Major Programs

SECTION VI

MAJOR PROGRAMS

## MAJOR PROGRAMS

The objective of the Maritime Administration is the development and maintenance of a well-equipped merchant marine, owned and manned by U.S. citizens, which is sufficient to carry a substantial portion of U.S. waterborne foreign commerce and capable of serving as a naval and military auxiliary in time of war or national emergency, supplemented by efficient facilities for shipbuilding and ship repair. There are four basic programs administered by the Agency to achieve this goal. These major programs are:

1. Construction-Differential Subsidy
2. Operating-Differential Subsidy
3. Federal Ship Financing Program
4. Research and Development

Detailed description of these programs follow.

### 1. Construction-Differential Subsidy

The Construction-Differential Subsidy (CDS) program authorized by Title V of the Merchant Marine Act, 1936, (the Act) is a major element in developing a modern fleet and assuring an efficient shipbuilding industry. The CDS program is designed to permit a U.S. citizen to construct a vessel in a U.S.

shipyard at the same cost to him as if the vessel were constructed in a representative foreign shipyard. The difference between the U.S. shipyard price and the foreign price is paid as a subsidy from the Ship construction appropriation. Any national defense features incorporated in the ship that are in excess of commercial requirements are paid for entirely from CDS funds.

Funding requirements are based on operator demand for new ships and, therefore, are affected by factors such as the level of foreign trade, world economic conditions, changing cargo carrying technology and innovation, and the need to replace existing tonnage. Actual and planned obligations for CDS are shown in the following table:

Construction-Differential Subsidy
(dollars in millions)

| Fiscal Year | | | Fiscal Year | | |
|---|---|---|---|---|---|
| 1970 | act. | $67.8 | 1975 | act. | $101.6 |
| 1971 | " | $171.4 | 1976 | " | $85.0 |
| | | | T.Q. | " | $16.2 |
| 1972 | " | $79.4 | 1977 | est. | $255.8 |
| 1973 | " | $436.4 | 1978 | " | $242.0 |
| 1974 | " | $293.4 | | | |

The demand for tankers, which had a dominant influence on the program in the recent past, has ceased. The current program is predicated on the need of U.S.-flag operators to replace general cargo ships, and on some fleet expansion in the areas of heavy-lift ships and liquefied natural gas carriers.

The level of subsidy rates, the outlook for the Seatrain shipyard, and the shipbuilding forecast are issues currently affecting this program. These issues are explored in issue summaries under a separate tab.

2. <u>Operating-Differential Subsidies</u>

In line with the objective of maintaining a healthy merchant fleet under the U.S.-flag, the Operating-differential subsidy (ODS) program,authorized by Title VI of the Act, compensates the owner of a U.S.-flag vessel, employed in an essential foreign trade service, for the difference between certain of his operating expenses and the correspondingly lower operating costs of his principal foreign competitors. The operating expenses eligible for subsidy for the general cargo fleet are wages of officers and crews, insurance, and maintenance and repairs not compensated by insurance. Because of the special nature of the bulk cargo trade, the statutory authority for paying subsidy is broader and more flexible. It provides that the Secretary of Commerce may pay as subsidy such sums as are considered necessary to make the cost of operating a U.S.-flag bulk cargo vessel competitive with the cost of operating a similar vessel in a foreign country.

The United States has a modern, efficient general cargo fleet which carries approximately 30 percent of the value of U.S. waterborne liner cargoes. The ODS program has significantly aided in developing and maintaining the subsidized general cargo fleet which comprises some 180 ships.

Bulk ships, both tankers and dry bulk carriers, were essentially precluded from obtaining operating subsidy prior to the 1970 amendments to the Merchant Marine Act of 1936. The special bulk operator provisions initiated in 1970 have encouraged substantial tanker construction and operation under the U.S. flag. Tankers contracted in the early 1970's are now entering the subsidized fleet with 12 operating in 1976 and 22 expected to be in operation by the end of 1977. As discussed separately, substantial dry bulk carrier construction has not occurred.

The ODS program makes special provision to employ chronically idle, older U.S.-flag tankers in the carriage of grain to the Soviet Union. As a result of this program, U.S.-flag ships carried 21 percent of all grain shipments to the Soviet Union during the period July 1, 1972 to September 30, 1976.

Six passenger or combination passenger/cargo ships are currently operating with subsidy aid. Transoceanic airline service and rising passenger ship operating costs make profitable passenger ship operation difficult. Two of the six ships will reach the end of their 25-year economic lives in 1978, at which time subsidy will be terminated. The remaining four ships, all passenger/cargo combination ships, remain viably employed.

Actual and planned subsidy obligations for this program are shown in the following table:

Operating-Differential Subsidy
(dollars in millions)

| Fiscal Year | | | Fiscal Year | | |
|---|---|---|---|---|---|
| 1970 | act. | $205.7 | 1975 | act. | $243.2 |
| 1971 | " | $268.0 | 1976 | " | $277.7 |
| | | | T.Q. | " | $ 75.9 |
| 1972 | " | $235.7 | 1977 | est. | $366.2 |
| 1973 | " | $226.7 | 1978 | " | $329.5 |
| 1974 | " | $257.9 | | | |

MarAd has recently negotiated new long-term (20 year) contracts with several operators. Some savings to the government have been achieved by the elimination of subsidy on maintenance and repair in these contracts. Several more contracts are in various stages of the renewal process. This renewal process, subsidy for United States Lines and other issues pertaining to this program are discussed in issue summaries under separate tabs.

3. Federal Ship Financing Program

The Federal Ship Financing Program, authorized by Title XI of the Act, as amended, provides that the Secretary of Commerce may pledge the full faith and credit of the United States to guarantee the principal and interest of construction loans and long-term financing applicable to the construction, reconstruction or reconditioning of a vessel to be used in the domestic or foreign trade of the United States. Guarantees may be made of amounts up to 87 1/2 percent of the actual cost of construction of vessels that are not covered by construction subsidy and up to 75 percent of vessels built with subsidy assistance. The maximum period of the guarantee is 25 years from the date of the delivery of the vessel. This program permits U.S. owners to borrow funds from public or private sources at reasonable interest rates and enables some owners access to credit markets that might not be available at all without the Government guarantee.

Under current legislation, guarantees of obligations up to $7 billion are authorized. Currently, guarantees and commitments to guarantee total $5 billion. This amount, besides covering a large proportion of the U.S. foreign trade fleet, covers a myriad of domestically employed vessel types such as tugs, barges, drilling rigs, drilling rig service craft, roll-on/roll-off van ships, and tankers.

Income from premiums charged for guarantee coverage and other income are deposited in the Federal Ship Financing Fund. Balances thus accumulated are used to pay creditors in the event of a default by a ship owner. The unencumbered equity available for this purpose is approximately $82 million. Borrowings from the Treasury are authorized in the event that defaults exceed the resources available in the Fund.

Although over 1900 vessels (excluding shipboard barges) have been granted guarantees since the inception of the program in 1954, only 10 vessel defaults have occurred. The overall loss to the fund due to vessel defaults since program inception is $13.5 million.

4. Research and Development

The Research and development program seeks to develop methods, systems and equipment to improve the productivity and competitive position of American shipbuilders and ship operators. The activities, most of which are cost-shared with industry, are in the areas of ship design, ship construction, ship operations and port operation. Emphasis is given to projects which have near-term benefits which will reduce construction and operating costs and related government subsidies.

The results of these projects directly benefit the commercial U.S. maritime industry by making available improved technology which can be practically applied in shipyards, aboard ship, or in port and intermodal operations. In turn, the application of these improvements can increase productivity and efficiency in the industry and enhance its position in comparison with foreign competitors.

Actual and planned obligations for this program are shown in the following table:

(dollars in millions)

| Fiscal Year | | | Fiscal Year | | |
|---|---|---|---|---|---|
| 1970 | act. | $11.6 | 1975 | act. | $22.5 |
| 1971 | " | $23.4 | 1976 | " | $19.1 |
| | | | T.Q. | est. | $3.1 |
| 1972 | " | $22.9 | 1977 | " | $20.8 |
| 1973 | " | $24.4 | 1978 | " | $18.3 |
| 1974 | " | $24.3 | | | |

The Research and development program was enlarged and redirected in fiscal year 1971, with the maritime industry directly involved in setting research requirements and in funding that research. Since then various projects have progressed through the stages of analysis, equipment design, and equipment development. Many projects are now in this last and most expensive stage, while others are beginning the process with new concepts for future maritime transportation needs.

5. Other MarAd Programs

A. Capital Construction Fund

Section 607 of the Act provides a system for deferral of the payment of income taxes on certain amounts that are deposited into a Capital Construction Fund (CCF) established under an agreement entered into between the taxpayer and the Secretary of Commerce. Taxes may be deferred on earnings from the operation of eligible vessels employed in domestic and foreign commerce, gains from the sale or insurance indemnities with respect to such vessels and earnings on investments of monies in the fund. Deposits may also be made of amounts equivalent to the tax depreciation of such vessels, which do not result in any direct tax benefit at the time of deposit, but provide funds that can be invested within the fund and thereby allow deferral of tax on the investment income. Amounts in the fund may be withdrawn to pay the cost of replacement vessels, additional vessels or reconstructed vessels built in the United States for operation under the U.S. flag in the foreign trade, the non-contiguous domestic trade, in the Great Lakes or for the U.S. fisheries. Qualified withdrawals may also be made to make payments of indebtness incurred in the construction or reconstruction of such vessels. Taxes are not assessed at the time of the qualified withdrawals, but the tax basis of the asset is reduced by the amount of the tax-deferred investment so that income taxes are recovered from the taxpayer through the increased taxable income resulting from reduced tax depreciation deductions.

B. <u>Cargo Preference</u>

MarAd administers the cargo preference laws, which are applicable to government generated cargoes. There are currently three cargo prefernce statutes that reserve U.S. Government cargoes either exclusively or in part to U.S. vessels. Section 901(b) (1) of the Act (P.L. 664) requires that at least 50 percent of all cargo procured by the United States for its own account or for the account of any foreign nation without reimbursement that is transported by ocean vessels shall be transported on privately-owned U.S.-flag commercial vessels to the extent they are available at fair and reasonable rates for such vessels. This law covers substantial quantities of foreign aid cargoes shipped by the U.S. Department of Agriculture and by A.I.D. In addition, all military cargoes are reserved for United States vessels. The third category of preference cargoes include those cargoes that are financed by an instrumentality of the U.S., such as the Export-Import Bank. All of these cargoes must be transported by U.S.-flag vessels unless a waiver is granted for shipment by foreign flag vessels by MarAd. Two types of waivers are granted: (1) a "statutory waiver" when U.S.-flag vessels are not available on reasonable schedules or at reasonable rates and (2) a "general waiver" to recipient flag vessels of not more than 50 percent of the cargo if the recipient country does not engage in any discriminatory practices against U.S. shipping.

C. Market Development

This includes all activities directed to assist U.S. operators to improve their cargo solicitation efforts.

MarAd not only provides detailed statistics to pin-point high potential and lucrative cargo sources, but actually participates in promoting U.S.-flag services by direct contracts with major shippers. Under this heading special mention needs to be made of the National Maritime Council, an association of management, labor and Government,to promote a "ship by U.S.-flag vessel" program. This is by far the most extensive and broad-ranging promotional campaign ever undertaken on behalf of the U.S. merchant fleet and has been eminently successful not only in increasing the patronage of U.S. ships by the shipper community but in molding together the previoulsy diverse factions of management and labor under a theme that is to their mutual benefit--getting more cargo for American ships.

D. Maritime Training

MarAd directly administers the training of merchant marine officers at the U.S. Merchant Marine Academy at Kings Point, New York and provides financial support for the six State Maritime Academies located in Maine, Massachusetts, New York, Texas, California and Michigan. MarAd also conducts radar training courses in New York, New Orleans, San Francisco Toledo, and Seattle. Additional officers and unlicensed crew training is conducted by several of the unions at facilities financed by contributions from ship operators.

## E. International Activities

Through the Office of International Activities and through representatives of MarAd's program offices the Agency participates in many international forums to support international rules and conventions to protect and advance policies favorable to U.S. shipping. Examples of these activities are marine pollution, marine safety, communication and navigation, ship design, cargo documentation and bilateral cargo agreements.

## F. Ombudsman Activities

MarAd also acts as ombudsman to represent maritime interests with other Government agencies. We interface with Federal Energy Administration in energy allocation matters, with Interstate Commerce Commission in inland transportation rate issues, Federal Maritime Commission in regulatory matters, Coast Guard in many maritime matters under their jurisdiction, the Treasury Department in customs matters, the State Department in international problems, the Labor Department in some contract compliance and other labor items, the Department of Agriculture on cargo preference matters and the Department of Defense in several areas relating to national security and military cargoes.

## SECTION VII

RESOURCES (FOR EACH PROGRAM, DOLLARS AND END STRENGTH FOR FY 1976 AND FY 1977; THE SAME DATA FOR FY 1977 SUPPLEMENTAL AND FY 1978 BUDGET REQUESTS)

## Resources

MarAd programs are mostly funded through four appropriations and the Federal ship financing fund, a revolving fund which funds losses from vessel defaults through receipts from vessel operators. A summary of appropriated funds follows:

| | ($ in millions) FY 1976 | FY 1977 | FY 1978 |
|---|---|---|---|
| Program Level | $ 428.8 | $ 691.5 | $ 643.7 |
| Outlays | 470.6 | 691.7 | 673.6 |
| End of Year Employment | 1,495 | 1,513 | 1,550 |

## Program Statement

Ship construction - Provides subsidy for construction and conversion of ships in U.S. shipyards to sustain competitive U.S. shipbuilding facilities and further the development of a strong U.S.-flag fleet.

Operating-differential subsidies - Government non-discretionary obligations under twenty-year contractual commitments to provide subsidy for competitive operation of U.S.-flag ships in foreign commerce, and to meet national security requirements.

Research and development - Objectives of this program are to develop methods, systems and equipment to improve the shipbuilding and ship operating capabilities of the U.S. maritime industry.

Operations and training - Finances the costs of administering and directing the various programs of the Maritime Administration. Also provides for officer training at the U.S. Merchant Marine Academy and Federal financial support to six participating State maritime academies.

## Subprogram Resources
($ in thousands)

| | FY 1976 | | FY 1977 | | FY 1978 | |
|---|---|---|---|---|---|---|
| | Program Level | End-of-Year Employment a/ | Program Level | End-of-Year Employment a/ | Program Level | End-of-Year Employment a/ |
| Ship Construction | $ 84,982 | ... | $255,812 | ... | $242,000 | ... |
| Operating-Differential Subsidies | 277,693 | ... | 366,172 | ... | 329,500 | ... |
| Research & Development | 19,164 | ... | 20,771 | ... | 18,325 | ... |
| Operations & Training | | | | | | |
| National defense reserve fleet | 4,242 | 209 | 4,560 | 223 | 4,843 | 233 |
| Merchant Marine Academy & State Marine Schools | 16,208 | 284 | 17,001 | 284 | 20,307 | 287 |
| Other O&T | 26,468 | 980 | 27,157 | 980 | 28,737 | 1,004 |
| Total | $428,757 | 1,473 | $691,473 | 1,487 | $643,712 | 1,524 |

a/ Excludes employees which are not counted in OMB ceilings.

Distribution of Employment
On Board as of 10/31/76

| | |
|---|---|
| Washington Headquarters | 769 |
| Eastern Region | 160 |
| Central Region | 90 |
| Great Lakes Region | 15 |
| Western Region | 150 |
| U.S. Merchant Marine Academy | 274 |
| Foreign Maritime Representative Staff | 10 |
| TOTAL | 1,468 a/ |

a/ Excludes employees not counted in OMB ceilings.

Key Issues

# MARITIME AFFAIRS

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

# 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-Beligum 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.Q. | $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

- 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.

- 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 SEATRAIN SHIPYARD, BROOKLYN, NEW YORK

Background:

- 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.

- 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.

- 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:

- 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.

- 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.

- 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.

- 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)

| Vessel Type | U.S. % by Tonnage | U.S. % by Value |
|---|---|---|
| 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 coastwise 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.

<u>Schedule</u>:

- 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.

° 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 Boards 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.

| Operator and Contract No. | Number Subsidized Ships | Contract Expiration Date |
|---|---|---|
| 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 |
| Lykes 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.

MARAD ASSUMPTION OF ADDITONAL CONTRACT COMPLIANCE RESPONSIBILITY UNDER EXECUTIVE ORDER 11246, AS AMENDED

Background:

- The Department of Labor (DOL) is responsible for administering the contract compliance program (EEO) under the Executive Order. To carry out this function DOL has delegated responsibilities to ten government agencies to audit government contractors in the supply and service industries.

- The Commerce (MarAd) program has an excellent reputation for cost-effectiveness and efficiency.

- For several years there has been an interest in reducing the number of agencies in the program. The first drafts of the consolidation plan developed in early 1976 called for a reduction to six agencies and merger of the Commerce and Transportation (DOT) programs into Defense. On further analysis, the DOL decided to maintain a Commerce (actually administered in MarAd) Department program by merging the DOT program into Commerce. The primary reason for the DOL interest in maintaining the Commerce program is the demonstrated efficiency of the MarAd effort. The changes are presently scheduled to take effect October 1, 1977.

Issue: To maintain an effective contract compliance program in the maritime industry while meeting the DOL goal of reducing the number of agencies with contract compliance responsibility.

Analysis of Issue:

- The merger would move the DOT contract compliance program into MarAd. DOT has responsibility for the inland maritime industries, port authorities and the commercial airline industry. Jurisdiction over the airline industry would appear to be inconsistent with the goal and mission of MarAd, but this would not be a barrier to successful performance if the merger were effected.

- OMB has endorsed DOL's plan in principle.

- DOT has protested the DOL plan.

Schedule:

- The changes have been sent to OMB for action.
- Action is anticipated by January 1977
- Congress, the press and the civil rights agencies have urged DOL to withhold action during the transition.

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.

<u>Issue</u>: To assure adequate, responsive shipping and shipbuilding support in wartime for military and essential civilian requirements.

<u>Analysis of Issue</u>:

- 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.

<u>Schedule</u>: Not applicable

# 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.

# 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.

Congressional Oversight

# SECTION IX

# CONGRESSIONAL OVERSIGHT

## PRINCIPAL CONGRESSIONAL CONTACTS

The principal Congressional contacts are with the Merchant Marine and Fisheries Committee of the House of Representatives and with the Commerce Committee of the Senate. The committees on appropriations and the Congressional budget committees are also of major importance to MarAd programs.

The following list shows the membership of these committees during the 94th Congress. Committee assignments for the new Congress have not yet been made. Asterisks indicate that the member is returning to the House or Senate, respectively.

House Committee on Merchant Marine and Fisheries
Leonor K. (Mrs. John B.) Sullivan, Missouri, Chairman

*Thomas L. Ashley, D-Ohio
*John D. Dingell, D-Mich.
Thomas N. Downing, D-Va.
*Paul G. Rogers, D-Fla.
*John M. Murphy, D-N.Y.
*Walter B. Jones, D-N.C.
*Robert L. Leggett, D-Calif.
*Mario Biaggi, D-N.Y.
*Glenn M. Anderson, D-Calif.
*E de la Garza, D-Texas
*Ralph H. Metcalfe, D-Ill.
*John B. Breaux, D-La.
*Fred B. Rooney, D-Pa.
Paul S. Sarbanes, D-Md.
*Bo Ginn, D-Ga.
*Gerry E. Studds, D-Mass.
*David R. Bowen, D-Miss.
*Joshua Eilberg, D-Pa.
*Ron de Lugo, D-Virgin Islands
*Carroll Hubbard, Jr., D-Ky.
*Don Bonker, D-Wash.
*Les AuCoin, D-Ore.
*Norman E. D'Amours, D-N.H.
*Jerry M. Patterson, D-Calif.
*Leo C. Zeferetti, D-N.Y.
*James L. Oberstar, D-Minn.

*Philip E. Ruppe, R-Mich.
Charles A. Mosher, R-Ohio
*Paul N. McCloskey, Jr.,R-Calif.
*Gene Snyder, R-Ky.
*Edwin B. Forsythe, R-N.J.
Pierre S. du Pont, R-Del.
*David C. Treen, R-La.
*Joel Pritchard, R-Wash.
Don Young, R-Ala.
*Robert E. Bauman, R-Md.
*Norman F. Lent, R-N.Y.
*Matthew J. Rinaldo, R-N.J.
*David F. Emery, R-Maine

Senate Committee on Commerce
*Warren G. Magnuson, Washington, Chairman

John O. Pastore, D-R.I.
Vance Hartke, D-Ind.
Philip A. Hart, D-Mich.
*Howard W. Cannon, D-Nev.
*Russell B. Long, D-La.
Frank E. Moss, D-Utah
*Ernest F. Hollings, D-S.C.
*Daniel K Inouye, D-Hawaii
John V. Tunney, D-Calif.
*Adlai E. Stevenson, D-Ill.
*Wendell H. Ford, D-Ky.

*James B. Pearson, R-Kans.
*Robert P. Griffin, R-Mich.
*Ted Stevens, R-Alaska
J. Glenn Beall, R-Md.
*Lowell P. Weicker, Jr.,R-Conn.
James L. Buckley, R-N.Y.

## Senate Committee on Appropriations
## Subcommittee on State, Justice, Commerce and the Judiciary

John O. Pastore, Rhode Island, Chairman

*John L. McClellan, D-Ark.
Mike Mansfield, D-Mont.
*Ernest F. Hollings, D-S.C.
*Warren G. Magnuson, D-Wash.
*Thomas F. Eagleton, D-Mo.
*J. Bennett Johnston, D-La.

*Walter Huddleston, D-Ky.

Roman L. Hruska, R-Neb.
Hiram L. Fong, R-Hawaii
*Edward W. Brooke, R-Mass.
*Mark O. Hatfield, R-Ore.
*Ted Stevens, R-Alaska

## House Committee on Appropriations
## Subcommittee on State, Justice, Commerce and the Judiciary

John M. Slack, West Virginia, Chairman

*Neal Smith, D-Iowa
*John J. Flynt, Jr., D-Ga.
*Bill Alexander, D-Ark.
*Yvonne B. Burke, D-Calf.

*Joseph D. Early, D-Mass.

*Elford A. Cederberg, R-Mich.
*Mark Andrews, R-N.D.
*Clarence E. Miller, R-Ohio

## Senate Committee on Budget
Edmund S. Muskie, Maine, Chairman

*Warren G. Magnuson, D-Wash.
Frank E. Moss, D-Utah
Walter F. Mondale, D-Minn.
*Ernest F. Hollings, D-S.C.
*Alan Cranston, D-Calif.
*Lawton Chiles, D-Fla.
*James Abourezk, D-S.D.
*Joseph R. Biden, D-Del.

*Sam Nunn, D-Ga.

*Henry L. Bellmon, R.-Okla.
*Robert Dole, R-Ks.
J. Glenn Beall, R-Md.
James L. Buckley, R-N.Y.
*James A. McClure, R-Idaho
*Pete V. Domenici, R-N.M.

(no Subcommittees)

House Committee on Budget
Brock Adams, Washington, Chairman

*Thomas P. O'Neill, D-Mass.
*James C. Wright, D-Texas
*Thomas L. Ashley, D-Ohio
*Robert N. Giaimo, D-Conn.
*Neal Smith, D-Iowa
James O'Hara, D-Mich.
*Robert L. Leggett, D-Cal
*Parren J. Mitchell, D-Md.
*Omar Burleson, D-Texas
Phil M. Landrum, D-Ga.
*Sam Gibbons, D-Fla.
Patsy Mink, D-Hawaii

*Louis Stokes, D-Ohio
*Harold Runnels, D-N.M.
*Elizabeth Holtzman, D-N.Y.
*Butler Derrick, D-S.C.

*Delbert L. Latta, R-Ohio
*Elford A. Cederberg, R-Mich.
Herman T. Schneebeili, R-Pa.
*James T. Broyhill, R-N.C.
*Del Clawson, R-Calif.
*James F. Hastings, R-N.Y.
Garner Shriver, R-Ks.
*Barbara B. Conable, R-N.Y.

(no Subcommittees)

# SECTION X

# OTHER MAJOR OUTSIDE CONTACTS

## PRINCIPAL INTERAGENCY CONTACTS

MarAd's most frequent contacts are with representatives of the maritime industry, including shipbuilders, operators, labor union officials and representatives of trade associations. In addition, there are contacts with the following Federal Agencies:

The Office of Management and Budget

- Director
- Associate Director for Economic and Government
- Chief, Commerce Branch
- Branch Chief, Navy, National Security Division
- Maritime Examiner

The Department of Defense

- Deputy Secretary of Defense
- Secretary of the Navy
- Chief of Naval Operations
- Assistant Secretary of Defense (I&L)
- Assistant Secretary of the Navy (I&L)
- Commander, Military Sealift Command

The Department of Transportation

- Coast Guard
  - Commandant of the Coast Guard
  - Chief, Office of Merchant Marine Safety
  - Chief, Office of Marine Environment and Systems
- Assistant Secretary for Policy and International Affairs

The Department of Agriculture

- Assistant Secretary for International Affairs and Commodity Programs
- Administrator, Foreign Agricultural Service

The Federal Maritime Commission

- Chairman
- Managing Director

The Interstate Commerce Commission

- Chairman
- Secretary/Congressional Relations Officer

The Department of State

Deputy Assistant Secretary for Transportation and Telecommunications
Director, Office of Maritime Affairs
Deputy Director for Economic Affairs, Office of Soviet Affairs
Desk Officer, Soviet Affairs
Administrator, A.I.D.

The Department of the Tresury

Secretary, Federal Financing Bank
Director, Carriers Drawback and Bonds Division, U.S. Customs Service

Export-Import Bank

President
Vice-President for Contract Administration

PRINCIPAL PUBLIC CONTACTS

Most involvement with the public is with individual ship builders, ship operators, leaders of the maritime labor unions (seagoing, shoreside and shipbuilding), port interests, and trade associations.

SHIPBUILDING

Richard H. Mayer, President
American Shipbuilding
Lorain, Toledo, Ohio

Edwin Hartzman, President
Avondale Shipyards, Inc.
New Orleans, La.

John F. Sullivan, Jr.
Bath Iron Works Corp.
Bath, Maine

A. J. Zeuhlke, President
Bay Shipbuilding
Sturgeon Bay, Wisc.

W. F. Williams, Vice President
Bethlehem Steel Corp.
Bethlehem, Pa.

Charles H. Johnson, Division Mgr.
FMC Corporation, Marine & Rail Equipment Div.
Portland, Ore.

P. Takis Veliotis, President
General Dynamics Corp.
Quincy, Mass.

N. J. Marandino, President
Ingalls Shipbuilding
Division of Litton Industries
Pascagoula, Miss.

M. L. Ingwersen, President
Lockheed Shipbuilding & Construction Co.
Seattle, Wash.

John Banks, President
National Steel and Shipbuilding Co.
San Diego, Calif.

John Diesel, President
Newport News Shipbuilding
Newport News, Va.

J. A. Serrie, Jr.
Seatrain Shipbuilding Co.
New York, N.Y.

Paul E. Atkinson, President
Sun Shipbuilding & Dry Dock Co.
Chester, Penn.

Arthur W. Stout, Jr.
Todd Shipyard Corp.
New York, N.Y.

## LINER SHIP OPERATORS

James P. Horn, President
American Export Lines, Inc.
New York, N.Y.

Norman Scott, President
American President Lines, Ltd.
San Francisco, Calif.

Erik F. Johnsen, President
Central Gulf Lines
International Trade Mart
New Orleans, La.

Captain J.W. Clark, President
Delta Steamship Lines, Inc.
New Orleans, La.

Thomas J. Smith, President
Farrell Lines, Inc.
New York, N.Y.

W. J. Amoss, Jr., President
Lykes Bros. Steamship Co., Inc.
New Orleans, La.

R. J. Pfeiffer, President
Matson Navigation Co.
San Francisco, Calif.

James R. Barker
Chairman and Chief Executive Officer
Moore-McCormack Resources, Inc.
Stamford, Conn.

Robert E. O'Brien, President
Moore-McCormack Lines, Inc.
New York, N.Y.

John I. Alioto, President
Pacific Far East Line, Inc.
San Francisco, Calif.

Spyros S. Skouras, President
Prudential Lines, Inc.
New York, N.Y.

Henry L. Gilbertson, President
Sea-Land Service, Inc.
Edison, N.J.

J. R. Dant, President
States Steamship Co.
San Francisco, Calif.

E. J. Heine, Jr., President
United States Lines, Inc.
New York, N.Y.

E. P. Walsh, President
Waterman Steamship Corp.
New York, N.Y.

## TANKER AND BULK OPERATORS

G. E. Halstead, President
Alcoa Steamship Co., Inc.
New York, N.Y.

Morris Ginsberg, President
American Foreign Steamship Corp.
New York, N.Y.

T. F. Bradshaw, President
Atlantic Richfield Co.
Los Angeles, Calif.

Randall Mayer, President
Exxon Company, U.S.A.
Houston, Texas

R. I. Hoskins, Vice President
Marine Department
Gulf Oil Trading Co.
Philadelphia, Penn.

Joseph Kahn/Howard Pack
Co-Chairman
Hudson Waterways Corp.
New York, N.Y.

Richard E. Barker, President
Luckenbach Steamship Co.
New York, N.Y.

Raphael Recanati, President
Maritime Overseas Corp.
New York, N.Y.

Michael Klebanoff, President
Ogden Marine, Inc.
New York, N.Y.

Maurice F. Granville, Chairman
Texaco, Inc.
New York, N.Y.

William B. Hogan, President
Victory Carriers
New York, N.Y.

Samuel H. Wang, Chairman
American Bulk Carriers, Inc.
New York, N.Y.

Adam E. Cornelius, Jr.,President
American Steamship Co.
New York, N.Y.

L. C. Ford, President
Chevron Navigation Co.
San Francisco, Calif.

D. B. Wood, Manager
Fox Shipping Inc.
c/o Reynolds Metals
Corpus Christie, Texas

Captain T. William Anderson
President
Hendy International Co.
Los Angeles, Calif.

A. B. Kurz, President
Keystone Shipping Co.
Philadelphia, Penn.

Captain V. L. Bruer, President
Marine Carriers, Inc.
New York, N.Y.

Captain J. Van Lier, President
Moore-McCormack Bulk
Transport Inc.
Stamford, Conn.

Theodore A. Burtis, President
Sun Oil Co., Products Group
Transportation Division
Philadelphia, Penn.

John B. Coakley, President
UTG, Inc., United Tanker Corp.
New York, N.Y.

# LEADERS OF MARITIME LABOR UNIONS

## Seagoing

American Radio Association (ARA)
W. R. Steinberg, President

Marine Engineers Beneficial Association, District 1 and Pacific (MEBA)
Jesse Calhoon, President

Marine Engineers Beneficial Association, District 2 (MEBA)
Raymond McKay, President

Masters, Mates and Pilots of America (MMP)
Frank Scavo, President

National Maritime Union of America (NMU)
Shannon Wall, President

Radio Officers' Union of the United Telegraph Workers Union (ROU)
Edward Fitzgerald, President

Seafarers International Union of North America (SIU)
Paul Hall, President

## Shoreside

International Longshoremen's Association (ILA)
Thomas Gleason, President

International Longshoremen's and Warehousemen's Union (ILWU)
Harry Bridges, President

## Shipbuilding

Industrial Union of Marine and Shipbuilding Workers of America
Eugene McCabe, President

International Association of Machinists
A. J. Haynes, President

International Brotherhood of Boilermakers, Iron Shipbuilders, Blacksmiths, Forgers and Helpers
Harold Bouy, President

Pacific Coast Metal Trades District Council
Thomas Rotell, President

## MARITIME TRADE ASSOCIATIONS

American Institute of Merchant Shipping
James Reynolds, President, representing most of the subsidized lines and the major oil company tanker operators.

American Maritime Association
Alfred Maskin, Executive Director, representing some of the unsubsidized lines and the majority of the independent tanker and bulk carrier operators.

American Association of Port Authorities
James Smith, President, representing the inland waterway industry.

Lake Carriers Association
VADM Paul Trible, USCG (Ret.), President, representing the Great Lakes operators.

Shipbuilders Council of America
Edwin Hood, President, representing the shipbuilders.

Transportation Institute
Herbert Brand, President, representing the interests of the Seafarers International Union.