The original documents are located in Box 62, folder "1976/09/22 - Economic Policy Board" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

next time JMC- EPB

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

September 22, 1976
8:30 a.m.
Roosevelt Room

AGENDA

1.	Maritime Policy	Commerce
2.	Tax Bill Signing and Format	Treasury
3.	Report on Monitoring Shoe Industry	Seidman

THE WHITE HOUSE

WASHINGTON

September 20, 1976

MEMORANDUM FOR ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEMBERS

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: U.S. Maritime Policy

A draft options paper, prepared by an interagency group, on a series of proposals to assist the U.S.-flag merchant marine through changes in the administration of cargo preference, is attached. It is scheduled for discussion at the Wednesday, September 22, Executive Committee meeting.

Attachment

MARITIME OPTIONS PAPER

In the United States there are presently 28 tankers, totaling about 1.6 million deadweight tons (DWT), in layup, most without good employment prospects in the foreseeable future. This situation, which affects the employment of about 2,200 U.S. merchant seamen, reflects the worldwide tanker industry depression which has resulted in the layup of approximately 44 million DWT of tanker tonnage around the world.

On August 4 you requested the Economic Policy Board to evaluate and report to you on a series of proposals to assist the U.S.-flag merchant marine through changes in the administration of cargo preference. This memorandum describes the current administration of P.L. 480 and AID shipments, evaluates the advantages and disadvantages of changes in the administration of the cargo preference system, and seeks your decision on three possible changes in the cargo preference system.

P.L. 480 and AID Shipments

The proposed changes in the cargo preference system would affect three separate programs: (1) P.L. 480, Title I; (2) P.L. 480, Title II; and (3) the AID cargo program. Cargoes shipped under all three of these programs are subject to the provisions of the Cargo Preference Act, P.L. 664, which requires that at least 50 percent of all government-generated cargo be shipped on privately owned U.S.-flag vessels to the extent that such vessels are available at fair and reasonable rates. Decisions to ship more than 50 percent of this cargo on U.S.-flag ships are discretionary within the Executive Branch and can be implemented through procedural changes. Each of the three programs is briefly discussed below.

1. <u>P.L. 480, Title I.</u> Title I authorizes long-term, low-interest sales of agricultural commodities to friendly governments. Title I shipments account for about two-thirds of the P.L. 480 total tonnage and generally involve bulk cargoes which move in full shipload lots on bulk carriers (tankers and dry bulk carriers). Under Title I the freight payments by the U.S. Government are limited to the differential between the cost of American carriage and foreign carriage. In recent years Title I shipments have varied between 3 and 5 million tons annually, with U.S.-flag ships carrying between 50 and 51 percent.

2. P.L. 480, Title II. Title II of the Act authorizes donations of agricultural commodities for humanitarian purposes. Title II donations are processed through three separate programs: (1) the Government to Government program, (2) the World Food program, and (3) the Voluntary Relief Agency programs, all of which are coordinated by AID. Title II shipments account for about one-third of total P.L. 480 shipments. Approximately half of the Title II shipments are packaged commodities that move in less-than-full-shipload lots on scheduled liner vessels and at published liner conference rates. For shipments on scheduled liner vessels the cost differential is minimal because U.S.-flag and foreign liner conference rates are comparable. In recent years Title II shipments have varied between 1 and 2 million tons annually, with U.S.-flag ships carrying about 65 percent.

In response to pressure from Great Lakes interests, the Department of Agriculture, at the suggestion of AID, adopted new procedures under which at least 50 percent of Title II cargo would be shipped in U.S.-flag vessels. Previously, the procedures stipulated that U.S.-flag vessels should be used to the extent available with the result that about 65 percent was shipped in U.S.-flag vessels in recent years. Since AID continues to encourage voluntary agencies to utilize U.S.-flag vessels in those instances in which rates and service are equal, the practical effect of this change in procedures should not reduce U.S.-flag carriage significantly. The new procedure is favored by Great Lakes interests because there is much more foreign-flag shipping service from Great Lakes ports than U.S.-flag, and more of this foreign-flag service can be used for direct shipments of Title II cargoes under the new procedure.

3. The AID Program. The AID program involves agricultural as well as other types of commodities provided to foreign governments through loans and grants. Since 1974, the AID annual program tonnage has ranged between 2 and 4 million tons, and U.S.-flag carriage between 30 and 35 percent. The percentage has been relatively low because a significant part of the AID tonnage has consisted of grain shipments to Israel for which suitable U.S.-flag ships are not available since Israel does not have port facilities to accommodate tankers.

Overall Evaluation of Modifying the Cargo Preference System

The maritime interests have repeatedly sought Administration and Congressional support for measures to assist them in recovering from the depressed conditions in the industry which followed the Arab oil embargo. Over the past year and a half numerous measures to benefit the maritime industry have been examined. On balance, changes in the administration of the cargo preference system appear to involve fewer disadvantages than any of the other possible policy initiatives to benefit the industry. The proposed changes in the administration of the cargo preference system would be perceived by maritime interests as evidence of your concern and commitment to increasing ship utilization, reducing the number of tankers in layup, and stimulating jobs for U.S. seamen.

However, the proposed changes in the administration of the cargo preference system, taken as a whole, entail considerable costs and problems. First, the economic cost-benefit of the proposed changes, although consistent with applicable statutes, is high -- in excess of $50,000 per job for the changes in the P.L. 480 program. Secondly, the proposed changes in the cargo preference system would marginally reduce the level of U.S. food assistance, including food aid. Thirdly, the proposed changes could encourage similar protectionist measures, particularly by less developed countries. Finally, the proposed changes, while helpful to the maritime industry, might be viewed by maritime interests as inadequate while running the risk of alienating humanitarian and farm groups.

Options

Three options for changes in the administration of the cargo preference system are outlined for your consideration.

Option 1: Increase U.S.-flag carriage of P.L. 480, Title I, cargo from 50 percent to 75 percent

Title I shipments are expected to account for about 4.6 million tons in FY 1977. The numbers of ships and jobs supported by the present requirement that 50 percent of Title I shipments be carried in U.S. vessels, and the potential number of ships and jobs if the requirement were raised to 75 percent, are as follows:

Ships and Jobs for P.L. 480, Title I

50% U.S.-Flag	--	8-11 ships + 700-970 jobs
75% U.S.-Flag	--	12-17 ships + 1060-1500 jobs
Increase	--	4-6 ships + 360-530 jobs

Since U.S.-flag vessels cost more to operate than foreign-flag ships, a requirement to use more U.S.-flag ships would entail increased expenditures for transportation to cover the "differential" between U.S. and foreign costs. The estimated FY 1977 differential costs are as follows:

Differential Payments for Title I Shipments

50% U.S.-Flag	--	$55 million
75% U.S.-Flag	--	$83 million
Increase	--	$28 million

Advantages

- o Increasing the percentage to 75 percent would increase ship utilization, reduce the numbers of tankers in layup, and create jobs for U.S. seamen.

Disadvantages

- o Transportation costs would increase by about $28 million. If the costs are absorbed, it would reduce the Presidentially approved food programming levels, which might result in adverse foreign policy repercussions as well as criticism from humanitarian groups and farm organizations.

- o The cost per job created is between $50,000 and $80,000.

- o An increase in the percentage of cargo preference would have negative foreign policy implications by encouraging protectionism, although the principle of flag preference for government cargoes has widespread international acceptance.

Option II: Rescind implementation of new procedures that may reduce U.S.-flag carriage of P.L. 480, Title II cargo

Previously U.S.-flag ships were used for P.L. 480, Title II shipments whenever they were available with the result that the U.S. share was about 65 percent. Implementation of the new procedures is likely to marginally reduce the employment of U.S.-flag ships.

If the new procedures reduced the U.S.-flag share to 50 percent, this would result in an annual loss to the U.S.-flag fleet of approximately 200,000 metric tons of cargo, or the equivalent of about one ship.

As a practical matter, however, for many Title II cargoes only U.S.-flag vessels are available from the ports nearest the destination points and thus, AID believes it unlikely that the average U.S.-flag usage will fall significantly below the 65 percent average achieved in recent years.

Advantages

- The new procedures are viewed by the maritime industry as evidence of a negative attitude by the Administration to the U.S. merchant marine.
- Rescinding the new procedures would result in a marginal increase in U.S.-flag ship utilization and jobs.

Disadvantages

- Implementation of the new procedures would allow a slightly more efficient use of limited resources to meet the objectives of P.L. 480 legislation. By marginally reducing transportation costs, additional resources would be available to finance additional exports, at least 50 percent of which would be shipped on U.S.-flag vessels.
- Rescinding the new procedures would be criticized by voluntary agencies such as CARE and the Catholic Relief Services and Great Lakes shipping interests.

Option III: Increase U.S.-flag carriage eligibility for AID cargo to 75 percent

In the short term this would transfer approximately 150,000 tons, the equivalent of one ship, from foreign to U.S.-flag vessels at little or no additional cost to AID since this is liner cargo where United States and foreign-flag rates are comparable.

Advantages

- Increasing the percentage to 75 percent would in the near term marginally increase U.S. ship utilization and create jobs for U.S. seamen at little or no additional cost.

- This would be favorably viewed by the U.S. maritime industry if combined with other measures to assist them.

Disadvantages

- The limited availability of suitable dry bulk carriers under U.S. registry reduces the immediate potential benefits.

- An increase in the percentage of cargo preference would have negative foreign policy implications by encouraging protectionism, although the principle of flag preference for government cargoes has widespread international acceptance.

~~EYES ONLY~~

JMC

MINUTES OF THE ECONOMIC POLICY BOARD EXECUTIVE COMMITTEE MEETING

September 20, 1976

Attendees: Messrs. Simon, Seidman, Greenspan, Usery, O'Neill, Cannon, Darman, Malkiel, McGurk, Moskow, Veneman, Porter, Jones, Hormats

WS

1. Youth Unemployment Initiatives

The Executive Committee discussed a memorandum, prepared by the Department of Commerce, on youth unemployment. The discussion focused on the content of the proposed youth unemployment initiatives, the President's remarks on youth unemployment at his recent Ann Arbor address, the public visibility that should be sought for the proposed initiatives, the need to provide the President with an information memorandum summarizing what the Administration has done and is doing to reduce youth unemployment, and possible changes to broaden the number of exemptions from the minimum wage law.

Decision

The Department of Labor in coordination with Commerce and OMB will prepare an information document on what the Administration has done and is doing to reduce youth unemployment.

Secretary Usery will examine ways in which to broaden the number of exemptions from the minimum wage law.

~~EYES ONLY~~
RBP

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

September 21, 1976

Attendees: Messrs. Seidman, Greenspan, Darman, Cannon, O'Neill, Darman, Veneman, Hogue, Droitsch, Murphy

1. Youth Unemployment Initiatives

The Executive Committee reviewed the proposed Administration programs to assist unemployed youths. The discussion focused on the causes of youth unemployment and the collection of the household survey unemployment data.

Decision

The Executive Committee requested Labor, Commerce and OMB to prepare jointly a question and answer on the subject of youth unemployment by noon today.

cc: Leach

INFORMATION

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JOHN J. WILLIAMS
DENNIS J. TAYLOR
J. BRIAN SMITH
CLARA POSEY

September 20, 1976

Hubley

The President
The White House
Washington, D. C.

Dear Mr. President:

As I am sure you are aware, the Nation's cattle industry is extremely concerned over the apparent circumvention of import agreements by Australia and New Zealand through Mayaguez, Puerto Rico. Given the current circumstances facing the cattle industry, circumvention presents not only an economic hardship but creates an extremely emotional issue.

Under Section 204 of Public Law 87-488 you have authority to "negotiate with representatives of foreign governments in an effort to obtain agreements limiting the export from such countries and the importation into the United States of any agricultural commodity or product." Under Executive Order No. 11539, promulgated on June 30, 1970, the President delegated such negotiating authority to the Secretary of State, with the concurrence of the Secretary of Agriculture and Special Representative for Trade Negotiations. The cattle industry in particular and the agricultural industry in general has a long-standing dissatisfaction with the way in which the Department of State has conducted the import negotiations.

I believe it is time we take a fresh look at where we stand on import limitations and whether such negotiations couldn't or shouldn't be conducted by the Department of Agriculture. Certainly this is an area that your staff could explore in a timely fashion.

Sincerely,

John J. Rhodes

John J. Rhodes, M. C.
Minority Leader

JJR/tp