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ECONOMIC POLICY BOARD  
EXECUTIVE COMMITTEE MEETING

JULY 27, 1976  
8:30 a.m.

Roosevelt Room

AGENDA

PRINCIPALS ONLY

1. Wage Settlements
2. Tax Bill Update

Treasury

EYES ONLY

MINUTES OF THE  
ECONOMIC POLICY BOARD  
EXECUTIVE COMMITTEE MEETING

July 26, 1976

Attendees: Messrs. Simon, Seidman, Richardson, Usery, Dent, Zarb, Hills, MacAvoy, Kearney, Katz, Schmults, Gorog, Darman, Porter, Smith, Sims, Arena, Hormats, Feketekuty, Mannes, Leach, Spaulding, Duval, and Ms. Earl

1. Monthly Trade Policy Status Report

The Executive Committee reviewed the July status report on international trade prepared by the Office of the Special Representative for Trade Negotiations. Ambassador Dent reported that protectionist pressures have declined in the last few months as a result of the continuing improvements in economic conditions. He noted that the European Community has presented their tariff reduction formula at Geneva which was similar to the U.S. formula with the significant exception that the EC formula excluded agricultural products. Japan is expected to present its tariff formula in September.

The Trade Policy Committee has completed its first 6-month review of the Generalized System of Preferences. The discussion focused on the continuing contention between the United States and the European Community on agricultural products, the GATT Working Group considering the European Community's complaint that DISC is illegal under the GATT rules, an escape clause case filed by domestic honey producers, and the ITC investigation into the Japanese television case.

2. Maritime Policy

The Executive Committee briefly reviewed a memorandum on maritime policy.

Decision

Executive Committee members were requested to provide Mr. Seidman's office with their comments and recommendations no later than c.o.b. today.

EYES ONLY

3. Administration Position on Legislation Concerning Exclusive Territorial Arrangements

The Executive Committee reviewed a memorandum, prepared by OMB, on the "Administration Position on Legislation Concerning Exclusive Territorial Arrangements." The discussion focused on the intent of S. 3421 which would exempt the soft drink bottling industry from the antitrust laws. The Justice Department is scheduled to testify this week before the Senate Subcommittee on Antitrust and Monopoly.

In testimony on similar legislation on five different occasions over the past four years the Justice Department has strongly opposed such legislation. Senator Hart has requested that the Justice testimony represent the Administration position. Agriculture, CEA, Commerce, the FTC, HEW, and the SBA have expressed to OMB through the legislative clearance process either no objection or general support for the Justice position as set forth in the draft testimony.

Decision

The Executive Committee indicated that it had no objections to the Department of Justice's agreement to modify the testimony to express strong Administration opposition to the present Senate bill while leaving open the possibility of a compromise that would relax the application of stringent antitrust standards in this area. The Executive Committee recommended that the proposed Administration position be reviewed by the President.

4. Questionable Payments Legislation

The Executive Committee discussed the proposed Administration legislation on questionable corporate payments abroad. The discussion focused on SEC concerns about avoiding duplication in reporting requirements and auditing standards, the SEC recommendation for increasing funds to prosecute white collar crime, and the timing of submitting the legislation to Congress.

Decision

The Department of Commerce will work with the SEC to modify the message to stress that the proposed legislation is building on the

EYES ONLY

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work of the SEC and to highlight the provisions for coordination between Commerce and the SEC to avoid duplication in reporting requirements and auditing standards.

EYES ONLY

RBP

EYES ONLY

MINUTES OF THE  
ECONOMIC POLICY BOARD  
EXECUTIVE COMMITTEE MEETING  
July 22, 1976

Attendees: Messrs. Seidman, Lynn, Richardson, Usery, Dent, Dixon,  
MacAvoy, Malkiel, Rogers, Porter

1. Labor Negotiations

The Executive Committee thoroughly reviewed the current situation regarding the California canners labor negotiations. The discussion focused on Federal efforts underway to mediate the dispute, the interests of the various parties involved, and a telegram from Governor Edmund G. Brown, Jr. to the President on the issue.

Secretary Usery reported on the status of the rubber industry negotiations. Meetings between the parties will commence again in Washington next Monday. The discussion focused on the potential for a prolonged strike, the likely range of a settlement, and the principal issues in dispute.

Decision

Secretary Usery will prepare an information memorandum for the President on the California canners strike.

2. Report of Task Force on Productivity

The Executive Committee reviewed a report on the Task Force on Productivity chaired by the Council of Economic Advisers. The Task Force will focus its attention on three broad areas: (1) human resources, (2) technology and capital investment, and (3) government regulation.

Decision

The Task Force will prepare a draft position paper on (1) the nature of the productivity problem, (2) the possible sources of slower productivity growth, and (3) possible government policy actions to increase productivity. The Task Force will provide the EPB Executive Committee an interim report the week of August 23.

THE WHITE HOUSE

WASHINGTON

July 23, 1976

MEMORANDUM FOR THE ECONOMIC POLICY BOARD

FROM: L. WILLIAM SEIDMAN *LWS*  
SUBJECT: Recent Articles on Economic Policy

Two recent articles, one by Herbert Stein on "Looking Over Ford's Record" and by Edwin Dale, Jr. on "A New Theory: Inflation Triggers Recession" are attached.

I trust that you will find them as informative and useful as I have.

Attachments



THE WALL STREET JOURNAL PG. 12

JUL 21 1976

# Looking Over Ford's Record

By HERBERT STEIN

On economic grounds, the case for the nomination and election of President Ford is simple. He saw his duty and he did it. That is the best possible evidence that in the future he would continue to see and do his duty. As a consequence (or partly as a

sary to prevent an intolerable degree of inflationary pressure. But the President was in no mood to listen to such warnings at the moment when the American people were enjoying all the favorable consequences of the boom: profits were soaring, consumer living standards were improving

1



The New York Times. JUL 18 1976

WASHINGTON REPORT

# A New Theory: Inflation Triggers Recession

The Idea  
That a Bit  
Won't Hurt  
Is Now Out

*From Otto Eckstein to Johnnes Witteveen to Charles Schultze, experts are revising notions of where the casual factor lies —Ford and Reagan, at least, are convinced.*

By EDWIN DALE Jr.

that inflationary expecta- tail off . . . real G.N.P. actual- Ronald Reagan. But does  
ly declines from 1972 to Jimmy Carter accept the new

7/22/76

## MEMORANDUM FOR THE PRESIDENT

FROM:

SUBJECT: U.S. Maritime Policy

The EPB Executive Committee has again reviewed the situation in the U.S. maritime industry in light of recent developments and pending legislation. This memorandum outlines developments in maritime policy, describes the situation in the U.S. maritime industry, and seeks your guidance on the Administration position regarding S. 2422, a bill to require that oil shipments between the Virgin Islands and the U.S. mainland be carried in U.S. flag ships.

Developments in Maritime Policy

Since early 1975 an interagency committee of the Economic Policy Board has monitored the developing tanker situation and considered alternative approaches for providing relief to the industry.

The alternatives most actively considered include a number of forms of oil cargo preference for U.S. flag ships, and the manning of some military cargo vessels by non-government seamen. A meeting on March 7, 1975, with you was arranged for representatives of the industry, including maritime labor spokesmen. The industry representatives indicated that an oil cargo preference measure limited to existing and on-order ships would provide the relief they deemed necessary. An options memorandum on "U.S. Tanker Industry Problems" was sent to you on May 9, 1975. Your decision approving the trial substitution of non-government for government crews on four tankers under long-term charter to the Military Sealift Command is being implemented.

At the April 14, 1976 EPB Executive Committee meeting the Secretary of Commerce was asked to explore again alternative actions that might help relieve the maritime industry situation. Five options were developed:

- o Limited Oil Cargo Preference
- o Extension of the Jones Act to the Virgin Islands Oil Trade



- o Increased Military Use of Commercial Tankers with Non-government Crews for Underway Replenishment
- o Amendment of "Buy American" Provisions of the Merchant Marine Act
- o A Shipping Agreement for the Movement of Soviet Oil

These options were considered at the May 26 EPB Executive Committee meeting. At that time it was concluded that extension of the Jones Act to the Virgin Islands represented the least objectionable measure that would provide significant relief to the U.S. maritime industry, if it were decided to provide any additional assistance. The Executive Committee directed that this option be further refined for your consideration.

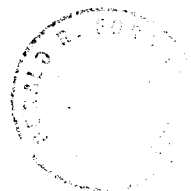
### Third Flag Issue

On July 19, Federal Maritime Commission Chairman Karl Bakke announced that he had signed a "memorandum agreement" with the Soviet Union regarding Soviet participation in U.S. foreign trade. The "agreement" contains two principles:

1. Soviet-flag carriers will maintain freight rates at levels not lower than rates used for the same commodity by non-Soviet carriers in the particular trades involved.
2. Soviet-flag carriers will pursue membership in ocean shipping conferences covering the U.S. North Atlantic and Pacific routes.

Simultaneously, Chairman Bakke sent a letter to you indicating that "a legislated solution now appears to be unnecessary so long as the carriers involved move forward in good faith to implement the objectives of the agreement." A copy of his letter is attached at Tab A. Chairman Bakke has similarly briefed key members of the appropriate congressional committees.

While the State Department does not object to the substance of the agreement, it is concerned that the Department was not privy to the Bakke discussions. Accordingly, the State Department may wish to pursue more vigorously an Executive Order establishing guidelines for discussions with foreign countries by U.S. regulatory commissioners.



U.S.-U.S.S.R. Maritime Agreement

On September 17, 1975 the U.S. and the U.S.S.R. agreed upon a rate formula for the carriage of grain to the Soviet Union by American-flag ships, effective through December 31, 1976, providing for a minimum charter rate of \$16.00 a ton. This rate is sufficiently favorable under current market conditions to attract a substantial portion of the American tanker fleet to this trade. However, the Soviets have adopted tactics contrary to the principles of the U.S./U.S.S.R. Maritime Agreement assuring U.S.-flag vessels the opportunity to carry one-third of the grain cargoes. These tactics include (1) offering future cargoes to U.S.-flag ships that are currently on Russian grain voyages and then cancelling the charters when the ships cannot meet the loading dates due to delays in Russian ports, (2) excluding tankers from discharging at Nakhodka, and (3) computing the U.S. share based on monthly Soviet projections, which actually turn out to be much higher than anticipated. As a result, since September 1975 U.S.-flag vessels have carried only 25.6% of the grain shipments (19.2% have been carried by Soviet ships and 55.2% by third-flag vessels). The volume of cargo carried by U.S. ships is approximately 1 million tons less than a one-third share. These actions which in most cases are contrary to the specific provisions of the Maritime Agreement and in all cases contrary to its spirit and intent, have been repeatedly and strongly objected to by the Maritime Administration. These tactics were the principal subject of discussions held between U.S. and Soviet maritime officials in a meeting in Moscow on June 17-24, 1976. To date the Soviets have refused to acknowledge their obligation under the Agreement to increase future grain cargo allocations to provide U.S. carriers their entitlement to a full one-third share of the shipments. This matter will also be the major topic of discussion at a meeting scheduled to be held in Washington in October 1976.

Even if U.S.-flag ships were provided a full one-third of the Soviet grain cargoes, this would not fully employ available U.S.-flag tankers seeking employment. Exclusive of those ships that are in actual lay-up status, each month approximately one million tons of U.S.-flag tankers are offered to the Soviet charterers as compared to the 300,000 to 400,000 tons of grain which constitute one-third of the monthly Soviet grain shipment program. Further, it appears that future program levels may be significantly decreased. Only one ship is scheduled for employment in this trade in August 1976 and the Soviets have advised that there will be no shipments in September.

### Situation in the U.S. Maritime Industry

There are presently 22 U.S. -flag tankers of 1.2 million dwt in lay-up, representing about 10% of the U.S. tanker tonnage. About 16% of the worldwide tanker tonnage is in lay-up. Most of the laid-up tankers are small, old, and inefficient. The prospect for employment of many of these tankers is dim.

The world shipbuilding market is also deeply depressed, and the scramble for shipbuilding contracts has resulted in foreign price quotations so low as to impose strong upward pressures on U.S. construction subsidy rates for all types of ships. The Administration is currently supporting a bill which would assist U.S. shipyards by increasing the allowable Federal ship construction ceiling from the current 35% to 45% for negotiated contracts. The Congress is likely to further increase the ceiling to 50%.

The full impact of the worldwide tanker depression was first apparent in the United States early in 1975. It led directly to cancellations of orders for nine tankers in U.S. yards. Substantial relief was afforded by Soviet grain purchases in 1975 and the U.S./U.S.S.R. transportation rate agreement for grain.

As a result of these factors, the number of U.S. tankers in layup declined from 33 in September 1975 to the range of approximately 20. There are currently 22 tankers in lay-up.

The opening of the Alaskan oil pipeline next year will provide substantial employment opportunities for U.S. tankers, although most of this employment will be provided to new, more efficient tankers currently being built in U.S. shipyards. Of course, employment prospects will also be dependent upon the levels of grain exports to the Soviet Union under the U.S./USSR Maritime Agreement.

### Extension of Jones Act to Virgin Islands

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



The cabotage laws do not currently encompass the U.S. Virgin Islands/mainland trade, which has enjoyed an exemption since our purchase of the Virgin Islands from Denmark in 1917. This exemption has been based historically on insufficient U.S. flag vessel capacity to serve the trade -- a situation which is no longer valid since sufficient capacity to transport oil is now available.

S. 2422, currently under consideration by the Senate Commerce Committee, would extend the cabotage laws to the Virgin Islands for the transportation of oil products only. The legislation has generated considerable interest since the Amerada Hess oil refinery, the world's largest refinery, 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. There is considerable support for S. 2422 within the U.S. maritime industry.

In the near term, the measure would involve a transportation cost increase of about 40¢/barrel. This is the present differential between U.S. tanker rates and currently depressed foreign rates. However, since the number of suitable U.S.-flag tankers currently in lay-up is somewhat less than those needed for the Virgin Islands trade, rates for U.S.-flag tankers in U.S. domestic trades would increase, probably at least in the short-run. This would not only increase the differential in the Virgin Islands trade, but would also affect the rates for all other U.S.-flag tankers placed on new charters in domestic trade. Over the long term, however, as the worldwide surplus is gradually reduced, world tanker rates can be expected to rise and the differential would be reduced. The Commerce Department has hypothetically estimated a long term (post-1983) differential between U.S. and foreign tankers of 25¢/barrel.

Presently there are about 255 U.S. flag tankers. Of these about 125 are company owned, 50 are under long term charter and 50 are on single voyages or short term charters.

Extension of the Jones Act to the Virgin Islands would quickly cause increases in the rates charged for the 50 tankers under short term charter and, as longer term charters expire, also cause increases in rates for the tankers under long term charter. Since there are not sufficient tankers available for the Jones Act trade to the Virgin Islands (an estimated 25 tankers are required) it is likely that extension of the Jones Act would entail an increase in short term tanker rates, affecting the prices of all fuels moving by tankers. Thus, consumers on the East Coast would experience price increases not only from Hess increased prices, but because oil products moving by tanker from the Gulf to the East Coast would incur higher shipping costs.





In short, there is a substantial probability that enactment of this legislation would increase the cost of delivering residual fuel oil from both the Virgin Islands and the Gulf Coast to the East Coast and lead to increases in all other markets where petroleum is moved by U.S. flag ship. The CEA estimates that the total cost could be as much as \$1.0 billion, 4 times the \$240 million impact estimated for Hess.

It is argued that there may be offsets to the higher transportation costs. In particular, it is suggested that larger entitlement allocations, now in effect for Hess, would offset additional transportation costs. Unfortunately, such entitlements are now reflected in present prices under price controls and any increases in transportation costs would eventually be reflected in higher prices as well. In short, extension of the Jones Act to the Virgin Islands will lead to increased petroleum costs on average.

The impact of higher charter rates may be reduced in the long run as more tankers are constructed. However, the cost of constructing these tankers in U.S. yards will be much greater than the cost of constructing them in foreign yards. Further, to the extent that there is an excess supply of tankers this is a misallocation of resources.

#### Congressional Status

The Merchant Marine Subcommittee of the Senate Commerce Committee held hearings on S. 2422 on February 18 and March 30. The Governor and the Congressional delegate from the Virgin Islands opposed the bill and the maritime and oil industries supported it. The Department of 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 hearings -- 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 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.

Chairman Long is presently devoting the bulk of his attention to the tax reform bill. Upon the conclusion of the Senate deliberations on the tax bill, it is anticipated that he will seek a favorable report on S. 2422 by the Senate Commerce Committee. However, because of potential opposition to the bill by East coast Senators, Senate floor action is uncertain.



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In short, with or without Administration support, action in the Senate on this legislation is uncertain, and action by the full Congress is unlikely. No House action has yet been scheduled on a similar bill (H.R. 13251), and none is anticipated until Senate action is complete.

### Options

Option 1: Announce Administration Support for Legislation Extending the Jones Act to the Virgin Islands for the Transportation of Oil Products. (S.2422)

#### Advantages:

- o Extension of the Jones Act to the Virgin Islands would provide employment to some 25 tankers (app. 30,000 dwt) or about 750,000 cargo deadweight tons.
- o Reserving this trade to U.S.-flag tankers would mean about 2,000 jobs for U.S. seamen. Employment of tankers currently in layup would account for 1,800 of this total.
- o Jones Act application to the Virgin Islands oil export trade would represent a logical extension of U.S. cabotage laws.
- o The balance of payments savings from using U.S.-flag tankers are about \$15 million.
- o Considering the several marketing advantages enjoyed by Amerada Hess, the Virgin Islands refinery will continue to have a considerable advantage over other domestic refineries, who employ 3.5 to 4.0 million deadweight tons of U.S.-flag tankers, unless the requirement to use U.S.-flag vessels is extended to the Virgin Islands through the Jones Act.

Option 2: Announce Administration Opposition to Legislation Extending the Jones Act to the Virgin Islands for the Transportation of Oil Products. (S.2422)

#### Advantages:

- o Extension of the Jones Act to the Virgin Islands would entail increased prices to consumers due to higher tanker rates.
- o It is possible that higher tanker rates may make it more profitable to import oil products from foreign sources than to ship domestic products from the Gulf. This increases import vulnerability and is contrary to the goal of reducing import requirements.





- o This legislation is almost certain to be perceived as detrimental to the interests of East Coast consumers.
- o Hess has threatened to shut down the refinery if this measure is enacted. This appears doubtful but is conceivable. The Virgin Islands would suffer increased unemployment if Hess' operation were terminated or curtailed, and tanker employment would also be affected.
- o Any reduction in economic activity in the Virgin Islands could lead to requests for increased Federal assistance. The Virgin Islands Refinery Corporation has already invested in real estate in preparation for construction of a small refinery. Enactment of S. 2422, with its attendant higher shipping costs, would discourage this construction.
- o The measure might lead to some U.S. tanker construction at a time when there are about 50 million deadweight tons of tanker capacity laid up worldwide, (1 million in U.S.).

Option 3: Do nothing at this time. Withhold a decision until after further Congressional action on S. 2422.

Advantages:

- o Withholding a decision at this time would preserve your options while awaiting the outcome of Senate action. The Senate Commerce Committee is expected to report the legislation, but it may be slowed by the Rules Committee and opposed on the Senate floor. It is understood that the House does not intend to move until the Senate acts. Congressional pressure for an Administration position is unlikely until House hearings are held.
- o Taking a position now would likely be viewed unfavorably either by Gulf Coast oil interests and maritime interests on one hand, or by the Virgin Islands, consumer groups (especially East Coast), and Amerada Hess interests on the other.



Decision

Option 1 \_\_\_\_\_ Announce Administration support for legislation extending the Jones Act to the Virgin Islands for the transportation of oil products (S.2422).

Supported by:

Option 2 \_\_\_\_\_ Announce Administration opposition to legislation extending the Jones Act to the Virgin Islands for the transportation of oil products (S. 2422).

Supported by:

Option 3 \_\_\_\_\_ Do nothing at this time. Withhold a decision until further Congressional action on S. 2422.

Supported by:

