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THE WHITE HOUSE  
WASHINGTON

November 18, 1976

ADMINISTRATIVELY CONFIDENTIAL<sup>1</sup>

MEMORANDUM FOR: PAUL O'NEILL  
FROM: JIM CONNOR *JEC*  
SUBJECT: Proposed Increase in rates of Tolls  
for the Panama Canal

Confirming telephone call to Dan Kearney's office, the President reviewed your memorandum of November 12 and approved the following option:

Option 1: Approve the requested 19.5% increase.

Bud McFarlane was also informed of this decision and he will notify the State Department.

The original signed resolution has been given to Robert Linder for appropriate handling.

Please follow-up with any other action that is necessary.

cc: Dick Cheney  
Brent Scowcroft  
Robert Linder

November 17, 1976

MR PRESIDENT:

Proposed Increase in Rates of Tolls  
for the Panama Canal

The subject of Proposed Increase in Rates of Tolls for the Panama Canal has been reviewed by Jim Cannon, Bill Seidman, Brent Scowcroft and Jack Marsh. Their recommendations are:

Jim Cannon - "I recommend Option 2 (Disapprove the increase) If the U. S. increases Panama Canal toll charges for the third time in 29 months, that fact could be used by the OPEC countries to justify another oil increase."

Bill Seidman - Option 1 (Approve the requested 19.5% increase)

Jack Marsh - Option 1 (approve the requested 19.5% increase)

Brent Scowcroft - "I have no objection to the proposed toll increase.

As pointed out in the O'Neill memorandum, the five west coast countries of Latin America (including Bolivia) have indicated concern over the impact of the proposed toll increases on their economies. While I do not consider this sufficient grounds, in and of itself, to withhold otherwise-justified toll increases, it is important to our relations with these countries that they be notified in advance of any public announcement of a toll increase. For this reason, the Department of State should be given at least a 480hour advance notice of announcement of the increase if it is granted.

Jim Connor

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: November 13, 1976

Time:

FOR ACTION:

cc (for information):

- ✓ Jim Cannon
  - ✓ Bill Seidman
  - ✓ Brent Scowcroft
- FROM THE STAFF SECRETARY

*Jack Marsh*

DUE: Date:

Monday, November 15

Time:

3 P.M.

SUBJECT:

Paul O'Neill's Memo 11/12/76 re Proposed Increase in rates of tolls for the Panama Canal

ACTION REQUESTED:

\_\_\_ For Necessary Action

X For Your Recommendations

\_\_\_ Prepare Agenda and Brief

\_\_\_ Draft Reply

X For Your Comments

\_\_\_ Draft Remarks

REMARKS:

You will note that the proposed increase could legally become effective November 15 --- for this reason we would like to have this package ready when the President returns. Thank you.

*Cannon - Option 2 plus comments*  
*Marsh - Option 1*  
*Seidman - option 1 noted*  
*Scowcroft - see notes*  
*Bob Linder has original for review*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor  
For the President

Date: November 13, 1976

Time:

FOR ACTION:

cc (for information):

Jim Cannon

Jack Marsh

Bill Seidman

Brent Scowcroft

FROM THE STAFF SECRETARY

DUE: Date:

Monday, November 15

Time:

3 P. M.

SUBJECT:

Paul O'Neill's Memo 11/12/76 re Proposed  
Increase in rates of tolls for the Panama Canal

## ACTION REQUESTED:

 For Necessary Action For Your Recommendations Prepare Agenda and Brief Draft Reply For Your Comments Draft Remarks

## REMARKS:

You will note that the proposed increase could legally become effective November 15 --- for this reason we would like to have this package ready when the President returns. Thank you.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor  
For the President



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

NOV 12 1976

ACTION

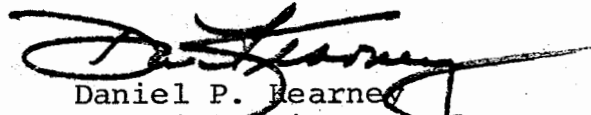
MEMORANDUM FOR THE STAFF SECRETARY

SUBJECT: Resolution of the Board of Directors of the  
Panama Canal Company to increase tolls

Attached is a memorandum for the President concerning the above toll increase proposal. The interested executive agencies have reviewed the Board's proposal and, with the exception of the Department of Agriculture, no objections have been expressed.

We recommend the President approve the Board's decision by signing the resolution where indicated. We also ask that the State Department be informed of whatever action the President takes prior to public release in order that they may be able to first notify interested countries.

The new tolls become effective on the day the President signs the resolution. The Secretary of the Army requested that the President approve the tolls on November 15, 1976, the first day that the proposed increase could legally be put into effect.

  
Daniel P. Kearney  
Associate Director for  
Economics and Government

Attachments



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

NOV 12 1976

ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

Paul H. O'Neill *Phin*

SUBJECT:

Proposed increase in rates of tolls  
for the Panama Canal

The attached letter of October 8, 1976, from the Secretary of the Army requests your approval of a 19.5% toll increase for vessels transiting the Panama Canal.

Since the Canal opened in 1914 there have been two actions which have increased charges for vessels using the Canal. On July 8, 1974, tolls were increased 19.7% and on March 26, 1976, you approved a cargo measurement rules change which had the effect of increasing charges for cargo transiting the Canal. The proposed toll increase now pending before you would be the third increase in charges in the last 29 months.

Section 412 of Title 2 of the Canal Zone Code provides that tolls are to be set "...at rates calculated to cover, as nearly as practicable, all costs of maintaining and operating the Panama Canal..." Despite the 1974 toll increase, the Panama Canal Company--which operates the Canal--ran deficits of \$8.2 million in FY 1975, \$7.4 million in FY 1976, and \$2.0 million in the transition quarter. Although the 1976 cargo measurement change is currently producing a 5.8% increase in revenue, the Canal Company estimates that without the approval of the pending proposal it will run \$20 million in deficit in FY 1977. These recent deficits can be attributed to: 1) the impact of recent inflation on Canal operating costs and 2) a downturn in traffic transiting the Canal, brought on by the worldwide economic recession. All deficits of the Canal Company take the form of unrecovered costs which are withheld from the Treasury.

### Agency Views

Department of Justice--no objection  
Department of State--no objection  
Federal Maritime Commission--no objection  
Department of the Treasury--no objection (informal)  
Department of Transportation--no objection (informal)  
Department of Commerce--recommends deferral (informal)  
Department of Agriculture--recommends disapproval  
The National Security Council and the Council on  
International Economic Policy have taken no position.

### Options

1. Approve the requested 19.5% increase - Under this option, the Company would be allowed to put into effect the requested toll increase. This action would allow the Company to cover its current estimated costs and begin gradual repayment to the Treasury of unrecovered costs from prior years.
2. Disapprove the increase and request the Company to submit a new proposal - Under this option, the Secretary of the Army would be directed to restudy the need for a 19.5% increase based on the improving economic picture and potential for an upturn in traffic volume through the Canal. A minimum procedural delay of six months would result under this option before a new proposal could be submitted.
3. Take no action at this time - Under this option the requested toll increase would be set aside without prejudice. Action on the request would be deferred to a later date pending a further assessment of the Canal's operating experiences over the next few months.

### Discussion

The new Canal toll charges put into effect in 1974 were expected to cover projected costs and also the impact of a one time accounting change which established the practice of depreciating the value of certain U.S. investments in the Canal Zone. Primarily because of inflationary pressures on



fuel and labor costs and a downturn in traffic transiting the Canal, those projections have not been borne out. The cost of operating the Canal is now projected to be almost one-third higher in 1977 than it was in 1974, while the number of vessels transiting the Canal is estimated to be 17% less than in 1974.

It is unlikely that Canal traffic will increase substantially in the near term and therefore that revenues will be able to cover projected costs. It should be noted, however, that revenue estimates are somewhat hard to project, due to the variability in traffic using the Canal. Currently traffic through the Canal is running below forecasted levels, due in large part to the slow economic recovery of Japan, a key user of the Canal. This situation could reverse itself in 1978 if, as the Department of Commerce argues, there is a major upswing in transits tied to the shipment of Alaskan crude oil to the Gulf and east coast. Without further experience in this area, however, we have no reason to doubt the projections of the Canal Company.

Despite the weakening financial outlook for the Canal, a number of interested parties have argued against the need for another increase in tolls at this time.

- Major American shipping interests have written to you in opposition to the increase, citing the fact that they are still adjusting to the 1974 toll increase and recent measurement changes;
- The State Department has informed us that several foreign countries (i.e. Columbia, Peru, Equador, Chile, and Bolivia) which use the Canal are opposed to the increase because of the impact it could have on their economies;
- Mrs. Sullivan and Mr. Metcalfe of the House Merchant Marine and Fisheries Committee have indicated that "approval of the full 19.5% increase seems unwarranted"; and
- The Department of Agriculture is opposed to the toll change because it would increase costs for moving certain foreign aid shipments.

While toll increases are always objectionable, the fact remains that without a change the Canal will not meet the requirement that it be fully self-supporting. Even with the current tolls and taking the full benefit of the measurement change, the Canal is still losing \$54,000 per day, despite efforts to restrain operating costs. Until these losses are covered, Canal operations are being subsidized out of the U.S. Treasury and the users of the Canal--more than 90% of which are foreign flag vessels--are being indirectly subsidized.

#### Recommendation

Based on the prospect of continuing deficits in Canal operations, the Office of Management and Budget recommends approval of the 19.5% toll increase.

While it is possible to request a submission of a new toll request at a later date or withhold action pending further review of revenue experience, we have no information to suggest that later projections will show a significantly reduced deficit. The only likely significant effect of such a delay would be to prolong the current deficit operation.

\_\_\_\_\_ Option #1 (recommended): Approve the requested 19.5% increase.

\_\_\_\_\_ Option #2: Disapprove the increase and request the Company to submit a new proposal.

\_\_\_\_\_ Option #3: Take no action at this time.

#### Action

To carry out Option #1, it is necessary for you to sign the attached resolution.

#### Attachments



SECRETARY OF THE ARMY  
WASHINGTON

8 OCT 1976

The President  
The White House  
Washington, D. C. 20500

Dear Mr. President:

In my capacity as "stockholder" of the Panama Canal Company under authority delegated to me by Executive Order 11305 of September 12, 1966, I am forwarding for your approval a Resolution of the Board of Directors of the Panama Canal Company increasing rates of tolls for use of the Panama Canal by 19.5%.

The action by the Board of Directors is based on Sections 411 and 412 of Title 2 of the Canal Zone Code under which the Panama Canal Company is required to establish tolls at rates sufficient to cover the costs of operation and maintenance of the Panama Canal together with the facilities and appurtenances related thereto. Section 412 provides that changes in the rates of tolls shall be subject to and take effect upon the approval of the President of the United States. Section 411 requires six months' notice of the change in tolls. This notice was published in the Federal Register on May 14, 1976, so that the earliest date on which the new rates could become effective is November 15, 1976.

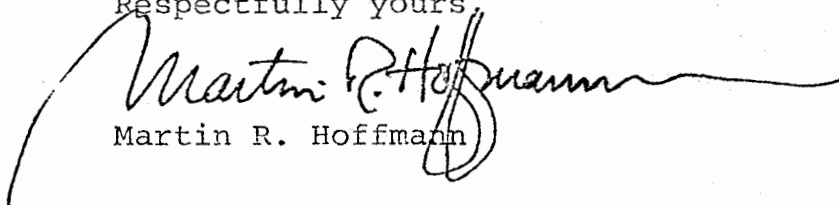
Following publication of the notice in the Federal Register, the Panama Canal Company invited written comments from the public and held a public hearing in accordance with applicable regulations. After consideration of all relevant matter presented in the written comments received and presented at the hearing, the Board of Directors found that the rates of tolls should be changed and adopted the Resolution making the change, subject to your approval.

The inclosures to this letter set out in detail the background of the requirements for the increase in rates of tolls including the pertinent fiscal data, the comments received

from interested parties, and the proceedings by the Board of Directors leading up to the adoption of the Resolution making the change in rates of tolls.

Your approval of the proposed increase in rates of tolls for the use of the Panama Canal is recommended, effective November 15, 1976.

Respectfully yours,

A handwritten signature in cursive script, appearing to read "Martin R. Hoffmann". The signature is written in black ink and is positioned above the typed name.

Martin R. Hoffmann

Inclosures

## RESOLUTION

WHEREAS, pursuant to the authority of Section 411 of Title 2 of the Canal Zone Code, at a special meeting on May 6, 1976, the Board of Directors adopted a Resolution proposing changes in the rates of tolls for the use of the Panama Canal.

WHEREAS, at the special meeting of the Board of Directors on May 6, 1976, pursuant to the provisions of the applicable regulations of the Panama Canal Company, four members of the Board of Directors were designated as a panel to conduct a public hearing on the proposed changes in rates of tolls; and

WHEREAS, notice of the proposed change was published in the Federal Register on May 14, 1976; and

WHEREAS, the notice of the proposed change in rates of tolls invited interested parties to participate in the rulemaking through submission of written data, views or arguments not later than July 16, 1976, and supplementary data, views or arguments at a public hearing to be held in New York, N.Y. on August 23, 1976; and

WHEREAS, in accordance with the notice and the provisions of the Company's rules establishing procedures for rulemaking, interested parties did submit written data, views and arguments in reference to the proposed change in rates of tolls; and

WHEREAS, the panel designated by the Board of Directors to conduct the hearing has submitted its report including the written data submitted by interested parties and a full transcript of the hearing, with copies of documents submitted at the hearing and the recommendations of the panel with respect to the proposed change in rates of tolls; and

WHEREAS, all relevant matters presented including an assessment of the environmental impact of the proposed Panama Canal tolls increase have been considered by the Board of Directors; and

WHEREAS, the Board having given careful consideration to the assessment of the environmental impact of the proposed Panama Canal tolls increase has determined that the proposed increase in rates of tolls would not significantly affect the quality of the human environment;

NOW, THEREFORE BE IT RESOLVED, That, in accordance with Sections 411 and 412 of Title 2 of the Canal Zone Code, the rates of tolls for use of the Panama Canal be changed, upon approval by the President, but not earlier than six months from May 14, 1976, by amendment of Section 133.1 of Title 35 of the Code of Federal Regulations to read as follows:

§ 133.1 Rates of toll.

The following rates of toll shall be paid by vessels using the Panama Canal:

(a) On merchant vessels, yachts, army and navy transports, colliers, hospital ships, and supply ships, when carrying passengers or cargo, \$1.29 per net vessel ton of 100 cubic feet each of actual earning capacity -- that is, the net tonnage determined in accordance with Part 135 of this chapter.

(b) On vessels in ballast without passengers or cargo, \$1.03 per net vessel ton.

(c) On other floating craft including warships, other than transports, colliers, hospital ships, and supply ships, \$.72 per ton of displacement.

BE IT FURTHER RESOLVED, That the Secretary of the Panama Canal Company cause notice of the proposed change in rates of tolls to be published in the Federal Register in the form prescribed by applicable laws and regulations.

BE IT FURTHER RESOLVED, That upon publication of the said notice of change in the rates of tolls in the Federal Register, the Stockholder of the Panama Canal Company transmit the change in said rates of tolls to the President for his approval.

APPROVED: