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THE WHITE HOUSE

WASHINGTON

May 14, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JAMES T. LYNN

FROM:

JAMES E. CONNOR *JEC.*

SUBJECT:

Status Report on S. 2422,  
A bill to extend the Jones Act  
to the Virgin Islands for Oil  
Products

---

The President reviewed your memorandum of May 1 on the above subject and made the following notation:

"Wait and see"

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE  
WASHINGTON

May 13, 1976

MR PRESIDENT:

Status Report on S. 2422, A Bill to  
Extend the Jones Act to the Virgin  
Islands for Oil Products

The attached memorandum prepared by Jim Lynn was reviewed by Messrs. Cannon, Friedersdorf and Marsh. They all agree with OMB's recommendation to "wait and see". Jim Cannon further recommended "careful monitoring in case issue gets hot."

"  
Wait of all  
"

Jim Connor



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MAY 1 - 1976

INFORMATION

MEMORANDUM FOR: THE PRESIDENT  
FROM: JAMES J. LYNN  
SUBJECT: Status Report on S. 2422, A Bill to  
Extend the Jones Act to the Virgin  
Islands for Oil Products

PURPOSE

This memorandum is to acquaint you with an issue on which you may receive questions and on which a decision may be required in the future.

BACKGROUND

U.S. cabotage laws (the Jones Act) require all U.S. domestic ocean shipping to be reserved for vessels built and registered in the United States and owned, operated and manned by U.S. citizens. Traditionally, U.S.-flag ship operators have been high cost carriers. The exclusion of lower cost foreign-flag ship operators from the domestic ocean trades has been estimated to increase U.S. shipping costs by about \$150-200 million annually.

The cabotage laws do not currently encompass the U.S. Virgin Islands. S. 2422 would extend the cabotage laws to the Islands for the transportation of oil products only. This has importance because an Amerada Hess oil refinery, the world's largest, is located in the Virgin Islands. This refinery produces residual fuel oil (used for industrial power and generation of commercial electric power) which represents a high proportion of consumption in the U.S. East Coast.

As a domestic refiner, Amerada Hess has benefited from the oil "entitlements" program. Although it purchased its crude oil from abroad, Amerada Hess received entitlements to oil at "old" domestic prices, which it then sold to other domestic refiners. As a consequence, Amerada Hess' crude oil purchase costs have been significantly below those of foreign refiners who are not eligible for entitlements. Amerada Hess primarily competes with foreign refiners located in the Caribbean area for the East Coast residual fuel oil market. Most domestic refiners do not produce this kind of fuel. The market situation has posed immediate problems for these Caribbean refiners, as well as for independent U.S. oil marketers reliant on supplies from these refiners.

FEA believes that it is necessary to keep these Caribbean refineries operating because, at least for the next 3-4 years, there will not be sufficient domestic refining capacity to replace the capacity in the Caribbean. Recognizing the market distortions, FEA announced the implementation of two correcting mechanisms in a March 29, 1976, rulemaking--one to reduce Amerada Hess' entitlements allotment, and the other to grant entitlements to importers of residual fuel oil refined abroad.

Additionally, domestic U.S. refiners in the Gulf area who are developing residual fuel oil refining capacity may be disadvantaged relative to Amerada Hess. While these refiners must use U.S. tankers, Amerada Hess is able to use the lower-priced foreign tankers.

The situation, therefore, has generated support for S. 2422 among two groups:

- Amerada Hess' oil industry competitors. Because the bill would increase Amerada Hess' shipping costs from the Virgin Islands to the U.S. mainland, these competitors have been supporting efforts to reduce Hess' cost advantage and benefit themselves.
- U.S. maritime interests. Because U.S.-flag tankers would be required to serve the Virgin Islands trades, additional U.S. tankers and seamen would be employed.

Those who might be hurt by the legislation include:

- U.S. consumers, particularly those in East Coast states, who would end up paying the costs of higher-priced U.S.-flag transportation of Virgin Islands' refined oil to the U.S. mainland.
- The Virgin Islands, which would have a more difficult time attracting the oil industry to locate in the Islands and might suffer from a reduction in Amerada Hess' operations, thereby reducing employment in the Islands.
- Amerada Hess, who would have to pay higher transportation costs to the U.S. mainland.

## DISCUSSION

The bill is discussed below in reference to: (a) the U.S. maritime industry; (b) oil industry competitors of Amerada Hess; (c) the Virgin Islands economy; and (d) the U.S. consumer.

The U.S. Maritime Industry. The Commerce Department indicates that to transport Virgin Islands refined oil in U.S.-flag tankers would require 750,000 total deadweight tons of tanker capacity. Currently there are about 17 U.S. tankers in lay-up equaling 740,000 deadweight tons capacity. The number of tankers in lay-up, however, fluctuates widely from week to week. The figure will probably increase in the next year or two unless Soviet grain purchases are sustained at the current high levels. The situation is much improved compared with six months ago when there were 33 tankers in lay-up, accounting for 1,500,000 deadweight tons.

If S. 2422 were enacted, essentially all unemployed U.S. tankers (many of which are antiquated and are approaching scrap condition) would be required for service. In fact, with no margin of tankers available for alternative service, orders would probably be placed for new U.S.-built tankers. This would be done despite the fact that: (a) there is currently a worldwide oversupply of tankers, and (b) U.S. shipyards build tankers (with Federal subsidies) at twice the cost of Japanese shipyards.

Employment of the 17 currently laid-up tankers would create about 1,400 seafaring jobs.

Oil Industry Competitors of Amerada Hess. FEA indicates that the intent of its March 29 rulemaking was to reduce Amerada Hess' competitive cost advantage over foreign refineries from roughly \$3 per barrel to about \$.60 per barrel. Accordingly, Hess would continue to enjoy a competitive advantage over foreign refineries in the Caribbean, although of greatly reduced proportions.

The cost advantage of using foreign-flag tankers instead of U.S.-flag tankers is approximately \$.50 per barrel for refined oil at current "spot charter" rates. Proponents of S. 2422 point out that the application of the cabotage laws to the Virgin Islands for oil transport would thereby further reduce Amerada Hess' cost advantage over foreign refiners from \$.60 to \$.10 per barrel.

Although it may be possible for FEA to readjust entitlements to retain a \$.60 cost advantage for Amerada Hess, FEA reports that this would be technically and politically difficult to achieve because of the impacts of such readjustments on other refiners. FEA indicates that it wants to avoid modifying entitlements if it can possibly do so.

The bill would also assist domestic refiners who are engaged in residual fuel oil production and who would like to expand sales to the East Coast market. Enactment of S. 2422 would put them on a cost par with Amerada Hess because it would require Virgin Islands' refineries to use U.S. tankers, like other domestic refineries. For example, tanker rates

between the Gulf and New England would closely approximate rates between the Virgin Islands and New England.

Virgin Islands Economy. According to Virgin Islands' officials, S. 2422 could potentially seriously affect the overall economic health of the Virgin Islands. Currently the Islands are suffering from a 10% official unemployment rate. Specific problems foreseen by Islands' officials include the following:

- Other refiners are considering locating in the Virgin Islands. One, the Virgin Islands Refinery Corporation, has already invested in real estate in preparation for construction. Enactment of S. 2422, with its attendant higher shipping costs, would discourage this.
- This bill, in conjunction with other pending legislation, could undermine the area's trade and development. For example, there is currently underway an effort (H.R. 9124) to limit Virgin Islands' wool exports to the U.S. mainland. Also, there is a fear that the cabotage laws would be extended to other products.
- If Amerada Hess' transportation cost advantage relative to other U.S. refiners is eliminated, the refinery might have to cut back operations, requiring employment reductions. Currently, the refinery employs approximately 6% of the Virgin Islands entire labor force.

U.S. Consumers. Enactment of S. 2422 would have the impact of shifting the increased shipping costs onto East Coast U.S. oil consumers. The annual cost is estimated to be about \$75 million (150 million barrels of oil shipped by Amerada Hess times \$.50 per barrel increased costs for using U.S. tankers). The direct beneficiaries of the \$75 million would be the maritime industry. With about 1,400 seafaring jobs created, this equates to a public cost of about \$50,000 annually for each maritime job. However, depending on court action on oil import license fees, part of the cost burden might be shifted to the Government in terms of reduced license fee revenues.

Additionally, because of the increased demand placed on available U.S. tankers, there would be a tendency for domestic tanker carriage rates to rise, increasing costs to U.S. consumers.

#### AGENCY VIEWS

Federal agencies have expressed the following views relative to S. 2422.

For the Bill

- Commerce believes that S. 2422 would be desirable for the following reasons: (a) enactment of the bill would constitute a logical extension of U.S. cabotage laws in accord with congressional intent in passing the original legislation; (b) it would eliminate the tanker lay-up problem, reduce the possibility of default on Government-guaranteed loans on these vessels, increase jobs for U.S. seamen, and improve the U.S. balance of payments; (c) because it would eliminate tanker lay-ups, it would help the Administration oppose a subsequent congressional effort to enact oil cargo preference legislation (oil cargo preference is not expected to be acted upon this year); and (d) costs associated with the bill would not be high.
- Council on International Economic Policy would support the bill only if FEA is instructed, upon enactment, to readjust oil entitlements to retain Amerada Hess' \$.60 per barrel cost advantage. With this qualification, CIEP believes the bill is desirable for reasons similar to those cited by Commerce and including the following additional points: (a) it would help equate transportation costs to the East Coast among all domestic residual fuel oil producers; and (b) increased shipping costs would be shifted from the East Coast alone to the nation as a whole, and as a result would be diluted.

Against the Bill

- Transportation, Treasury, Justice and Council of Economic Advisers oppose the bill. Principal arguments are that: (a) the economic impact would be to insulate maritime transportation from worldwide competitive factors which can only result in premium freight rates; (b) it would lead to the employment of outmoded, high cost U.S. tankers in a period in which modern foreign "super tankers" are being laid up for lack of business; (c) it would raise oil costs to consumers because of the higher rates of U.S. tankers; (d) there is no national defense rationale for the employment of additional U.S. tankers; and (e) the Administration has taken a consistent position against actions which restrain trade.
- Interior, in its stewardship role for the Virgin Islands, believes that the bill would be detrimental to the economic health of the Islands for reasons previously cited. It therefore strongly opposes the bill.

- State opposes the bill on the ground that the extension of the cabotage laws to the Virgin Islands would be inconsistent with overall U.S. policy regarding the international carriage of trade.
- Federal Energy Administration reports that it opposes the interjection of the S. 2422 issue while it is handling questions and criticisms regarding its March 29 rulemaking on Amerada Hess' entitlements and prior to completion of action on FEA's March 29 residual fuel oil decontrol proposal. FEA believes that argument over S. 2422 only confuses these more important, very sensitive issues. FEA requested the Commerce Committee to delay hearings until May to avoid this problem, but the Committee rejected FEA's request. On the merits and demerits of S. 2422, FEA defers to other agencies.

#### Neutral Positions

- Labor reports that it does not oppose the bill because it sees a balance between benefits (more jobs for U.S. seamen) and costs (increased oil prices).

#### OMB Comments

OMB believes that the bill is undesirable because:

- It is costly to the U.S. consumer;
- It would interfere with separate FEA regulatory actions;
- It may be detrimental to the Virgin Islands' economy;
- It would further insulate the U.S. tanker industry from competitive forces and may stimulate new tanker construction in U.S. yards at a time when excess world tanker capacity exists;
- There is not now a serious U.S. tanker lay-up problem; and
- Because the House is not expected to pursue general oil cargo preference legislation this session, there is no immediate need to support this bill in an attempt to forestall enactment of a broad cargo preference bill.

In spite of these problems with the bill, OMB believes that the Administration may wish to support such legislation later if circumstances should change, such as:

- If Congress begins to pursue general oil cargo preference legislation, support for S. 2422 may be desirable as an alternative which is less costly and which avoids the major foreign policy problems; or
- If the number of tankers in lay-up expands substantially.

#### ANTICIPATED CONGRESSIONAL ACTION

The Merchant Marine Subcommittee of the Senate Commerce Committee held hearings on S. 2422 on February 18 and March 30. On February 18, the Governor and the congressional delegate from the Virgin Islands opposed the bill. On March 30, the maritime and oil industries supported it. Also, the Departments of Commerce and Interior were requested to testify on March 30. Commerce, in its maritime promotional role, favored the bill, while Interior, in its Virgin Islands stewardship role, opposed it.

Only two Senators, both from Louisiana, attended the March 30 hearing-- Senator Long, the Subcommittee Chairman, and Senator Johnston, who introduced S. 2422 but who is not a member of the Committee. Both Senators indicated strong support for the bill. Reportedly, the active interest of the two Senators is prompted by the support of the bill by the Energy Corporation of Louisiana which is building a large refinery operation in the Gulf area that is intended to compete with Amerada Hess.

Senate Committee staff indicate that Committee mark-up is anticipated in May. With Chairman Long's support, the bill is expected to be favorably reported out by the Committee. Disposition in the Rules Committee and on the Senate floor is uncertain, however, because of potential opposition to the bill by East Coast Senators.

No House action has yet been scheduled, and none is anticipated until Senate action is complete.

#### CONCLUSION

This issue has been considered by the Economic Policy Board and it was concluded that the Administration should not take a position on the bill now because:

- FEA objects to having the Administration comment on S. 2422 while it is handling related, sensitive regulatory and legislative issues; and
- There is a strong possibility that S. 2422 will not move beyond the Senate Commerce Committee.

Consensus of opinion is that a "wait and see" approach is preferable.

May 13, 1976

MR PRESIDENT:

**Status Report on S. 2422, A Bill to  
Extend the Jones Act to the Virgin  
Islands for Oil Products**

The attached memorandum prepared by Jim Lynn was reviewed by Messrs. Cannon, Friedersdorf and Marsh. They all agree with OMB's recommendation to "wait and see". Jim Cannon further recommended "careful monitoring in case issue gets hot."

Jim Connor

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: May 4, 1976

Time:

FOR ACTION:

cc (for information):

Jim Cannon

✓ Max Friedersdorf

✓ Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, May 5

Time: 2 P.M.

SUBJECT:

Jim Lynn memo 5/1/76 re Status Report on S. 2422, A Bill to Extend the Jones Act to the Virgin Islands for Oil Products

ACTION REQUESTED:

\_\_\_ For Necessary Action

\_\_\_ For Your Recommendations

\_\_\_ Prepare Agenda and Brief

\_\_\_ Draft Reply

\_\_\_ For Your Comments

\_\_\_ Draft Remarks

REMARKS:

*Friedersdorf - agreed with memo +  
Marsh - "wait & see"*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor  
For the President

THE WHITE HOUSE  
WASHINGTON

5/13/76

Jim Louder -

Agree with

OMB

Recommendation

Jim

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

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Virgin Islands for Oil Products

ACTION REQUESTED:

- |   |   |
|---|---|
| <input type="checkbox"/> For Necessary Action     | <input type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief | <input type="checkbox"/> Draft Reply              |
| <input type="checkbox"/> For Your Comments        | <input type="checkbox"/> Draft Remarks            |

REMARKS:

*JRH. ok on "  
" Wait and see "  
Recommend careful  
monitoring in case issue gets hot,  
however.*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor  
For the President

---

THE WHITE HOUSE  
WASHINGTON

5/2/76

TO: BOB LINDER

FROM: TRUDY FRY

The attached is sent to you for review before it is forwarded to the President.

A handwritten signature or set of initials, possibly 'RF', written in dark ink. The letters are stylized and cursive.

THE WHITE HOUSE

WASHINGTON

May 5, 1976

MEMORANDUM FOR: JIM CONNOR

FROM: MAX FRIEDERSDORF 

SUBJECT: Jim Lynn memo 5/1/76 re Status Report on  
S. 2422, A Bill to Extend the Jones Act to the  
Virgin Islands for Oil Products

The Office of Legislative Affairs agrees with conclusion of memo.



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

MAY 1 - 1976

INFORMATION

MEMORANDUM FOR: THE PRESIDENT  
FROM: JAMES F. LYNN  
SUBJECT: Status Report on S. 2422, A Bill to  
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PURPOSE

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#### DISCUSSION

The bill is discussed below in reference to: (a) the U.S. maritime industry; (b) oil industry competitors of Amerada Hess; (c) the Virgin Islands economy; and (d) the U.S. consumer.

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