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THE WHITE HOUSE
WASHINGTON


August 29, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JAMES T. LYNN

FROM:

JAMES E. CONNOR 

SUBJECT:

Union versus Civil Service Manning of
Military Sealift Command Ships

The President has reviewed your memorandum of August 27 on the above subject and requested that you discuss this matter with him.

cc: Don Rumsfeld
Jerry Jones

—
THE WHITE HOUSE
WASHINGTON

Jim -

Not quite sure what the President means by this:

MS Does he mean that he wants to discuss it further with Lynn? ✓

Or are you to discuss with Lynn?

Should Lynn have the benefit of our staffing comments?

Wonder what Dunlop added to the picture?

?????

Trudy

THE WHITE HOUSE
WASHINGTON

August 28, 1975

MR PRESIDENT

Staffing of the attached memorandum resulted in the following:

Phil Buchen - Recommends Alternative #4

Brent Scowcroft - Comments at Tab A

Bill Seidman - Comments at Tab B

Jim Cannon - Discussed matter with Secretary Dunlop who will be prepared with comments when he sees you later today.

Jack Marsh - Comments not received at this writing
for Option 3.

Jim Connor

JK
Consult with Jim
Connor.



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

AUG 27 1975

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: JAMES P. LYNN
SUBJECT: Union versus Civil Service Manning of
Military Sealift Command Ships

In your July 15 meeting with Secretary Schlesinger, you discussed the question of union versus Civil Service manning of Military Sealift Command (MSC) ships. The issue to be resolved involves the use of private contractors versus continued MSC operation of these ships. This memo identifies the ships involved, compares the operating costs under the two systems, and outlines three possible courses of action.

Discussion

MSC operates 54 ships with civil servants. Of these, 27 are special project mission related ships used for ocean research and survey, Polaris/Poseidon support, range instrumentation, and underseas surveillance. The remaining 27 MSC ships are the subject of this issue. These include:

Seven tankers, 4 of which are of particular interest for private contract operation since their operations are quasi-commercial.

- Four tankers were operated by a private contractor until April 1974 when the contract was terminated due to inadequate performance. Each ship is manned by 25 civil servants, virtually all of whom are members of maritime unions. Union criticism of the use of ships with Civil Service personnel results from the fact that even though the present employees are union members, there is no contribution to the union pension and welfare funds. If the ships were contractor managed, contributions would be made to the pension fund of the appropriate unions. (The National Maritime Union pension fund has a present unfunded liability of approximately \$170 million.)
- The other 3 tankers are engaged entirely in Pacific inter-island operations. They do not return to any U.S. ports and are old with poor crew accommodations. It is extremely doubtful that they would be of interest to contractors.

Eleven dry cargo ships have always been manned by civil servants. Navy has firm plans to remove 3 of these ships from the active force in 1976; and removal of another 3 ships is under consideration. Cost studies confirm the economics of civil servant manning as against contract operation. Private contractor operations will cost 15-20% more than the current system.

Nine fleet support ships, including oilers and tugs, operate directly with the Navy fleets at sea. These ships were once manned with military personnel, but were converted to civilian manning. Because of the type of support required of these ships, the Navy would prefer military manning in lieu of a private contractor. (The Chief of Naval Operations has stated as policy that, "Underway replenishment ships that provide front line support will be manned by either Navy crews or MSC Civil Service marine personnel in order to provide positive Navy control.")

Considerations

Cost

Agreement has been reached by DOD, MARAD and OMB on comparative labor and labor related cost differentials between civil servant and contractor manning. All parties also agree that non-labor costs would be higher under contractor operation, but there is some disagreement as to the size of the difference. DOD bases its estimates for tanker operations on actual experience and uses the same cost factors to compute contract costs for the dry cargo ships. MARAD has reservations on these estimates but lacks operating data.

For the 4 tankers and 8 dry cargo ships, manning with civil servants under MSC is less expensive than private contractor operation. Higher contractor costs would be experienced for the following areas: overtime and premium pay, pension and welfare payments, and contractor overhead and profits.

The annual costs are as follows:

- The 4 tankers have annual operating costs of \$12.0 million, including unfunded retirement liability and insurance applied at commercial rates. Comparable costs from contract operation are \$14.0 million. Thus, shifting to contractor operations would increase costs by \$2.0 million (17%).
- The 8 dry cargo ships have annual operating costs of \$27.4 million, including unfunded retirement liability and insurance applied at commercial rates. Comparable costs from contract operations approximate \$31.8 million. Thus, a shift to contractor operation would increase costs by \$4.4 million (16%).

- Note: It must be recognized that the contractor costs are our best estimate. They could be higher or lower, subject to negotiation with the Unions.

You expressed concern as to the validity of training cost estimates for ships manned by civil servants. Training costs amount to less than 1% of total operating costs under both civil servant and private contractor manning. Even if doubled, they would have only a slight impact on operating costs.

Union Membership

Civil servants employed aboard the MSC ships are generally members of various maritime unions. It is impossible to predict which unions would be represented if a decision is made to contract for operation of the ships. The majority of civil servants are members of the National Maritime Union and Seafarers International Union. An appeal could be expected from one of the two unions affected by a contract decision.

Operational Flexibility

The Navy is concerned that a shift to contractor manning could reduce their operational flexibility in two ways:

- Crew assignment policy -- Current union policy is to assign new crew members for each voyage. The Navy believes this reduces crew efficiency, could cause delays, and causes additional training expenses. The Civil Service practice is to assign crews to the same ships for repeated voyages.
- Security clearances for crews - Some classified military missions or special cargoes require that all crew members have a security clearance. All Civil Service crew members are appropriately cleared. This is not now done for union crew members.

Both of these concerns could be eliminated if the unions agreed to change their crew assignment policies and required security clearances for all union crew members.

SUMMARY

Reversion to contract operation of the 4 tankers may be justifiable in that their operation is quasi-commercial (Defense could be convinced to revert these ships to contractor operation), but Civil Service manning cost less. The 3-inter-island tankers are not conducive to contractor operations.

Contractor operation of the 8 remaining dry cargo ships also costs more, and would require changes in union policies with regard to security clearances and crew assignment.

The Navy would object strongly if they were told that the 9 fleet support ships must be operated under contractor management. They would prefer military manning as an alternative to Civil Service crews.

ALTERNATIVES

Direct the Navy to:

- _____ #1 Contract for operation of 21 MSC ships, including 9 fleet support, 8 dry cargo, and 4 tankers. Annual operating cost increase would approximate \$11 million.

- _____ #2 Contract for operation of 12 MSC ships (8 dry cargo, 4 tankers). Annual operating cost increase would approximate \$6.4 million (17%)

- _____ #3 Contract for operation of 4 MSC tankers. Incremental operating cost increase to the Navy would approximate \$2.0 million (17%)

- _____ #4 Solicit bids for contractor operation of 2 tankers and 4 cargo ships for a one-year trial period in order to evaluate costs and effectiveness of such operation.

- _____ #5 Retain civil servant crews on these ships.

COSTS FOR SHIPS OPERATION

(\$ in Millions)


	<u>MSC</u>	<u>Contract</u>	<u>Difference</u>
<u>Four Tankers</u>			
Costs of operations	11.3	14.0	+ 2.7
Additive costs not paid by MSC:	.7	--	- .7
Civil Service retirement fund unfunded liability and protection and indemnity insurance	_____	_____	_____
Full Cost of Operation	12.0	14.0	+ 2.0
 <u>Eight Dry Cargo Ships</u>			
Costs of operations	25.8	31.8	+ 6.0
Additive costs not paid by MSC:	1.6	--	- 1.6
Civil Service retirement fund unfunded liability and protection and indemnity insurance	_____	_____	_____
Full Cost of Operation	27.4	31.8	+ 4.4

MEMORANDUM

NATIONAL SECURITY COUNCIL

August 28, 1975

MEMORANDUM FOR: JIM CONNOR

FROM: JEANNE W. DAVIS 

SUBJECT: Lynn Memo 8/27/75 - Union
Versus Civil Service Manning of Military
Sealift Command Ships

Viewed strictly from the standpoint of national security policy considerations, we recommend alternative #5 (retain civil servant crews on the ships).

With civil servant crews, there is a greater level of assurance concerning responsiveness in periods of crisis and combat. This includes willingness to go to a combat zone, and willingness to remain there. While unions may argue this point, the fact is that civil servant crews are under direct Navy control and subject to Navy regulations, whereas the same conditions would not apply to union crews.

B

THE WHITE HOUSE

WASHINGTON

August 28, 1975

MEMORANDUM FOR JAMES CONNOR

FROM: L. WILLIAM SEIDMAN

SUBJECT: Lynn memorandum 8/27/75 re Union versus
Civil Service Manning of Military Sealift
Command Ships

I favor alternative #4

"Solicit bids for contractor operation of
two tankers and four cargo ships for a one
year trial period in order to evaluate costs
and effectiveness of such operation."

In light of the current problems I think it would be
unwise to do anything that is not cost efficient.