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THE WHITE HOUSE
WASHINGTON

May 11, 1976

*Federal
Maritime
Commission*
1461d
file

MEMORANDUM FOR: PAUL LEACH

FROM: PHIL BUCHEN *P.*

On Friday, May 7, Karl Bakke, Chairman of the Maritime Commission brought in the attached material and briefly reviewed it with me.

I would appreciate your looking into the possibility of having the President become involved by proposing to Congress a "Controlled Carrier Bill," such as that which the Federal Maritime Commission has drafted. Karl Bakke points out that it would be appropriate for the President to use that occasion for announcing his policy initiatives concerning the Controlled Carrier problem.

Attachments



I. Problem

- A. Penetration as non-conference carriers by merchant fleets of non-market economy countries (principally USSR and Poland) into U.S. trades (N. Atlantic Europe/East Coast U.S.A. and Japan-Hong Kong/Pacific Coast U.S.A.). Especially acute since U.S. depends heavily on foreign flag vessels in our liner trades -- in 1975, 70% moved on foreign bottoms.
- B. Other Free World countries also deeply concerned over Soviet penetration into their ocean trades.
- C. We are in danger of losing ground in the fundamental area of economic survival to a system that appears to be using its merchant fleet for political purposes in a predatory, anti-competitive fashion.

II. Background

- A. In the last 5 years, the Soviet fleet has grown from 0 containerships, 0 RO/RO (Roll-On/Roll-Off) ships, and 0 LASH-type (barge carrying) ships, to 11 containerships, 25 partial containerships, and 16 RO/RO ships. In addition, the USSR has launched a building program for LASH-type ships. Current Soviet construction plans call for bringing on line 35 new containerships over the next 5 years, each with capacity in excess of the equivalent of 300 20-foot containers. Each ship capable of entering U.S. trade.
- B. Until 1966, the USSR did not participate in the U.S. foreign ocean trades. By the end of 1975, the Soviet liner fleet had penetrated our 12 major U.S. trade routes. In Japan/U.S. trade, USSR is now carrying 9% of our inbound cargo and 5% of our outbound cargo.
- C. Rates quoted by the USSR are from 15% to almost 50% below conference rates in our Pacific trades (Japan/U.S. West Coast).

Examples as of 3/4/76 from published tariffs of FESCO (Far East Steamship Co.) --

a. Westbound Rates

- (1) Aluminum sheets and plates, unwrought
\$37.50/short ton -- 46.2% below conference



- (2) Aluminum bars and rods
\$61.25/short ton -- 25.5% below conference
- (3) Poultry feed
\$54.25/long ton -- 23.4% below conference
- (4) Peas and beans (dried)
\$39.25/short ton -- 43% below conference
- (5) Carpets and rugs
\$59.25/short ton -- 46.5% below conference

b. Eastbound rates

- (1) Bicycles/1000 kilos or cubic meter
\$38.00 -- 22% below conference
- (2) Nails
\$43.50/1000 kilos -- 37% below conference
- (3) Yarn - Man-made fibers
\$54.00/1000 kilos or cubic meter --
16.9% below conference
- (4) Porcelain, Earthenware, and China
\$35.30/1000 kilos or cubic meter --
16.8% below conference

D. "Third Flag Bill"

Sen. Inouye introduced S. 868 on October 12, 1973. Senate Commerce Committee reported it out on December 12, 1974. House hearings have been held and more are scheduled for May 26, 1976. FMC has been asked to testify.

Inouye bill cannot be administered effectively, in FMC opinion, because:

- a. "Compensatory Rate" concept is meaningless
- b. Failure to shift burden of proof
- c. No suspension authority

E. "Controlled Carrier Bill"

FMC has drafted counter proposal currently under review by OMB:

- a. "Just and reasonable" concept.



- b. 7+7 suspension authority.
- c. Shift burden of proof.

There is every reason to believe that Senator Inouye will accept the FMC counter proposal, and that the prospect of passage is excellent.

- F. At a press conference prior to a speech before the N.Y. Chapter of the National Defense Transportation Assn. on 4/21/76, Zumwalt was critical of Administration for not meeting Soviet Merchant Marine challenge. Zumwalt called for U.S. to strengthen its rate policing activities to meet Soviet threat as Soviets mean to "sweep us off the seas." Zumwalt stated that U.S. has lots of carrots (grain) to get Soviets into compliance and that he sees long-term objective to be get Soviets into compliance with western capitalistic standards (conference membership). Zumwalt criticized Administration performance under Merchant Marine Act of 1970 which has 300 ship target by 1980. Zumwalt stated performance poor with no chance of meeting goal. Zumwalt theme received big play in Japan.
- G. Major trading partners are looking to us for leadership in controlling inroads of nonmarket economy merchant fleets.

III. Presidential Involvement with Controlled Carrier Bill.

A. Con.

- 1. Might conflict with other more compelling foreign policy considerations.
- 2. Truly hard evidence to document full scope of present and future problem is difficult to obtain.
 - a. Size of Soviet fleet and building plans subject to controversy.
 - b. No proof as to intent of deployment of fleet, although to date it has been directed toward the most lucrative trades (U.S., Japan, Western Europe).



3. Against the background of detente, Soviet protestations that intentions are honorable (Masloff and Averin).

B. Pro.

1. Peace through strength. Viable ocean trade is at the very heart of this theme.
2. Leadership in dealing with a major international policy problem that Henry Kissinger hasn't pre-empted.
3. Campaign issue of major significance, with strong appeal to conservative and labor blocs. Should Democrat Congress be allowed to steal initiative from President on an issue of this magnitude?
4. FMC has come up with a bill that will work, thus backstopping the President.
5. The timing now is perfect, with Maritime Day coming up on May 22.

IV. Options.

- A. President do nothing.
- B. FMC proceed with lead without explicit Presidential, but tacit Administration, support.
- C. Limited Presidential Involvement.

President transmit "Controlled Carrier" bill to Congress with appropriate message, then toss ball back to FMC.

- D. Full Presidential Involvement.

President delivers Maritime Day speech May 19, 1976, at San Francisco, California Propeller Club. Approximate audience 1000-1500. (Chairman Bakke currently slated to make address.) At that time, President announces transmission of Controlled Carrier Bill to Congress and makes it a campaign issue, hitting hard on --

1. Peace through strength.



2. Foreign policy leadership independent of Kissinger.
3. Importance of a strong U.S. Merchant Marine.
4. Protecting U.S. jobs (merchant marine, longshoremen, stevedores, and support industries).
5. Post-Vietnam hard line on predatory actions by the Communist countries.

V. Recommendation.

Option D.

