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APPENDIX I: Legislative Authority for Cuban Embargo

In 1961, the Congress authorized the President to impose "a total embargo on all trade between the U.S. and Cuba." The embargo was activated by Presidential Proclamation 3447 on February 7, 1962, which directed the Secretary of the Treasury to implement the ban on all transactions including imports. The Secretary of Commerce, acting under authority of the Export Control Act of 1949 (since replaced by the Export Administration Act of 1969) placed Cuba in the export control embargo Category Z. Both Secretaries were further directed to modify the embargo as required by the national interest. Thus, under existing legislation, the embargo could be altered or ended by unilateral action of the Executive Branch.

Commercial relations with Cuba are subject to all of the provisions of the Trade Act of 1974 as applied to non-market economy countries. Cuba will therefore be denied nondiscriminatory tariff (MFN) status, eligibility for Eximbank and Commodity Credit Corporation credits until it concludes a Bilateral Commercial Agreement with the U.S. that complies with the emigration provisions of Section 402 of the Trade Act.



APPENDIX II: Possible Commerce Department Approaches to
Commercial Relations with Cuba

Assuming the accomplishment of certain political steps, the Department of Commerce could take the following interim measures toward normalized commercial relations:

- U.S. passport travel restrictions are scheduled for routine review prior to March 15, 1977. Appropriate action to end the ban on travel could initiate a more positive environment for future developments as was accomplished with China in 1969. In conjunction with Department of State action on the passport regulations, Commerce could modify the appropriate export regulations that restrict travel. Action would also be required of the Department of the Treasury to remove the prohibition on expenditure of funds for travel to Cuba.
- The actual impact of such steps would probably be minimal since travel to Cuba is inherently limited by the requirement for a direct invitation from Cuba. Furthermore, regulations on travel have complicated, but have not prevented U.S. citizens from legally traveling to Cuba.
- Commerce could approve licenses for exports of U.S. origin medical supplies and food in return for re-activating the antihijacking accord, releasing U.S. citizen prisoners in Cuba and convening substantive talks on other bilateral problems, including compensation for expropriated assets, the status of Guantanamo naval base, and freer emigration.
- If discussions proceed satisfactorily, Commerce could approve licenses for exports by U.S. subsidiaries of foreign made goods that contain a larger portion of U.S. origin components than allow under current regulations (20% by value is the maximum U.S.-origin component currently allowed).
- At the appropriate time, Commerce could place Cuba in Category Y (with the U.S.S.R., China and most of the countries of Eastern Europe) and approve licenses for direct export of nonstrategic U.S.-origin products.

RELATIONSHIP BETWEEN COMMERCE AND THE BUSINESS
COMMUNITY IN ENERGY MATTERS

Background

Within the Department's overall mandate to safeguard and promote the economic well-being of the Country, energy matters have assumed a major position. Long-term problems such as assurance of supply to produce the Nation's goods and services are coupled with immediate goals to foster and promote energy efficiency in products and processes.

While market forces can, and do, make business more aware of the need for energy efficiency and of methods for achieving it; significant numbers of businessmen have yet to develop and implement programs which address the difficult problems of adequate long-term supplies of energy. Also, many have yet to address the immediate problems of the required actions to achieve energy efficiency.

Issue Which of the Department's business-related energy programs should be emphasized to inform business of the nature, duration and extent of the energy problem; and to encourage them to take action to reduce the wasteful use of energy while maintaining national economic well-being?

Analysis of Issue

While there are many Federal agencies involved in dealing with the energy problem, this duplication of effort is more apparent than real if consideration is given to the diverse audiences to which these agencies address themselves.

The Federal Energy Administration is given the role of "lead agency" on energy matters, overall, and the Energy Research and Development Administration is the leader in technical aspects of energy supply development and new technology matters.

Under these "umbrellas", various agencies have addressed the energy problem in dealings with their particular constituencies. Agriculture works closely with farmers; HUD in the housing area; DOT with transportation, for example.

Commerce has its own constituency...the business community, and for this audience, Commerce has the highest credibility and easiest access.

While the business community uses a large percentage of the Nation's energy, it also produces the jobs and economic impetus to our continued economic health. Efforts to alert businessmen to long-term problems of



supply and, at the same time, encourage them to develop meaningful programs to improve the efficiency of their products and processes are very appropriate actions to take within the over-all objective of the Department and the immediate goals of addressing our energy problems.

Given these considerations, it is felt that Commerce has a vital and unique role to play in business-related energy matters.

In fulfilling these responsibilities, we have felt that a prerequisite for action is an awareness of the need for action. This has been the initial premise of Departmental energy program planning. While most major companies have adequately responded to the forces acting upon them (present and anticipated), there is a significant number of businesses for which even today's energy costs have not been sufficient motivation.

Commerce programs have been in two basic areas: first, demonstration of the need for action...both today and in the future... and, second, what actions can be taken. While need for the former still remains a high priority, particularly for smaller organizations, increased emphasis needs to be placed on the latter.

New publications in the "how-to" area should be developed to supplement those now available and these new efforts should be directed to specific audiences and/or industrial processes. Increased funding is required to address the multitude of subjects of importance to business.

Refocusing our efforts to local levels is required so as to reach the large number of relatively small companies which are not part of major corporations.

Additional innovative methods of direct technology transfer, such as the "Energy Efficiency Sharing" program, need to be developed and implemented.

Departmental leadership of an ad-hoc, multi-agency, effort to improve the total Federal image in energy matters to businesses, the "Federal Energy Center" program, should be continued and additional resources are needed to continue this trade-show and industrial exhibition program.

Work with technology transfer in the international area should continue and be increased. This is a two-way flow of information on energy efficient products and processes between the U.S. and other countries.

A most important mechanism for achieving the Department's energy goals is the National Industrial Energy Council. Chaired by the Secretary and the only formal linkage between the Secretary and leaders of major companies, this advisory committee should be continued and a more definitive role developed.

Schedule

See Appendix I for time-frame and milestones for current business related energy programs.



APPENDIX I

<u>Program or Activity</u>	<u>Schedule</u>	<u>Comments or Notes</u>
Production, distribution and promotion of EPIC Series on Energy Management		
EPIC Supplement I	Printed and available	Needs additional publicity and promotion through trade associations, NIEC and OFO
Small Business Manual	Due in Oct.	Should be promoted heavily by associations and NIEC. Direct mailings to selected companies and through NFIB and NSBA. SBA can play part if willing
Energy Management Course	Due in Nov.	OFO has need for this and will use, but local groups and Chambers should be key market as well as associations
Energy Management Case Studies	Due in Dec.	Direct promotion to selected businesses and through OFO and associations
Furnaces, Ovens and Kilns	Due in Jan.	Same as above
Steam Systems	Due in Mar.	Same as above
Burner Adjustment Manual	Due in July	Same as above
Distribute and publicize Progress Reports and Updates on Voluntary Industrial Energy Conservation Program	Oct. et. seq.	An on-going job which needs additional emphasis from press, associations and local groups
Federal Energy Center/trade show activities	Oct, Nov, May	A comprehensive program which is multi-agency in composition and suitable for business education. Can be played up by media work
Revision of "Energy: Critical Choices Ahead" film and manual	Due Oct.	Distribution is already good on old version and can be channeled similarly. Needs better TV and press utilization
Revision of OEP brochures	Oct, Dec.	Should be emphasized through associations and local business.
Film on "Economics of Energy"	Sept.	First cut only. If film results it should be promoted heavily by trade associations and local business groups



National Industrial Energy Council Meetings	Sept, Dec Mar, June Sept.	Not a project, per se, but NIEC must Be more involved in development and promotion work in all areas of interest
Film on "How to Start an Energy Management Program"		Not within current resource allocation Projected cost of approximately \$25K. A much needed tool for OFO and associations
Space Conditioning Film		Not within current resources. Badly needed to address "how-to" area for large numbers of smaller businesses. Easy to promote by many channels
International Technology Transfer Program	March	An experimental tool which can be very effective not only in moving technology but in demonstrating Government concern and response.
Energy Information Workbook	Jan.	A narrowly focused but potentially very valuable tool for medium size companies. Probably best promoted by associations. Follow-up costs possibly high but must be determined by current tests.
Energy Efficiency Sharing	Current & on-going	Potentially one of the most effective tools for moving "how-to" programs. Very low cost as the delivery system is through private business only with modest OFO and OEP support.
Meetings, seminars, workshops Speakers program	Oct, et seq	Difficult to schedule because of our being responsive in most cases rather than initiative of the program. Limit is resources in OEP in both people and dollars.



BACKGROUND:

Commerce has been working to promote energy conservation by business and industry since before the Arab embargo of 1973-74. With the creation of the Federal Energy Office, and later the Federal Energy Administration, a Joint Voluntary Industrial Energy Conservation Program (VIECP) was established by agreement between DOC and FEA. Under that agreement, FEA provides policy direction and review while Commerce has responsibility for day-to-day operation of the program. The major thrust of the effort has been to work with trade and other associations to reach very broad groups of companies which make up the largest energy consuming industries. Contacts have been made with some 80 associations or groups and about 40 have provided DOC with data on a regular basis. In the latest report, now in preparation, the Btu's reported account for more than 65% of all industrial energy used. In this voluntary program, the federal government has suggested broad guidelines for the data submitted, while the exact data and energy efficiency measures have been individually designed by the associations to accommodate the realities of their own operations.

The Energy Policy and Conservation Act was passed by the Congress in December 1975 and signed by the President (P.L. 94-163). It contains provision for a mandatory industrial conservation reporting program. Under this legislation FEA is to develop energy conservation targets for the 10 most energy consuming industries (2-digit SIC level) as well as to identify the 50 most energy consuming companies in each of the 10 industries (within a bottom consumption limit of 1 trillion Btu's per year).

These companies are to report annually to FEA their progress toward the target. An exception to the companies mandatory report requirement can be made if the company participates in an "adequate voluntary reporting program." The legislative history makes it clear that this was done in order to provide for the continued existence of the present voluntary program managed by DOC-OEP.

ISSUE:

Should the joint FEA-Commerce program be continued with the respective agency responsibilities unchanged?

ANALYSIS:

To a large extent, the resolution of the issue will be influenced by the general views of the incoming Administration on energy

conservation, their emphasis on voluntary vs. mandatory programs and on government organizational concepts.

The VIECP has been successful (both in terms of increased participation and improved results) primarily because:

- o DOC emphasis has been on holding down or reducing energy costs,
- o DOC recognizes the great diversity among industrial corporations and their energy needs, and
- o Industry has had faith in DOC's advocacy role.

Because the voluntary program has, under EPCA become an alternative to mandatory reporting, FEA has used its requirements under law to report progress toward the targets to reshape the design of the voluntary reporting program to an extent that Department of Commerce regards as inappropriate. FEA has consulted closely with Department of Commerce in the development of implementing actions and rulings for EPCA as well as in deciding the criteria for an adequate voluntary reporting program. However, the criteria proposed by FEA is strictly prescriptive as to how energy efficiency is to be calculated, doing away with the flexibility which has characterized the program to date. We do not yet know how industry will respond to the changes which the criteria and other rulings will require in their program.

Future problems of this sort can be avoided by a recognition of the integrity of the voluntary program and a more specific delegation of authority from the Administrator of FEA to the Secretary of Commerce for conduct of the VIECP under Title III, Part D of P.L. 94-163. FEA would retain policy direction (i.e., setting of goals and objectives for the program) and the review of accomplishments, but the operational and procedural methods used to carry out the program would be Department of Commerce's clear and designated responsibility.

SCHEDULE:

We shall see industry response to implementation of Title III, D of P.L. 94-163 during the first four months following the first report required in 1977.



ENERGY EXPORT POLICIES AND LEVELS

The Department instituted formal export controls on energy products derived from petroleum and natural gas on December 13, 1973, at the height of the Arab oil embargo, to complement the then Federal Energy Office's domestic allocation controls. These controls were implemented in response to an energy situation which was at crisis proportions with a potential to grow even worse. Export quotas for petroleum products (e.g., gasoline, kerosene, heating oils, propane) were established to restrict exports to historical levels and destinations, thus conserving energy products for domestic use while maintaining our traditional trading relationships. The controls have remained essentially unchanged to date with additional products (e.g., naphtha, petroleum coke, synthetic and manufactured natural gas) being added to the list of controlled products.

Although the controls were originally imposed under the short supply authority of the Export Administration Act, four other statutes* have since been enacted virtually prohibiting exports of crude petroleum and natural gas, the feedstocks from which the controlled energy products are derived. These statutes also contain broad discretionary authority to control exports of additional energy products, petrochemical feedstocks, coal, and machinery and equipment related to the production and utilization of energy.

With export controls firmly in place and ready availability of foreign crude oil for import, the Federal Energy Administration, in recent months, has removed price controls and has lifted its domestic allocation controls over a number of petroleum energy products. Crude petroleum of domestic origin remains subject to price controls, however, and the FEA maintains standby allocation authority in the event of an actual or threatened interruption in our supply of foreign crude. Pursuant to the Natural Gas Act of 1938, the Federal Power Commission continues to control exports of natural gas.

Issue:

It is conceivable that the export control program, having been designed to react to the extreme shortages which were occurring during the period of embargo, does not correctly respond to the present domestic energy situation.

*The Trans-Alaska Pipeline Authorization Act of 1973, the Energy Policy and Conservation Act of 1975, the Naval Petroleum Reserves Production Act of 1976 and the Alaskan Natural Gas Transportation Act of 1976.

Analysis of Issue:

With no current shortages of energy products derived from petroleum, and only limited shortages threatened for products derived from natural gas, the need to continue the current export control program over all such products has been challenged. It is argued by some that removal of controls or increased flexibility in the control program would not result in shortages of these products, would encourage expansion of domestic refining capacity, would allow U.S. refineries increased operating and marketing flexibility resulting in increased efficiency, and would reduce unnecessary Government regulation of industry. It should be noted that refined petroleum products which are exported do not benefit from the FEA Entitlements Program or the lower price of domestic crude oil.

Proponents of the current control program, on the other hand, maintain that tight controls over exports of energy products are an essential element of national energy policy, and their removal could result in a surge in exports from their present miniscule level (only 0.3 percent of the domestically refined products under control were exported during the first quarter of 1976). It is further contended that removal of controls might have a domestic inflationary impact, might require reimposition of FEA's domestic allocation controls, and would leave us without a sufficiently tight export control program in place in the event of another interruption of foreign supplies.

Any action substantially altering the present system of export controls on energy products would have to be coordinated carefully with the Federal Energy Administration, and could evoke significant reactions from the Congress, consumer groups, and the public at large.

Schedule:

While the Energy Policy and Conservation Act mandates controls over the export of crude petroleum and natural gas until June 30, 1985, it is the Department's current practice to announce the continuation of controls and the establishment of export quotas on a quarterly basis, and it would seem logical to time any announcement significantly altering the present control system to coincide with the beginning of a quarter. Appropriate modifications to the current control program should be identified during the first quarter of 1977 and implemented by the second quarter.

MARITIME AFFAIRS

- o U.S./U.S.S.R. Maritime Agreement
- o Dry Bulk Carriers
- o Outlook for construction contracts
- o CDS rates
- o Seatrain Yard
- o Proposed regulations for CDS program
- o Cargo Preference
- o Virgin Islands - Jones Act
- o West Coast Oil Surplus and U.S. Flag Tankers
- o LNG Ship Construction
- o Maritime Administration claim for Breach of Contract by Hawaiian International Shipping Corporation
 - Pursuit of litigation regarding default on CDS contracts
- o Renewal of current ODS contracts
- o OD Subsidies - Examination of the system
- o Position of M&R, H&M, P&I subsidies
- o Maintenance and repairs on ships receiving ODS
- o Third Flag Competition
- o National Defense Policy
- o Disposition of the NS Savannah
- o Disposition of the SS United States

U.S./U.S.S.R. MARITIME AGREEMENT

Background: The present U.S./U.S.S.R. Maritime Agreement was signed on December 29, 1975, by the Secretary of Commerce for the U.S. and the Minister of the Merchant Marine for the Soviet Union. It is a six-year Agreement expiring December 31, 1981. The Assistant Secretary of Commerce for Maritime Affairs serves as the Designated Representative of the United States in implementing the Agreement. Major points of agreement are as follows:

- Mutual access of vessels to 40 ports in each country on 4-day notice, all other ports on 14 day request.
- National flag vessels of each have the opportunity to carry at least one-third of bilateral cargoes between the two countries.
- Freight rates for liner vessels for accounting purposes at conference rates.
- Freight rates to be paid to U.S. vessels in bulk trades, particularly grain trade, are an important provision of the Agreement. Agreement on these rates have been for shorter periods than the Maritime Agreement itself because of uncertainty as to changing conditions affecting the carriage of these cargoes.
- In 1975 an index method and debit/credit arrangements were devised for fixtures made during 1976, expiring at the end of that year. Under these arrangements the minimum freight rate payable to U.S.-flag vessels carrying grain to U.S.S.R. is \$16.00 per long ton. The base period for the index is August 1975 when the Gulf/Holland-Belgium rate was \$4.32/ton, and the corresponding Gulf/Black Sea rate was agreed to be \$13.00/ton.
- For any month that the derived rate is less than \$16.00 per ton, the amount of the differential multiplied by the number of tons involved constitutes a credit to the U.S.S.R. The accumulated credits are reduced by the same process when the derived freight rate rises above the minimum. When the accumulated credit is fully offset, the freight rate paid to U.S. vessels is the full rate derived by the index.
- The Agreement excludes the following vessels: fishing, warships or other carrying out state functions, and LNG carriers.

Issue: To assure one-third participation of U.S.-flag liner and bulk vessels in the shipment of all bilateral cargoes moving by sea between the United States and the Soviet Union, and to renegotiate freight rates for grain carriage after December 31, 1976.

Analysis of Issue: The major issues remaining under the present U.S./U.S.S.R. Maritime Agreement are resolution of undercarriage of U.S.-flag vessels in 1975 and 1976, and the negotiation of a new agreement on freight rates for grain carriage after December 31, 1976. From January 1 through October 31, 1976, U.S.-flag vessels have carried 2,641,840 tons amounting to 25.14 percent of the total grain cargoes shipped. During this same period U.S.-flag vessels have received the minimum freight rate of \$16.00 due to accumulated credits to the Soviet Union. The credits will have been completely worked off in December 1976, enabling six U.S.-flag vessels to receive approximately \$19.37 per ton for December loadings.

Schedule: Meetings with the Russian representatives are scheduled in Washington, D. C. for November 29 through December 7, 1976, to discuss both issues.

CONSTRUCTION OF DRY BULK CARRIERS

Background:

- The current U.S.-flag dry bulk fleet is in stark contrast to the size of that fleet in 1947. Our fleet then consisted of 68 ships, totaling about 660,000 deadweight tons, which represented one-fourth of the world's total dry bulk capacity. Since that time the U.S. dry bulk fleet has declined while the world fleet has grown to over 4300 dry bulk carriers, totaling more than 150 million deadweight tons.
- The U.S.-flag dry bulk fleet currently carries less than 2 percent of the U.S. dry bulk foreign trade. The vessels which carry these cargoes comprise only a small percentage of the total privately owned U.S.-flag oceangoing fleet. Of 517 U.S.-flag vessels reported to be active as of October 1, 1976, only 16 were bulk carriers, representing 431 thousand deadweight tons out of the total of 13,478 deadweight tons in the active fleet at that time.
- Dry bulk shipping trades are important to the U.S. and its future. The U.S. is currently dependent on foreign sources for many strategic raw materials. In 1974, U.S. iron ore imports exceeded 50 million tons, or approximately one-third of U.S. total iron ore requirements. In addition more than 90 percent of the nation's bauxite/alumina, chromate, manganese, and tin are imported. Waterborne transportation is the only practical way of importing most of these commodities.
- In 1975 the U.S. exported nearly 90 million tons, or more than 50 percent of its grain and soybean production, and U.S. coal exports amounted to 48 million tons. Fertilizer and wood each represent about 9 percent of U.S. dry bulk exports. These four commodities -- grain, coal, fertilizers and wood -- constitute more than 90 percent of this nation's dry bulk exports.
- Prior to the Merchant Marine Act of 1970, government operating subsidies were provided only to liner operators. However, the 1970 Act extended for the first time to the bulk operators all of the benefits of the subsidy program. Since then only two dry bulk carriers have been built with subsidy, and they were really combination ore-bulk-oil (OBO) vessels.

Issue: To promote the construction of more U.S.-flag dry bulk carriers with a capacity sufficient to carry a substantial percentage of U.S. dry bulk foreign trade. A "substantial share" has been defined to be at least 50%. The Merchant Marine Act of 1970 was aimed at bringing U.S.-flag participation in U.S. bulk trade up to approximately 15% by the end of the 1970s.

Analysis of Issue:

- ° A major conference on dry bulk shipping was held by the Maritime Administration July 12-14, 1976, in Hyannis, Massachusetts. This conference, called the "National Assessment and Planning Conference on U.S.-Flag Bulk Shipping," was attended by some 150 representatives of government, operators, shipbuilders, labor, shippers, investors and Congress.
- ° A major conclusion of the Conference was that the current system is still geared more to the liner segment of the maritime industry and does not necessarily serve the needs of the bulk segment.

It was indicated that there must be a more flexible approach for bulk carriers. Examples of possible solutions include allowing companies receiving operating subsidy to also operate foreign flag ships, without any "grandfather clause" phase-out period, and to further relax restrictions and limited permissions regarding foreign to foreign trading by the subsidized U.S.-flag carriers. Fewer restrictions on operators with construction loan and mortgage insurance were also suggested as well as provision for this financing based upon shorter term charters. Also, a new look at foreign cost computations, the basis for subsidy, was urged in order to see if they fully take into account all applicable costs.

Schedule: A meeting of senior Maritime Administration officials was held on November 16, 1976, at Gaithersburg, Maryland to discuss ways of implementing some of the recommendations suggested at the recent Hyannis Conference. The Maritime Administration intends to continue to follow-up on this dry bulk issue and will take action to implement those proposals that appear most promising.

OUTLOOK FOR SHIP CONSTRUCTION CONTRACTS

Background: Sixty-four new ships have been contracted for under the Merchant Marine Act of 1970. Fifty-nine of these were ordered within the first four years. Four have been contracted within the past four months. However, with the collapse of the tanker market and the general worldwide economic setback, there were subsidy contracts for only three new ships in FY 1975 and contracts for four previously ordered ships were cancelled. Many shipyards are now experiencing a considerable drop in the backlog of contracts. Several have reached a point where employee layoffs are necessary.

Issue: There has been a substantial increase in the demand for new ship construction over the last year. Although construction of bulk ships has shown little sign of resurgence, the demand for liner and specialized ship types is increasing. This will help alleviate a worsening employment situation.

Analysis of Issue:

- The renewal of demand is the result of interest in new construction from three distinct areas. The largest component is liquefied natural gas (LNG) carriers. MarAd currently has applications for the construction of five LNG vessels with subsidy and financing guarantees, in addition to three for financing guarantees without subsidy. Applications for five other LNG's are expected within the year. The total construction price for these thirteen ships will be close to \$2 billion.
- Another growing source of new construction is container-ships, roll-on/roll-off (Ro/Ro) ships, and lighter aboard ships (LASH) for the liner industry. Many companies are operating ships which are reaching the limit of their economic usefulness. Those companies receiving operating-differential subsidies (ODS) are required to replace these ships as a condition of their contracts. Some non-subsidized operators are also expressing the desire to modernize their fleet with U.S.-built ships.
- The third class of new construction includes vessels of specialized design. These include integrated tug-barge units, heavy lift ships, and very small break-bulk (cargo) ships. These represent ship types new to the U.S. fleet.
- In all, active ship construction applications consist of 41 new ships and ~~nine ships to be converted or reconstructed.~~ These would involve subsidy of close to \$1 billion. A

detailed description of the ships contained in the budget request to OMB are discussed in Appendix A.

- ° U.S. shipyards need new contracts soon to maintain employment levels. Of 14 major U.S. shipyards, four, which provide 30,000 jobs, need contracts immediately while six others require contracts before the end of 1977. They are:

Bethlehem Steel; Sparrows Point, Md. - immediate
 Litton/Ingalls; Pascagoula, Miss. - immediate
 Maryland Shipbuilding & Drydock; Baltimore, Md. - immediate
 FMC; Portland, Oregon - immediate
 Seatrain; Brooklyn, N.Y. - April 1977
 Sun Shipbuilding and Drydock; Chester, Pa. - April 1977
 Avondale; New Orleans, La. - April 1977
 Newport News; Newport News, Va. - July 1977
 General Dynamics; Quincy, Mass. - December 1977
 Lockheed; Seattle, Wash. - December 1977

Schedule: The 1977 program for ship construction subsidy includes contracting 14 ships for \$256 million. Two container-ships have already been contracted for a subsidy of \$43 million. Looking to 1978, the requested program level is \$242 million for the construction of seven ships.

The resources available for the 1977 program are as follows:

FY 1977 Appropriation	...
Carry forward from FY 1976-T.O.	\$348 million
Anticipated Deobligation	15 million
Planned Deferral to 1978	-107 million
FY 1977 Program Level	256 million
Current Availability	212 million

CURRENT SHIP CONSTRUCTION PROJECTS

- o 1977 funds for construction-differential subsidy is projected to include the following projects.
 - American Export Lines has been conditionally awarded subsidy for the construction of two containerships to be built at Bath Iron Works, Bath, Maine, as a replacement obligation on their current operating-differential subsidies (ODS) contract.
 - Three LNG vessels will be funded for LNG projects currently being evaluated by the Federal Power Commission. The projects are estimated to include ten ships which are expected to be contracted for subsidy during 1977 through 1978. Lachmar (the Panhandle Eastern Project) is currently under consideration for the award of CDS on two vessels to carry LNG from Algeria to the Gulf Coast. This company is a partnership of subsidiaries of Panhandle Eastern Pipeline Company, Moore-McCormack Bulk Transport and General Dynamics Corporation. Zapata (the Pacific Lighting Project) has applied for CDS on three vessels for the carriage of LNG from Indonesia to the West Coast. El Paso plans to construct as many as five ships for the transport of LNG from Algeria to the United States. The project that is nearest to contracting is Lachmar, with Zapata following closely behind during 1977.
 - Waterman Steamship Corporation is required to contract for the construction of four LASH vessels by mid-April 1977 to be used in the trade routes from the U.S. to the Far East.
 - American Heavy Lift Shipping Company intends to construct two heavy lift ships, relatively small vessels equipped to handle massive pieces of cargo without a developed port. These will be the first vessels of this type in the U.S.-flag fleet.
 - American Atlantic Shipping has submitted an application for three small breakbulk (cargo) ships for specialized trade in the Caribbean.
- o The 1978 program includes the following projects:
 - Three additional LNG's from the projects described above.

- Sea-Land Services, Inc., not previously an applicant in CDS construction, may contract for two or more containerships with CDS to replace some of their 38 war-built vessels that have been converted to containerships.
- Prudential Lines, Inc. is expected to contract for two ships as a replacement obligation on their current ODS contract.

CONSTRUCTION DIFFERENTIAL SUBSIDY RATES

Background:

- Between 1960 and 1970 CDS rates were in the range 50-55 percent.
- The Merchant Marine Act of 1970 incorporated declining CDS guideline rates (from 45 percent in FY 1971 to 35 percent in FY 1976) for negotiated contracting (the ceiling remained at 50 percent for contracts involving competitive bidding).
- During this period, investment of over a billion dollars in U.S. shipyards materially increased their efficiency. Furthermore, inflation in foreign countries was considerably higher than in this country. This reduced the differential in cost between American and foreign ships. In addition, there were devaluations of the dollar relative to foreign currencies in 1971 and 1973. This had the effect of making foreign goods, including ships, more expensive on a dollar basis. As a result, CDS rates declined progressively from close to 55 percent to 35 percent for ships contracted for in FY 1975.
- During the period 1970 through 1974 world shipbuilding capacity nearly doubled to meet the then existing demand for ships.
- The oil boycott of 1973/1974 and its related price increases reduced the demand for shipping and plunged the world shipbuilding industry into a deep depression. As a result, foreign ship prices (particularly in Japan) declined very significantly and the differential at the present time for most types of vessels is in the range of 45-50 percent.
- The CDS rate for LNG vessels is lower than for other ship types. Currently the rate for LNG vessels is in the 25-30 percent range.

Issue: Future levels of CDS rates.

Analysis of Issue:

- It is difficult to forecast foreign shipbuilding prices because they are affected by the supply/demand situation in world shipbuilding, the policies of foreign governments and changes in the exchange rate.

- The outlook for the world shipbuilding industry is not good. There is tremendous excess shipbuilding capacity and price competition remains fierce. This situation is expected to continue until the end of the decade.
- There could be some upward movement of foreign ship prices before the end of the decade if, as is expected, the Japanese government takes steps to reduce the effective size of the Japanese shipbuilding industry. This would, in turn, ameliorate the upward pressure on U.S. CDS rates.

Schedule: This issue is not amenable to discretionary scheduling.

THE SITUATION AT THE SEATRRAIN SHIPYARD,
BROOKLYN, NEW YORK

Background:

- o In the early 1960's the Department of Defense closed the New York Naval Shipyard and the property was turned over to New York City. In the late 1960's Seatrain Lines established the Seatrain Shipbuilding Company, leasing a portion of the old New York Naval Shipyard, and started construction of large tankers. This shipyard was supported with the assistance of a loan of \$25 million from the Economic Development Administration (EDA) in 1973.
- o The resumption of ship construction activity at the shipyard was considered highly beneficial due to the employment and economic benefits it would generate in the area. The shipyard has achieved an exceptionally high level of minority employment and at present, in excess of 80 percent of the workforce consists of minorities proportionately distributed throughout all skill categories.
- o Although initially these tankers were to be built without any Maritime Administration financial assistance, the government has become involved financially in the operation of the shipyard.

Issue: To assure completion of those ships in which the government has an interest which are under construction at the Seatrain Shipbuilding Company.

Analysis of the Issue:

- o The government has become increasingly involved with the Seatrain Shipyard in an attempt to sustain its operations. Initially only Title XI mortgage insurance was to be provided upon vessel completion. As a second step, Title XI guarantees were made available during the construction of the vessels, and finally CDS was agreed to for the ships. Seatrain Lines has guaranteed the performance of the shipyard.

- o The first of the ships was completed at the end of 1973 and the second at the end of 1974. These two vessels were sold and they are now under long-term charter. In both cases they are covered by Maritime Administration Title XI mortgage loans.
- o In early 1975 the shipyard faced a financial crisis and was closed. After several months the Department of Commerce provided additional funds for the shipyard through a guaranteed loan of \$40 million, and the yard reopened at the end of June 1975.
- o Since that time construction has proceeded on the two remaining tankers, and several small contracts were undertaken by the shipyard and completed. In September 1976 contracts were signed which provide for the construction of two barges with CDS and Title XI assistance with delivery scheduled in late 1977 and early 1978.

At this time (November 1, 1976) the shipyard has used most of the money provided by the EDA loan, and only \$6.4 million remains available. This is in general accordance with the shipyard's plan.

Schedule: The Maritime Administration staff will continue to closely monitor the events at the shipyard and insist on performance by the shipbuilder in accordance with the contracts that represent the shipyard's current plans.



PROPOSED CONSTRUCTION-DIFFERENTIAL SUBSIDY REGULATIONS

Background: The Maritime Subsidy Board (the Board) published in the Federal Register a notice of proposed rulemaking to revise Part 251 of Title 46, Code of Federal Regulations. The proposed revision provides comprehensive regulations which apply to implementation by the Maritime Administration of the Construction-Differential Subsidy (CDS) program, authorized by Title V of the Merchant Marine Act, 1936, as amended (the Act), 46 U.S.C. 1151 - 1161. Title V was amended significantly by the Merchant Marine Act of 1970, necessitating revision of the existing regulations.

Although the CDS program is exempt from the notice requirements of 5 U.S.C. 553, the regulations were published in proposed form, and interested persons were invited to submit comments. These comments have been considered, and the regulations have been prepared in final form, except for the resolution of one issue.

Issue: Where a vessel that has been constructed with the assistance of CDS for use in the foreign commerce of the United States is withdrawn from such service, and is operated in the domestic trade, thus requiring a repayment of CDS by the owner pursuant to section 506 of the Act, should interest be required on such repayment, and under what circumstances?

Analysis of Issue: A legal opinion is being prepared.

Schedule: The regulations will be published in final form upon completion the legal opinion and review of its implications under various factual situations. Final publication is anticipated in 3 to 6 months.

CARGO PREFERENCE

Background:

- There has been strong support from maritime unions and the shipbuilding industry for cargo preference legislation. Such legislation would require that some portion of U.S. foreign trade would be carried on U.S.-flag vessels. Although there has been mention of cargo preference for all commodities, legislation proposed to date has been limited to oil, and it is expected that future proposals will also focus on oil. These proposals differ from existing cargo preference legislation in that current statutes relate only to government-generated cargoes.
- Advocates of cargo preference legislation contend preference legislation is the only means to ensure a continuing flow of cargo for U.S. vessels. This continuing flow of cargo is considered necessary to ensure the construction of U.S.-flag vessels.
- U.S.-flag carriage of the U.S. foreign trade varies considerably by type of vessel:

Percent U.S. Carriage of U.S. Oceanborne Foreign Trade (1975)

<u>Vessel Type</u>	<u>U.S. % by Tonnage</u>	<u>U.S. % by Value</u>
Liner	30.3	31.2
Non-liner (dry bulk)	1.4	2.7
Tanker	4.6	5.1
Total - all types	5.1	17.5

- Cargo preference legislation for oil imports was passed by Congress in 1974. This legislation, which would have ultimately required 30 percent of U.S. oil imports to be carried by U.S.-flag tankers, was vetoed by the President on the grounds that it
 - was inflationary;
 - would cut into shipbuilding capacity available to meet Navy requirements;
 - would serve as a precedent to other countries to increase protection of their industries; and
 - would violate a large number of treaties of Friendship, Commerce and Navigation (FCN).

- ° Bills similar to that passed in 1974 were introduced in the 94th Congress but were not acted upon.

Issue: The issue is whether cargo preference legislation is (1) necessary to the development and maintenance of a U.S.-flag merchant marine and (2) if cargo preference is the most appropriate means to develop a merchant fleet.

Analysis of Issue:

- ° The cargo preference proposals relating to oil imports were strengthened by the lay-up of substantial numbers of U.S.-flag tankers in 1974. The number of tankers in lay-up is now reduced somewhat partly because of carriage of grain to the Soviet Union. Further reductions in the lay-up of U.S. tankers are expected to occur with the opening of the Alaska pipeline.
- ° Cargo preference legislation would clearly stimulate the construction of U.S.-flag vessels. Besides the generation of shipboard jobs and shipbuilding jobs in areas of generally high unemployment, it would decrease payments to foreigners for transportation charges, and decrease U.S. reliance on foreign-flag bulk ships.
- ° On the other hand, the economic logic of building tankers when great numbers of tankers are available at depressed prices in the world market is questionable. Cargo preference legislation would have an inflationary impact and, if applied to U.S. exports, could increase the cost of U.S. products in the world market thereby reducing export levels.
- ° The cost of oil cargo preference legislation would vary as a function of oil import levels. Calculations of the incremental cost of oil cargo preference which would have resulted from approval of the 1974 bill ranged from \$300 to \$500 million per year. This would have added about a tenth of a cent to the cost of a gallon of gasoline sold in the United States. Depending on the level of oil imports, these figures could be higher today due to the current large differential between depressed foreign transportation rates and U.S. operating costs.

Schedule: Uncertain

EXCLUSION OF VIRGIN ISLANDS FROM THE JONES ACT

Background:

- Section 27 of the Merchant Marine Act of 1920, known as Jones Act, specifies that all cargoes carried by water between points in the U.S., including territories and possessions, be transported on vessels built and registered in the U.S.
- The Virgin Islands were excluded from this requirement until such time as adequate U.S.-flag service developed. Initially, this exclusion required an annual Presidential Proclamation. In 1936, however, the law was amended so that the President would not have to issue a yearly proclamation. As a result, the Virgin Islands are exempt from the coastwise laws either until those laws are changed or until the President declares that such laws would extend to the Virgin Islands and fixes a date for this to go into effect.

Issue: Whether or not to support legislation which would eliminate the present Jones Act exemption concerning the Virgin Islands oil trade. This would create more employment opportunities for U.S.-flag tankers -- estimated at approximately 25 U.S.-flag vessels of 30,000 DWT totaling 750,000 deadweight tons in tanker capacity.

Analysis of Issue:

- It is believed from the language of the Act as well as its legislative history, that it was never contemplated that the Virgin Islands would forever be excluded from the provisions of the Jones Act -- particularly after U.S.-flag vessels became available for the trade.
- We now have adequate U.S.-flag tanker capacity available to serve this trade. In fact, as of November 1, 1976, there were 25 U.S.-flag tankers totaling 1.4 million deadweight tons, idled or in lay-up status. Of this total, there are approximately 20 ships aggregating more than 800,000 deadweight tons of the type suitable to serve the Virgin Islands trade. In addition, there are on order or under construction tankers totaling over a million deadweight tons that could also service the trade in question.

- ° Virtually every coastal nation in the world has cabotage laws in some form to protect national interests. It is believed that Jones Act application to the Virgin Islands oil export trade would represent a logical extension of U.S. cabotage that now applies to our coastal and intercoastal trades and to domestic trades involving Alaska, Puerto Rico, and Hawaii.

Schedule:

- ° In the last Senate sessions, S. 2422 was introduced and hearings were held. That bill would amend the Merchant Marine Act, 1920, to provide that the coast-wise laws shall extend to the Virgin Islands with respect to the transportation of crude oil, residual fuel oil, and refined petroleum products. This would provide that those commodities moving by water, or by land and water between the Virgin Islands and points within the United States and its territories, be carried exclusively in vessels which are built and registered in the United States and are owned, operated and manned by United States citizens.
- ° A number of witnesses testified, including a MarAd witness who testified in favor of the bill, and it was reported out by the Senate Commerce Committee. However, it was not acted upon by the Senate.
- ° A companion bill, H.R. 14463, was introduced in the House. No action was taken on the House bill pending Senate action.
- ° It is likely that the bill will be reintroduced in the new session of Congress.

WEST COAST OIL SURPLUS
AND U.S. FLAG TANKERS

Background:

- Alaska oil pipeline completion is expected in mid-1977. By mid-1978 production of Alaskan crude oil is expected to exceed West Coast demand by some 500 thousand barrels per day. Several pipeline distribution alternatives have been proposed to transport the Alaskan crude to domestic refineries and markets located in the central U.S. However, it is not likely that any of these pipeline systems can be completed by mid-1978 due to licensing requirements, right of way permission and environmental questions which must be resolved before commencement of pipeline construction. Therefore, over the near term it will be necessary to employ tankers to transport the anticipated surplus to the Gulf Coast via the Panama Canal.
- The statute which authorized the Alaska pipeline prohibited export of the Alaskan oil. The President, subject to veto by Congress, could make use of emergency powers to allow export of crude. Barring a decision to permit export, oil movement will be in the U.S. domestic trade restricted by the Jones Act to U.S.-flag tankers.

Issue: Arrange for movement of Alaskan crude oil surplus to the U.S. Gulf Coast or as a secondary alternative, to the U.S. East Coast, for refining until environmental approval is granted to allow pipeline movement to the Mid-continent.

Analysis of Issue:

◦ There will be a surge in demand for U.S.-flag tankers beginning in 1977 third quarter to accommodate Alaskan crude. The Jones Act fleet will fall short of the capacity needed. Requests to pay back construction subsidy, or prorated pay back of CDS, in exchange for permission to operate in the Alaskan trade (as provided by Section 506 of the 1970 Merchant Marine Act), can be expected. By 1980 one or more West Coast to Midwest pipelines should be operational, reducing significantly the demand for U.S.-flag tankers. Nevertheless, a high demand for U.S.-flag tankers, relative to today, will remain for the transportation of Alaskan crude to West Coast refineries and to the West Coast terminal site chosen for pipeline hookup to the mid-continent.

- Because of limitations on the size vessels which can transit the Panama Canal, the most economical tanker transport plan involving U.S.-flag tankers is as follows:
 - Pick up crude in very large tankers at Valdez, Alaska.
 - Transfer crude to other large tankers employed as floating storage tanks in the Gulf of Panama.
 - Transfer crude from floating storage tanks to tankers capable of transiting the Canal.
 - Discharge Alaskan crude at various ports in Texas.
- Direct shipment from Valdez to Texas in Canal transitable tankers is less attractive economically than the above plan. The use of very large crude carriers (VLCCs) on the long Valdez to Panama leg provides operational economies of scale.
- Possible action - CDS tankers: CDS ships cannot normally operate in domestic trade. However, a CDS vessel can participate in domestic service for a period not to exceed six months in any year, if a proportion of the subsidy, equivalent to the time engaged in domestic service, is repaid (Section 506 of the Merchant Marine Act of 1936) and approval of the Maritime Subsidy Board (MSB) is granted.
 - Number of vessels involved - potential CDS payback: Analysis shows a deficit of only 280,000 DWT of large, Jones Act tankers in 1978. This implies that only 1 or 2 CDS vessels will be required over the short run. However, unaccounted for delays, provision of a safety margin, cost advantages to using CDS VLCCs and the flexibility provided by PANAMAX tankers (the largest capacity tankers capable of transiting the Canal--9 of which were built with CDS) are factors that may lead to a greater number of applications seeking prorated CDS paybacks in exchange for permission to operate in the Alaskan trade.

Schedule:

- There will be a surge in demand for U.S.-flag tankers beginning in 1977, third quarter, to accommodate Alaskan crude. The Jones Act fleet will most likely fall slightly short of the capacity needed. Several, perhaps many, requests to pay back construction subsidy, or prorated payback of CDS, in exchange for permission to operate in the Alaskan trade can be expected.

- One company has applied for a Federal loan guarantee (Title XI) to finance payback of construction subsidy. MarAd, to date, has not issued a policy statement on the payback issue.
- Decision on the best distribution system for handling the expected West Coast oil surplus is still awaiting Presidential action.
- A policy statement has already been issued (by FEA Administrator Zarb) that none of the surplus would go to Japan under any of the alternatives being considered.
- By 1980 one or more West Coast to Midwest pipelines should be operational, reducing significantly the demand for U.S.-flag tankers.



LNG SHIP CONSTRUCTION

Background:

- ° Demand for LNG has resulted from shortage of gas supplies in continental U.S.
 - Reserves to production ratio falling constantly
 - Shortfall of gas for 1976-1977 projected to be 100-400 billion cubic feet
 - Projections of sharp curtailments in the future
- ° LNG carriers which are required to carry LNG by sea represent a significant portion of overall U.S. orders for merchant ships. U.S. LNG ship construction program consists of:
 - Nine carriers under construction with CDS contracts and Title XI mortgage guarantees to bring foreign LNG to U.S.
 - Seven ships under construction with Title XI financing pending for foreign to foreign shipment of LNG
 - Two ships under contract, potentially for use in U.S. domestic trade, with no request for government assistance to date.
 - Orders anticipated soon for ten more carriers to bring LNG imports to U.S.
 - Orders anticipated for at least 11 carriers to bring Alaskan LNG to "lower 48" if El Paso - Alaska project approved.
- ° Two sources of LNG are foreign imports and LNG from Alaska.
 - Concern about increasing dependence on foreign LNG resulted in Inter-Agency Task Force on LNG set up by the Energy Resources Council to analyze the LNG import situation and to make policy recommendations. ERC announced Presidential policy on LNG in August 1976:
 - No more than one trillion cubic feet (Tcf) per year of LNG from any one source (firm restriction).
 - General guideline of two Tcf/year from all foreign sources (this guideline to be flexible; may be changed should national policy dictate).
 - Projects have already been approved totalling 380 billion cubic feet per year from Algeria which involve construction of six U.S. carriers.

- Projects actively before the Federal Power Commission total 994 billion cubic feet (Bcf) per year.
 - Indonesia: U.S. project of 201 Bcf/year (six U.S. ships to be built).
 - Algeria: U.S. projects of 793 Bcf/year (between 10 and 13 U.S. vessels required).
- There are two major competing projects to bring to "lower 48" Alaskan natural gas - reserves estimated at 26 trillion cubic feet - presently before the Federal Power Commission.
 - The Arctic Gas proposal would build pipeline through Alaska and Canada to the U.S. Midwest and could deliver 2.34 billion cubic feet per day (bcf/day) at an estimated capital cost of \$8.1 billion (1975 dollars). Operating costs are estimated to be \$89 million per year.
 - The El Paso - Alaska LNG Project would deliver gas to port of Valdez where it would be converted to LNG, then shipped by tanker to southern California. This alternative could deliver 2.7 bcf/day of gas at a capital cost of \$7 billion (1975 dollars). Operating costs are estimated to be \$149 million per year. This would be a wholly domestic project, with increased security of supply one of the expected benefits, and would involve the construction of at least 11 LNG carriers in U.S. shipyards, resulting in about 36,000 man-years of employment in U.S. shipyards.
- o Legislation (P.L. 94586, signed in October 1976) was passed to expedite the delivery of Alaskan gas. It requires a Federal Power Commission decision on the competing projects by May 1, 1977, and requires the President to make a final decision on the project by September 1, 1977. Unless Congress vetoes the decision within 60 days, the project will go forward, and no court contest is allowed except on constitutional grounds.

Issue: The maintenance of an LNG carrier construction program that is consistent with national energy policy.

Analysis of Issue: Under the Presidential policy announced by the Energy Resources Council in August 1976, Algerian import proposals are already in excess of the one Tcf/year limit which implies disapproval of at least one project. This should not affect construction of any U.S. vessels already on order - at present nine are being built for U.S. LNG importation. However, the two Tcf/year guideline could affect the long range ship construction program if the two Tcf/year restriction is maintained, because projects approved and under FPC consideration

total 1.4 Tcf/year of LNG. There would be no impact in the near-term (next five years), as very few ships for these projects are yet under construction.

Should these guidelines be withdrawn, and the maximum number of LNG carriers be constructed under the programs above for transport of Indonesian, Algerian, and Alaskan natural gas, there would be long-term prospects for the construction of 36 LNG ships.

Schedule: The schedule for LNG ship construction will be determined by a number of factors, such as proposed national energy policies, the choice of project to bring Alaskan gas to the "lower 48" states, and the future availability of natural gas from sources other than Indonesia, Algeria, and Alaska.

MARITIME ADMINISTRATION CLAIM
FOR BREACH OF CONTRACT BY
HAWAIIAN INTERNATIONAL SHIPPING CORPORATION

Background: On June 7, 1974, the Maritime Subsidy Board (Board) approved an application by Hawaiian International Shipping Corporation (HISC) for a construction-differential subsidy (CDS) and the Maritime Administrator approved in principle the granting of financing guarantees under Title XI of the Merchant Marine Act, 1936, as amended, to aid in the construction of three 89,000 DWT oil tankers. Construction was to take place at the Todd Shipyards Corporation (Todd) facility of San Pedro, California at a fixed price of \$38,847,563 per tanker of which amount \$13,069,000 per tanker was to be provided by the Board as CDS and payment for National Defense Features. A series of contracts were thereupon entered on June 12, 1974, between HISC, Todd, and the Board.

Todd began performance under the contracts almost immediately and submitted routine progress billings to HISC and the Board. Although the Board had paid its full share of the CDS progress billings, by the early part of 1975 it became clear that HISC did not intend to pursue the project and would not make required progress payments. As required by the contracts, Todd served HISC with a notice of failure to make progress payments on January 16, 1975. Since HISC did not commence payment, Todd gave notice of default on February 27, 1975 and requested that the Board take the action required by Todd's contract with the Board. Under the contracts, the Board was required to elect either to assume all payments required by HISC and complete the tankers for the Government's account, or to terminate all contract work. Due to the severe recession in the oil transportation industry and a potential expenditure of over \$116 million, an election to complete the tankers would not have been justified. On March 7, 1975, the Board gave notice of optional termination to Todd and HISC. Having elected to optionally terminate the contract work, the Board became obligated to pay Todd's termination expenses. Although the exact amount has not yet been determined, it is expected to be in the neighborhood of \$10 million.

Since the cause of the optional termination was the contract default by HISC due to its failure to make required contract payments, HISC is liable to the Board for breach of contract. By letter of July 16, 1975, the Board so notified HISC and demanded payment.

Issues: The central issue is whether HISC's uncontested failure to make required progress payments constitutes a breach of contract for which the Board is entitled to recover the termination expenses which the Board has become liable to pay Todd. HISC has somewhat obscured the issue by alleging that Todd was in default and that the Board wrongfully terminated HISC for default. To HISC's view, it is not obligated to pay any termination expenses and, moreover, the Board is obligated to pay HISC's termination expenses (approximately \$1 million).

Analysis of Issue: The Maritime Administration has taken the position that HISC is liable to the Board for the full extent of the Board's damages and, that HISC is not entitled to recoupment of its expenses from the Board.

By letter of March 28, 1975, the Justice Department was requested to initiate a breach of contract action against HISC. Prior to any action being formally initiated, however, HISC requested that a law suit not be commenced and that the Secretary of Commerce undertake an informal departmental review of the entire matter. HISC's request was granted and no lawsuit was initiated. On November 4, 1975, during the pendency of the Secretary's review, HISC attempted to place the entire termination action in dispute under the contracts' Disputes Clause and claimed nearly \$1 million against the Board for its termination expenses. In view of HISC's action, the Secretary suspended the informal departmental review on November 24, 1975. It was unclear, however, whether this action also released MarAd to institute suit.

HISC continued to attempt to establish its entitlement to a hearing under the Disputes Clause and payment for its termination expenses. By action of May 25, 1976, the Board established a procedure whereby HISC and MarAd staff counsel would submit memoranda of law on whether the Board has jurisdiction under the Disputes Clause to resolve issues of the Board's optional termination and the bases therefore, and whether HISC is entitled to recover its termination expenses under the contracts.

Schedule: Briefs have been submitted to the Board by all parties. The Board's decision is anticipated in early 1977. Should the Board determine that a hearing under the disputes clause is inappropriate, MarAd will seek to immediately initiate action in the district court for HISC's breach of contract.

RENEWAL OF CURRENT ODS CONTRACTS

Background: There are currently 25 operators (10 liner and 15 bulk) who hold 27 ODS agreements with MarAd. Nineteen of those agreements are not due to expire until 1991 at the earliest. The remaining eight will terminate within the period 1976-1979. The following list indicates the eight contracts due to expire, the number of ships covered by each contract, and the contract expiration date. The first seven of these involve liner operators and the last a bulk operator.

<u>Operator and Contract No.</u>	<u>Number Subsidized Ships</u>	<u>Contract Expiration Date</u>
American Export Lines FMB-87	24	12/31/79
American President Lines, Ltd. FMB-50	13	12/31/76
American President Lines, Ltd. for the American Mail Line Div. FMB-76	10	12/31/78
Jykes Bros. Steamship Co., Inc. FMB-59	41	12/31/77
Pacific Far East Lines, Inc. FMB-81	6	12/31/78
Prudential Lines, Inc. FMB-49	18	12/31/77
States Steamship Corporation FMB-62	11	12/31/77
Ecological Shipping Corp. MA/MSB-275	1	6/17/78

American President Lines has applied for a two-year interim contract to expire in 1978, which will coincide with the termination of the American Mail Lines division's contract. This application is currently being administratively processed. American President Lines also has filed an application for a twenty-year contract to become effective in 1979. This application was referred for hearing and the Administrative Law Judge's decision in that hearing has been certified to the Board for its final decision.

With the exception of American Export Lines, each of the other six liner operators listed above has filed an application for a new twenty-year contract. Ecological Shipping Corporation's existing contract is for a period of five years, and the operator has not yet filed an application for renewal of the contract.

Issue: The Maritime Administration's annual appropriations for Operating-differential subsidy will be largely determined by the renewal or non-renewal of current ODS contracts.

Analysis of Issue: All the applications for contract renewal, with the exception of American President Lines, as discussed above, have been referred for Maritime Subsidy Board hearings pursuant to Section 605(c) of the Merchant Marine Act, 1936, as amended. These hearings are currently in process. Each application will be processed administratively depending on the outcome of the hearing and any final decision made by the Board.

Schedule: Renewal of contracts is to take place prior to the contract expiration date. Therefore, of the eight ODS agreements involved, at the latest one will be renewed in the first quarter of FY 1977, three in the first quarter of FY 1978, one in the third quarter of FY 1978, two in the first quarter of FY 1979, and one in the first quarter of FY 1980.

OPERATING-DIFFERENTIAL SUBSIDIES:
EXAMINATION OF THE SYSTEM

Background:

- The objective of the Operating-differential subsidy (ODS) program is to provide aid which will permit the operation of U.S.-flag vessels on the essential trade routes of the United States. The subsidy represents the difference between the U.S. and foreign cost for certain items of expense.
- The number of ships receiving operating subsidy has declined over the past five years, but the productivity of the subsidized fleet has increased with the introduction of larger and more efficient ships.
- Funding for the program has increased. Despite the fact that foreign costs are escalating more rapidly than U.S. costs, the annual subsidy cost is expected to continue to increase. There are pending applications for subsidy of additional ship lines and services which, if approved, will entail additional costs.
- OMB has indicated concern regarding the escalation of ODS funding requirements.

Issue: To identify feasible changes to the ODS program through which the rate of cost increase may be limited without adverse effect on the numbers of U.S.-flag ships available to meet U.S. national security needs.

Analysis of Issue:

- Questions have been raised as to the controllability of the ODS program and the appropriateness of the subsidy approach under current market conditions.
- A study has been undertaken to resolve these questions. This study will examine in detail the ODS system, placing particular emphasis on the essential trade route concept.
- The methodology to be employed in the examination of this issue will be varied and involve comprehensive analysis of many areas related to the ODS program. For example, regression-analysis from historical data plus analysis of economic trends to determine probable future costs; analyses of shipping operations by route, carrier, and type of service to identify potential

changes in constraints on subsidized carriers (e.g., required maximum and minimum sailings, ship assignments to routes); plus market potentials that might yield ODS fund savings without unacceptable erosion of service or shipping capability.

Schedule: The study is to be completed in February 1977.

POSITION ON ODS PAYMENTS FOR M&R, H&M,
AND P&I SUBSIDIES

Background: Title VI, Section 603, Merchant Marine Act of 1936, as amended, authorizes the Secretary of Commerce to pay an Operating-differential subsidy (ODS) to approved applicants for such subsidy. In general, this program seeks to equalize the disparity in operating costs between American ships and their foreign competitors. The law provides that the parties may agree to a lesser amount of subsidy than the actual cost differentials. The following three ODS subsidy items are subject to elimination:

- Maintenance and repair (M&R) costs incurred by operators include drydocking and underwater repairs, boiler, machinery, hull and deck, electrical repairs, and interior and exterior painting. Generally, to be eligible for subsidy, the repair costs must not be otherwise compensated for by insurance, must not be incurred in foreign shipyards, and must be deemed "fair and reasonable" by the Maritime Administration. The average M&R subsidy rate for 1975 was 25.71 percent. In 1975, subsidy accruals for M&R totalled \$13.3 million, 5.99 percent of total ODS.
- Hull and machinery insurance (H&M) costs include fair and reasonable net premium costs of hull and machinery, increased value, salvage, and collision liability insurance. The terms and conditions of policies are subject to approval by the Maritime Administration. The average H&M subsidy rate for 1975 was 14.27 percent. In 1975, subsidy accruals for H&M totalled \$1.9 million, 0.86 percent of total ODS.
- Protection and indemnity insurance (P&I) costs include (1) the fair and reasonable net premium costs of protection and indemnity, second seamen's insurance, excess insurance, and cargo liability if excluded from the primary policy, and (2) the costs of crew claims paid under the deductible provisions of P&I policies when such costs do not exceed \$25,000 per occurrence. The P&I deductible cost is the item being considered for elimination from subsidy participation. In 1975, subsidy accruals for P&I deductible totalled \$4.6 million, 2.1 percent of total ODS.

Issue: To eliminate M&R, H&M, and P&I as subsidizable expenses.

Analysis of Issue: The cost differential of the M&R subsidy has evidenced a steady decline in recent years, apparently due to rising costs being incurred by foreign operators. Additionally, the dollar value of the H&M and P&I deductible subsidies constitutes a minimal benefit to individual operators when viewed in terms of their overall ODS accruals. The termination of these items is seen as a positive step toward achieving a lesser reliance by industry on government subsidies, as well as accruing savings to both Government and industry in the administration of the items. The action is also in conformance with Office of Management and Budget guidance to reduce subsidy costs, and will allow application of resources to other, more critical programs.

Industry objects to the elimination of M&R subsidy payments. It is argued that the cost-differential is not in fact diminishing. It is contended that foreign shipyards are offering lower prices than U.S. facilities, and that these prices are being underwritten by the foreign governments in attempts to forestall unemployment. The elimination of M&R subsidies (and the concomitant requirement that under subsidy, repairs must be effected in U.S. yards), is seen as potentially damaging to U.S. shipyard operations.

Schedule: Implementation is being undertaken through contract negotiations between the Maritime Administration and the industry participants as contracts come up for renewal or as new contracts are required. Assuming that the elimination of these items is made applicable to all new contracts and contract renewals, M&R, H&M, and P&I will be eliminated as subsidizable expenses for about 75 percent of subsidized ships by the end of the first quarter of FY 1978, for about 85 percent by the end of the first quarter of FY 1979, and for about 96 percent by the end of the first quarter of FY 1980.

MAINTENANCE AND REPAIRS ON SHIPS
RECEIVING ODS

Background: The Maintenance and Repair (M&R) portion of ODS payments is characterized by the following:

- ° M&R subsidy accruals now total about \$12 million per year. This represents about 5 percent of the total operating subsidy accruals. M&R subsidy rates are about 25-26 percent. Thus, the operators are paying 74-75 percent of the M&R costs on subsidized ships. Present policy of Maritime Subsidy Board is to eliminate M&R as an item of subsidizable expense in subsidy contracts. Of 198 subsidized ships, 11 are now operating without M&R subsidy. Contracts recently renewed with three operators will eliminate M&R subsidy for 37 additional ships, effective January 1, 1978.

The main features of MarAd's present M&R surveillance system are as follows:

- ° Subsidized operators prepare subsidy repair summaries and submit them with copies of invoices and ship repair specifications to MarAd Region Offices after termination of each voyage.
- ° Region Offices review documents and approve or disapprove costs claimed for subsidy, code cost data, and transmit the data by terminal for input into a computerized data bank in Washington. They also conduct condition surveys of subsidized ships.
- ° Headquarters prepares tabulations to identify unusual cost items requiring further review and investigation.

Issue: To simplify MarAd's internal procedures for surveillance of maintenance and repairs (M&R) during the remaining period before the M&R subsidy program can be phased out completely.

Analysis of Issue: The present maintenance and repair surveillance system is felt to be inefficient. The simplification of MarAd's internal procedures, the elimination of marginal value operations, the improvement of manpower utilization, and the reduction of the paperwork burden on the subsidized operators are considered attainable goals. A study of this issue is underway. A simplified surveillance system, which is considered feasible, is being designed to eliminate the

entire voucher processing system and to substitute for it an expanded auditing program. It will limit technical review and investigation of M&R costs to only those cases involving any unusual cost items.

Schedule: The simplified M&R surveillance system should be completed in the first quarter of FY 1977. The draft study has been completed and submitted to the Region Offices and other interested MarAd offices for review and comment. Implementing regulations are also being developed to be effective on an interim basis January 1, 1977. The new system should come into full effect in the second quarter of FY 1977.

THIRD FLAG COMPETITION

Background:

- The present problem is the proliferation of state-owned third flag carriers which charge rates that do not cover their fully distributed costs and their growing encroachment upon the liner trade routes of the United States and its trading partners. This development arises as the result of government assistance far exceeding that which other governments make available to permit their fleets to operate competitively.
- Predominant in the spotlight today are the Communist state-owned shipping companies, particularly those of the Soviet Union. These lines are growing rapidly.
- The Soviet commercial freighter fleet has grown from 641 vessels and 3 million deadweight tons in 1960 to 1,794 vessels and 10.7 million deadweight tons in 1975, or from ninth in the world fleet rank to the number one dry cargo liner fleet in the world today. (By comparison the U.S.-flag liner fleet consists of 5,009,000 DWT and is seventh in the world.)
- During the development of the Soviet competitive position in the western trades, members of the conferences, and in particular the Pacific Conference, have charged that the Soviet Far East Shipping Company (FESCO) has been practicing "rate cutting." Conference members claim that rates charged by FESCO are not economically compensatory for themselves or for the Soviets. FESCO rates are generally between 10-15% below conference rates.
- FESCO has counter charged that conference members are giving rebates to shippers in amounts greater than the rate cutting by FESCO.
- Introduction of legislation in the 94th Congress, S. 868 by Senator Inouye and H.R. 7940 and H.R. 14564 by Representative Sullivan. These bills were popularly referred to as the "Non-National Carrier Bills."

Issue: To stop encroachment of U.S. trade routes by third-flag vessels which undercut conference rates.

Analysis of Issue:

- Solutions to the problem are being discussed in both domestic and world forums, including the United Nations, but any international solution will be a long time in coming. The problem is particularly difficult in light of the established United States government policy of fostering free trade which is embodied in various Treaties of Friendship, Commerce and Navigation.
- A U.S. solution to the "rate cutting" problem has been:
 - Signing of the Leningrad Agreement by Federal Maritime Commission Chairman Karl Bakke and Soviet maritime officials on July 19, 1976.
 - The agreement contains two key features:
 1. That all ocean cargo rates contained in tariffs of Soviet carriers now engaged as independents in the liner trades of the United States will, as promptly as feasible, be adjusted to a level no less than that of the lowest rate in use for the same commodity of any other independent carriers in those trades.
 2. That negotiations be conducted promptly with a view toward bringing the Soviet carriers into the Atlantic and Pacific Conference systems.
- The general industry reaction to the Leningrad Agreement has been mixed. Many feel that the U.S. should wait and see if the agreement does work, while others feel that Congress should continue to pursue the passage of a "third flag" bill during the next session of Congress designed to curb the "rate cutting" practices of government-controlled merchant fleets.

Schedule:

- Congressional action on the third flag legislation stopped after the signing of the Leningrad Agreement, pending an evaluation of the agreement's success. However, the Senate Commerce Committee favorably reported the legislation on June 24, 1975, and the House Merchant Marine Subcommittee held hearings on the legislation, but did not mark-up the legislation.
- The Soviet liner companies are presently filing amended rates with the Federal Maritime Commission as agreed to in the Leningrad Agreement.

NATIONAL DEFENSE: POLICY

Background: The Maritime Administration is responsible for planning the role of the U.S. merchant marine in meeting emergency shipping requirements. This planning is coordinated with the Navy and the Department of Defense. In addition, MarAd shares with the Navy responsibility for planning and coordinating emergency shipbuilding programs.

° Operations

- Section 902, Merchant Marine Act, 1936, provides the Secretary of Commerce with standing authority to requisition U.S.-flag merchant ships and ships owned by U.S. citizens, on declaration of national emergency or determination by the President that requisitioning is necessary in the interest of national security. Operational control is delegated to the Maritime Administration. This includes shipping allocation, ship operations, port allocation, and supporting activities.
- Strategic planning calls for deployment of U.S. reinforcements to NATO Europe immediately upon, and so far as possible prior to, the outbreak of war. The entire U.S.-flag liner fleet would be needed to execute the deployment. The fleet is marginally adequate to meet the requirement under expected conditions of high ship attrition. To facilitate prompt acquisition and commitment of ships, the Navy and MarAd have established a joint procedure under which U.S. ships report positions, courses and speeds every 48 hours in peacetime.
- Arrangements have been made for early availability of about 250 NATO flag ships for reinforcement movements, and the entire NATO flag fleet would be available to the U.S., within overall Alliance priorities, for carriage of civil cargo, during the sustaining period of war. Early availability of selected NATO ships for reinforcement movement would promote faster closure of reinforcing units than is possible using only U.S. ships.
- In defense emergencies for which the requisitioning of ships is not warranted, the Military Sealift Command, under a contractual arrangement identified as the Sealift Readiness Program (SRP) with concurrence of the Secretaries of Defense and Commerce, may charter half the ships owned by steamship companies which carry

cargo for the DOD in peacetime. Call-up of the SRP for one or two voyages would not work extreme hardship on the shipping industry. Longer call-up would lead to significant loss of trade.

- In any defense emergency, the National Defense Reserve Fleet (NDRF) maintained by MarAd provides the only shipping capability available to the U.S. over and above that which can be drawn from the active merchant fleet.

The NDRF comprises 130 Victory ships and 9 Seatrain ships, all of which are overage. More modern ships are expected to be traded in to the NDRF in coming years.

Navy and MarAd have agreed upon a program to bring the equivalent of 30 Victory ships to 5 to 10 day readiness status, and the Navy has obtained funds for the first year's work.

° Shipbuilding

- Strategic planners do not agree on the probable length of a NATO/Warsaw Pact war but agree that in prudence we must plan for protracted conventional war.
- Immediately after the outbreak of war, U.S. shipyards would have a heavy workload consisting of activation of reserve naval and merchant ships, some conversion of merchant ships for naval auxiliary use and certain naval ship conversions, and repair of battle damage sustained during the opening period.
- In a protracted war, substantial ship losses are foreseen and, as a result, naval and merchant ship construction would be necessary. In studies of shipbuilding capabilities, requirements have been estimated at the level necessary to replace U.S. ship losses. World War II scale building programs are not projected, because the NATO fleet today is many times larger than the fleet available to the Allies in World War II, and even numerically heavy sinkings would impair total capability only marginally.
- Questions have been raised as to the adequacy of material and labor resources to meet both Navy and MarAd peacetime shipbuilding requirements over the next five years.

Issue: To assure adequate, responsive shipping and shipbuilding support in wartime for military and essential civilian requirements

Analysis of Issue:

- Operations - MarAd and DOD are cooperating in planning activities and are working together to solve military support shipping problems on a continuing basis. Working relationships have become closer and more effective in recent years.
- Shipbuilding -
 - Navy and MarAd are coordinating their shipbuilding programs, especially with respect to the effects on labor and material availability at the shipyards.
 - The long-war requirement involving a large shipbuilding workload is being analyzed in a major Navy/MarAd study co-sponsored by Deputy Secretary of Defense and Under Secretary of Commerce.
 - MarAd has initiated work on the design of a modern "mobilization ship," an updated version of the Victory ship.
- Coordinated Department of Defense/MarAd Planning
 - The Secretaries of Defense and Commerce have chartered a standing Navy/MarAd Policy Planning Group, which deals without limitation of subject matter, with broad problems of common concern.
 - A Navy/MarAd Shipbuilding and Ship Repair Committee focuses upon common problems regarding shipyards..
 - MarAd participates in Joint Chiefs of Staff mobility planning and analyses and cooperates with the Navy in mobility planning.
 - Designs for subsidized ships are coordinated with the Secretary of the Navy, and the Assistant Secretary of Commerce for Maritime Affairs pays for national defense features required by Navy in ships built for trade.
 - MarAd coordinates with Navy on assignment of material priorities required for construction of merchant ships.

Schedule: Not applicable

DISPOSITION OF THE NS SAVANNAH

Background: The NS SAVANNAH was built in 1962 to demonstrate the peaceful uses of atomic energy. It was recognized when the legislation was enacted that the vessel would not be commercially viable. The vessel was operated for familiarization tests and for domestic operation in 1962 and 1963. For a period of about one year in 1963 and 1964 labor problems immobilized the ship, after which it was operated in 1964 and 1965 by American Export Lines on a series of demonstration voyages to domestic and foreign ports. From August 1965 to July 1970 the NS SAVANNAH operated in an experimental commercial phase.

- In July 1970, the vessel was placed in layup because most of what could be learned from operation of the vessel had been learned. Prior to withdrawal from active service, the Maritime Administration issued a request for proposals for the long-term operation of the NS SAVANNAH. No responsive proposals for continued operation of the vessel were received either from government or industry.
- A decision was made in April 1971 to deactivate the SAVANNAH. The ship's nuclear core was removed, and decontamination of the ship was accomplished except for the reactor compartment, which was isolated. The vessel was towed to Savannah, Georgia, where it was expected to become part of the Eisenhower Peace Center under legislation which would authorize MarAd to transfer title to the City of Savannah after the city met the necessary license requirements of the Atomic Energy Act of 1954, as amended. Subsequently, this proposed plan fell through when the City of Savannah decided not to take the ship over due to funding problems.
- A decision was then made to place the NS SAVANNAH in the NDRF. The ship was drydocked at Baltimore to perform work required for layup status and then towed to Charleston, South Carolina for topside conditioning. In 1975, the Patriot's Point Development Authority of Charleston indicated an interest in adding the SAVANNAH to its Naval and Maritime Museum. The Development Authority is seeking Federal financial assistance for the project. Legislation was introduced in both Houses of Congress to permit use of certain MarAd funds for preparation of the ship and continued maintenance of the hull below the waterline. The proposed legislation was not acted upon.



- In the spring of 1976 the secondary cooling system was drained of contaminated fluids. This will effectively preclude any further operation of the vessel as a nuclear ship.

Issue: The issue for MarAd is how long to hold the SAVANNAH at Charleston before placing it in the National Defense Reserve Fleet (NDRF) at James River, Virginia.

Analysis of Issue:

- The NS SAVANNAH is presently berthed in Charleston, South Carolina at the Army terminal. MarAd agreed in mid-1976 to temporarily defer moving the vessel into the National Defense Reserve Fleet while the Patriot's Point Development Authority sought funds and associated legislation for support of the SAVANNAH museum project.
- If the Patriot's Point Development Authority is unsuccessful in this venture, MarAd will move the SAVANNAH from Charleston to the NDRF at James River, Virginia.

Schedule: The South Carolina Congressional delegation will be consulted early in 1977 regarding the prospects for successful financing of the Patriot's Point SAVANNAH museum project. Unless the prospects are very good, the present plan is to place the ship in the NDRF in the spring of 1977.

DISPOSITION OF THE SS UNITED STATES

Background: The SS UNITED STATES was delivered on June 20, 1952, and operated by United States Lines, Inc. However, in the late 1960's the vessel consistently incurred major operating losses even after payment of operating subsidy to the owner to the maximum extent permitted by statute. As a result, the owner withdrew the ship from service and placed it in layup at Norfolk on November 7, 1969, and the vessel has remained in interim layup since.

- ° P.L. 92-296 of May 16, 1972, authorized purchase of the SS UNITED STATES for layup in the National Defense Reserve Fleet and/or sale or charter to a qualified operator for operation under the American flag. Proposals for sale or charter of the vessel have been solicited in 1973, 1974, and 1976, but satisfactory bids have not been received.
- ° On October 18, 1976, legislation (P.L. 94-536) was signed by the President authorizing the sale or charter of the SS UNITED STATES as a floating hotel on or in the navigable waters of the United States.

Issue: The issue is whether a qualified private operator for the SS UNITED STATES can be found, or, if such an operator cannot be found, whether to scrap the ship or to permanently lay her up at a reserve fleet site.

Analysis of Issue:

- ° Use of the pier currently employed for layup expires in 1978 and further arrangements will have to be negotiated by then, unless the vessel has been disposed of by sale or charter or removal to the NDRF.
- ° The next step will be another invitation for bids for either sale or charter to a qualified operator under the American flag, or for use as a floating hotel on or in the navigable waters of the United States, as authorized by P.L. 94-536.

Schedule:

- ° Proposals for sale or charter of the SS UNITED STATES will be solicited in the Federal Register by the end of November 1976 and bids will be opened about 90 days after solicitation of bids.

- There will be no decision regarding final layup or disposal until the results of this solicitation are reviewed.

TOURISM

- o Federal Recognition of Expo '81
- o Federal Recognition of Expo '82 and Subsequent Expos
- o Federal Funding of Expo '81 and other U.S. Expositions
- o Departmental Position on Senate's National Tourism Policy Study
- o Legislative Extension of Department's Tourism Authority
- o Future Direction of Joint Government Travel Industry Domestic Tourism Promotion Program
- o Travel Advisory Board Agendas and Appointments

Background

In 1968, the United States acceded to the 1928 convention establishing the Bureau of International Expositions (BIE), an international, intergovernmental body, headquartered in Paris, which screens and registers events seeking to be designated "international expositions." In 1970, Congress enacted P.L. 91-269 (22 U.S.C. 2801) "to establish an orderly procedure by which the Federal Government determines its recognition of, and participation in, international expositions to be held in the U. S." Authority to carry out the provisions of the law was vested in the Secretary of Commerce. In 1974, this authority was delegated by the Secretary (Department Organization Order 10-7, dated March 14, 1974) to the Assistant Secretary for Tourism, who heads the United States Travel Service (USTS).

To obtain Federal recognition of an event, an exposition organizer must submit certain exhibits to the United States Travel Service' Division of Conventions and Expositions for review and evaluation (15 C.F.R., Part 1202). These exhibits include: (1) a statement of exposition purpose; (2) preliminary architectural, design and participation plans; (3) documentary evidence of regional, state and local support; (4) a statement describing availability of existing and projected visitor services, including hotel and motel units, restaurants, health facilities, transportation facilities, etc.; (5) plans for acquiring title to, or the right to occupy, the exposition site; (6) a detailed feasibility study by a national recognized firm; (7) time schedule and management control system (PERT, CPM, etc.); (8) statement of benefits to be derived from the expo and residual plans; (9) an agreement to develop and complete an environmental impact statement in compliance with the National Environmental Policy Act of 1969; (10) an agreement to accept a U. S. commissioner general appointed by the President and to provide suitable facilities for the commissioner general and his staff.

Provided these submissions demonstrate the feasibility of the expo, the Department recommends, formally, to the President, that the Government grant Federal recognition. If the President agrees and extends Federal recognition, the Department applies to the BIE for formal registration at that international organization's next semi-annual plenary session.

On March 28, 1976, Expo '81 Corporation, Los Angeles, reapplied for Federal recognition and international registration of, and Federal participation in, a Category I universal international exposition proposed to be held in Ontario County, California, in 1981 to celebrate the 200th anniversary of the founding of Los Angeles.

After evaluating the application, the Department determined that the organizers had fulfilled, to the extent possible at this time, the requirements of P. L. 91-269 and the implementing regulations. Certain requirements remained unmet, however: (1) a satisfactory analysis and review of environmental issues through the completion of a final environmental impact statement; (2) authorization by the State of California of the planned \$35 million revenue development bond; (3) completion of other planned financial arrangements sufficient to develop and operate the exposition; (4) a top quality professional administrator and an autonomous and diversified board of directors; (5) final acquisition of the expo site.

On November 15, two days before the opening of the semi-annual plenary session of the BIE, in Paris, the Secretary of Commerce (1) recommended that the President grant Federal recognition of EXPO '81 contingent upon satisfactory fulfillment of the remaining requirements; (2) requested the President's authorization to monitor fulfillment of remaining requirements; (3) promised that if they are not satisfied in a timely manner, he would recommend that Federal recognition be withdrawn; and (4) recommended that the Department proceed with preparation of a plan for Federal participation in Expo '81. Estimated cost of such participation is between \$25 and \$40 million, depending on inflationary factors.

Because the President had not yet considered the Secretary's report on November 17, 1976, the date when the BIE convened, that body approved, as a diplomatic courtesy, the registration of EXPO '81, pending Presidential recognition. As of November 30, the President had not yet granted recognition. If recognition is not granted, it is unlikely that the California legislature, when it convenes the first week in January, will vote funds to support the event. Without state funds, the exposition will be in jeopardy.

Issue

Should Federal recognition be accorded to Expo '81?

Analysis of Issue

The organizers are working on fulfilling all necessary requirements. Considerable nonfinancial support is on record from local public officials. Moreover, exposition organizers cannot fully purchase or acquire a site before Federal and BIE approvals are obtained. Full staffing of an exposition project before such approvals are granted would also be an unwise risk of organizers' funds. A Draft Environmental Impact Statement is being processed. The Department is monitoring timely fulfillment of the remaining conditions. If these conditions are not fulfilled by April 1, 1977, the Department will recommend to the President and BIE that recognition of Expo '81 be withdrawn.

It is recommended that if resolution of this issue is left to the new Administration, the Secretary of Commerce-designate personally urge the President to find Federal recognition of Expo '81 to be in the national interest.

Schedule

In accordance with BIE regulations, a Category I universal international exposition must be registered at least five years in advance of the event. Expo '81 would open May 1, 1981. If registration of Expo '81 is to be effected, a decision by the President would be necessary no later than January 31, 1977. Assuming Federal recognition is granted, the United States Travel Service plans to commence work on a Federal participation plan on February 1, 1977.

NOV 15 1976

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

Dear Mr. President:

I am pleased to forward herewith a report on the application of the Expo '81 Corporation of Los Angeles, California, for Federal recognition of an International General Category (Universal) Exposition proposed to be held in the County of San Bernardino, California, on the site of the Ontario Motor Speedway. The report is forwarded pursuant to the provisions of Public Law 91-269 which require a report by the Secretary of Commerce before the President decides whether to grant Federal recognition to any international exposition to be held in the United States.

In addition to the Commerce report, the law requires a report from the Secretary of State as to whether the proposed exposition qualifies for registration by the Bureau of International Expositions (BIE). I understand that Secretary Kissinger is forwarding a favorable report, and will also advise that the BIE has reserved the 1981 date for Expo '81.

I am satisfied that the organizers of Expo '81 have fulfilled, to the extent possible at this time, applicable requirements of Public Law 91-269 and the implementing regulations (15 C.F.R. Part 1202). The theme of the exposition, "People to People--Pathways to Understanding," is appropriate for a Category I exposition. Expo '81 has generated interest in the State of California, the Cities of Los Angeles and Ontario, the Counties of Los Angeles and San Bernardino, and other surrounding communities. The proposal has also received endorsements from regional representatives in the United States Senate and House of Representatives and from Governors of the Western States.



The organizers are working on securing full financial commitments which are necessary to assure the success of Expo '81. At present, for example, there are financial arrangements which are dependent on approval of legislative measures in the State and local governments. There are, additionally, some other unresolved questions raised in the enclosed full report as to the exposition's viability, but the financial implications are the most compelling immediate concern. We believe that with your endorsement through Presidential recognition, and the subsequent registration by the Bureau of International Expositions in Paris, all facets have a reasonable possibility of being resolved.

Accordingly, I do recommend that you find Federal recognition of the proposed Los Angeles exposition in the national interest and that you sanction an official United States request for registration of the event by the BIE. However, the continuation of this Federal recognition should be contingent upon the following conditions:

- o A satisfactory analysis and review of environmental issues through the completion of the final environmental impact statement;
- o Authorization by the State of California of the planned \$35 million bond issue; and
- o Completion of other planned financial arrangements sufficient to develop and operate the exposition.

I further recommend that you authorize me, acting on your behalf, to monitor the fulfillment of these conditions. If they are not satisfied in a timely manner, I will recommend that Federal recognition be withdrawn.

If you concur in the foregoing approach, we will proceed, in cooperation with the Department of State, with an application for BIE registration at the organization's next meeting in Paris on November 17. As part of the application process, we will make clear to our fellow BIE member countries the basis upon which you have accorded Presidential recognition. With that done, should either Federal recognition or BIE registration later have to be rescinded, there will be no attendant embarrassment to either the exposition's sponsors or to the United States Government.

In addition to Federal recognition, the organizers have requested Federal participation in the exposition. Therefore, if you favor Federal recognition, I propose that we proceed with action authorized by Section 3 of the law in the manner recommended in the conclusion of the report. This section calls for preparation by this Department, in cooperation with other Federal departments and agencies at the appropriate time, of a plan for Federal participation in the exposition, for submission by you to the Congress for its consideration. Based upon previous expositions which the Federal Government has participated, I estimate that this would entail a Federal commitment of about \$25 million for construction of a pavilion.

Respectfully,

/s/

Elliot L. Richardson

Enclosure

November 15, 1976

FACT SHEET
ON
LOS ANGELES' EXPO '81

The positive aspects are as follows:

1. The purpose, a nonpolitical forum to focus on and promote the benefits of people-to-people understanding in the promotion of peace and progress, is most satisfactory.
2. The facilities, theme, and participation plans are excellent. Los Angeles is recognized as an entertainment capital.
3. The accommodations and external transportation facilities are good.
4. Labor relations and no strike agreements with unions are satisfactory at this time.
5. The economic feasibility as to expenses, revenues and benefits are reasonable.
6. The implementation schedule is excellent, especially with a \$25 million site sufficiently developed to save up to two years in construction time.
7. The public relations, promotion and protocol plans are well advanced at this time.
8. The direct and indirect residual economic impacts are impressive, especially the creation of jobs in the region, which currently has a high unemployment rate.
9. The Draft Environmental Impact Statement (DEIS) was published on November 1, 1976, and distributed for comment as required by the National Environmental Protection Act.
10. The General Rules, as required by the BIE, were cleared by both Offices of General Counsel in Commerce and State, and transmitted to the BIE in French and reviewed by the Classification Committee on October 6, 1976. After incorporating BIE comments, the completed General Rules were taken to the BIE on November 15, 1976.
11. The organizers have agreed to the control of the exposition as exercised by a U.S. Commissioner General,

to be appointed by the President with the advice and consent of the Senate.

12. Foreign nations and corporate clients express informal desires to participate in a First Category Universal Exposition in the United States and particularly in the Los Angeles area.
13. Expo '81 could be the catalyst to the development of a nonpolluting rapid mass transport system in Los Angeles.
14. The BIE, on August 28, 1976, reserved the date of 1981 for Expo '81 to host a First Category Universal International Exposition, the first in the U.S. since New York 1939. Because of the frequency limitations and other nations' desires to host these events, another exposition of this magnitude cannot be scheduled in the U.S. until early in the 21st century.
15. If Federal recognition is given Expo '81, there is every reason to believe that the BIE will grant recognition at their plenary session on November 17, 1976.

The negative aspects are as follows:

1. Acquisition of the site by a \$7 million first deed of trust is contingent upon approval of the SEC of a S-1 Registration Statement, which was filed on September 24, 1976, and is awaiting approval. Ideally, this approval should be obtained prior to seeking Federal recognition by the President; however, very few expositions have ever had their sites totally free and clear at this stage of organizing.
2. To date, Expo '81 has operated from fund raising dinners, donations of services and facilities. It has received pledges of funds from local Chambers of Commerce and local governments contingent upon Federal and BIE recognition. There is no evidence, at this time, of guaranteed financial and other support from the state, local governments, business and civic leadership of the region in amounts equal to the minimum requirements stated in the Expo '81 feasibility study. However, upon receipt of Federal and BIE recognition, the raising of seed money and sale of development bonds should be enhanced.

3. While a good management organization is planned, only a few experienced (unpaid) people have been added to the staff. In effect, Expo '81 Inc. has been basically a one-man show, with little evidence of effective control by a Board of Directors. This situation is to be rectified before appropriations are sought for a U.S. Pavilion.

4. It is anticipated that public hearings will be required in California at the City of Ontario (the site) after receipt of comments to the Draft Environmental Impact Statement.

Federal Recognition of Expo '82

and Subsequent Expos

Background

In January of this year, Knoxville, Tennessee requested Federal recognition of a Special Category, international exposition on "Energy" to be held in Knoxville in 1980. The request application was turned down by the Department in favor of Expo '81 in Los Angeles, a Category I Exposition which met more of the rigorous criteria required for Federal recognition.

In June, 1976, Knoxville re-submitted its application, requesting Federal recognition for an exposition in Knoxville in 1982.

The Department's United States Travel Service is currently evaluating the Knoxville application. Representatives of the Classification Committee of the BIE are scheduled to visit Knoxville on December 1, 1976 for a site tour and to conduct a preliminary inquiry on the validity of the theme (which is a requirement for Special, but not Category I Exposition). The Exposition has the active support of the Tennessee Congressional delegation, the Governor and Tennessee legislature, Knox County and the City of Knoxville.

Issue

Should the Department recommend Federal negotiation of Expo '82?

Analysis of Issue

A complete Analysis of the Issue is not possible at this time. A preliminary review shows:

- 1) That Expo '82 has retained a highly qualified architectural team and has nearly completed its master development plan.
- 2) That the discussion paper on the environmental issues is now clearing the Department -- and the Draft Environmental Impact Statement should be printed around December 15 for clearance in accordance with the National Environmental Policy Act.
- 3) That Expo '82 is more advanced at this stage, in nearly all aspects, than any previous such event involving the Department.

Schedule

If Expo '82 is to be registered with the BIE five years in advance of its opening, then the Secretary of Commerce must decide whether to recommend Federal recognition by late February or early March, 1977. The United States Travel Service expects to complete a feasibility study by January, 1977.

The following other United States cities are currently studying exposition proposals as follows: Kansas City, 1984 (Food); Columbus, Ohio, 1992 (Quincentennial) New Orleans, Baltimore, Pittsburgh and Phoenix, Arizona, are in early discussion stages. No immediate action by the Department is necessary at this time.

Federal Funding of

Expo '81 and Other U. S. Expositions

Background

In 1974, the Department's responsibilities for determining Federal recognition of, and participation in, international expositions to be held in the U. S. were delegated to the Assistant Secretary for Tourism. Several issues have been raised concerning this responsibility which require resolution before Expo '81 or any future expos.

Historically, the host government operates a pavilion at world's fairs which it recognizes. In addition, the President of the host country is expected to invite other governments to participate in recognized expositions. In accordance with BIE regulations, the host government also appoints a Commissioner General, who carries the rank of Ambassador. In all other countries except the U. S., the host government also assumes the responsibility for "organizing" the expositions.

Foreign governments consider international expositions, as well as other great international cultural and sporting events, such as olympics, as requiring government-level negotiations too important to international relations to be left to private individuals. In the U. S., this has not been the case. The U. S. Government has never been the "organizer" of a world's fair. The initiative, the financing, organizing, operation, risks, and negotiations with potential foreign government participants has been left to private groups.

This year, however, President Ford requested \$28 million for the permanent, unique sporting facilities for the 1980 Winter Olympics. Congress passed an expanded version, appropriating \$50 million in Federal funds for the Winter Olympics to be held at Lake Placid, New York, in 1980. This action could be interpreted as a precedent, although the President's action was heavily weighted by the permanent nature of the facilities which are needed in the United States.

Issue(s)

Should the Department of Commerce assume direct responsibility for organizing international expositions proposed for the U. S.? Should the United States Travel Service (or another Federal agency, such as the Department's Economic Development Administration, which will fund the Olympics), be authorized to make grants to recognized U. S. expositions?

Analysis of Issue(s)

These questions, among others, will be considered in the National Tourism Policy Study (see page 44, A Conceptual Basis for the National

Tourism Policy Study, 94th Congress, Second Session, October, 1976. In the meantime, the Department needs to develop its own position and recommendations.

Schedule

An immediate decision is not necessary. However, should the Department decide to implement its recommendations by seeking expansion of its legislative mandate under P.L. 91-269 (22 U.S.C. 2801), it would be advisable to submit a proposed amendment to the 95th Congress not later than the Second Session, beginning January 4, 1978. Work on the amendment should begin in June, 1977.

A CONCEPTUAL BASIS FOR THE NATIONAL
TOURISM POLICY STUDY

PREPARED AT THE REQUEST OF
HON. WARREN G. MAGNUSON, *Chairman*
COMMITTEE ON COMMERCE

AND

HON. DANIEL K. INOUE, *Chairman*
NATIONAL TOURISM POLICY STUDY

FOR THE USE OF THE

COMMITTEE ON COMMERCE

AND

NATIONAL TOURISM POLICY STUDY



OCTOBER 1976

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the authority of this act that in fiscal year 1976 are supported by a \$65 million appropriation.²⁹ Of this amount, the program category of "exchange of persons" receives \$16.9 million.

The national interests supporting the educational and cultural exchange programs administered by the State Department are similar in part to those underlying the USTS international travel promotion program: "These [State Department] programs are designed to seek mutuality of interest involvement and benefit as the most effective way to develop lasting understanding."³⁰

An important promotional device stimulating domestic and international tourism has been the development of international expositions. Events such as the Seattle and New York world fairs have attracted millions of visitors from all parts of the United States and the world, and have become a major vehicle for international cultural exchange.

In 1970, Public Law 91-269 was enacted "to establish an orderly procedure by which the Federal Government determines its endorsement of and participation in international expositions to be held within the United States."³¹ For purposes of this review, Public Law 91-269 is significant first for the insights it provides into the timeliness of the U.S. approach to a coordinated international exposition policy:

The first step toward developing a national policy in this field was taken last year (1968) when, after review, the executive branch recommended and the Senate approved U.S. accession to the 1928 convention establishing the Bureau of International Expositions (BIE). . . . There remained the second step of domestic procedures and organization to deal with international expositions proposed to be held in the United States and (P.L. 91-269) complements the international convention in this respect.³²

On April 26, 1976, USTS—which exercises power delegated by the Secretary of Commerce under Public Law 91-269—tentatively reserved with the BIE a 1981 date for an international exposition to be staged in the United States. The major policy issues that ought to be considered with regard to this event, and subsequent international expositions held in the United States, have been outlined by the Assistant Secretary for Tourism:

A specific question which requires resolution is, what is the proper role of the Federal Government in international expositions held in the United States? Historically, the U.S. Government has extended Federal recognition to, and operated a pavilion at, world's fairs held in the United States, and the President has invited other nations of the world to participate in such events, and in accordance with BIE regulations, appoints the U.S. Commissioner General. However, the Federal Government has never been the organizer of a "world's fair." The initiative, the financing, organizing, operation, risks and negotiations with potential foreign participants has been left to private groups. Foreign governments on the other hand, organize and finance world fairs in other countries. They consider international expositions, as well as other great international cultural and sporting events—such as Olympics—as requiring high government-level negotiations

²⁹ Budget of the United States Government fiscal year 1976, Appendix, p. 654.

³⁰ *Ibid.*

³¹ S. Rep. No. 91-234, in U.S. Cong. & Adm. News, 91st Cong., 2d sess., legislative history of Public Law 91-269 at 317S.

³² *Ibid.*, p. 317S.



too important to international relations to be left to private individuals. . . .

These facts pose certain philosophical/political questions with regard to the U.S. national tourist office's future role in U.S. international expositions. Should USTS (or another Federal agency) assume direct responsibility for organizing such expositions? Should USTS (or another Federal agency) actively solicit and negotiate foreign government participation in U.S. international expositions? Should USTS (or another Federal agency) be authorized to make matching grants to U.S. exposition organizers?²³

In the context of this legislative review, and indeed within the broader framework of phase I of the NTPS, definitive responses to these policy questions necessarily would lack an adequate foundation. In the subsequent phases of the study, however, sufficient information developed from responsible private and governmental sources will provide the basis for specific recommendations in these areas.

One of the main objectives of Public Law 91-209, streamlining the procedure for U.S. participation in certain international expositions, was shared in part by a previous act, the Trade Fair Act of 1959.²⁴ This legislation was passed:

... to provide for the free importation of articles for exhibition at fairs, exhibitions, or expositions. . . . It will avoid the necessity for the enactment of separate laws in behalf of individual fairs, and the repeated issuance of regulations, as in the past.²⁵

Subject to certain conditions, the Trade Fair Act provided an exemption from duties and taxes for articles brought into the United States to be shown at trade and industrial fairs and other exhibitions "of a cultural, scientific, or educational nature, so long as the Secretary of Commerce is satisfied that the public interest in promoting trade will be served."²⁶ These fairs, of course, serve as an important vehicle for the promotion of travel as well as trade.

The promotion of tourism as a government objective with significant international benefits was formally recognized in August 1975 by the 35 states (including the United States) who signed the Conference on Security and Co-operation in Europe (Helsinki Accord).

The Helsinki Accord, an affirmative of the U. S. policy of détente with the Soviet Union, is a multifaceted expression of intentions. It is neither a treaty nor an executive agreement, and is not binding on the United States. Its article entitled "Promotion of Tourism" is set forth fully below:

The participating States.

Aware of the contribution made by international tourism to the development of mutual understanding among peoples, to increased knowledge of other countries' achievements in various fields, as well as to economic, social and cultural progress,

Recognizing the interrelationship between the development of tourism and measures taken in other areas of economic activity,

Express their intention to encourage increased tourism on both an individual and group basis in particular by:

Encouraging the improvement of the tourist infrastructure and co-operation in this field;

²³ Letter from David Parker (for Creighton Holden), op. cit., pp. 5-6.

²⁴ 19 U.S.C. 1751-1756.

²⁵ Legislative history in U.S. Cong. & Adm. News, 86th Cong., 1st sess., at 1426.

²⁶ *Ibid.*



Departmental Position on
Senate's National Tourism Policy Study Recommendations

Background

In June, 1974, the Senate passed a unanimous resolution directing the Senate Committee on Commerce to undertake a study to determine "a policy and role for the Federal Government on tourism in the United States which will most effectively enable the industry to realize fully its potential to contribute to the social well-being, the cultural understanding and the economic prosperity of the U. S." Important objectives of the study were to be "coherence and coordination of Federal programs dealing with national tourism interests."

The study has been underway since 1975. Phase I, just completed, defines terms, reviews Federal legislation relating to tourism, and identifies programs which are related to the national tourism interests. Phase II has begun and will include an assessment of the performance of those Federal programs most important for tourism. The programs conducted by the Department will be included in the assessment. While the Department has no responsibility for conducting the study, its officials are expected to cooperate with the Senate contractor and will have to respond to the recommendations of Phase III, the final report, which is expected to be completed by November, 1977. One possible recommendation is some form of limited consolidation of the Federal Government's tourism activities.

Such a consolidation was proposed by the President's National Tourism Resources Review Commission in June, 1973, which recommended establishment of a National Tourism Administration. The Nixon Administration rejected the proposal in 1974.

The President-elect has stated that, "we must give top priority to a drastic and thorough revision and reorganization of the Federal bureaucracy."

Senator Daniel K. Inouye, D., Hawaii, Chairman of the Senate Subcommittee on International Commerce and Tourism, which has oversight authority over the United States Travel Service, on November 18, publicly urged the new administration to "support the national tourism policy study now in progress."

Issue

The issue is, would a consolidation of Federal tourism activities be beneficial to the nation and be consistent with the objectives of the new Administration and with its own organizational plans?

Analysis of Issue

More than 125 Federal programs in some 46 agencies relate to tourism in some way. Moreover, the U. S. Government's approach to tourism, as an industry, has been notoriously fragmented. State travel directors, especially, and others at the local level complain that there is no focal point at the Federal level where information may be obtained about Federal programs which impact on tourism. This problem does not exist in a number of foreign countries; they have consolidated their tourism programs into a single "ministry of tourism." Action is necessary to improve coordination and eliminate conflict and duplication, among Federal tourism-related programs.

Nevertheless, any new Federal structure put in place by the new Administration presumably will not be designed or implemented piecemeal, but on a government-wide basis. Federal agencies are established to achieve specific objectives related to paramount national interests--such as full employment and economic equilibrium--and organization structure is determined by the priority assigned to competing objectives and interests. Any realigning of Federal tourism programs would have to occur in conjunction with other organizational changes which the Administration may decide to effect.

If Phase III continues on schedule, it will probably be necessary for the Department to take a position on the National Tourism Policy Study recommendations before the Administration has completed its reorganization plan. The recommendations will be in the form of policy options for legislative action. Legislative proposals will then be introduced, based on the options presented, and the Department will be asked to comment on the proposals.

In view of a possible impending reorganization of government agencies, it is recommended that the Department take the position that action on any reorganization proposals which would affect its tourism programs be deferred until a total government-wide reorganization plan can be developed, but that a member of the Senate Commerce Committee staff should be assigned to work with the President's reorganization task force, in the meantime.

Schedule

Phase II of the study is underway. An interim report is expected in about February, following a series of regional meetings between the current contractor, Arthur D. Little, and officials at the local level, responsible for tourism planning, development and promotion. Phase III is expected to begin in March and to be completed by November. A formal Departmental position would be necessary by roughly December, 1977. However, the issue may be raised at confirmation hearings for the Secretary-designate. In this event, one option is to take the position that the Secretary cannot take a position on the study until all findings are reported.

Legislative Extension of Department's

Tourism Authority

Background

The Act of July 19, 1940 (P. L. 76-755) as amended (54 Stat. 773; 16 USC 18-18d), the legislative authority which funds the Department's domestic travel promotion program, expires at the end of FY 1978 (September 30, 1978). The International Travel Act of 1961 (P. L. 94-55) as amended (22 U. S. C. 2126), the legislative authority which funds the Department's program to promote international travel to the U. S., expires at the end of FY 1979 (September 30, 1979). Funding authority should be renewed before preparation of USTS' FY 1979 budget begins early in the Spring of 1977. Normal procedure is to request a three year extension of an expiring appropriation authorization. If the domestic authorization is extended three years, it will expire at the end of FY 1981. If the international authority is extended three years, it will expire at the end of FY 1982. Two separate bills and two separate sets of hearing will be required to effect renewal.

Issue

The basic issue is: should the Department seek renewal of both authorities. A sub-issue is should the Department request an extension of both authorities through FY 1982 (which would involve a four year extension of the Act of July 19, 1940) so that both authorities run concurrently, a single, consolidated authorization request may be made by the Department, and one set of hearings can be held? The Department's Proposed Legislative Program for the 95th Congress, 1st Session, which begins in January does not include a request for extension of either authority. It notes that "a recommendation on whether to continue the (domestic) program by extending the authorization will be made early in 1977." (ordinarily, extension of the international program would not have to be made until next year).

Analysis of Issue

The President-elect has stated that, "the major priority of the next Administration has got to be employment" and has supported stimulation and incentives for the private sector to hire the unemployed and to retain workers already employed. The highest rates of unemployment in the nation are in those states which have natural or manmade tourist attractions and the infrastructure in place to service tourist. In Puerto Rico, the rate of unemployment is 18.30%; in Florida, 10.06%; in Michigan, 10.02%; in California, 9.76%; in New York, 9.25%. California locales suffering from particularly heavy unemployment include such traditional tourist areas as San Francisco City/County, 12.49% and Los Angeles, 10.4%. New York State areas include Niagara Falls, 14.31% and New York City, 10.47%. Florida areas include Fort Lauderdale, 12.19%; Miami Beach City, 14.12%; Miami City, 12.10%; Tampa, 12.91% and West Palm Beach, 13.31%.

Tourism generates jobs. Every \$20,000 in direct tourist spending creates or supports one job.

Overseas-bound Americans are currently spending about \$8.8 billion annually on foreign travel, which is tantamount to exporting 440,000 jobs. Foreign visitor spending in the U. S. amounts to about \$5.6 billion annually, representing roughly 280,000 American jobs. In 1975, there was not only a travel deficit of \$3.1 billion, but a tourism "job gap" of 160,000 jobs.

An estimated \$346 million in foreign visitor receipts, resulting in 17,300 American jobs can be identified as being related to United States Travel Service (USTS) program efforts.

Annual spending by domestic tourists is estimated at about \$84 billion, accounting for roughly 4.3 million American jobs. No data exist which might indicate the volume of spending or the number of jobs which is related to the Department's domestic tourism program, which, in FY 1976 was funded at a level of \$1.2 million. However, promotional efforts by the United States national tourism office, to encourage Americans to spend their travel dollars within their own country, presumably counteract similar efforts by foreign national tourist offices to lure Americans abroad, and thereby help to retard the exportation of jobs which results from American travel to foreign countries.

Extension of both of the Department's tourism authorities would help to ensure the continuation of existing jobs in areas of high unemployment. Expansion of those programs, with promotional efforts concentrated on those foreign markets likely to result in tourism to U. S. states suffering from high and persistent unemployment, and with more intensive promotion, both overseas and domestically, of attractions in those states, would stimulate tourism to the promoted areas and would stimulate the private sector to add new jobs.

Schedule

If a single authorization request is to be made in the first session of the 95th Congress, and if funding authority for the domestic program is going to be extant at the time the Department presents its domestic appropriation request for FY 1979, (which will go to the Hill in December of 1977), then appropriate draft legislation should be prepared in the first quarter of FY 1977, and a decision will have to be made in late January to early February of 1977 whether to instruct the Attorney-Advisor to proceed.

U.S. FORD

Future Direction of Joint Government/Travel
Industry Domestic Tourism Promotion Program

Background

Under the Act of July 19, 1940 (P. L. 76-755) as amended (54 Stat. 773; 16 U.S.C. 18-18d), the Department of the Interior was vested with authority to "encourage, promote and develop travel within the United States".

That authority was delegated to the National Park Service. NPS' domestic tourism program was interrupted by World War II and the Korean War. It was reactivated in 1968 when the travel deficit abruptly worsened and the Johnson Administration saw in the program a means of encouraging Americans to "See America First". In 1970, the appropriation authorization for the program was increased to \$250,000 for FY1971 and \$750,000 for FY1972. However, the Department of the Interior requested no funds for FY1972 and the program became dormant.

In 1973, in an effort to improve coordination of federal tourism programs, the 93rd Congress transferred authority for the Act of July 19, 1940 from the Secretary of the Interior to the Secretary of Commerce. The Administration, however, did not request funds for the program. In 1975, over Administration objections, the 94th Congress appropriated \$1,250,000 "to promote travel in connection with the Bicentennial era." In so doing, the Congress noted that, "the tourism industry is currently operating considerably below capacity. . . Without federal efforts to encourage the use of existing facilities, there could well be a recessionary impact on the industry resulting in unemployment for relatively low-skilled workers who have few job alternatives. This happened in 1974 when the energy crisis prevented many persons from traveling. A recurrence of this problem could well have a recessionary impact on the economy. . ."

Although the Administration did not request an appropriation for domestic tourism promotion for FY1977, the 94th Congress appropriated \$1,500,000 for this purpose. Because the sum was small and insufficient in itself to make a measureable impact in the market place, the United States Travel Service elected to employ it as seed money which would attract and marshal the resources of the private sector and make possible a joint -- and expanded -- government/industry program. Preliminary discussions in April between USTS officials and industry leaders confirmed the feasibility of a centrally-coordinated industry/government approach. At a subsequent meeting in October, called by Secretary Richardson, the Department took the position that, due to the limited Federal funds and the potential magnitude of industry participation, industry should coordinate both the planning and implementation of the program. Secretary Richardson agreed to commit up to \$1 million of the Department's funds to the program. Discover American Travel Organizations, the non-profit association of the travel industry and the successor to the Federally-chartered Discover America, established in 1965 by President Johnson, agreed to bring together and coordinate a National Travel Marketing Task Force consisting of representatives of all major segments of the industry to develop the program. (Membership in DATO is not a requirement for participation in the Task Force.)

Task Force Objectives are to: (1) increase employment opportunities; (2) stimulate the economy through expansion of travel activity; (3) produce an impact on the market place in excess of what the USTS appropriation alone could accomplish; and (4) create a clearer awareness of the importance and benefits of travel.

Task Force work has begun, but a one-year administrative contract for \$268,000 to be awarded to DATO for development of a program plan has been held up by the Department because of objections voiced November 18, 1976, by Senator Daniel K. Inouye, D., Hawaii. The Senator complained that he was not briefed in advance of the Department's plans for its domestic funds and requested an explanation as to why USTS could not achieve similar results, operating its own program. He implied that the \$1 million commitment was made to obtain travel industry support for the Republicans.

Issue

Should the Department honor its commitment and award the initial contract?

Analysis of Issue

The funds were not committed to industry for political reasons, but because of economic and marketing considerations and the desire to obtain as much leverage as possible with the sum appropriated. Foreign government tourist offices, in 1973, the latest year for which figures are available, were spending more than \$18.4 million in the U. S. to attract Americans abroad. USTS' \$1.5 million represents only a fraction of that. It cannot purchase the media exposure or advertising space or achieve the impact--that competing national tourist office budgets can. In the face of overwhelming competition, only a well-orchestrated U. S. campaign stands a chance of achieving market penetration. Moreover, DATO has long been a voice for all segments of the travel industry. It has long supported and conducted successful cooperative programs with the government. It is the only non-profit travel/tourism organization that can fulfill the need to have the private sector take the major responsibility to bring the unions and associations together with corporations and government to develop the program.

The United States Travel Service recommends that the Department proceed with the contract award. Original plans called for DATO to submit a proposed marketing plan to USTS for review and approval by February. Assuming the plan is approved, the Department would let an additional contract of roughly \$750,000, for implementation.

Schedule

Americans begin planning their summer vacations often as early as late March or early April. If the Government/industry program is to influence vacationists who will travel during the peak 1977 summer travel season, then program planning must begin immediately. If the current Administration does not resolve the issue, then the new Administration will need to take action as a first order of business. Should the question not be settled by the date of the Secretary-designate's confirmation hearing, it may be raised at the hearing.

Beyond this immediate issue, there is also the question of whether domestic tourism funds should be used for direct travel promotion or for research and analysis of domestic travel problems and programs.

Travel Advisory Board Agendas

And Appointments

Background

The Travel Advisory Board (TAB), is a committee of travel industry representatives chartered under the Federal Committee Act (5 U.S.C. App.I(Supp.V,1975), chaired by the Assistant Secretary for Tourism and appointed by the Secretary of Commerce. The current mandate of the TAB is to advise the Secretary on matters which will further the objectives of the International Travel Act of 1961 as amended (22 U.S.C. 2121). The existing TAB charter, which was last renewed on December 20, 1974, expires on January 5, 1977. The incumbent Assistant Secretary for Tourism has submitted a request to the Department--for transmittal to the Office of Management and Budget--to extend the charter for another two years, to January, 1979. This is being processed. If approved, the new charter will expand the TAB's objectives and duties to include provision of advice on matters pertinent to the Department's responsibilities under the Act of July, 1940 as amended (16 U.S.C. 18-18d), the domestic tourism promotion authority transferred from the Secretary of the Interior to the Secretary of Commerce in 1972.

Board members are appointed for two year terms and serve at the discretion of the Secretary of Commerce.

Expiration dates of current TAB members are as follows: Richard P. Ensign, Sr. V.P.-Marketing, Western Airlines: January 3, 1977; Roger E. Chase, V.P.-Agency and Consumer Affairs, TWA: January 13, 1977; Peter Ueberroth, President and Chairman, First Travel Corporation: June 1, 1977; James A. Henderson, Executive V.P., Amexco: August 31, 1977; Edward Driscoll, President, National Air Carrier Assoc.: May 26, 1978; James Host, Executive V.P., National Tour Brokers Assoc.: May 26, 1978; James P. Low, President, American Society of Assoc. Executives.: May 26, 1978; William D. Toohey, President, Discover America Travel Organization: May 26, 1978; Edward T. Hanley, Gen. President, Hotel and Restaurant Employees and Bartenders International Union: September 7, 1978; Robert L. McMullen, President, McMullen Tours: September 17, 1978; and Joseph Satrom, State Travel Director, North Dakota: September 27, 1978.

The current Administration is processing appointments for the following new TAB members, who will succeed members whose terms expired in 1976: Joseph Woodard, Executive V.P., Los Angeles Convention and Visitors Bureau; Virginia Knauer, Special Assistant to the President for Consumer Affairs; Howard P. James, Chairman, Sheraton Corp.; and Joel Abels, Editor and Publisher, Travel Trade.

Agendas for TAB meetings, which are held quarterly (roughly every 90 days) are prepared by, and mailed to members by, the Assistant Secretary for Tourism.

During the first four years of the Carter Administration, there will be approximately 16 meetings of the TAB.

Issue(s)

The issue(s) are: (1) what subjects should be discussed at future TAB meetings;

and (2) what individuals should be named to the TAB to replace members whose terms expire in 1977 and 1978?

Analysis of Issues

In the past, the Department has tended to solicit advice concerning its promotional, rather than policy, responsibilities for tourism. The composition of the board largely reflects the priority currently accorded to marketing functions. Increasingly, however, public policy objectives and issues are affecting the Department's ability to carry out its tourism responsibilities.

Such objectives included but are not limited to: (1) Energy independence; (2) Energy conservation; (3) Environmental protection; (4) full employment; and (5) Balanced growth.

The new Administration has the option of pursuing the present course, or of using the TAB to advise primarily on broad, public issues affecting the tourism sector and reserving TAB appointments for individuals who represent broad segments of the industry in a policy-making capacity. TAB agendas and TAB appointments are prepared by the Assistant Secretary for Tourism.

Schedule

The next TAB meeting would normally take place in February, 1977. The Assistant Secretary for Tourism would ordinarily send out an agenda and back up material in late January. Topic for discussion must be determined by that time.

The appointments of four TAB members will expire in 1977. One of the members whose term is up, Roger Chase of TWA, is a member of a Special TAB Task Force currently drafting codes of conduct for tourists travelling within the United States and for United States host communities which deal with tourists. The codes were undertaken at the request of Secretary Richardson. There are two other Task Force members.

EXPIRING
DEPARTMENT OF COMMERCE
CHARTER OF
Travel Advisory Board

Establishment:

The Travel Advisory Board (TAB) was established by the Secretary of Commerce on July 18, 1968, and has been periodically renewed in accordance with the provisions of Executive Orders 11007 and 11671. Initially chartered under the Federal Advisory Committee Act in January 1973, the Board is hereby rechartered under the same Act, with OMB concurrence.

Objectives and Duties:

1. The TAB advises the Secretary of Commerce on policies and programs designed to accomplish the purpose of the International Travel Act of 1961, as amended, (22 U.S.C. 2221-2227), which is to strengthen the domestic and foreign commerce of the United States, and promote friendly understanding and appreciation of the United States by encouraging foreign residents to visit the United States and by facilitating international travel generally.
2. The TAB will be called upon to identify areas where the attainment of goals of the United States Travel Service (USTS) can be facilitated, and to develop policy recommendations related thereto; to review policies and practices of other Federal agencies which have impact in the travel field and propose changes or additional actions that will better achieve the goals of the USTS; to propose means to bring about the most effective cooperation between the Federal Government and the travel industry, and between the Federal Government and local, State, and foreign governments and international agencies, in achieving the purpose of the Act; and to provide other guidance and recommendations on problems connected with carrying out the functions of the International Travel Act.
3. The TAB functions solely as an advisory body.

Members and Chairman:

1. The TAB shall consist of fifteen members, in addition to the Chairman, appointed by the Secretary of Commerce to serve for two years. Members may not be represented at the meeting by alternates, and resignation will be automatic upon a member's absence from two consecutive meetings.

Department of Commerce
Charter
Travel Advisory Board

Establishment

The Secretary of Commerce, having determined that it is in the public interest in connection with the performance of duties placed on the Department by law, established the Travel Advisory Board (the "Board" hereinafter) on July 18, 1968. Initially chartered under the Federal Advisory Committee Act [5 U.S.C. App. I (Supp. V, 1975)] in January 1973, and renewed in December 1974, the Board is hereby re-chartered under the same Act, with the concurrence of the Office of Management and Budget.

Objectives and Duties

1. The Board shall advise the Secretary of Commerce on matters pertinent to the Department's responsibilities to accomplish the purposes of the International Travel Act of 1961 as amended (22 U.S.C. 2121), and the Act of July 19, 1940, as amended (16 U.S.C. 18-18d, et seq.). These laws are designed (1) to strengthen the domestic and foreign commerce of the United States and promote friendly understanding and appreciation of the United States by encouraging foreign residents to visit the United States and by facilitating international travel generally and, (2) to develop "travel to and within the United States, including any commonwealth, territory, and possession thereof..."
2. The Board will draw on the expertise of its members to provide advice and recommendations to the Secretary. In its role, it is anticipated that the Board will provide guidance for achieving effective cooperation between other Federal agencies that impact upon the travel field, state and local governments, foreign governments, international agencies and the travel industry; identify resources to facilitate execution of the functions and goals of the International Travel Act and the Act of July 19, 1940, and to recommend policies related thereto.
3. The Board shall function solely as an advisory body, and shall comply fully with provisions of the Federal Advisory Committee Act.

Member and Chairman

1. The Board will consist of 15 members, in addition to the Chairman, to be appointed by the Secretary to assure a balanced representation of leaders from private and public organizations involved in travel and tourism, selected primarily from the following elements:

States
Cities
International Airlines
Domestic Airlines
Domestic Surface Transportation
Travel Agencies
Rental Car Agencies
Travel Societies
Accommodations
Tour Operators
Sightseeing Firms
Consumer Organizations
International Financial Institutions
Educational Institutions
Regional Tourist Councils

The members shall be appointed for 2-year terms and serve at the discretion of the Secretary. Members may not be represented at meetings by alternates, and resignation shall be automatic upon a member's absence from two consecutive meetings.

2. The Assistant Secretary of Commerce for Tourism shall serve as chairman of the Board.

Administrative Provisions

1. The Board shall report to the Secretary through the Assistant Secretary for Tourism.
2. The Board will generally meet quarterly, except that additional meetings may be called as deemed necessary by the Secretary or the Chairman.
3. The United States Travel Service will provide clerical and other necessary supporting services for the Board.
4. Members of the Board will not be compensated for their services, but will, upon request and subject to the approval of the Assistant Secretary for Tourism, be reimbursed for travel expenses and subsistence.

5. The annual cost of operating the Board is estimated at \$8,568.00. This includes one-half man-year of staff support.
6. The Committee may establish such subcommittees of its members as may be necessary, subject to the provision of law and the approval of Assistant Secretary for Tourism.

Duration

The Board will terminate two years from the date of this charter unless earlier terminated or renewed by proper authority by appropriate action.

Date

Assistant Secretary for Administration

