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August 3, 1976

**Brent Scowcroft
Bill Seidman**

**The attached was forwarded to
the President. The attached is
for your information.**

Jim Connor



THE PRESIDENT HAS SEEN....
EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MR-1

MR-1

JUL 30 1976

INFORMATION

MEMORANDUM FOR: THE PRESIDENT
FROM: Paul H. O'Neill *O'Neill*
SUBJECT: Responses to questions concerning
the U.S. Merchant Marine

The following answers are in response to the questions which were raised at the meeting with Secretary Richardson on maritime policy:

1. What are we currently paying to operate the U.S. Merchant Marine?

There are at present 530 active U.S. flag merchant marine ships; 206 of these ships received direct operating subsidies in fiscal year 1976 and an estimated 234 will receive direct subsidies during fiscal year 1977. The total annual cost of the program to the taxpayer in terms of direct subsidies was \$278 million in fiscal year 1976 and will run approximately \$366 million this fiscal year. Under the subsidy program 9,000 billits are funded, providing partial year employment for 19 to 20 thousand seagoing workers.

2. What is the contribution of the P.L. 480 and AID program to merchant shipping and what impact would there be if the U.S. cargo preference percentage was raised from 50 to 75 percent?

Roughly one-half of the estimated 4 million plus tons of P.L. 480 and AID shipments are carried by U.S. merchant ships. Anywhere from 14 to 20 ships employing 1,200 to 1,800 seagoing workers are involved in these shipments. If the percentage allocated to U.S. merchant ships was raised this would increase the number of ships by 7 to 10 and the number of seagoing

workers by 600 to 900 for a new total of 21 to 30 ships and 1,800 to 2,700 seagoing workers involved in this program. It should be noted that the number of workers cited does not represent full person/years of employment. The number of actual person/years at sea (i.e. billits) is about one-half the number of seagoing workers employed.

3. What is DOD doing to accelerate the use of private merchant marine ships?

DOD has implemented your decision to use union crews on four tankers under long-term charter to the Military Sealift Command (MSC). MSC had previously canceled a contract with the union and had started to use civil servants instead on these ships. The Navy is not at present taking any further initiatives in this area until they have had an opportunity to assess how the trial period under the new agreement is working out.

The option of increasing the U. S. percentage of P.L. 480 and AID shipments is of course not without cost. The charter differential rates between non-U.S. flag and U. S. flag merchants would add \$36 million in costs to the USDA budget and \$19 million to the AID budget. The \$55 million increase in the USDA and AID budgets would constitute a significant increase over the estimated total of \$136 million expended under P.L. 480 and AID for this purpose. In terms of cost per seagoing worker employed this would amount to \$61 thousand per job created, based on the optimistically high estimate of 900 additional workers being employed.