The original documents are located in Box C21, folder "Presidential Handwriting, 5/22/1975 (1)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

May 22, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM LYNN

FROM: JERRY H. JONES

SUBJECT: U.S. Tanker Industry Problems

Your memorandum to the President on the above subject has been reviewed and the following notation was made:

-- 5/21/75. Talked with Paul Hall. Will report to you the results.

cc: Don Rumsfeld

THE WHITE HOUSE
WASHINGTON

Jim Lynn
5/21/75

Talked with Paul Hall. Will report to you the results.

THE WHITE HOUSE
WASHINGTON

CONFIDENTIAL

May 21, 1975

Mr. President:

Should you decide to adopt the oil import fee waiver to grant relief to the U.S. tanker fleet, you might wish to consider the matter of timing.

An announcement before your NATO meeting would almost certainly subject you to sharp remonstrations by some of our allies, especially the British, who will consider themselves in far worse shape than we.

Brent Scowcroft

THE PRESIDENT HAS SEEN...

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

INFORMATION

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: U.S. Tanker Industry Problems

Attached are the two papers you requested Tuesday regarding the tanker issue.

The first paper summarizes the favorable impact on the tanker industry and seafaring employment if action were taken to waive part of the oil import fee for oil imported in selected U.S. tankers.

The second paper summarizes the principal problems with a "cargo preference" requirement that U.S. oil importers use U.S. tankers.

Attachments

ATTACHMENT 1

Impact of Oil Import Fee Waiver For Selected Small Tankers

This paper sets forth the expected impact on the U.S. tanker industry and seafaring employment if action were taken to:

- Assist selected U.S. tankers as needed to retain them for national security purposes; and

- Provide the assistance by administratively waiving part of the oil import fees on oil imported in designated U.S. tankers.

The amount of the import fee waiver would be set at a level adequate to make the selected U.S. tankers slightly less costly than foreign flag tankers for U.S. oil importers. U.S. tankers would be eligible for the partial fee waiver if they:

- Are under 25 years of age (or less than 15 years since a major rebuilding);

- Are less than 100,000 DWT, and are otherwise useful for national security purposes; and

- Would likely be lost for national security purposes if the assistance were not provided.

It is expected that this assistance would have the following impact:

. Result in employment in international trade for about 20 to 25 of the approximately 30 U.S. tankers now laid up.

. Provide continued employment for many of the tankers which have charters that are about to expire and have no other employment prospects.

. Provide full cost recovery charters for some tankers which are now operating at a substantial loss.

. Provide jobs for about 1500 to 1800 seamen now unemployed due to tanker lay ups.

. Provide continued employment for hundreds or thousands of additional seamen whose ships may be laid up without the assistance.

. The assistance would be designed to provide for recovery of all costs, including depreciation to permit mortgage payments. This should effectively help the smaller independent operators deal with their problems of debt service and other fixed costs.

- The waiver would stabilize charter rates for the tankers, to permit effective financial planning and management.
- If tanker operators were successful in improving the efficiency of their operations, they would be able to earn and retain a profit.
- It would provide for relative stability in demand for existing U.S. tankers and the seamen, which has not existed in recent years.

Problems of Providing Preference to U.S. Tankers or Granting an Oil Tariff Rebate in International Trade

Any requirement that oil importers use available U.S. tankers, whether such requirement is initiated administratively or through legislation, has the following problems:

- Would clearly be a reversal of the long-standing "open competition" policy of the U.S. in our international trade relations. This would damage the credibility of the U.S. position on a wide range of international economic matters.

- Would result in strong objections from foreign maritime nations, most of which are our close allies. This may strain relations with those countries, and may be contrary to other important foreign policy or national security objectives.

- Would be a clear violation of a large number of treaties of Friendship, Commerce and Navigation and other international agreements. This would damage the credibility of the United States' commitments and treaties in other areas, and substantially weaken the effectiveness of U.S. efforts to persuade other countries to comply with their treaties and agreements.

- Would serve as an important precedent for other countries to increase protection of their industries, resulting in a serious deterioration in beneficial international competition and trade.

- Would serve as a serious precedent for further protection from international competition for the U.S. maritime industries and for other U.S. industries that may be in difficulty. This would increase costs to American consumers, and reduce incentives for the industries to improve their efficiency.

- If accomplished through oil tariff rebate, would open door for other domestic industries and areas to repeat similar exceptions.

- Would run counter to your strong efforts toward deregulation of the transportation industry.

- It is estimated that the cost of this assistance would range from $75 million to $180 million per year, depending primarily on world tanker rates and domestic demands (these costs would be reflected in lost import fees).

After carefully studying cargo preference actions of other countries, it was concluded 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.

Administratively implementing a cargo preference requirement would have the following additional problems:

- Having given up the arguments against cargo preference in taking administrative action, it would be very hard to fight legislative cargo preference initiatives when they again surface.

- Would be clearly inconsistent with the position upon vetoing the cargo preference bill last December.

- In view of the past Congressional action on this issue, it would be difficult to justify the need for administrative action rather than requesting legislation.

- Current authorities which may be used for administratively initiating cargo preference may be challenged in court. Also, Congress may object to the use of such authorities for this purpose.