference. Although many nations (primarily LDCs) have preference statutes or practices, no major trading nation, with the exception of France, has instituted cargo preference. The great bulk of the trade of the world moves in ships not protected by cargo preference.

Option 2: Administratively waive oil import fees for oil imported in designated U.S. tankers.

The current oil import fees are adequate to allow the smaller U.S. tankers to compete with foreign ships if the fees were partially waived for oil imported in designated U.S. tankers. This option could be used to implement alternative #2 (assistance to small tankers for national security purposes). It would not be adequate to allow the very large tankers to compete (under alternatives 1 or 3). The Trading With the Enemy Act could be used as the authority for this waiver.

Pros

- . The program would be developed within the Executive Branch, and tailored to meet the needs.
- . Action could be taken quickly.
- . It would not require an additional appropriation request, and would not be a "new spending program."
- . Could be revised or terminated more easily than legislation.
- . Although it would be viewed by foreign countries as a form of cargo preference, this option would not exclude foreign access to the U.S. commercial cargoes. It would generally give U.S. tankers a cost advantage, but would not preclude foreign flag ships from competing on the basis of price.

- . It is less likely to be viewed as cargo preference by Congress and the public, and would be less likely to be considered a precedent by Congress for its own cargo preference actions.
- . The cost of assistance would be borne by all taxpayers (through loss of general revenues) rather than being borne by the consumers.

Cons

- . The State Department believes it would violate FCN treaties with many countries, because it would give special treatment to importers who use U.S. flag ships. See Attachment C.
- . It would provoke protests from foreign countries, and would be viewed by many as a violation of treaties.
- . Congress may object to the use of the Trading With the Enemy Act for this purpose.
- . It is not certain that a fee waiver would result in oil importers using U.S. flag tankers to the extent desired. Some importers may prefer to stay with existing shipping arrangements even if that may be more costly.
- . This option would not be effective for assisting the large international trade tankers (under alternatives 1 or 3) unless the oil import fee is increased by the second dollar.

Option 3: Request legislation to require oil importers to give preference to designated U.S. tankers.

This option could be used to implement any of the three alternatives.

Pros

- . Would avoid Congressional criticism that might arise from use of the Trading With the Enemy Act.
- . Would provide for Congressional participation in the decision, which Congress may think is appropriate in view of the relatively long-term nature of any assistance effort.
- . Might be accepted by Congress as an adequate substitute for more expansive cargo preference legislation which would encourage new construction as well as protect existing ships.

Cons

- . Would be a high risk that Congress would amend the proposal in unfortunate ways, to provide the undesirable features of the vetoed cargo preference bill.

- . Would have all of the undesirable international repercussions of administratively requiring cargo preference.
- . The legislation would almost certainly be permanent.
- . May take several months to obtain the legislation. This may not be a serious problem. It is expected that almost all operators can survive such a period if there is a reasonable expectation of eventual assistance.
- . A legislative request for cargo preference would have only one significant advantage over a legislative request for direct subsidy assistance, i.e., it would avoid the need for additional direct appropriations. On the other hand it would have several disadvantages compared with direct subsidies, particularly the more severe international consequences.

Option 4: Request legislation and appropriations for direct subsidies to the operators.

Direct subsidies would be provided to pay the difference between world shipping rates and the cost of U.S. tankers. This would require new legislation because current authorities only permit payment of the difference between foreign costs and U.S. costs. World rates are now below foreign costs. This option could be used to implement any of the three alternatives.

Pros

- . Would be viewed as generally consistent with current policy of providing direct subsidies to the maritime industry. In that respect it would give less of an appearance of being a new form of protection than either cargo preference or an oil import fee waiver.
- . Would avoid clear violations of FCN treaties and other international agreements.
- . Would minimize adverse reaction of our maritime allies, compared with cargo preference or oil import fee waiver.
- . Would provide more direct Federal control over the application of the assistance, and would be less of an administrative burden than cargo preference.

Con

- . Requires requests for increased appropriations, which may be viewed as a "new spending program." On the other hand, it would be no more costly to the economy than cargo preference. Also, if the subsidies were used for alternative #2, they could be presented as a "national security" exception to your "no new spending programs" position, in accordance with your statement upon signing the tax reduction bill.

- . Direct subsidies to make up the difference between world rates and U.S. tanker costs is a greater subsidy than has been provided previously. It would place foreign flag ships at a cost disadvantage. There is likely to be some protests from foreign maritime nations.
- . May take several months to obtain the legislation and appropriations.
- . Legislation may result in a permanent assistance program.

Recommendations

Secretaries Simon and Dunlop, Mr. Seidman and I would like to meet with you early next week to discuss this, and make our recommendations.

Decisions

Decision on Assistance

- _____ Alternative #1: Provide Assistance or Protection to Assure Employment For All U.S. Tankers
- MR7 Alternative #2: Provide Assistance or Protection As Needed to Retain Small Tankers for National Security
- _____ Alternative #3: Provide Assistance or Protection to Help the Large, New, International Trade Tankers Through A Transition Period
- _____ Alternative #4: Take No Action

Decisions on Means of Implementing Alternatives 1, 2 or 3

- _____ Option 1: Administratively require oil importers to give preference to designated U.S. tankers.
- MR7 Option 2: Administratively waive oil import fees for oil imported in designated U.S. tankers.
- _____ Option 3: Request legislation to require oil importers to give preference to designated U.S. tankers.
- _____ Option 4: Request legislation and appropriations for direct subsidies to the operators.

Attachments



1974

ATTACHMENT A

Seafaring Employment

We have data available on seafaring employment, by union, for 1965 and 1974. The Maritime Administration says that seafaring employment increased from 1965 to a peak in 1967 (during the Vietnam war) and has been declining continuously since 1967.

<u>Unions</u>	<u>Estimated Employment</u>	
	<u>1965</u>	<u>1974</u>
SIU, Paul Hall, President	17,000	10,300
NMU, Shannon Wall, President	41,910	16,425
MEBA, Jesse Calhoun, President	9,614	6,063
MMP, Captain O'Callahan, President	7,700	5,393
MCS, Ed Turner, President	5,170	4,510
Other	<u>21,375</u>	<u>13,827</u>
Total	102,769	56,518

B



ATTACHMENT B

Estimate of Attrition of Ships
from Eligibility for Assistance Program as They Exceed
25 Years of Age (or 15 Years since a Major Rebuilding)

A. Total U.S. Tanker Fleet

Current Total U.S. Tanker Fleet	244
Number Which Would Likely Be Excluded Now	55
Number Which Would Be Excluded by 1980	95
Number Which Would Be Excluded by 1985	139

B. U.S. Tankers Now in Lay Up

Total Now in Lay Up	33
Number Which Would Be Excluded Now	5
Number Which Would Be Excluded by 1980	9
Number Which Would Be Excluded by 1985	15

Note: It is not possible to estimate which tankers might receive assistance under each alternative, so it is not possible to estimate how fast the cost of assistance might be reduced through attrition due to old age. It is expected, however, that many of the tankers now in lay-up, under 25 years old, would receive assistance under alternatives #1 or #2.



C

ATTACHMENT C

Information on Treaties that the State Department
Believes Would Be Violated by
Cargo Preference, or Oil Import Fee Waiver

The United States has applicable shipping provisions in Friendship,
Commerce and Navigation Treaties with the following nations:

Argentina	Israel
Austria	Italy
Belgium	Japan
Bolivia	Liberia
China, Republic of	Luxembourg
Colombia	Muscat
Costa Rica	Nepal
Denmark	Netherlands
Ethiopia	Nicaragua
Federal Republic of Germany	Norway
Finland	Paraguay
Greece	Thailand
Honduras	Turkey
Iran	Yemen
Iraq	Yugoslavia
Ireland	

Samples of the Shipping Clause in Current
Friendship, Commerce & Navigation Treaties
with various countries

Belgium -- Treaty of Friendship, Establishment & Navigation. Entered
into force October 3, 1963. 14 UST 1284:

Article XIII (2): "Vessels of either Party en route to or from the
territories of the other Party shall be accorded national
treatment and most-favored-nation treatment with respect
to the right to carry all cargo that may be carried by
vessel."

Denmark -- Treaty of Friendship, Commerce & Navigation. Entered into
force July 30, 1961. 12 UST 908:

Article XIX (4): "Vessels of either Party shall be accorded
national treatment and most-favored-nation treatment by
the other Party with respect to the right to carry all
articles that may be carried by vessel to or from the
territories of such other Party; and such articles shall

be accorded treatment no less favorable than that accorded like articles carried in vessels of such other Party, with respect to: (a) duties and charges of all kinds, (b) the administration of the customs, and (c) bounties, drawbacks and other privileges of this nature."

Federal Republic of
Germany

-- Treaty of Friendship, Commerce & Navigation, with protocol and exchanges of notes. Entered into force July 14, 1956. 7 UST 1839:

Article XX (2): "Vessels of either Party shall be accorded national treatment and most-favored-nation treatment with respect to the right to carry all cargo that may be carried by vessel to or from the territories of the other Party."

GATT Agreements

Article III of the General Agreement on Tariffs and Trade guarantees national treatment to the imported products of the contracting countries. Paragraph 8(b) states that the provisions do not prevent payment of subsidies exclusively to domestic producers.

A case in which domestic purchasers were given favorable government loans if they purchased tractors from domestic producers was found to violate the national treatment obligation -- whereas a scheme of subsidies to domestic producers would be permitted in accordance with paragraph 8(b). A scheme of subsidies to purchasers discriminated against imported goods. This may be likened to the oil tanker situation where the carriers are in essence the producers -- the sellers of a service -- and the importers the purchasers of the service. A subsidy to the "producers" (U.S. carriers) would be permissible; a subsidy to the purchasers (importers) would discriminate against the "imported goods" (the foreign carrier service) and therefore violate the national treatment obligation.



1974

D



DECEMBER 30, 1974

Attachment D

Office of the White House Press Secretary
(Vail, Colorado)

I am withholding my approval from H.R. 8193, the Energy Transportation Security Act of 1974.

The bill would initially require that 20 percent of the oil imported into the United States be carried on U.S. flag tankers. The percentage would increase to 30 percent after June 30, 1977.

This bill would have the most serious consequences. It would have an adverse impact on the United States economy and on our foreign relations. It would create serious inflationary pressures by increasing the cost of oil and raising the prices of all products and services which depend on oil. It would further stimulate inflation in the ship construction industry and cut into the industry's ability to meet ship construction for the U.S. Navy.

In addition, the bill would serve as a precedent for other countries to increase protection of their industries, resulting in a serious deterioration in beneficial international competition and trade. This is directly contrary to the objectives of the trade bill which the Congress has just passed. In addition, it would violate a large number of our treaties of Friendship, Commerce, and Navigation.

Although this bill would undoubtedly benefit a limited group of our working population, such benefit would entail disproportionate costs and produce undesirable effects which could extend into other areas and industries. The waiver provisions which the Congress included in an effort to meet a few of my concerns fail to overcome the serious objections I have to the legislation.

Accordingly, I am not approving this bill because of the substantial adverse effect on the Nation's economy and international interest.

I wish to take this opportunity to reiterate my commitment to maintaining a strong U.S. Merchant Marine. I believe we can and will do this under our existing statutes and programs such as those administered by the Maritime Administration in the Department of Commerce.

GERALD R. FORD

THE WHITE HOUSE
December 30, 1974