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THE WHITE HOUSE

WASHINGTON

July 28, 1976

MEMORANDUM FOR THE PRESIDENT

FROM:

L. WILLIAM SEIDMAN *fw*

SUBJECT:

Meeting with EPB Executive Committee
July 28, 1976

Subsequent to completion of the preparation and staffing of the memorandum on U.S. maritime policy that is in the briefing paper sent you yesterday for your meeting with the EPB Executive Committee, Secretary Richardson has submitted a short paper outlining some additional measures which might be considered to provide relief to the maritime industry.

These suggested measures have not been reviewed by the EPB yet and are not presented for your decision. Secretary Richardson has indicated that he would like to raise them at today's meeting as candidates for further study.

One additional item has been added to the agenda for today's meeting. I have asked Burt Malkiel to present a brief overview of the current economic outlook with an emphasis on the capital spending outlook. A copy of the revised agenda is attached along with the Commerce paper.

Attachments

MEETING WITH ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

July 28, 1976
11:30 a.m.

AGENDA

- | | |
|---|----------------------|
| 1. Review of Current State of the Economy | Burt Malkiel |
| 2. U.S. Maritime Policy | Secretary Richardson |
| 3. Wage Settlements | Paul MacAvoy |
| 4. Tax Legislation | Secretary Simon |

Measures to Assist the U.S.-Flag Merchant Marine
Through Changes in the Administration of Cargo Preference

The Maritime Administration monitors the activities of all civilian Government agencies subject to the cargo preference laws of the United States. The Agency insures that U.S.-flag vessels participate in such shipments pursuant to applicable statutes.

The Cargo Preference Act, Public Law 664, requires that at least 50 percent of all government-generated cargo be shipped on privately owned U.S.-flag vessels, to the extent such vessels are available at fair and reasonable rates. Increasing U.S.-flag participation in the cargo preference trades to more than the current 50% level is within the Administration's authority.

In the administration of the Cargo Preference program three alternatives can be considered to provide relief to the maritime industry.

1. Increase U.S.-Flag Carriage of PL-480 and AID Cargo from 50% to 75%
 - Tonnage - In FY 1977, about 1.2 million tons of Title II PL-480 cargo would be shifted to U.S.-flag ships, of which about 1.15 million would be moved by non-liner vessels and about 150 thousand by liners. In addition, based on projected total non-PL-480 AID shipments of 2.5 million tons in FY 1977, about 625 thousand tons would be shifted to U.S.-flag ships.
 - Ships - The PL-480 increment would provide employment for 5-7 U.S.-flag non-liner vessels in addition to providing 150 thousand tons of additional cargo for liners. The AID increment would provide cargo for 2-3 ships. Thus, employment for a total of 7-10 vessels could be generated.
 - Employment - The potential additional ship activity would generate employment for 600-900 seagoing workers.

- Cost - The shift would entail additional differential payments of about \$36 million for PL-480 shipments, including \$2.5 - \$3 million for liners and the remainder for bulk carriage, based on anticipated FY 1977 rates. Movement of the incremental AID cargo would entail additional U.S. costs of about \$19 million. It would be necessary to seek supplemental appropriations for this purpose or to reprogram funds.
2. Rescind AID proposal to limit U.S.-flag ship use to "at least 50 percent," in moving Title II PL-480 cargo. Under this proposal the employment of U.S.-flag ships would be effectively reduced.
- Based on preliminary estimates, the proposal would result in an annual loss to the U.S.-flag fleet of more than 200 thousand metric tons of cargo, or the equivalent of about one ship per year.
 - The limiting proposal is effectively contrary to the intent of the Cargo Preference Act of 1954 in that, despite its terminology, it would establish 50 percent as a ceiling on U.S.-flag carriage of preference cargo.
3. Transfer of Ocean Shipping Authority to the Maritime Administration

The transportation of government impelled cargoes would be handled more efficiently if the ocean transportation functions of the Department of Agriculture and the Agency for International Development and other civilian government agencies were transferred from these agencies to the Maritime Administration.

- All functions relating to the cargoes themselves - sale, distribution, etc., would remain with the agencies most closely involved - Agency for International Development and Department of Agriculture.
- The ocean transportation booking and ship chartering functions would be best handled by the Maritime Administration, which is the government agency most highly qualified in this area because:

- It maintains data on ship availability, vessel types, operating costs, trade routes, etc.
 - MarAd has extensive experience in ocean shipping, both liner and full ship load.
 - MarAd has long-term working relationships with ship owners and operators.
- o MarAd is concerned solely with the maritime industry.
 - MarAd can assure maximum utilization of U.S.-flag ships without hindering the timely delivery of cargoes.
 - MarAd's knowledge of ocean transportation market conditions would assure fair and reasonable freight rates, benefiting operators, shippers, and U.S. taxpayers.
 - o Separation of the shipping and cargo generation functions will obviate the possibility of any conflict of interest which might result from handling of these by a single agency.
 - o The consolidation of these booking and chartering functions under the Maritime Administration would involve no additional cost to the government, either in personnel or in funds. Indeed, it is most likely to yield savings in addition to increased efficiency.

Conclusion

It has been the continuing understanding of the Congress that the provisions of the Cargo Preference Act of 1954 (PL-664) require the greatest possible utilization of U.S.-flag vessels by agencies arranging the transportation of cargoes governed thereby.

Further the Congress has stressed that:

"There is a clear need for a centralized control over the administration of preference cargoes. In the absence of such control, the various agencies charged

with administration of cargo preference laws have adopted varying practices and policies, many of which are not American shipping oriented. Since these laws are designed by Congress to benefit American shipping, they should be administered to provide maximum benefits to the American merchant marine." House Cong. Rept. No. 91-1555, p. 6.

Moreover, the Executive Branch has also maintained this policy. The Presidential Directive, April 1962, Regarding Cargo Preference, addressed to all Executive Branch Departments and Agencies, instructed the Department of Commerce to implement fully § 212 (d) of the Merchant Marine Act, 1936, as amended, in securing preference for U.S.-flag vessels in the movement of all commodities in foreign commerce, and directed all executive agencies to cooperate fully to this end.

If these proposals appear to have merit then it is suggested that the Secretary of Commerce meet with industry representatives so that a dialog can be commenced.