

The original documents are located in Box 27, folder “Panama Canal - Labor Dispute” of the John Marsh Files at the Gerald R. Ford Presidential Library.

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MAR 16 1976

RED TAGTHE WHITE HOUSE
WASHINGTON

March 16, 1976

MEMORANDUM FOR:

JACK MARSH

FROM:

CHARLES LEPPERT, JR. *CLJ*

SUBJECT:

Panama Canal

Pursuant to your request I met with Rep. Leonor Sullivan on Monday, March 15, on the Panama Canal Toll Rule changes.

The discussion by Mrs. Sullivan concerned mainly a "crisis atmosphere" in the Canal Zone and not the proposed toll changes.

Mrs. Sullivan contends that the situation in the Canal Zone is a "hot bed of discontent" which goes back as far as the Eisenhower Administration when Dr. Milton Eisenhower proposed a number of changes for the Canal Zone. She states that while Eisenhower created the problem the controversy settles on two central points:

- (1) the treaty and its renegotiation, and
- (2) the financial situation.

Mrs. Sullivan states that any thought of renegotiating a treaty which will give up U.S. rights or authority in the Canal Zone will not see the light of day in the U.S. Congress and she is committed to work against any such proposal. However, the driving force creating the tension and unrest is the financial situation.

The financial problems are tied to the treaty which requires that all revenues from the operation of the Canal to be available to meet all the expenses of operations, maintenance, and supporting functions. Mrs. Sullivan cites three main areas of concern which are as follows:

- (1) That legislation is needed to defer payment of the interest on the original debt of the Panama Canal Co. Mrs. Sullivan states that she is working on this type of legislation with the Canal Company and will introduce and pass such legislation as soon as she can do so;
- (2) That the order of the Secretary of the Army freezing the pay scale for Canal Company employees must be rescinded as

GERALD R. FORD LIBRARY

it is causing severe problems of discontent among the Company employees; and

- (3) That the order restricting eligibility on the wage differential for U.S. employees must be rescinded as it is also causing problems.

Mrs. Sullivan feels strongly that something serious is about to erupt in the Canal Zone over these issues and requests that something be done by the Administration as soon as possible. Mrs. Sullivan has met with people from the Canal Zone and requested that they not go on strike but give her some time to work things out. While talking with Mrs. Sullivan, she received a report from the Canal Zone that because of the tensions and discontent there was a 50% rate of employees reporting off work causing a work slow down on March 15. Mrs. Sullivan asked that I call you following her receipt of that report. I exclaimed that you were in a meeting with the President at the time and that I would report her conversation and request to you upon my return to the White House.

Mrs. Sullivan called again this morning, March 16 to state that she had received a report that there was a 75% slowdown caused by employee failure to report for work.

Mrs. Sullivan repeated her request this morning for some Administration action in this matter and requests that either you or I get back to her with a report.

Attached for your information is a letter from J. J. O'Donnell, President of the American Federation of Government Employees in the Canal Zone and Mrs. Sullivan's response. She asked that I give these to you for transmittal to the President and as evidence of the tense situation that exists.

cc: Friedersdorf
Loen
Loeffler
Rourke

March 16, 1976

MEMORANDUM FOR: THE PRESIDENT
FROM: JACK MARSH

Congresswoman Sullivan is anxious for you to have the attached information in reference to the Panama Canal.

cc: Dick Cheney
Brent Scowcroft

JOM/dl



MAR 16 1976

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THE WHITE HOUSE

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cc: Friedersdorf
Loen
Loeffler
Rourke

March 11, 1976

Mr. James J. O'Donnell
Local No. 14, AFGE
Box 1703
Balboa, Canal Zone

Dear Mr. O'Donnell:

In the many years in which I have been in Congress I have always tried to pay special attention to the problems of the average worker, whether he be in my own Congressional District in Saint Louis, Missouri, or at the Panama Canal. And, as you know, while Chairman of the Panama Canal Subcommittee for fifteen years and Chairman of the House Committee on Merchant Marine and Fisheries for the last four years, I have given very special attention to the operation of the Panama Canal and the welfare of its employees. You probably realize that I have continually made retention of U. S. control of the Panama Canal one of my major goals as a legislator and, hopefully, as a leader in this country. As a result of my experience and beliefs about the importance of the Canal and the environment in which it operates, I am concerned and alarmed at your recent correspondence with respect to wage proposals recently made by the Canal Zone Personnel Policy Coordinating Board.

I am one who understands the relationship between employee morale and efficiency and the management and successful operation of the Panama Canal. I understand that the Canal employee has had to live in an atmosphere of uncertainty and apprehension for many years now, and that moves to change wage and compensation policies which might be disliked but tolerated elsewhere raise the deepest doubts and even suspicions in the present environment in the Canal Zone. Certainly the goal of good employee morale demands that we minimize as much as possible the doubts and problems of Canal employees.

As I stated in an open letter to Canal employees on March 5, I am against the proposal for a wage base freeze and I am working constantly against that proposal. I hope that you will have faith in my ability and in the ability of other Members of Congress who have long been interested in the Canal to eventually cause the Canal Zone Policy Board to somehow set aside these proposals and to find other ways to deal with the financial problems that have beset the Canal in recent years. I also hope that you will urge your fellow employees to avoid job actions such as a strike or a slowdown which will undoubtedly injure the very cause they would seek to promote.

March 11, 1976

The Committee on Merchant Marine and Fisheries of the House of Representatives will attempt to do its part to resolve the current crisis resulting from the proposals of the Coordinating Board. We have met with your representatives of organized labor. We have talked with the Office of the Secretary of the Army and his subordinates. We are promoting activity leading toward a solution to this crisis. We will see the Panama Canal Subcommittee of this Committee hold hearings on the finances of the Canal in the near future and many of the concerns you raise in your correspondence, especially as to the motivation and substance of these proposals, will be raised by Members in the hearings. Finally, we intend to see whether there is some relief legislation for the Canal enterprise which might be in order.

I hope that all Canal employees will remember during these tense times that the relationship between the Canal employee and the Canal user should not be an adversary type of relationship but rather a cooperative one. The prosperous operation of the Canal is a matter of mutual interest of the shipping and employee communities. Admittedly an increase in tolls does provide a bigger pie for Canal employees to divide. But precipitous increases in Canal user fees are likely to result in a situation in which there is a smaller pie or none at all. It takes more to keep the Canal operating successfully. It also takes a reasonably good level of ship traffic.

In summary, let me assure you that I have attempted, along with the Panama Canal Subcommittee Chairman, to ensure that all our Committee Members are familiar with your problems in the Canal Zone and, further, despite the fact that the House Post Office and Civil Service Committee has the most direct legislative jurisdiction on wage and compensation matters, I have been working and will work continuously to solve these kinds of problems, especially the problems of the wage proposals put forward by the Canal Zone Personnel Policy Coordinating Board.

Sincerely,

Leonor K. (Mrs. John B.) Sullivan
Chairman

LKS:TMcr

JOIN



LOCAL No. 14

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Affiliated with the AFL-CIO—The Granddaddy of Canal Zone Locals

Serving Federal Employees at the Crossroads of the World

Chartered October 9, 1932

Box 1703
Balboa, Canal Zo

March 3, 1976

United States Congressman
House of Representatives
Washington, D. C.

Dear Congressman:

This is to inform you that the Panama Canal is in danger of being closed to world commerce. We urgently seek your assistance in preventing this danger from becoming a reality. My letter dated February 1, 1976 was to alert you to certain measures being contemplated by the Office of the Secretary of the Army that would have a disastrous effect upon the Panama Canal Organization and its employees. Two specific measures have now been made public which reveal a pattern of unbelievable shortsightedness on the part of that office which completely ignores the overwhelming importance of work force stability to the Panama Canal operation.

If the Panama Canal is not used properly, if it is not maintained properly, this artery of world commerce cannot continue to exist. It takes expertise to maintain the Canal and it takes expertise to use the Canal, and this expertise only comes with long experience. The Panama Canal has a world-wide reputation for dependability because the lives of its employees, both U. S. and Panamanian, are bound so closely to their work. It takes a commitment to work for the Canal, a turning away from the mainstream of life in the home country, and the Panama Canal Company has always recognized the necessity for incentives to encourage the making of this commitment. Above all, there was recognition that obtaining a commitment to a career with the Canal required a continuing stability in the incentives offered. If an employee could have faith that the Canal would take care of him, he could concentrate on taking care of the Canal. The record of efficiency of the Panama Canal is testimony to the value of that arrangement.

The most important of the two proposals announced recently adversely affects the pay of some 3,500 Federal employees on the Isthmus. The proposal would freeze the wages of the 3,500 at their present level, until a new, much lower wage scale, caught up to the frozen scale. For many, this would mean going for the next ten years or more without a pay increase. In these inflationary times the freeze will mean that the purchasing power of the employees will progressively diminish. More than two-thirds of those affected are Panamanian citizens, so our protest crosses all citizenship lines. Many of the affected employees are journeymen electricians, plumbers, and other skilled craftsmen.

We do in unity that which is impossible in disunity



We have asked union lawyers to see if there might be a case for declaring such a proposal to be an agency-wide adverse action, similar in concept to the suit brought by 44 Federal judges that the ceiling on their salary constituted an unlawful diminution of their pay while in office. Such a declaration would permit many older employees to take advantage of early retirement. I think it extremely significant that when questioned about this, Governor Parfitt, while replying that he did not think it could be considered an adverse action, added that it would not be in the best interests of the Canal operation as he would lose too many of his good people; and, I quote, "We would have a hard time doing the job".

These new proposals do dishonor and discredit to the old understandings. The unilateral arbitrary manner in which they were presented is shameful. They irrevocably change the conditions which induced employees to commit themselves to a career with the Canal. They disregard any concept of equity toward employees already locked into their careers with the Canal, too young to retire, too old to start anew elsewhere, too specialized to compete in today's job market. The proposals strike at the basis of our whole lives and make us nothing more than indentured servants. Our ties to the Canal are deep-seated to begin with. Is it any wonder that our reactions to these incredibly shortsighted proposals is emotional?

I personally hope that employees will not engage in any sort of work slowdown, stoppage, or other job action. But the danger to the Canal is not in the deliberate act. It takes only an employee who no longer cares to go the second mile when the need exists. The Canal cannot operate without commitment. The proposals show a pattern of bad faith which will result in the loss of employee pride, enthusiasm and commitment, and ultimately perhaps, in the loss of the Canal to world shipping.

Is there logic in these proposals? There may be logic to applying them to new hires, but the dollar saving in their abrupt application to the 2,200 present Canal employees is estimated at but \$1 million per year. What false economy! One serious ship accident can cost the Panama Canal Company a much greater amount. And there are other expenses of the Panama Canal Company, such as the cost of providing service to the Government of Panama that are never paid for, that make the \$1 million saving small potatoes indeed for the Company and for the users of the Canal, while looming so large to the employee. And the \$1 million savings, which is a fraction of 1% of tolls income, won't balance the Company's budget nor even make a discernible dent in it.

We in the labor movement have gone along with management in various cuts to attempt to minimize the Company's budget deficit, but these latest proposals go too far toward forcing the employee to subsidize world shipping. Instead of raising toll rates to cover operating deficits, the Secretary of the Army is giving world shipping an enormous concealed subsidy in the form of unjustifiably low toll rates. Look at the facts!

When the Panama Canal Company was reorganized in 1951, the toll rate was 90¢ per ton. Since that time, the cost of everything has gone up, including Panama Canal toll rates which have increased some 20% to \$1.08. However, this percentage increase is far below the increases experienced elsewhere in the economy over that period. Some examples of other increases, ranging from the broad to the narrow follow:

Based on a nationally recognized inflation factor, overall U. S. costs have increased some 121%. On this basis, an equitable toll rate per ton today would be \$1.99 rather than \$1.08.

Ocean freight rates, (between the U. S. and the Isthmus) exclusive of the bunker surcharge, have increased some 251%. On this basis, an equitable toll rate today would be \$3.16 rather than \$1.08.

Ocean freight rates, (Between the U. S. and the Isthmus) inclusive of the bunker surcharge have increased some 292%. On this basis, an equitable toll rate per ton today would be \$3.53 rather than \$1.08.

Closer to home, Congressional salaries have increased some 240% and should probably have increased considerably more. On this basis, an equitable toll rate per ton today would be \$3.06 rather than \$1.08.

There is, then, considerable logic for a tolls increase to cover the effect of inflation on Panama Canal costs rather than taking it out of the skin of the employees without whom the Canal could not function.

But logic and dealing in good faith have apparently gone out the window. The Secretary of the Army has assumed much greater power over the Panama Canal than was ever contemplated by Congress.

One mechanism by which the Secretary of the Army has done this is through the Canal Zone Civilian Personnel Policy Coordinating Board, a supposedly independent board originally set up to coordinate personnel policies among the Federal agencies operating in the Canal Zone. Originally consisting of two members (The Governor and the Commander-in-Chief of the military forces in the Zone), the composition of the board was radically and fatally changed on January 20, 1975, when the then Secretary of the Army, Howard Callaway, unilaterally changed the law by administrative regulation (40 F. R. 3213), expanding the Board to three members and placing the naming of the Chairman in the Secretary of the Army's hands. This obvious usurpation of authority over personnel matters is being used to circumvent the limitation Congress intended on the Secretary of the Army's authority; or at least that is what is happening with the present chairman, Mr. Victor V. Veysey. As he is abusing that office, we can only admire the judgment of Mr. Veysey's former constituents, the people who knew him best, who, in their wisdom, declined to return him to his seat in Congress.

Decisions are thus made that place the interest of the Department of the Army ahead of those of the Panama Canal Company, which Congress intended to be an independent agency, and not an adjunct of the Department of Defense. Instead of recognizing the special career nature of employment with the Canal organization, dim visioned Department of Army big wigs are trying to force Canal employees into the mold of Department of Defense civilian employees, subservient to the military, uprootable, and interchangeable throughout the world, when not one of these is appropriate to the best interests of the Panama Canal operation or its employees.


As I mentioned in my previous letter, the law specifically provides that in terms of the Panama Canal, the Secretary of the Army shall act as the direct representative of the President of the United States and not in his capacity as head of the Department of the Army. By stealing control of the Canal Zone Civilian Personnel Policy Coordinating Board, and naming a member of his staff to the chairmanship, the Secretary can and does exert authority not contemplated by Congress, and without any corresponding responsibility. Since that grab, the agencies with 22% of the civilian employees in the Canal Zone i.e., military agencies, have 60% of the vote on the Coordinating Board. Anyway it is out, the deck is stacked against the Panama Canal employees. The Governor is not only outnumbered two to one, but to make things worse, the Commander in Chief, U. S. SOUTHCOM, owes his appointment to the Secretary of the Army. Not only is it an intolerable situation

it is an unhealthy situation with "Catch 22" overtones.

Because of the dangers to the Canal as outlined above, we believe that the Congress, shippers, and every other person interested in the continued efficient functioning of the Panama Canal should make every effort to halt the overstepping interference of the Secretary of the Army in Panama Canal affairs. Organized labor in the Canal Zone asks you to use your influence to this end, and to call for an investigation of the propriety of the Secretary of Army's role in Panama Canal affairs. We are certain that once the irregularity of his role is made public, logic will have to prevail, and the long-time former policy of Panama Canal Company recognition of the value and essentiality of a stable workforce will be reinstated. This union will support management in belt-tightening measures which must be taken to improve operating efficiency, but I cannot and will not fail to protest when shortsightedness and the overstepping of authority threatens the very fabric of our members' lives, and through them, the Panama Canal itself.

In closing, I respectfully request that you write directly to LTG Dennis P. McAuliffe, Commander-in-Chief, U. S. Southern Command, Quarry Heights, Canal Zone and to the Canal Zone Governor Harold R. Parfitt, to get all the facts regarding this intolerable situation in which the Panama Canal employee now finds himself.

Sincerely,



JAMES J. O'DONNELL
President
Local 14, AFGE



THE WHITE HOUSE

WASHINGTON

March 11, 1976

MEMORANDUM TO: CHARLIE LEPPERT

FROM: RUSS ROURKE *Russ*

Charlie, as per Jack's note, please check with Leonor Sullivan after reading the option paper itself.

Obviously, there is a tight time frame on this one.

Please advise results.


Many thanks.

THE WHITE HOUSE

WASHINGTON

March 11, 1976

MEMORANDUM FOR: RUSS ROURKE

FROM: JACK MARSH 

SUBJECT: Panama Canal Tolls Rules Changes

Before sending in the attached, I think someone, like Charlie Leppert, should read it very carefully. He should go up and see Congresswoman Sullivan (he should not take the paper with him) and find out what her problem is in changing the toll structure.

Mrs. Sullivan spoke to me on the plane about the Panama situation. She is convinced that this toll structure may be a key part in changing the attitude of the people in Panama. Although I am willing to go along with Option 2, nevertheless I think a better understanding of Mrs. Sullivan's position should be had and given to the President along with this option paper.

If she makes a good case, I will go along with the recommendation of the Members of Congress.

Many thanks.

THE WHITE HOUSE
WASHINGTON

Jack -

Recommend option # 2.

You will recall
that this item was the
subject of my earlier
memo to you re Britt
Gordon conversation. He,
of course, favors option
#1.

Rees

Date: March 6, 1976

Time:

dec: 3/8/10

FOR ACTION:

Phil Buchen

Jim Cannon

Max Friedersdorf

Bob Hartmann

Jack Marsh

Bill Seidman

cc (for information):

10:00

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, March 10

Time: 10 A.M.

SUBJECT:

James T. Lynn memo 2/24/76 re
Panama Canal Tolls Rules Changes

ACTION REQUESTED:

____ For Necessary Action

X For Your Recommendations

____ Prepare Agenda and Brief

____ Draft Reply

X For Your Comments

____ Draft Remarks

REMARKS:

option #2
gm

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

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

James E. Connor
For the President



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

FEB 24 1976

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: James T. Lynn
SUBJECT: Panama Canal Tolls Rules Changes

Issue

Should approval be given to the Panama Canal Company to modify cargo measurement rules which determine toll assessments for ships transiting the Panama Canal?

Background

You have been requested to approve seven substantive changes in tonnage measurement rules governing tolls for vessels transiting the Panama Canal. The proposed changes were adopted by the Board of Directors of the Panama Canal Company and have been forwarded by the Secretary of the Army in his capacity as "stockholder" of the Company (Tab A). Below is a brief discussion of the issues, along with recommendations. A more detailed discussion of the issue is attached (Tab B).

The purpose of the changes, according to the Company, is to redistribute costs more equitably among Canal users. Cost redistribution would be accomplished by altering the definitions of space availability on board vessels for carrying freight and passengers. The last systematic review of tonnage measurement rules was conducted in 1937. In addition to redistributing costs, the changes would increase total revenue from tolls, as shown below:

(dollars in millions)

	Container Ship	General Cargo Ship	All other	Total
All-Flags Tolls	+4.6	+3.1	+4.6	+12.3
% Increase	+28%	+10%	+6%	+9%
U.S.-Flag Tolls	+1.7	+0.4	+0.2	+ 2.3
% Increase	+37%	+12%	+4%	+17%

The disproportionately large tolls increase for container ships (modern vessels which carry pre-boxed cargo) is primarily a result of one rules change--the "on-deck cargo" amendment. This amendment would require the measurement, and toll assessment, of all on-deck cargo. Currently this cargo is exempt from measurement. Of the total annual \$12.3 million tolls revenue increase, \$6.0 million is attributable to the on-deck cargo amendment, mostly relating to container ship operations.

The financial health of the Panama Canal Company has been weak in recent years largely as a consequence of rising costs and declining traffic. If approved, the revenues gained by the measurement rule amendments would help alleviate, but would not eliminate, a projected 1976-1977 operating deficit. In fact, either with or without the proposed amendments, a general toll increase will be needed in the coming year. A large toll increase is certain to be strongly opposed by the maritime industry--as are the proposed amendments. Without additional revenues, however, the Company will be forced to request U.S. Government assistance.

Options

- #1. Approve all seven amendments in their entirety.
- #2. Approve all but the on-deck cargo amendment.
- #3. Disapprove all seven amendments.

Discussion of the Proposed Amendments

The existing Panama Canal toll assessments are based on commonly-accepted, international principles of ship "earning capacity." Earning capacity is measured by the volume of below-deck space (gross tonnage), with deductions for space, such as the engine room, which is not available for revenue-producing carriage (net tonnage). The actual utilization of ship space is not considered in determining tolls charged for a particular transit. A primary reason for this approach is to avoid the costly delays that would be involved in measuring the volume, weight or value of cargo actually carried on each transit. Under the existing measurement system, a particular ship only needs to be measured once instead of each transit.

Six of the seven proposed amendments seek to remove minor anomalies in the existing measurement system. Four of the changes would increase and two would decrease toll assessments.

Generally, the amendments would abolish "double counting" of space and/or refine measurement standards in accord with modern ship design. They would change capacity measurement rules for the following spaces: fuel tanks, hatchways, water tanks, public rooms on passenger ships, and selected shop and store rooms. These six changes are all consistent with the established principle of basing tolls on the measurement of earning capacity. Few specific objections have been filed to these proposed amendments.

The seventh amendment constitutes a major change in the approach to assessing tolls. In addition to the traditional method of establishing tolls for below-deck carrying capacity, it would charge tolls for cargo actually carried on the ship deck during each transit. This means that if a ship were only partially loaded below deck, and carried on-deck cargo, it would be charged for its full below-deck capacity as well as for its actual on-deck cargo. By comparison, a ship carrying the same tonnage, all below deck, would have to pay only for its below-deck capacity, even though it may have a capability of carrying on-deck cargo.

This proposed change would be a departure from the traditional principle of basing tolls only on carrying capacity. It also would establish different standards for below-deck and on-deck cargo carriage.

The effect of this change would be to penalize ships which carry on-deck cargo but which do not or can not fully utilize below-deck space. Containerships, in particular, would be impacted by the change. Containerships are designed to carry significant on-deck loads, but they are not able to fully utilize below-deck space because the rectangular containers cannot use curved hull space on the sides, front and back, and because space between and around containers is needed for purposes of loading and unloading. Consequently, with the current method of establishing tolls, containerships on the average pay more per cargo ton actually carried than do other ships. Recent data show that containerships pay tolls averaging \$2.12 per cargo ton, compared with about \$1.15 per ton for general cargo ships.

Few would disagree with the Canal Company's position that, in theory, on-deck cargo carriage should be subject to toll assessment. The Company's proposal, however, does not seem to be an equitable means of assessing such tolls, particularly when applied to containerships. It may be necessary to establish an entirely new method of assessing tolls for containerships, rather than simply modifying a measurement system which did not anticipate containership technology.

Recommendation

Option #2 is recommended. We believe that the six relatively minor amendments are sensible and would not be inequitable. The on-deck cargo amendment, however, represents a major departure from traditional measurement practices, and it appears that it would create greater inequities than it would remove. It is recommended that the issue of how to assess tolls for on-deck cargo be studied further.

Positions of Interested Parties

Maritime interests have expressed across-the-board objections to the proposed amendments. Their concern, however, is primarily focused on the on-deck cargo amendment. Two major U.S. shipping company associations--the American Institute of Merchant Shipping and the American Maritime Association--have privately indicated that if the on-deck cargo amendment were dropped (option #2), their opposition to the remaining amendments would be minimal.

Although the Congress has no statutory role relative to the establishment of Panama Canal tolls, the maritime interests have generated strong support in both the House and Senate. In the House, Mrs. Sullivan (Chairman of the Merchant Marine and Fisheries Committee) and Mr. Metcalfe (Chairman of the Panama Canal Subcommittee), as well as 29 other members, have cosigned a letter to you asking that Presidential action be delayed until the House has had the opportunity to review the measurement rules. Senators Magnuson (Chairman of the Commerce Committee) and Long (Chairman of the Merchant Marine Subcommittee) have likewise requested that you delay action (letters at Tab C). Insofar as congressional opposition to the amendments is generated by the maritime interests, we expect that rejection of the on-deck cargo amendment would also minimize congressional concerns.

The following agencies have expressed no objection to the proposed amendments: Justice, Treasury, Federal Maritime Commission, National Security Council, and Council of International Economic Policy. Although both Commerce and Transportation have recommended that the amendments be delayed or disapproved pending further analysis, both report that option #2 largely mitigates their concerns. State advises that the amendments have no effect on the sensitive treaty negotiations over the status of the Panama Canal. Although State indicates that Greece, Norway, Spain, Japan, Italy and Sweden have made oral representations to the Department critical of the changes, State does not oppose their approval.

The Panama Canal Company and the Secretary of Army stand by their recommendation, option #1. However, they report that option #2 is preferable to option #3.

Decision

- Option #1: Approve all seven amendments _____
- Option #2 (Recommended): Approve all but the on-deck cargo amendment _____
- Option #3: Disapprove all amendments _____
- See me _____

Action

To carry out option #2, it is necessary for you to sign the attached resolution approving all but the on-deck cargo amendment. Additionally, we recommend that you sign the attached letters to the chairmen of the House and Senate authorizing committees explaining your decision, and to the Secretary of the Army requesting additional review of the tonnage measurement system and indicating the necessity for the Panama Canal Company to take action to restrain costs. These signature documents are at Tab D.

Attachments

December 12, 1975

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

Dear Mr. President:

In my capacity as "stockholder" of the Panama Canal Company under authority delegated to me by Executive Order 11305 of September 12, 1966, I am forwarding for your approval a Resolution adopted by the Board of Directors of the Panama Canal Company on November 17, 1975, amending the rules of measurement of vessels for the Panama Canal.

The action by the Board of Directors is based on Sections 411 and 412 of Title 2 of the Canal Zone Code under which the Panama Canal Company is authorized to prescribe rules of measurement for determining the earning capacity of vessels using the Canal. Section 412 provides that changes in the measurement rules shall be subject to and take effect upon the approval of the President of the United States. Section 411 requires six months' notice of the changes in the measurement rules. This notice was published in the FEDERAL REGISTER on July 31, 1975, so that the earliest date on which the new rules could become effective is January 30, 1976.

Following publication of the notice in the FEDERAL REGISTER, the Panama Canal Company invited written comments from the public and held a public hearing in accordance with applicable regulations. After consideration of all relevant matter presented in the written comments received and presented at the hearing, the Board of Directors adopted the proposed amendments of the measurement rules, subject to your approval.

The inclosures to this letter set out in detail the background of the proposed changes in the rules and the proceedings by the Board of Directors leading up to the adoption of the amendments.

Your approval of the proposed changes in the measurement rules is recommended, effective January 30, 1976.

Respectfully yours,


Martin R. Hoffmann

Inclosures
as

DISCUSSION OF PANAMA CANAL TOLLS RULES CHANGESBackground

The attached letter from the Secretary of the Army requests Presidential approval of proposed changes in rules governing tolls for ships transiting the Panama Canal. The proposal was adopted by the Board of Directors of the Panama Canal Company on November 17 and was forwarded to the President by the Secretary of the Army, in his capacity as "stockholder" of the Company, on December 12. The rules changes require Presidential approval and can be put into effect on or after January 30, 1976, a minimum statutory 6 months after notice of the proposal was published in the Federal Register.

Since the beginning of Panama Canal operations in 1914, tolls have been based on ship "earning capacity." The measure of ship earning capacity has been the space available (net tonnage) for carrying freight and passengers. The Panama Canal Company argues that the measurement rules which determine ship earning capacity should now be altered because: (a) the last systematic review was conducted in 1937; (b) ship configuration and technology have dramatically changed in the past 38 years; and (c) the operating costs of the Canal are no longer equitably distributed to reflect the earning capacity of vessels using the Canal. Consequently, the Company has proposed seven substantive changes to the measurement rules, requiring thirty amendments to the Code of Federal Regulations. The Company has found that the proposed rules "better reflect the earning capacity of vessels than the present rules, are nondiscriminatory, just and equitable."

OMB is the coordinating agency for Panama Canal Company toll proposals. We have solicited the views of the following agencies on the proposal: State, Commerce, Transportation, Justice, Treasury, Agriculture, Federal Maritime Commission, National Security Council, and Council of International Economic Policy. We also have received unsolicited comments from members of Congress and the maritime industry (shipping companies, unions and port authorities). These views will be discussed below, as well as other issues pertaining to the proposal.

Panama Canal Company Financial Condition and Canal Toll Issues

The Panama Canal Company is a wholly-owned Government corporation whose primary purpose is maintaining and operating the inter-oceanic Canal. From the Canal's tolls and other charges, the

Company is expected to be self-sustaining. Additionally, the Company is expected to reimburse the U.S. Treasury for:

- (a) uncovered costs accrued by the Canal Zone Government;
- (b) interest payments relating to original Canal construction costs borne by the U.S. Government; and (c) annuity payments made by the U.S. to the Republic of Panama pursuant to the Treaty of 1903, as amended in 1936.

For the past five years, the Panama Canal Company has experienced rapidly rising costs and declining traffic. For example, between 1970-1975, the number of transits declined from 15,500 to 14,700, while operating costs climbed from \$172 million to \$261 million. As a result, the first toll increase since the Canal's 1914 opening was instituted in July 1974 (+20% in toll rates). Despite the toll increase, the Company's financial condition has continued to deteriorate as a result of: (a) continuing cost-of-doing-business increases; and (b) traffic downturns in the wake of worldwide economic recession, the diversionary impact of the opening of the Suez Canal, and the dampening effect of the 1974 toll increase. Whereas the Company had planned to handle 40 ships daily in FY 1976, an average of only 36 daily have been transiting the Canal to date. The net effect of the financial downturn is that the Company has sustained losses in the past two years and is expected to continue to run losses in 1976 and 1977, as shown below (millions of dollars):

<u>1974 deficit</u>	<u>1975 deficit</u>	<u>est. 1976 deficit</u>	<u>est. 1977 deficit</u>
\$-11.8	\$-6.4	\$-18.0*	\$-38.0*

*assumes no toll changes, measurement rules amendments, or other remedial actions.

If approved, the measurement rules amendments would help alleviate, but would not eliminate, projected Company deficits in 1976 and 1977. The amendments would increase the measurements of vessel net tonnage, leading to higher annual toll assessments on the order of \$12-13 million (further discussed below). The Company argues, however, that it is incorrect to equate the proposed amendments with a toll increase -- rather, the purpose of the amendments is to redistribute the operating costs of the Panama Canal more equitably. In the Company's framework of thinking, the processes of establishing tolls and changing measurement rules, although related, are separate. Any positive revenue effects resulting from the proposed amendments would be accounted for in computing the need for future toll rate changes (i.e., future toll increases would be reduced by the amount of additional revenues gained by the proposed amendments).

In fact, either with or without the proposed rules changes, the Panama Canal Company is now indicating that a substantial general toll increase will be required in the next 12 months to meet the anticipated deficits. This would be the second general toll increase in three years. Required toll rate increases are shown below. The figures presume the imposition of moderate cost-cutting measures and the continued operation of the Company on a self-sustaining basis.

	(\$ in millions)	
	Measurement Rules <u>Approved</u>	Measurement Rules Not <u>Approved</u>
Additional revenue required to meet FY 1977 deficit.....	\$26	\$38
Future required toll increase..	+17%	+28%
Additional revenue required to meet FY 1977 deficit as well as recoup FY 1976 deficit over five years.....	\$28	\$42
Future required toll increase..	+19%	30%

The Company has pointed out that its statutory authorities provide several alternative means for handling long term deficits. It can: (a) defer payment to the U.S. Treasury of interest and/or the net cost of the Canal Zone Government to the extent the required amounts are not earned; (b) request Congressional authority to waive entirely payment of the net cost of the Canal Zone Government; (c) request a separate appropriation for the Company to meet losses; or (d) use available borrowing authority up to a maximum of \$40 million. Company officials are increasingly talking about the necessity of employing these fallback authorities. For example, in a January meeting, the Company's Board of Directors authorized Company staff to explore the desirability of using one or more of the authorities in the context of the future 1978 budget request. Utilization of the above authorities would be highly undesirable from a budgetary point of view in that they would entail U.S. Government subsidization of potentially sizable Company deficits.

Of course, the future required toll increase can be reduced by the extent to which the Company undertakes reductions in services, employee benefits, and planned capital construction projects. The President of the Company cum Governor of the Canal Zone Government has already taken measures to cut spending, but has shied away from major reductions which would lead to strong opposition from Panama Canal employee groups, (e.g., elimination of a 15% tropical pay differential).

Impact of the Proposed Measurement Rules Amendments

Of the seven substantive amendments, five will increase total measurement tons, leading to higher toll assessments, and two will lower total assessments. The net effects of the amendments on tolls are shown below:

Company Estimates of Annual Tolls Impact of Rules Amendments^{1/} (\$ in thousands)

<u>Measurement Rule Amendments</u>	<u>Ship Type</u>				
	<u>General Cargo</u>	<u>Container Ship</u>	<u>Passenger</u>	<u>All Other^{2/}Total</u>	
Amendments which Increase Measurement tons:					
Deck Cargo	+578	+4,332	+9	+1,038	+5,957
Fuel	+2,290	+356	+117	+2,965	+5,722
Hatch Exemption	+209	+101	+5	+477	+792
Public Rooms	--	--	+423	--	+423
Water tanks	+198	+1	+3	+290	+492
Amendments which Decrease Measurement tons:					
Boatswain's Stores	-118	-213	-7	-641	-979
Engr. Shops	-11	-8	-1	-45	-65
All Flags Tolls Increase	+3,146	+4,569	+550	+4,083	+12,348
% Increase	+10%	+28%	+28%	+4%	+9%
U.S. Flag Tolls Increase	+410	+1,708	+59	+156	+2,333
% Increase	+12%	+37%	+16%	+3%	+17%

- 1/ Shipping companies generally believe that the Company's estimates of tolls impact are understated
- 2/ Includes dry bulk carriers, tankers, specialized product carriers.

Maritime Industry Views

Shipping companies, unions, port authorities and selected industries (e.g., lumber companies) have filed objections with the Panama Canal Company regarding the proposed amendments. The most commonly-cited objections to the amendments have been the following:

- the amendments constitute a "de facto" toll increase, the impact of which has not been satisfactorily evaluated.

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Maritime Industry Views

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--the amendments constitute a "de facto" toll increase, the impact of which has not been satisfactorily evaluated.

- the amendments particularly impact containerships and hence are "discriminatory." Furthermore, because the U.S.-flag fleet has more containerships than do foreign-flag fleets, U.S. shipping companies sustain a proportionally greater financial injury.
- the amendments do not improve the accuracy of the measurement of ship cargo capacity, and hence are not more equitable.
- the amendments' impact on tolls will have negative side effects; it will:
 - ...further reduce Canal traffic and therefore dampen positive revenue effects of the amendments.
 - ...increase ocean freight rates and contribute to inflation.
 - ...lead to the abandonment of some shipping services and divert cargo passing through North Atlantic U.S. ports to cross-continental rail or truck transportation (leading to possible environmental degradation).
- the amendments, and the perceived toll increases they cause, beg the issue of the Company's ability to cut costs and thereby obviate the need for additional revenue.

The Company published the amendments in the Federal Register in July 1975, received written replies, opened the issue to hearings, and in November the Company's Board of Directors approved the original recommendations. The maritime industry is highly irritated over the fact that the Board approved the amendments without change, seemingly having ignored the industry's many objections.

Despite the wide range of objections filed with the Company, the maritime industry is principally concerned with only one amendment -- the "on-deck cargo" amendment. This amendment would have the effect of measuring all on-deck cargo transiting the Canal, and assessing tolls accordingly. Currently on-deck cargo is excluded from measurement and toll assessment.

Measurement by the Company of deck loads of 102 containerships transiting the Canal showed that the net tonnage (and therefore tolls) for these ships as a result of the application of the deck cargo rule would increase by 28% in the aggregate, although the net tonnage of U.S.-flag vessels in the group would increase by 37%. As shown in the table in the previous section, the on-deck cargo rule accounts for about half of the annual estimated rules toll increase of \$12 million.

Two major U.S. shipping company associations-- the American Institute of Merchant Shipping (AIMS) and the American Maritime Association (AMA)--have privately indicated to us that if the on-deck cargo rule were dropped from the package of amendments, the opposition of their member companies to the remainder of the amendments would be minimal.

Congressional Views

Although the Congress has no statutory role relative to the establishment of Panama Canal Company tolls, the maritime industry has generated strong support for its position in both the House and Senate. In the House, Mrs. Sullivan (Chairman of the Merchant Marine and Fisheries Committee) and Mr. Metcalfe (Chairman of the Panama Canal Subcommittee), as well as 29 other members of the House, have cosigned a letter to the President asking that no action be taken on the pending measurement rules amendments until the House has had the opportunity to review the measurement formulas in detail at future hearings (letter attached). Likewise in the Senate, Senators Magnuson (Chairman of the Commerce Committee) and Long (Chairman of the Merchant Marine Subcommittee) have "join[ed] with Members of the House of Representatives who have expressed their interests in this to you and request that no action be taken on these proposed changes until adequate Congressional review of this important subject has been undertaken."

Mrs. Sullivan and Mr. Metcalfe have also requested a "full investigation" of the financial situation of the Panama Canal Company by the GAO, and have sent an extensive list of questions on the anticipated impact of the proposed measurement rules to the Company. However, hearings have not yet been scheduled in either House or Senate. Company staff report that little congressional action could be expected if the President were to delay action on the amendments--that the primary purpose of congressional intervention is to obstruct Company action which would be injurious to the U.S. merchant marine.

Agency Views

The following agencies have expressed no objection to the proposed amendments: Justice, Treasury, Federal Maritime Commission, Agriculture, National Security Council, and Council of International Economic Policy. Agencies which have expressed concerns are as follows:

-- Commerce. The Commerce Department opposes the proposed amendments and recommends that Presidential approval "be delayed until a thorough assessment of the problems which are raised by these proposals can be completed." Commerce reiterates most of the objections raised by the maritime industry, along with the following additional points:

...The amendments deviate from the concepts established in 1937 by a Presidentially-appointed committee. The amendments should be evaluated by a body of the same level before approval.

...The amendments adversely impact U.S.-flag containerships, the most competitive element of the U.S.-flag fleet. In the long term, the amendments could result in an increased need for Federal assistance to the U.S. merchant fleet.

...The on-deck cargo amendment is not precisely defined and administration may be difficult.

-- Transportation. DOT recommends that "additional analysis would be desirable before... issuance of the regulations" based on the following:

...If diversion of cargo from ocean carriage to cross-continental land carriage were to result from the amendment, there could be benefits to the U.S. railroad industry but disbenefits to the U.S. shipping industry. This should be assessed.

...The Senate may ratify the 1969 International Convention on Tonnage Measurement of Ships, which would establish new parameters for measuring shipping tonnages. Although the law would not enter into force until at least two years later, and although the Company would not be legally required to alter its measurement system, "it might seem reasonable for the...Company to consider developing a system employing the same... parameters as those used in the Tonnage Convention."

-- State. The State Department advises that the amendments have no effect on the sensitive U.S. treaty negotiations with the Republic of Panama over the status of the Panama Canal. State further reports that foreign shipping interests have objected to the amendments and the governments of Greece, Norway, Spain, Japan, Italy and Sweden have made representations to the Department of State critical of the changes. State concludes that the "complaints should be carefully considered and treated appropriately in any final decision."

Discussion of the Merits and Demerits of the Proposed Amendments

The rules of measurement currently employed by the Panama Canal Company are based on the principle that canal tolls are to be assessed on the "earning capacity" of vessels. Earning capacity of vessels is defined as space available for carriage of cargo and passengers. In the most general terms, this determination is made by measuring the volume of the space enclosed by the entire vessel (gross tonnage) and deducting from this total, that space, such as the engine room, which is not available for the carriage of cargo or passengers (net tonnage). The assumption is that every net cubic foot of below-deck space can be potentially used. A ship's net capacity, therefore, is currently the sole basis for toll assessments. Net capacity does not consider such factors as volume, weight, or value of cargoes carried (utilization of capacity). Because the system entails measuring the ship instead of the cargo, ships only need to be measured once, instead of transit-by-transit, and administration of the system is thereby facilitated.

The Panama Canal vessel measurement system, like almost all other vessel measurement systems, is derived from principles originally laid down in nineteenth century England by George Moorsom. Moorsom established the principle of measuring vessels net capacities as determined by all enclosed (below-deck) spaces as measured in cubic feet, divided by 100, so that one ton represents 100 cubic feet of space. Almost all vessel measurement systems start with the Moorsom method for determining gross tonnage. However, differences often result from the application of differing exemptions and deductions in arriving at net tonnage figures. Panama Canal and Suez Canal systems are similar and produce similar net tonnages.

Six Minor Amendments

Of the seven substantive measurement rule amendments proposed by the Panama Canal Company, six are relatively non-controversial. These six would alter, in a minor way, existing exemptions and deductions for the following spaces: fuel tanks, hatchways, water tanks, public rooms on passenger vessels, boatswain's stores, and engineer's shops. The first four would have the effect of increasing tonnage measurements. The last two would have the effect of decreasing tonnage measurements. These are further described below:

-- Amendments which increase measurement tons:

- ...Fuel. The amendment would substitute actual measurement of fuel spaces for the existing rule by which the deduction for fuel is normally computed at 75% of the measured space of the engine room.

- ...Hatch Exemption. The amendment would eliminate the current exclusion of the cubical contents of hatchways. In modern ship design, hatch covers fit over the top of hatchways and the space under the hatch cover is available for cargo.
- ...Water Tanks. The amendment would eliminate the current exclusion of the measurement of water tanks used for fresh water for ship use. This would achieve consistency with the treatment of other like spaces that are not allowed as measurement deductions.
- ...Public Rooms. The amendment would eliminate the current exclusion of the measurements of public rooms (e.g., dining rooms, lounges, barber shops, swimming pools). This is based on the premise that public rooms are spaces available for the use of the passengers and hence a consistent application of the earning capacity concept precludes deduction of these spaces.

-- Amendments which decrease measurement tons;

- ...Boatswain's Stores. The amendment would permit exclusion of measurements for boatswain's stores on the premise that space used for this purpose is unavailable for stowage of cargo, passenger use, or other directly related purposes.
- ...Engineers' Shops. This amendment would allow deductions of measurements for engineers' shop space over the current arbitrary deduction ceiling of 50 tons. Actual measurements of engineers' shops would determine the applicable deduction.

The intent of these six amendments is to avoid "double counting" of selected ship spaces and/or refine measurement standards in accord with changed ship design. None of the above six proposed amendments have been strongly opposed by the maritime industry as a whole. However, passenger vessel operators are upset over the "public rooms" amendment which would increase their toll assessments by about \$550 thousand annually (+28%). U.S.-flag vessel operators account for only \$59 thousand of the total.

The On-Deck Cargo Amendment

Currently, on-deck cargo (e.g., containerized cargo, stores, livestock) is excluded from measurement and toll assessment. The seventh amendment proposed by the Panama Canal Company

would require the measurement of all on-deck cargo for every vessel transit. The proposed amendment describes this as follows:

"The deck space occupied by the goods thus carried shall be determined at the time of the application of the vessel for passage through the canal and shall be deemed to be the space limited by the area occupied by the goods and by straight lines enclosing a rectangular space sufficient to include the goods."

The on-deck cargo amendment has generated a great deal of heat on the part of the maritime industry (e.g., the amendment is alleged to be "arbitrary and capricious" and "discriminatory" against both containership operators and the U.S.-flag fleet).

Containerships are the primary carriers of on-deck cargo. By this amendment, if a containership operator transited the Canal with no on-deck containers on one occasion, 50 on another, and 100 on another, he would be charged differently on each occasion. The Panama Canal Company believes the amendment is desirable because there is "no doubt that the use of the deck for deckloads adds to the space of the vessel available for carrying cargo, and hence is a valuable component of earning capacity of the vessel required to be measured."

Few would disagree with the proposition that, in theory, on-deck cargo carriage should be subject to toll assessment. However, the Company's proposal for assessing on-deck cargo poses serious problems, principally because it is inconsistent with other Company cargo measurement rules. The inconsistency results from the fact that the on-deck cargo amendment requires measurement and toll assessment for all cargo actually carried on deck. Utilization of on-deck space, therefore, would be the basis for toll assessment. However, as previously explained, the existing Panama Canal ship measurement system for below-deck space is based on the principle of net ship capacity, assuming no wasted space resulting from the type of cargo carried or manner of carriage and irrespective of the amount of cargo actually carried on a given transit.

The result of the inconsistency is a toll assessment system which appears to be prejudicial to containership operators. Much of the below-deck space is lost in containerships because rectangular container cells cannot fully utilize the curved spaces against the hull of the vessel and because spaces must be left between containers. As partial compensation for this lost space, containerships carry containers on deck. In effect, the containership operator has chosen

to offset the somewhat reduced carrying capacity of the vessel with greater efficiency in cargo handling. In this light, the proposed amendment does not account for "lost space" on containerships and thereby constitutes a serious deviation from the concept of measurement which requires tolls to be assessed against vessels' actual cargo carrying capacities.

Approval of the on-deck cargo amendment would penalize this form of cargo carriage. It would require continued toll assessment for all below-deck space, whether or not utilized, and would superimpose a tolls burden for on-deck cargo carriage. In fact, it appears that containership operators are already relatively "over assessed." FY 1975 data indicate that, when recomputed on a dollar-per-ton-carried basis, containership operators were assessed \$2.12 per ton compared with \$1.15 for general cargo ship operators.

Based on the above, it may be appropriate for the Panama Canal Company to reevaluate the tonnage measurement system to determine if it is prejudicial to certain classes of carriers, and, if so, to recommend remedial actions.

Options

- #1. Approve all seven amendments in their entirety.
- #2. Approve all but the on-deck cargo amendment. Request the Company to reevaluate on-deck cargo measurement rules in the context of the overall equities/inequities of the existing measurement system.
- #3. Disapprove all seven amendments. Request the Company to further study alleged prejudicial aspects of the existing measurement system.

Discussion of Options

Option #1

Pro

- The amendments, in the aggregate, improve the tonnage measurement standards which have been in force for the past 38 years in terms of accuracy and equity.
- The amendments add revenues to the Company (until a toll increase is put into effect) in a period in which the Company's financial situation is seriously deteriorated.

- Insofar as the Company is able to collect additional revenues now, the magnitude of the future general toll increase could be reduced. The smaller the general toll increase, the less strenuous will be the opposition to it.

Con

- The appropriateness of the on-deck cargo amendment is not clear. It is inconsistent with the existing measurement system and appears prejudicial to containership operators who would suffer a heavy toll burden (+37%).
- Approval of the amendments may give the false impression of curing the Company's financial woes, whereas only a general toll increase can generate sufficient revenues to make the Company self-sustaining.
- Approval of the amendments runs counter to expressed maritime industry and congressional requests to the President. This could lead to congressional action to restrict Administration authority relative to the Canal (e.g., make all toll proposals subject to congressional review). This, in turn, could endanger the more important future general toll increase.

Option #2

Pro

- It retains most of the amendments, thereby improving the overall cargo measurement system.
- Insofar as there are justifiable grievances against the on-deck cargo amendment and/or the cargo measurement system as a whole, the issues could be further studied by the Company.
- Disapproval of the on-deck cargo amendment would almost entirely diffuse U.S. maritime industry dissatisfaction with the amendments package.
- It allows Congress to hold hearings on the on-deck cargo issue, per congressional requests to the President. Congressional action to circumscribe Administration authorities would be unlikely.

Con

- Insofar as approximately \$6 million in revenues will be forfeited if the amendment is not approved, the deficit situation of the Company will worsen by a like amount and the amount of the general toll increase will have to be raised accordingly to accommodate the loss. The higher the toll increase, the more likely will be strenuous industry opposition to it.

Option #3Pro

- It would completely negate maritime industry and congressional criticisms.
- Insofar as the industry and the Congress will have been mollified on this issue, it may lessen tensions relative to the announcement of a future toll increase (although the magnitude of the increase will certainly be an issue of contention).

Con

- The measurement rule anomalies of the current system will be maintained indefinitely.
- It may make it more difficult to approve future Canal toll proposals by leading the industry and Congress to think that vigorous opposition to such proposals will lead to their rejection by the President.
- Insofar as approximately \$12 million in revenues will be forfeited if the amendment is not approved, the deficit situation of the Company will worsen by a like amount and the amount of the general toll increase will have to be raised accordingly to accommodate the loss.

JOHN O. PASTORE, R.I.
VANCE HARTKE, IND.
PHILIP A. HART, MICH.
HOWARD W. CANNON, NEV.
RUSSELL B. LONG, LA.
FRANK E. MOSS, UTAH
ERNEST F. HOLLINGS, S.C.
DANIEL K. INOUYE, HAWAII
JOHN V. TUNNEY, CALIF.
ADLAI E. STEVENSON, ILL.
WENDELL H. FORD, KY.
JOHN A. DURKIN, N.H.

JAMES D. PEARSON, KANS.
ROBERT P. GRIFFIN, MICH.
HOWARD H. BAKER, JR., TENN.
TED STEVENS, ALASKA
J. CLYDE HEAL, JR., MD.
LOWELL P. WEICKER, JR., CONN.
JAMES L. DUCKLEY, N.Y.

United States Senate

COMMITTEE ON COMMERCE

WASHINGTON, D.C. 20510

MICHAEL PERTSCHUK, CHIEF COUNSEL
S. LYNN SUTCLIFFE, GENERAL COUNSEL
ARTHUR PANKOFF, JR., MINORITY COUNSEL

December 19, 1975

The Honorable Gerald A. Ford
President of the United States
The White House
Washington, D. C. 20500

Dear Mr. President:

Great concern has been expressed to us over the anticipated consequences on U. S.-flag ocean carriers, particularly container-ship operators and forest product shippers, resulting from the proposed changes in the rules for measuring vessels transiting the Panama Canal.

The Panama Canal Company's proposal will actually result in the third increase in Canal toll charges in less than 18 months. Despite a large number of written and oral statements presented to the company concerning the proposed changes which were published in the Federal Register on July 31, 1975, the measurement rules changes have been submitted for your action without modification.

There appears to be a substantial number of very serious questions regarding statutory requirements and treaty provisions as well as significant economic and transportation issues involved in these proposals.

We join with Members of the House of Representatives who have expressed their interests in this to you and request that no action be taken on these proposed changes until adequate Congressional review of this important subject has been undertaken.

Sincerely yours,

Warren G. Magnuson
WARREN G. MAGNUSON, U.S.S.

Russell B. Long
RUSSELL B. LONG, U.S.S.

THOMAS R. JONES, N.C.
FRY L. LEGGETT, CALIF.
JO MADDI, N.Y.
JIM M. ANDERSON, CALIF.
JOHN A. DE LA CAYEN, TEX.
JOHN H. METCALFE, ILL.
JOHN D. WEAVER, LA.
JOHN D. ROONEY, PA.
JOHN R. LARSEN, MD.
JOHN, GA.
JOHN E. STODOL, MASS.
JOHN M. BOWEN, MISS.
JOHN ELLERRE, PA.
JOHN LUGO, V.I.
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JOHN K. WASH.
JOHN COIN, CRO.
JOHN E. D'AMICO, N.H.
JOHN M. PATTERSON, CALIF.
JOHN C. ZEPHETTI, N.Y.
JOHN L. GIBBART, MINN.

JOHN B. FORSYTHE, N.J.
JOHN S. (PETE) DUFOUR, DEL.
DAVID C. THREN, LA.
JOHN F. FITCHARD, WASH.
JOHN YOUNG, ALASKA
JOHN F. BAUMAN, MD.
JOHN F. LENT, N.Y.
MATTHEW J. NINALE, N.J.
DAVID F. EMERY, MAINE

MINORITY COUNSEL
RICHARD H. SHAWOOD

Committee on
Merchant Marine and Fisheries
Room 1334, Longworth House Office Building
Washington, D.C. 20515

December 8, 1975

The President
The White House
Washington, D. C.

Dear Mr. President:

We have been advised that the Board of Directors and Stockholder of the Panama Canal Company have transmitted for your approval certain changes to their Rules for Measurement of Vessels. Since historically it has been the responsibility of the President of the United States to gauge the effect of changes in Panama Canal rules on the national transportation policy of the United States, we wish to communicate to you some of our concerns which we feel you should be cognizant of in making your decision on this matter. The purpose of this letter is to request that you sign the proposed rules only after a thorough review of the national economic consequences of these changes and upon the advice of those agencies in the Executive Branch who can best speak to the effect of the proposed rules on this Nation's commerce.

We are increasingly concerned with the financial well-being of the Canal. In July of 1974, a 19.7 percent toll rate increase was approved, the first since the opening of the Canal. We should note that no toll increase was required during these many years since the constantly escalating number of vessel transits and increasing vessel size generated sufficient revenue to keep ahead of constantly rising Canal Company costs.

The need for the 1974 general increase in the toll rate was premised upon certain accounting changes made by the Company, decreasing vessel transits, and increasing operating and overhead costs. We were assured it was necessary if the Company were to continue in a "break-even" status, as is required by statute. The additional financial burden placed on America's commerce was estimated to be many millions of dollars annually. It is noted that the current proposed rules change would result in an additional 37 percent assessment for deck cargo on container ships. Our carriers simply cannot afford these added operating costs, and the current proposed rules could be much more detrimental to U. S. commerce than the 1974 increase.

The proposed rules in question represent another de facto toll rate increase, although the burden would be largely borne by certain types of vessels, notably U.S.-flag container ships. While only eight percent of the annual transits of the Canal are made by vessels of U.S.-flag registry, approximately 37 percent of the container ships which transit the Canal are U.S.-flag vessels. The average container ship which transits the Canal today pays about \$19,000 in tolls. Under the proposed measurement rules, it would pay approximately \$26,000. Since the Company has not yet prepared and released its fiscal year 1975 report, except for traffic statistics, it is not now possible to assess either the increased revenue resulting from the 1974 toll increase or the necessity for these proposed rules. We do know that vessel transits and cargo tonnage are continuing to decline, and that Company costs are continuing to rise. We believe that steps can and must be taken to reverse these trends.

At the time of the tolls increase last year, the Committee did not take any action since we felt the increase was reasonable inasmuch as it was the first and only increase since the Canal has been in existence. The present proposal to change the Canal Company's Rules for Measurement of Vessels presents a different picture, however. Among other things, it will affect the competitive balance between the continental railroads and the water carrier Canal users, and the burden will fall most heavily on several U.S.-flag container and passenger ship operators. In addition, if this change is approved, we

December 8, 1975

note the Canal Company's continuing emphasis on the alleged need for increased revenues, which suggests that the Company may propose another tolls increase in the near future.

We anticipate that the Committee and its Panama Canal Subcommittee will be reviewing the toll and tonnage measurement formulas in some detail at future hearings. We will be particularly interested in evaluating the adverse impact of the proposed rules on the well-being of the U. S. merchant marine and American commercial interests. We will keep you advised of our progress and plans, and again ask that no action be taken at this time on the pending measurement rules change.

Sincerely,

Leonor K. Sullivan

Leonor K. (Mrs. John B.) Sullivan
Chairman

Ralph H. Metcalfe

Ralph H. Metcalfe
Chairman
Subcommittee on Panama Canal

James B. ...

Paul V. Rogers

Paul H. ...

Paul Sarbanes

Walter B. Jones

John M. Murphy

James L. ...

John P. ...

Edie E. ...

James H. ...

W. L. Ziegler

Norman M. ...

Shirley Anderson

Philip E. ...

Carroll Hubbard

David F. Emery

Alvin Green

Don Bonner

Norman F. ...

Les ...

E. de la Garza

Samuel R. Bowen

John B. ...

F. ...

Matthew J. ...

C. J. B. ...

... de ...

Don ...

Tom ...

DEMOCRATSSigned

Leonor K. Sullivan, MO
John D. Dingell, MI
Thomas N. Downing, VA
Paul G. Rogers, FL
John M. Murphy, NY
Walter B. Jones, NC
Mario Biaggi, NY
Glenn M. Anderson, CA
E (Kika) de la Garza, TX
Ralph H. Metcalfe, IL
John B. Breaux, LA
Fred B. Rooney, PA
Paul S. Sarbanes, MD
Bo Ginn, GA
David R. Bowen, MS
Joshua Eilberg, PA
Ron de Lugo,
Carroll Hubbard, Jr., KY
Don Bonker, WA
Les AuCoin, OR
Norman E. D'Amours, NH
Leo C. Zeferetti, NY
James L. Oberstar, MN

REPUBLICANSSigned

Paul N. McCloskey, Jr., CA
Edwin B. Forsythe, NJ
David C. Treen, LA
Joel Pritchard, WA
Don Young, AL
Norman F. Lent, NY
Matthew J. Rinaldo, NJ
David F. Emery, ME

DEMOCRATSDid not Sign

Thomas L. Ashley, OH
Robert L. Leggett, CA
Gerry E. Studds, MA
Jerry M. Patterson, CA

REPUBLICANSDid not Sign

Philip E. Ruppe, MI
Charles A. Mosher, OH
M.G. Snyder, KY
Pierre S. du Pont IV, DE
Robert E. Bauman, MD

RESOLUTION

WHEREAS, pursuant to the authority of sections 411 and 412 of Title 2 of the Canal Zone Code, (76A Stat. 27), at a special meeting on July 28, 1975, the Board of Directors of the Panama Canal Company proposed certain amendments to the rules for measurement of vessels for the Panama Canal for the purpose of more accurately reflecting the earning capacity of vessels using the Canal; and

WHEREAS, at the special meeting of the Board of Directors on July 28, 1975, pursuant to the provisions of the applicable regulations of the Panama Canal Company, five members of the Board of Directors were designated as a panel to conduct a public hearing on the proposed changes in the measurement rules; and

WHEREAS, notice of the proposed amendments was published in the Federal Register on July 31, 1975, (40 FR 32140) and a correction was published in the Federal Register on August 11, 1975, (40 FR 34619); and

WHEREAS, the notice of the proposed amendments of the measurement rules invited interested parties to participate in the rulemaking process through submission of written data, views or arguments, and submission of supplementary data, views or arguments at a public hearing to be held in Washington, D. C., on October 6, 1975; and

WHEREAS, in accordance with the notice and the provisions of the Company's regulations governing procedures for rulemaking, interested

parties did submit written data, views and arguments and, at the public hearing on October 6, 1975, submitted supplementary data, views and arguments in reference to the proposed amendments of the measurement rules; and

WHEREAS, the panel designated by the Board of Directors to conduct the hearing has submitted its report, including the written data submitted by interested parties and a full transcript of the hearing, with copies of documents submitted at the hearing and thereafter within the time fixed by the panel, and the recommendations of the panel with respect to the proposed amendments of the measurement rules; and

WHEREAS, all relevant matters presented have been considered by the Board of Directors; and

WHEREAS, the Board of Directors, having given careful consideration to the assessment of the environmental impact of the proposed amendments of the measurement rules, has determined that such amendments would not significantly affect the quality of the human environment;

NOW, THEREFORE BE IT RESOLVED, That, in accordance with sections 411 and 412 of Title 2 of the Canal Zone Code, (76A Stat. 27) the rules of measurement of vessels for the Panama Canal prescribed by the President by Proclamation 2248 of August 25, 1937, be amended upon approval by the President, but not earlier than six months from July 31, 1975, the date of

publication of notice of the proposed change in the Federal Register, by amendment of Part 135 of Title 35 of the Code of Federal Regulations as follows:

PART 135 -- RULES FOR MEASUREMENT OF VESSELS

§ 135.82 [Amended]

1. In § 135.82 the references to § 135.86 are amended to read § 135.85.

§ 135.83 [Amended]

2. In the last line of § 135.83 the reference to § 135.80 is amended to read § 135.85.

3. Section 135.85 is revised to read as follows:

§ 135.85 Certain spaces between inner and outer plating of double bottom.

Space or spaces between the inner and outer plating of the double bottom of a vessel shall be exempted from measurement, except when used, designated or intended for carrying cargo or fuel; but the tonnage of such spaces within the double bottom as are or may be used for carrying cargo or fuel shall be determined and included in the gross tonnage. The tonnage of double bottom tanks available for cargo or fuel may be obtained by multiplying the liquid-capacity weight by the proper conversion factor to get tons of 100 cubic feet.

§ 135.86 [Revoked]

4. Section 135.86 is revoked.

5. Following § 135.112 a new § 135.113, preceded by the undesignated center heading "DECK CARGO," is added, reading as follows:

DECK CARGO

§ 135.113 Deck cargo.

If any ship carries stores, timber, livestock, containers, or other cargo in any space upon an open deck not permanently covered or in spaces exempted under paragraphs (a) and (b) of § 135.82, all tolls and other charges payable on the vessel's net tonnage shall be payable upon the vessel's net tonnage (as defined below in §§ 135.271-287 and §§ 135.321-327) increased by the tonnage of the space occupied at the time at which the tolls or other charges become payable by the goods carried upon deck and not permanently covered or closed-in. The deck space occupied by the goods thus carried shall be determined at the time of the application of the vessel for passage through the canal and shall be deemed to be the space limited by the area occupied by the goods and by straight lines enclosing a rectangular space sufficient to include the goods. The tonnage of the space occupied by the goods shall be ascertained

by multiplying together the length, breadth and depth of said rectangular space or spaces and dividing the product by 100 or 2.83, according as the measurements are taken in feet or meters. Nothing in this section shall in any manner affect the provisions of §§ 135.41-42; 135.61-63; or 135.81-88.

§ 135.142 [Amended]

6. In § 135.142 the reference to §§ 135.171-135.182 is amended to read §§ 135.171-135.183.

§ 135.175 [Amended]

7. In § 135.175 the last sentence is amended by adding the words "or fuel" between the words "cargo" and "the tonnage."

8. Following § 135.182 a new § 135.183 is added, reading as follows:

§ 135.183 Hatchways.

The cubical contents of hatchways shall be obtained by multiplying the length and breadth together and the product by the mean depth taken from the top of beam to the underside of the hatch cover.

§ 135.211 [Amended]

9. In § 135.211 the reference in the fourth line to § 135.182 is amended to read § 135.183.

§ 135.271 [Amended]

10. In § 135.271 the reference in the second line to § 135.286 is amended to read § 135.285.

§ 135.273 [Amended]

11. In § 135.273 the reference in the last line to § 135.286 is amended to read § 135.285.

12. In § 135.274, paragraph (c) is amended to read as follows:

§ 135.274 Spaces for stowage of stores or cargo, not deducted.

(c) On supply ships, stores, supplies of all kinds, distilling machinery and distilled water, machines, tools and material for repair work, mines and mining materials, torpedoes, arms, and ammunition.

13. Section 135.281 is revised to read as follows:

§ 135.221 Spaces used for boatswain's stores, deducted.

Spaces used exclusively for boatswain's stores, including paint and lamp rooms, shall be deducted. The deduction of spaces under this section shall be reasonable in extent.

14. Section 135.222 is revised to read as follows:

§ 135.222 Spaces used for engineer's shops, deducted.

Spaces used exclusively for engineer's shops shall be deducted. The deduction of spaces under this section shall be reasonable in extent.

15. In § 135.285 the heading of the section and paragraph (a) are revised to read as follows:

§ 135.285 Water ballast spaces, deducted.

(a) Water ballast spaces, other than spaces in the vessel's double bottom, shall be deducted if they are adapted and used only for water ballast, have for entrance only ordinary circular or oval manholes whose greatest diameter does not exceed 30 inches, and are not available for the carriage of cargo, stores, or fuel. Spaces that would otherwise qualify as water ballast except that they are also used for fuel for the vessel's own use shall be regarded as part of the vessel's fuel space as defined in § 135.390.

§ 135.226 [Revoked]

16. Section 135.226 is revoked.

17. Section 135.227 is revised to read as follows:

§ 135.227 Marking and use of deducted spaces.

Each of the spaces enumerated in §§ 135.275-135.285, unless otherwise specifically stated, shall be subject to such conditions and requirements as to marking or designation and use or purpose as are contained in the navigation or registry laws of the several countries, but no space shall be deducted unless the use to which it is to be exclusively devoted has been appropriately designated by official marking. In no case, however, shall an arbitrary maximum limit be fixed to the aggregate deduction made under §§ 135.271-135.285.

§ 135.322 [Amended]

18. In § 135.322 the reference to § 135.226 in the heading and in the second line of the section is amended to read § 135.235.

§ 135.324 [Amended]

19. In § 135.324 the reference to §§ 135.381-135.393 is amended to read §§ 135.252-135.354, 135.382.

20. Section 135.327 is revised to read as follows:

§ 135.327 Propelling power deductions, how made.

The deductions made for propelling power provided for in §§ 135.323-135.325 shall be made by adding to the space occupied by the engine room as defined in §§ 135.352-135.354 and 135.332, the spaces available for fuel as defined in §§ 135.390 and 135.391.

21. The undesignated center heading preceding § 135.351 is amended to read as follows:

SPACE OCCUPIED BY ENGINE ROOM

§ 135.351 [Revoked]

22. Section 135.351 is revoked.

23. In § 135.352 the last four sentences are revised to read as follows:

§ 135.352 What understood by space occupied by engine rooms.

* * * When a portion of the space within the boundary of the engine or boiler room is occupied by a tank or tanks for the storage of fresh water, lubricating oil, or fuel, including settling tanks, the space considered to be within the engine room shall be reduced by the space taken up by such tanks. Installations not strictly required for the working of the engines or boilers are not to be included in the engine room measurement no matter where situated but given separate deductions when they qualify under §§ 135.271-135.285 and are listed under the appropriate item on page 2 of the Panama Canal Certificate.

24. In § 135.353 the last sentence is revised to read as follows:

§ 135.353 Manner of ascertaining cubical content of spaces occupied by engine room.

* * * Add such contents, as well as those of the space occupied by the shaft trunk and by any donkey engine and boiler located within the boundary of the engine room or of the light and air casing above the engine room and used in connection with the main machinery for propelling the ship, to the cubical contents of the space below the crown of the engine room; divide the sum by 100 or by 2.33, according as the measurements are taken in feet or meters, and the result shall be deemed to be the space occupied by the engine room for purposes of calculating the deduction for propelling power.

25. Section 135.354 is revised to read as follows:

§ 135.354 Manner of ascertaining cubical content of spaces occupied by engine room; where engines and boilers are in separate compartments.

If in any ship in which the space for propelling power is to be measured the engines and boilers are in separate compartments, the contents of each compartment shall be measured separately

in like manner, according to the above method; and the sum of the tonnage of the spaces included in the several compartments shall be deemed to be the space occupied by the engine room for purposes of calculating the deduction for propelling power.

§ 135.381 [Revoked]

26. Section 135.381 and the undesignated center heading preceding that section reading "PROPELLING POWER DEDUCTION FOR VESSELS WITH FIXED BUNKERS, OR HAVING FUEL-OIL COMPARTMENTS THAT CANNOT BE USED TO STOW CARGO OR STORES" are revoked.

§ 135.383 [Revoked]

27. Section 135.383 is revoked.

28. Two new sections numbered §§ 135.390 and 135.391, preceded by an undesignated center heading "SPACES AVAILABLE FOR CARRIAGE OF FUEL" are added, reading as follows:

SPACES AVAILABLE FOR CARRIAGE OF FUEL

§ 135.390 Spaces available for the carriage of fuel.

The spaces available for the carriage of fuel will include the actual volume of tanks or fixed compartments for the storage of lubricating oil or fuel, including settling tanks, which cannot be used to stow cargo or stores and which have been certified by official marking to be spaces for the vessel's own fuel. Dual purpose fuel tanks whose only other use is for the carriage of water ballast will be included in the fuel deduction provided they have been included in the gross tonnage and qualify in all other respects for a deduction.

§ 135.391 Manner of ascertaining cubical contents of spaces available for the carriage of fuel.

The cubical contents of the above-named spaces available for the carriage of fuel shall be ascertained in accordance with the following provisions: For each fuel tank or compartment, measure the mean length. Ascertain the area of three transverse sections of the ship (as set forth in §§ 135.141 or 135.142-135.241 for the calculation of the gross tonnage) to the deck which covers the tank or compartment. One of these three sections must pass through the middle of the aforesaid length, and the two others through the two extremities. Add to the sum of the two extreme sections four times the middle one, and multiply the sum thus obtained by the third of the distance between the two sections. This product, divided by 100 if the measurements are taken in English feet, or by 2.83 if they are taken in meters, gives the tonnage of the space measured. When they cannot be readily measured, the tonnage of tanks may also be obtained by using liquid capacity times the conversion factor with one-sixth off for frames in case of peak tanks and one-twelfth off in case of wings or deep tanks.

§ 135.412 [Amended]

29. In § 135.412 the words and figures in the second, third, and fourth lines "other than fuel spaces deducted under §§ 135.351-135.354" are revoked.

30. Section 135.511 is revised to read as follows:

§ 135.511 Administration of rules.

The rules of measurement provided in this part shall be administered by the President of the Panama Canal Company.

[FR Doc. 75-31475 Filed 11-20-75; 8:45 am]

BE IT FURTHER RESOLVED , That the Secretary of the Panama Canal Company cause notice of the adoption of the amendments of the measurement rules to be published in the Federal Register in the form prescribed by applicable laws and regulations.

BE IT FURTHER RESOLVED , That upon publication of the said notice of amendment of the measurement rules in the Federal Register , the Stockholder of the Panama Canal Company transmit the amendments of said rules to the President for his approval.

Approved except for Section 135.113 which would provide for the inclusion in net tonnage of the space occupied by deck cargo:

Date: _____

THE WHITE HOUSE

WASHINGTON

Dear Mr. Secretary:


Pursuant to Section 411 of Title 2 of the Canal Zone Code, I have reviewed the request of yourself and the Panama Canal Company regarding rules of measurement of vessels transiting the Panama Canal.

I have approved the proposed amendments with the exception of 35 CFR 135.113, the provision for the inclusion in net tonnage of space occupied by on-deck cargo. In principle, I concur that on-deck cargo should be subject to toll assessment, like below-deck cargo. I am concerned, however, that this proposed amendment may tend to discriminate against containership operators. I note, for example, that 1975 data show that toll assessments per ton carried were \$2.12 for containerships compared with \$1.15 for general cargo ships. The on-deck cargo amendment would dramatically increase containership toll assessments and therefore increase this disparity. I encourage you and the Company to further review the tonnage measurement system to determine if it is prejudicial to certain classes of carriers and, if so, to recommend remedial measures.

I am also greatly concerned over the Panama Canal Company's financial condition, generated by rapidly rising costs and declining vessel transits. Recognizing that the Panama Canal Company and Canal Zone Government are actively seeking to restrain cost increases, I nevertheless request that your office and the Company determine where further reductions can be taken. These reductions are necessary to retain the Company's strict self-sustaining financial status and to minimize any general toll increase which may be needed. Your review should encompass both capital construction and operating expenses of the Panama Canal Company and the Canal Zone Government.

Respectfully,

Honorable Martin R. Hoffman
Secretary of the Army
Washington, D. C. 20310



THE WHITE HOUSE
WASHINGTON

Dear Mrs. Sullivan:

This is in further reply to your December letter to me regarding the measurement rule amendments proposed by the Panama Canal Company and the Secretary of the Army.

I have carefully reviewed the issues. For the reasons cited in my letter to the Secretary of the Army (copy attached), I have approved the proposed amendments with the exception of the so-called "on-deck cargo" amendment. As you know, this is the most important of the amendments proposed for my approval.


As you will note, I have encouraged the Secretary of the Army and the Panama Canal Company to review further the tonnage measurement system to determine if it is prejudicial to certain classes of carriers, and if so, to recommend remedial action. This action also will provide your committee the opportunity to review issues pertaining to the Company's toll structure and financial status, as the committee finds appropriate.

Respectfully,

Honorable Leonor K. Sullivan
Chairman
Merchant Marine and Fisheries
House of Representatives
Washington, D. C. 20515

Attachment

cc: Honorable Ralph H. Metcalfe



THE WHITE HOUSE

WASHINGTON

Dear Mr. Chairman:

This is in further reply to your December letter to me regarding the measurement rule amendments proposed by the Panama Canal Company and the Secretary of the Army.

I have carefully reviewed the issues. For the reasons cited in my letter to the Secretary of the Army (copy attached), I have approved the proposed amendments with the exception of the so-called "on-deck cargo" amendment. As you know, this is the most important of the amendments proposed for my approval.

As you will note, I have encouraged the Secretary of the Army and the Panama Canal Company to review further the tonnage measurement system to determine if it is prejudicial to certain classes of carriers, and if so, to recommend remedial action. This action also will provide your committee the opportunity to review issues pertaining to the Company's toll structure and financial status, as the committee finds appropriate.

Respectfully,

Honorable Warren G. Magnuson
Chairman
Committee on Commerce
United States Senate
Washington, D. C. 20510

Attachment

cc: Russell B. Long

THE WHITE HOUSE
WASHINGTON

Date 3-17-76

TO: JACK MARSH

FROM: CHARLES LEPPERT

Please Handle _____

For Your Information _____

Per Our Conversation _____

Other:

*Returned for your
Records.*



THE WHITE HOUSE

WASHINGTON

March 16, 1976

MEMORANDUM FOR: THE PRESIDENT

FROM: JACK MARSH

Congresswoman Sullivan is anxious for you to have the attached information in reference to the Panama Canal.

cc: Dick Cheney
Brent Scowcroft

March 11, 1976

Mr. James J. O'Donnell
Local No. 14, AFGE
Box 1703
Balboa, Canal Zone

Dear Mr. O'Donnell:

In the many years in which I have been in Congress I have always tried to pay special attention to the problems of the average worker, whether he be in my own Congressional District in Saint Louis, Missouri, or at the Panama Canal. And, as you know, while Chairman of the Panama Canal Subcommittee for fifteen years and Chairman of the House Committee on Merchant Marine and Fisheries for the last four years, I have given very special attention to the operation of the Panama Canal and the welfare of its employees. You probably realize that I have continually made retention of U. S. control of the Panama Canal one of my major goals as a legislator and, hopefully, as a leader in this country. As a result of my experience and beliefs about the importance of the Canal and the environment in which it operates, I am concerned and alarmed at your recent correspondence with respect to wage proposals recently made by the Canal Zone Personnel Policy Coordinating Board.

I am one who understands the relationship between employee morale and efficiency and the management and successful operation of the Panama Canal. I understand that the Canal employee has had to live in an atmosphere of uncertainty and apprehension for many years now, and that moves to change wage and compensation policies which might be disliked but tolerated elsewhere raise the deepest doubts and even suspicions in the present environment in the Canal Zone. Certainly the goal of good employee morale demands that we minimize as much as possible the doubts and problems of Canal employees.

As I stated in an open letter to Canal employees on March 5, I am against the proposal for a wage base freeze and I am working constantly against that proposal. I hope that you will have faith in my ability and in the ability of other Members of Congress who have long been interested in the Canal to eventually cause the Canal Zone Policy Board to somehow set aside these proposals and to find other ways to deal with the financial problems that have beset the Canal in recent years. I also hope that you will urge your fellow employees to avoid job actions such as a strike or a slowdown which will undoubtedly injure the very cause they would seek to promote.



Page Two
Mr. James J. O'Donnell

March 11, 1976

The Committee on Merchant Marine and Fisheries of the House of Representatives will attempt to do its part to resolve the current crisis resulting from the proposals of the Coordinating Board. We have met with your representatives of organized labor. We have talked with the Office of the Secretary of the Army and his subordinates. We are promoting activity leading toward a solution to this crisis. We will see the Panama Canal Subcommittee of this Committee hold hearings on the finances of the Canal in the near future and many of the concerns you raise in your correspondence, especially as to the motivation and substance of these proposals, will be raised by Members in the hearings. Finally, we intend to see whether there is some relief legislation for the Canal enterprise which might be in order.

I hope that all Canal employees will remember during these tense times that the relationship between the Canal employee and the Canal user should not be an adversary type of relationship but rather a cooperative one. The prosperous operation of the Canal is a matter of mutual interest of the shipping and employee communities. Admittedly an increase in tolls does provide a bigger pie for Canal employees to divide. But precipitous increases in Canal user fees are likely to result in a situation in which there is a smaller pie or none at all. It takes more to keep the Canal operating successfully. It also takes a reasonably good level of ship traffic.

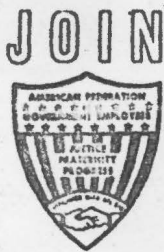
In summary, let me assure you that I have attempted, along with the Panama Canal Subcommittee Chairman, to ensure that all our Committee Members are familiar with your problems in the Canal Zone and, further, despite the fact that the House Post Office and Civil Service Committee has the most direct legislative jurisdiction on wage and compensation matters, I have been working and will work continuously to solve these kinds of problems, especially the problems of the wage proposals put forward by the Canal Zone Personnel Policy Coordinating Board.

Sincerely,

Leonor K. (Mrs. John B.) Sullivan
Chairman

LKS:TMcr





LOCAL No. 14

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Affiliated with the AFL-CIO—The Granddaddy of Canal Zone Locals

Serving Federal Employees at the Crossroads of the World

Chartered October 9, 1932

Box 1703
Balboa, Canal Zone

March 3, 1976

United States Congressman
House of Representatives
Washington, D. C.

Dear Congressman:

This is to inform you that the Panama Canal is in danger of being closed to world commerce. We urgently seek your assistance in preventing this danger from becoming a reality. My letter dated February 1, 1976 was to alert you to certain measures being contemplated by the Office of the Secretary of the Army that would have a disastrous effect upon the Panama Canal Organization and its employees. Two specific measures have now been made public which reveal a pattern of unbelievable shortsightedness on the part of that office which completely ignores the overwhelming importance of work force stability to the Panama Canal operation.

If the Panama Canal is not used properly, if it is not maintained properly, this artery of world commerce cannot continue to exist. It takes expertise to maintain the Canal and it takes expertise to use the Canal, and this expertise only comes with long experience. The Panama Canal has a world-wide reputation for dependability because the lives of its employees, both U. S. and Panamanian, are bound so closely to their work. It takes a commitment to work for the Canal, a turning away from the mainstream of life in the home country, and the Panama Canal Company has always recognized the necessity for incentives to encourage the making of this commitment. Above all, there was recognition that obtaining a commitment to a career with the Canal required a continuing stability in the incentives offered. If an employee could have faith that the Canal would take care of him, he could concentrate on taking care of the Canal. The record of efficiency of the Panama Canal is testimony to the value of that arrangement.

The most important of the two proposals announced recently adversely affects the pay of some 3,500 Federal employees on the Isthmus. The proposal would freeze the wages of the 3,500 at their present level, until a new, much lower wage scale, caught up to the frozen scale. For many, this would mean going for the next ten years or more without a pay increase. In these inflationary times the freeze will mean that the purchasing power of the employees will progressively diminish. More than two-thirds of those affected are Panamanian citizens, so our protest crosses all citizenship lines. Many of the affected employees are journeymen electricians, plumbers, and other skilled craftsmen.

We do in unity that which is impossible in disunity



We have asked union lawyers to see if there might be a case for declaring such a proposal to be an agency-wide adverse action, similar in concept to the suit brought by 44 Federal judges that the ceiling on their salary constituted an unlawful diminution of their pay while in office. Such a declaration would permit many older employees to take advantage of early retirement. I think it extremely significant that when questioned about this, Governor Parfitt, while replying that he did not think it could be considered an adverse action, added that it would not be in the best interests of the Canal operation as he would lose too many of his good people; and, I quote, "We would have a hard time doing the job".

These new proposals do dishonor and discredit to the old understandings. The unilateral arbitrary manner in which they were presented is shameful. They irrevocably change the conditions which induced employees to commit themselves to a career with the Canal. They disregard any concept of equity toward employees already locked into their careers with the Canal, too young to retire, too old to start anew elsewhere, too specialized to compete in today's job market. The proposals strike at the basis of our whole lives and make us nothing more than indentured servants. Our ties to the Canal are deep-seated to begin with. Is it any wonder that our reactions to these incredibly shortsighted proposals is emotional?

I personally hope that employees will not engage in any sort of work slowdown, stoppage, or other job action. But the danger to the Canal is not in the deliberate act. It takes only an employee who no longer cares to go the second mile when the need exists. The Canal cannot operate without commitment. The proposals show a pattern of bad faith which will result in the loss of employee pride, enthusiasm and commitment, and ultimately perhaps, in the loss of the Canal to world shipping.

Is there logic in these proposals? There may be logic to applying them to new hires, but the dollar saving in their abrupt application to the 2,200 present Canal employees is estimated at but \$1 million per year. What false economy! One serious ship accident can cost the Panama Canal Company a much greater amount. And there are other expenses of the Panama Canal Company, such as the cost of providing service to the Government of Panama that are never paid for, that make the \$1 million saving small potatoes indeed for the Company and for the users of the Canal, while looming so large to the employee. And the \$1 million savings, which is a fraction of 1% of tolls income, won't balance the Company's budget nor even make a discernible dent in it.

We in the labor movement have gone along with management in various cuts to attempt to minimize the Company's budget deficit, but these latest proposals go too far toward forcing the employee to subsidize world shipping. Instead of raising toll rates to cover operating deficits, the Secretary of the Army is giving world shipping an enormous concealed subsidy in the form of unjustifiably low toll rates. Look at the facts!

When the Panama Canal Company was reorganized in 1951, the toll rate was 90¢ per ton. Since that time, the cost of everything has gone up, including Panama Canal toll rates which have increased some 20% to \$1.08. However, this percentage increase is far below the increases experienced elsewhere in the economy over that period. Some examples of other increases, ranging from the broad to the narrow follow:

Based on a nationally recognized inflation factor, overall U. S. costs have increased some 121%. On this basis, an equitable toll rate per ton today would be \$1.99 rather than \$1.08.

Ocean freight rates, (between the U. S. and the Isthmus) exclusive of the bunker surcharge, have increased some 251%. On this basis, an equitable toll rate today would be \$3.16 rather than \$1.08.

Ocean freight rates, (Between the U. S. and the Isthmus) inclusive of the bunker surcharge have increased some 292%. On this basis, an equitable toll rate per ton today would be \$3.53 rather than \$1.08.

Closer to home, Congressional salaries have increased some 240% and should probably have increased considerably more. On this basis, an equitable toll rate per ton today would be \$3.06 rather than \$1.08.

There is, then, considerable logic for a tolls increase to cover the effect of inflation on Panama Canal costs rather than taking it out of the skin of the employees without whom the Canal could not function.

But logic and dealing in good faith have apparently gone out the window. The Secretary of the Army has assumed much greater power over the Panama Canal than was ever contemplated by Congress.

One mechanism by which the Secretary of the Army has done this is through the Canal Zone Civilian Personnel Policy Coordinating Board, a supposedly independent board originally set up to coordinate personnel policies among the Federal agencies operating in the Canal Zone. Originally consisting of two members (The Governor and the Commander-in-Chief of the military forces in the Zone), the composition of the board was radically and fatally changed on January 20, 1975, when the then Secretary of the Army, Howard Callaway, unilaterally changed the law by administrative regulation (40 F. R. 3213), expanding the Board to three members and placing the naming of the Chairman in the Secretary of the Army's hands. This obvious usurpation of authority over personnel matters is being used to circumvent the limitation Congress intended on the Secretary of the Army's authority; or at least that is what is happening with the present chairman, Mr. Victor V. Veysey. As he is abusing that office, we can only admire the judgment of Mr. Veysey's former constituents, the people who knew him best, who, in their wisdom, declined to return him to his seat in Congress.

Decisions are thus made that place the interest of the Department of the Army ahead of those of the Panama Canal Company, which Congress intended to be an independent agency, and not an adjunct of the Department of Defense. Instead of recognizing the special career nature of employment with the Canal organization, dim visioned Department of Army big wigs are trying to force Canal employees into the mold of Department of Defense civilian employees, subservient to the military, uprootable, and interchangeable throughout the world, when not one of these is appropriate to the best interests of the Panama Canal operation or its employees.

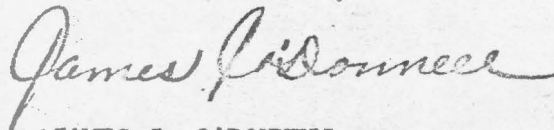
As I mentioned in my previous letter, the law specifically provides that in terms of the Panama Canal, the Secretary of the Army shall act as the direct representative of the President of the United States and not in his capacity as head of the Department of the Army. By stealing control of the Canal Zone Civilian Personnel Policy Coordinating Board, and naming a member of his staff to the chairmanship, the Secretary can and does exert authority not contemplated by Congress, and without any corresponding responsibility. Since that grab, the agencies with 22% of the civilian employment in the Canal Zone i.e., military agencies, have 66% of the vote on the Coordinating Board. Putting it in that way, the deck is stacked against the Panama Canal Company. The Governor is not only outnumbered two to one, but to make things worse, the Secretary of the Army is Chief, U. S. SOUTHCOM, sees his appointment to the Secretary of the Army. Not only is it an intolerable situation

it is an unhealthy situation with "Catch 22" overtones.

Because of the dangers to the Canal as outlined above, we believe that the Congress, shippers, and every other person interested in the continued efficient functioning of the Panama Canal should make every effort to halt the overstepping interference of the Secretary of the Army in Panama Canal affairs. Organized labor in the Canal Zone asks you to use your influence to this end, and to call for an investigation of the propriety of the Secretary of Army's role in Panama Canal affairs. We are certain that once the irregularity of his role is made public, logic will have to prevail, and the long-time former policy of Panama Canal Company recognition of the value and essentiality of a stable workforce will be reinstated. This union will support management in belt-tightening measures which must be taken to improve operating efficiency, but I cannot and will not fail to protest when shortsightedness and the overstepping of authority threatens the very fabric of our members' lives, and through them, the Panama Canal itself.

In closing, I respectfully request that you write directly to LTG Dennis P. McAuliffe, Commander-in-Chief, U. S. Southern Command, Quarry Heights, Canal Zone and to the Canal Zone Governor Harold R. Parfitt, to get all the facts regarding this intolerable situation in which the Panama Canal employee now finds himself.

Sincerely,



JAMES J. O'DONNELL
President
Local 14, AFGE




MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 16, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT 

SUBJECT: Panama Canal Labor Slowdown

A group of US lock and tugboat operators of the Panama Canal Company began a slowdown Monday and were joined by American teachers at the schools who have reported in sick. All together, about 20 percent of the American employees in the Zone are involved. Panamanian employees have not joined the Americans and are continuing at work. US employee organizations are not overtly supporting the slowdown.

The Americans involved are protesting a proposal announced by the Company last month to eliminate the 15 percent tropical wage differential for Americans hired in Panama and to freeze pay for certain of the highest categories of Canal Company employees. Current employees would not be denied the tropical differential and the wage freeze would affect only about 10 to 20 percent of the workers.

The employees' problem, of course, is more fundamental. They have for some time been expressing concern that their legitimate interests be protected in the negotiations with Panama. Although General Torrijos has publicly stated that labor gains by Canal Company employees will be respected in any treaty finally negotiated, Americans working in the Zone nonetheless are fearful of losing many of the benefits which they now enjoy. The treaty negotiators have not yet discussed the details of labor relations to be included in the new treaty except very generally. Employee dissatisfaction and emotionalism has also been on the rise as a result of actions taken to begin integrating schools and housing developments within the Zone which had previously been restricted to Americans. Many of these changes have been made on the recommendation of congressional committees and the GAO.

The Army and the Company point out that the Canal has been operating at a deficit since FY 1974 when it lost \$11 million. The Canal rates were increased last year and a proposal is under study in the government to increase rates for container cargos. The Company is also considering recommending a further toll increase. The Company points out that the announcement last month was only a proposal and that it has now entered a period of consultation. The employees, however, have refused to discuss the matter until the proposals are withdrawn. A mediator has just returned from Panama and there is some consideration of his going back. The Army and Company feel that if they agree to withdraw the proposals before discussing them, it will be difficult to make any economy proposals. They are drawing up a system of priorities for handling those ships which they still have a capacity to move through the Canal. It is their view that the employees will probably go back to work before too much further time elapses.

Mrs. Sullivan has maintained an active interest in the matter. She, of course, is concerned that this action by American employees results in part from the insecurity brought on by the negotiations, but she is also worried that their action undermines the contention of many that only the US can operate the Canal. As a result, she has been helpful in the situation, warning the employees against a strike or slowdown. She has also raised a further connected point about Canal finances. Her proposal to defer interest payments on the original Canal deficit would in effect represent a further subsidy to the Canal. Although State, for instance, is in favor of such legislation, others in the government would prefer to improve the Canal's financial position through increasing charges to users.

In response to the concerns expressed by Mrs. Sullivan, I suggest that we ask Jack Marsh to pass back a message to her making the following points:

1. We are equally concerned as she is over the situation and are following it closely. We are making a maximum effort to be sympathetic to the employees' legitimate interests.
2. The employees' action is illegal. It is also unreasonable on their part to refuse to discuss what is only a proposal and subject to modification.

3. We are concerned that this action weakens the strength of our negotiating position on the Canal which is based on our ability to operate it efficiently. It also makes more difficult negotiations with the Panamanians on workers' rights which we have not yet undertaken.

4. In view of her influence and concern, we believe that anything she can do to counsel moderation on the part of the employees would be a useful contribution.

RECOMMENDATION:

That you approve Jack Marsh's responding to Mrs. Sullivan along the above lines.

Approve MR 4 Disapprove _____

THE WHITE HOUSE

WASHINGTON

MARCH 16, 1976

MR. PRESIDENT

CONGRESSWOMAN LENORE

SULLIVAN CALLED RE THE

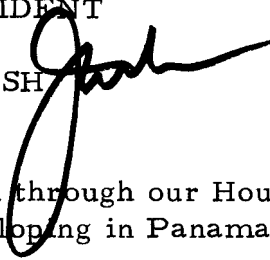
PANAMA CANAL.

THE WHITE HOUSE

WASHINGTON

March 16, 1976

MEMORANDUM FOR: THE PRESIDENT

FROM: JACK MARSH 

Chairwoman Leonor Sullivan reported through our House Liaison Office there is a crisis situation developing in Panama which she requests the President address.

The elements in the crisis are:

1. A 75% work stoppage by United States personnel as of today. The Panamanians are not participating in this work stoppage.
2. A decision is needed by the Secretary of the Army concerning the freeze on the pay scale.
3. Deferral of interest payments on the original ^{debt} ~~deficit~~ is necessary. She plans to push legislation on this.
4. The State Department Eight Points to give up the Canal is a major factor in the problem in her opinion.

Your friend, Britt Gordon, came by yesterday and he also confirmed that a crisis was developing in Panama.

cc: Dick Cheney
Brent Scowcroft

*I have asked Brent
to update you on the above
jam*

THE WHITE HOUSE
WASHINGTON

March 19, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT 

SUBJECT: Panama Canal Labor Dispute

Last night the striking workers rejected the Governor's offer to support a modification of the wage freeze and a study of the application of the collective bargaining Executive Order in the Canal Zone, if they returned to work. He is only one of three members of the Canal Zone Personnel Board which would decide the issue, and they do not believe he could carry the Board with him. The workers are demanding complete withdrawal of the Company's proposal and agreement on a labor contract before they return to their jobs. A contract is not possible unless the Executive Order is applied to the Zone.

At the present time over 100 ships are waiting to transit the Canal.

The Governor is requesting a temporary restraining order today against the striking workers. If granted by the court, the restraining orders would require them to return to work for a ten-day period. It is the Army's expectation that the order will probably be issued tonight and that the workers will honor it.

In the meantime, the Army is putting into operation its "King Trump" contingency plan under which the Secretary of the Army establishes a task force with representatives from the Department of Transportation (Coast Guard), the Navy, and the Army to provide pilots and tugboat masters for use in the Canal. Twenty-five pilots and tug operators will probably leave for the Canal from Andrews tomorrow. The strikers are aware that the Governor has this option but have not been told that the pilots will soon be on their way.

An alternative plan would be to ask you to call those pilots who are reservists to active duty. They would then be ordered back to work. However, the coercive aspect of this gives it a drastic appearance and the Army is not pursuing it.

As you know, the Secretary of the Army is the sole stockholder in the Panama Canal Company and is responsible directly to you. To this point, the focus of publicity and concern has been directed at the economic factors involved, i. e., the financial state of the Company and wage and bargaining demands of the workers. The parties have been clearly identified as the Army, the Company, and the workers. Relatively little attention has been called to the Canal negotiations or broader commercial or defense considerations. Should these latter types of issues be raised, you may want to consider involving yourself more directly in it. This could occur if the shippers, who are losing substantial sums daily, become more vocal in their complaints. They have been pressing the Merchant Marine Committee very hard and it could call on you to take action. At such time you could consider:

1. Asking the Secretary of the Army to come over to give you a briefing on the situation;
2. Sending the Secretary of the Army a message that you desire all possible steps be taken to resolve the problem;
3. Issuing a statement calling on workers to return to their jobs in the national interest.

RECOMMENDATION:

I believe that for the time being you may want to confine your involvement to following the situation closely and only at a later time consider associating yourself with it more visibly.



may
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THE WHITE HOUSE
WASHINGTON

March 22, 1976

RUSS:

JOM has scheduled a meeting on Monday, 3/22 at 9:15 re Panama Canal. There will be representatives of several shipping companies (see attached) plus Wolthuis, Seidman and Steve Low (NSC/Latin Amer. rep.). JOM is holding this IN YOUR OFFICE and, of course, you are to attend.

cb



EXECUTIVE PROTECTIVE SERVICE

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on Monday, March 22 (9:15 a.m., 1976)

for Jack Marsh of White House
(Name of person to be visited) (Agency)

Mr. Paul Richardson (Sealand Co.)
Mr. Albert May
Mr. Edward Heine (U.S. Lines)
Mr. James Horn (American Export Lines)

(RUSS -- also Steve Low, NSC, Wolhuis, Seidman & yourself -- and JOM)

5004

MEETING LOCATION

Building West Wing

Room No. Russ Rourke's Office

Requested by Connie Banford

Room No. WW Telephone 6690

Date of request March 20, 1976

Additions and/or changes made by telephone should be limited to three (3) names or less. Please submit new list (original and three copies) for additions and/or changes of more than three (3) names.

EXECUTIVE PROTECTIVE SERVICE

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on Monday, March 22 (9:15 a.m., 1976)

for Jack Marsh of White House
(Name of person to be visited) (Agency)

Mr. Paul Richardson (Sealand Co.)
Mr. Albert May 783-6440
Mr. Edward Heine (U.S. Lines)
Mr. James Horn (American Export Lines)

(DONNA -- FYI, plus Wolthuis, RAR & Steve Low (NSC) & Seidman

MEETING LOCATION

Building West Wing

Room No. Russ Rourke's Office

Requested by Connie Banford

Room No. WW Telephone 6690

Date of request March 20, 1976

Additions and/or changes made by telephone should be limited to three (3) names or less. Please submit new list (original and three copies) for additions and/or changes of more than three (3) names.

THE WHITE HOUSE

WASHINGTON

March 23, 1976

MEMORANDUM FOR: BRENT SCOWCROFT

FROM: JACK MARSH 

Attached is another telegram concerning the Panama Canal. I would appreciate your arranging to have the telegram answered, with a copy to my office for our records.

Many thanks.

MGMWSHU HSC
2-004403C080 03/20/76
ICS IPMYSNG NYK
07027 MGM YS NEWYORK NY 136 03-19 448P EST



western union

Mailgram®



MAR 22 1976

▷ JOHN O MARCH, ESQ
COUNSELOR TO THE PRESIDENT
THE WHITE HOUSE
WASHINGTON DC 20500

REFERENCE: PANAMA CANAL

WHILE FARRELL LINES DOES NOT WISH TO INTERJECT ITSELF INTO THE DISPUTE BETWEEN THE UNITED STATES GOVERNMENT/PANAMA CANAL COMPANY AND THE OPERATING EMPLOYEES THEREOF, THE EFFECT OF THE CONTINUING SICK OUT/STOP WORK BY THE EMPLOYEES OF THE PANAMA CANAL COMPANY WILL GIVE TO A SEVERE ECONOMICAL IMPACT ON FARRELL LINES SERVICE BETWEEN THE EAST AND GULF COASTS OF THE UNITED STATES AND AUSTRALIA/ NEW ZEALAND STOP WE UNDERSTAND THAT THE IMPASSE BETWEEN THE PARTIES AND RESUMPTION OF CANAL TRANSIT CAN ONLY BE RESOLVED BY ACTION FROM WASHINGTON AND WE E ARNESTLY REQUEST THAT YOU REALIZE OUR DEEP CONCERN AND LEND YOUR SUPPORT IN EMPHASIZING TO THE PRESIDENT THE NEED FOR PROMPT AND DECISIVE ACTION THAT WILL RESULT IN THE IMMEDIATE RESUMPTION OF FULL OPERATION OF THE PANAMA CANAL FACILITY

THOMAS J SMITH PRESIDENT FARRELL LINES INCORPORATED

11:28 EST

MGMWSHU HSC

March 29, 1976

MEMORANDUM FOR:

BRENT SCOWCROFT

FROM:

JACK MARSH

Recently I forwarded to you correspondence concerning the Panama Canal. Although the work stoppage has resumed, it is most important that this correspondence be answered, even if only a simply acknowledgment is sent to the writers.

I would greatly appreciate receiving copies of the responses to the attached telegrams.

Many thanks.

JOM/dl



MAR 30 1976

*to Jeanne Davis - dir rep
& adv.*

Alexander & Alexander Inc.
1180 Raymond Boulevard
Newark, New Jersey 07102
Telephone 201 622-8318
TWX 710-995-4723

4/2/76

**Alexander
& Alexander**

March 29, 1976

The Honorable John Marsh
Counsel to the President
The White House
1600 Pennsylvania Avenue
Washington, D. C.

Dear Mr. Marsh:

Panama Canal

On March 18, 1976, the writer sent you the following Mailgram:

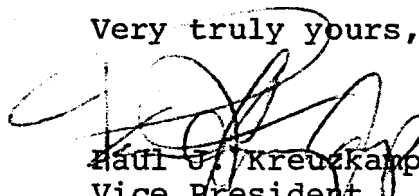
"I am deeply concerned over the possibility that political pressures being brought on the United States by the Government of Panama could lead to impairment of free passage of U. S. Flag Merchant Vessels and U. S. Naval Vessels through the Panama Canal for the duration of the Twentieth Century.

Newspaper reports which I have read on this overall subject are unclear as to the exact posture of the United States; specifically, will the Ford Administration, recognizing the importance of the Panama Canal economically and militarily, take a very strong position with the Government of Panama?

Your advices would be deeply appreciated."

I would very much appreciate having your response to this communication.

Very truly yours,



Paul J. Kreuekamp
Vice President
Senior Marine Officer

PJK:eb

THE WHITE HOUSE OFFICE

REFERRAL

MAR 23 1976

To:

The Honorable Donald Rumsfeld
Secretary of Defense

Date:

Mar 22, 1976

ACTION REQUESTED

- ☐ Draft reply for:
☐ President's signature.
☐ Undersigned's signature.
- ☐ Memorandum for use as enclosure to reply.
- ☐ Direct reply.
☐ Furnish information copy.
- ☒ Suitable acknowledgment or other appropriate handling.
☐ Furnish copy of reply, if any.
- ☐ For your information.
- ☐ For comment.

NOTE

Prompt action is essential.

If more than 72 hours' delay is encountered, please telephone the undersigned immediately, Code 1450.

Basic correspondence should be returned when draft reply, memorandum, or comment is requested.

REMARKS:

Description:

☐ Letter: ☒ Telegrams Other:

To: President & Marsh
From: Various people
Date: Various
Subject: Panama Canal

By direction of the President:

Charlotte D. Agostini
JEANNE DAVIS
NSC Secretariat

(White House File Copy)

WHD016 614P EST MAR 19 76

WAD202(1813)(1-034140C079)PD 03/19/76

TWX HOOKER NGF

003 NIAGARA FALLS N Y MARCH 19, 1976

PHS TO THE HONORABLE PRESIDENT GERALD R FORD

PRESIDENT OF THE UNITED STATES

WHITE HOUSE

WASHINGTON, D C 20500

CC: THE HONORABLE JOHN MARSH

COUNSELOR TO THE PRESIDENT

WHITE HOUSE

WASHINGTON, D C 20500

1976 MAR 20 AM 10 45

MAIL ROOM

WE HAVE BEEN ADVISED BY OUR SHIPPING COMPANY THAT THE SHIP
SCHEDULED TO TRANSPORT CHEMICAL PRODUCTS FROM OUR TAFT,
LOUISIANA PLANT HAS BEEN INDEFINITELY DELAYED DUE TO WORK
INTERRUPTION AT THE PANAMA CANAL. THE DELAY TO THIS SHIP AND

027

FUTURE SHIPS SCHEDULED TO HANDLE OUR PRODUCTS WILL CAUSE US
SEVERE FINANCIAL DAMAGE AND DISLOCATION OF INVENTORY OF OUR
PRODUCTS WITH MULTIPLYING EFFECTS ON THE ECONOMY OF ALL OF
THOSE OTHER INDUSTRIES DEPENDING UPON OUR PRODUCTS FOR THEIR
OPERATIONS. WE WILL BE FORCED TO TAKE DESPERATE MEASURES
TO MOVE OUR PRODUCTS ON AN EMERGENCY BASIS AND THE EFFECT ON
THE US FLAGSHIPS WILL BE SIGNIFICANT.

WE URGE YOU TO TAKE IMMEDIATE ACTION TO ACCOMPLISH THE OPENING
AND NORMAL OPERATION OF THE CANAL.

J S COEY

PRESIDENT

HOOKER CHEMICALS & PLASTICS CORP.

NIAGARA FALLS N Y

NNNN



JSC

The White House
Washington

VRD009 440P EST MAR 19 76

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PHS TO THE PRESIDENT OF THE UNITED STATES

THE WHITE HOUSE

1600 PENNSYLVANIA AVENUE

WASHINGTON, D.C.

1976 MAR 20 AM 10 45

WE URGE IMMEDIATE ACTION TO RESTORE NORMAL SERVICE TO THE PANAMA CANAL. TWO OCEAN TANKERS USED BY US FOR TRANSPORTATION OF CAUSTIC SODA ARE PRESENTLY BEING DETAINED.

THE MAJORITY OF CAUSTIC SODA CONSUMED ON THE U.S. WEST COAST IS RECEIVED VIA WATER FROM THE U.S. GULF COAST. THE CAUSTIC SODA STOCKS OF PPG INDUSTRIES, INC. AND ANOTHER LARGE CHEMICAL MANUFACTURER ARE BEING RAPIDLY DEPLETED AND OURS WILL BE

COMPLETELY DEPLETED IN MID-APRIL. THIS WILL CAUSE OUR CUSTOMERS INCALCUABLE DAMAGES AND POSSIBLE PLANT AND REFINERY CLOSINGS CAUSING OTHER SHORTAGES AND INCREASED UNEMPLOYMENT. BOTH COMPANIES USE AN AMERICAN FLAG VESSEL THAT HAD A BREAKDOWN DECEMBER 19 OFF THE WEST COAST OF MEXICO AND JUST LAST FRIDAY SAILED FROM THE SHIPYARD IN SAN DIEGO FOR OUR PLANT ON THE U.S. GULF COAST. TODAY IT IS WAITING AT THE PACIFIC ENTRANCE TO THE PANAMA CANAL.

IN ADDITION, TO REPLENISH OUR WEST COAST CAUSTIC SODA INVENTORIES, WE CHARTERED ANOTHER AMERICAN FLAG VESSEL, TO LOAD 22,000 LONG TON AT OUR LAKE CHARLES PLANT YESTERDAY; BUT BECAUSE OF THE PANAMA CANAL WORK STOPPAGE, WE HAVE DELAYED LOADING.

THE DELAY OF THESE TWO AMERICAN FLAG VESSELS INVOLVES OVER



40,000 LONG TON OF CAUSTIC SODA; UNUSED RAIL EQUIPMENT
POSSIBLY COULD MOVE 2 TO 3/ OF THIS SIZE REQUIREMENT.

WE REQUEST YOUR PROMPT ACTION TO STOP THIS INTOLERABLE
SITUATION.

J. G. GRIFFIN
VICE PRESIDENT, DISTRIBUTION AND TRANSPORTATION
PG INDUSTRIES, INC.
NNN



The White House
Washington, D.C.

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WX GEO PAC FTLD B

001 PORTLAND OREGON 3/19

MS THE PRESIDENT

THE WHITE HOUSE

WASHINGTON, D.C.

WE URGE IMMEDIATE ACTION TO RESTORE NORMAL SERVICE THROUGH THE PANAMA CANAL. AT THIS TIME, ONE U.S. FLAG OCEAN TANKER ENGAGED IN INTERCOASTAL TRANSPORTATION OF OUR LIQUID CHEMICALS, WHICH ARE URGENTLY NEEDED BY INDUSTRY, IS PRESENTLY DETAINED. MORE SUCH U.S. FLAG SHIPS WILL BE ARRIVING IN THE COURSE OF THE DAY. DELAYS OF THESE SHIPS WILL CAUSE US DAMAGE AND WILL DISRUPT FUTURE SCHEDULES FOR LIFTING AND DELIVERING CARGOS AND PROCESSING CHEMICAL

PRODUCTS. WHATEVER THE REASON FOR THE WORK STOPPAGE ITS VALUE IS INSIGNIFICANT COMPARED TO THE TREMENDOUS LOSS TO OUR ECONOMY AND LABOR FORCE AND TO THOSE AMERICAN SHIPOWNERS WHOSE VESSELS ARE IN INTERCOASTAL TRADE. SUCH DELAYS WILL ENCOURAGE PRESENT SHIPPERS BY WATER ON U.S. FLAG SHIPS TO SEEK OTHER MEANS OF TRANSPORTATION AND THIS WILL SERIOUSLY DAMAGE THE AMERICAN FLAG MERCHANT MARINE. WE LOOK TO YOU TO ACT IMMEDIATELY TO STOP THIS INTOLERABLE SITUATION.

JAMES R. KUSE
GEORGIA-PACIFIC CORPORATION
PORTLAND, OREGON 97204



FORM 0805 PRINTED BY THE STANDARD PAPER COMPANY U. S. A.

CC: THE HONORABLE JOHN MARSH
THE COUNSELOR TO THE PRESIDENT
THE WHITE HOUSE
WASHINGTON D.C.

NNNN



NSC

The White House
Washington

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ZCZC 01 LOS ANGELES CALIF MARCH 19
PMS THE PRESIDENT
THE WHITE HOUSE
WASHINGTON, D.C.
BT

Mar 20 AM 11 47

OFFICE
MAR 19 1976

WE URGE IMMEDIATE ACTION TO RESTORE NORMAL SERVICE THROUGH
THE PANAMA CANAL.

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SHIPPERS BY WATER ON U.S. FLAG SHIPS TO SEEK OTHER MEANS OF TRAN-
SPORTATION AND THIS WILL SERIOUSLY DAMAGE THE AMERICAN FLAG
MERCHANT MARINE.

WE LOOK TO YOU TO ACT IMMEDIATELY TO STOP THIS INTOLERABLE SITU-
ATION.

J. L. HILLER, MANAGER OPERATOR AND DISTRIBUTION

PENNZOIL COMPANY, LOS ANGELES, CA910-321-43300

✓ CC: THE HON, JOHN MARSH

THE COUNSELOR OF THE PRESIDENT

THE WHITE HOUSE

WASHINGTON, D.C.

END

NNNN



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NSC
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TLX GENSTEAMCO LSA

CZC 01 NL WASHINGTON DC MARCH 19

MS THE HONORABLE GERALD A FORD

RESIDENT OF THE UNITED STATES

THE WHITE HOUSE

WASHINGTON D C

DEAR MR PRESIDENT URGENTLY REQUEST YOU IMMEDIATELY AUTHORIZE
SATISFACTORY SETTLEMENT OF THE TRAGIC CRISIS DEVELOPING IN
THE PANAMA CANAL ZONE TO INSURE THE PROMPT RESUMPTION OF REGULAR
AND PERMANENTLY GUARANTEED VESSEL TRANSITS WITHOUT DELAY THEREBY
PREVENTING THE UTTER PHYSICAL AND FINANCIAL CHAOS WHICH THREATENS
TO ENGULF ALL AFFECTED PARTIES INCLUDING SHIPPERS/CONSIGNEES/
VESSELS/SHIPOWNERS/AGENTS AND THE GENERAL PUBLIC IN ADDITION TO
THE CANAL COMPANY EMPLOYEE STOP WE MUST ALL RELY ON YOUR KNOWN
WILLINGNESS AND ABILITIES TO SOLVE THIS UNTENABLE SITUATION AT

CE WITHOUT FAIL

RESPECTFULLY YOURS

F S GOSHERT

VICE PRES SOU DIST

GENERAL STEAMSHIP CORP LTD AS AGENTS

550 SOUTH FLOWER STREET

LOS ANGELES CALIFORNIA 90071

TELEX 067261 GENSTEAM LSA

NN



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TLX 845327 PHA

WAD190(1640)(1-027049A073002)PD 03/130

PM 5 05

ZCZC 02 PHILADELPHIA PENNSYLVANIA MARCH 18, 1976

PHS THE HON. JOHN MARSH

THE COUNSELOR TO THE PRESIDENT

THE WHITE HOUSE

WASHINGTON, D. C.

HAPE

WE URGE IMMEDIATE ACTION TO RESTORE NORMAL SERVICE THROUGH THE PANAMA CANAL. TWO OCEAN TANKERS OPERATED BY US FOR THE TRANSPORTATION OF PETROLEUM AND LIQUID CHEMICALS URGENTLY NEEDED BY CARGO SHIPPERS ARE PRESENTLY DETAINED. MORE OF OUR SHIPS WILL BE ARRIVING IN DUE COURSE. DELAY TO THESE SHIPS WILL CAUSE US AND OUR CUSTOMERS IRREPARABLE DAMAGE AND WILL DISRUPT FUTURE SCHEDULES FOR LIFTING AND DELIVERING CARGOES AND PROCESSING CHEMICAL PRODUCTS.

WHATEVER THE REASON FOR THE WORK STOPPAGE MAY BE ITS VALUE IS INSIGNIFICANT COMPARED TO THE TREMENDOUS LOSS THAT WILL BE DONE TO AMERICAN SHIPOWNERS WHOSE VESSELS ARE IN INTERCOASTAL TRADE. SUCH DELAYS WILL ENCOURAGE PRESENT SHIPPERS BY WATER TO SEEK OTHER MEANS OF TRANSPORTATION AND THIS WILL SERIOUSLY DAMAGE THE AMERICAN FLAG MERCHANT MARINE.

WE LOOK TO YOU TO ACT IMMEDIATELY TO STOP THIS INTOLERABLE SITUATION.

RESPECTFULLY,

A. B. KURZ
PRESIDENT

KEYSTONE SHIPPING CO.



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MRS JOHN O MARSH, JR., COUNSELOR TO THE PRESIDENT

THE WHITE HOUSE

WASHINGTON D C 20500

THE WORK FORCE SLOW DOWN AT THE PANAMA CANAL IS CAUSING
SERIOUS DISRUPTION OF U.S. FLAG MERCHANT SHIPPING. ALL INDICATIONS
ARE THAT SITUATION WILL CONTINUE TO DETERIORATE AND CAUSE MAJOR
ECONOMIC AND POLITICAL PROBLEMS.

WE UNDERSTAND THE IMMEDIATE CAUSE OF EMPLOYEE DISCONTENT IS
FEBRUARY 17 PROPOSAL OF CANAL ZONE CIVILIAN PERSONNEL POLICY
COORDINATING BOARD, WHICH, AMONG ITS EFFECTS, WOULD FREEZE SOME
U.S. CITIZENS' SALARIES FOR UP TO TEN YEARS, WHICH APPEARS TO BE
TOTALLY UNREALISTIC. TIMING OF THIS PROPOSAL DURING PERIOD OF

UNSETTLED CONDITIONS WAS PARTICULARLY UNFORTUNATE.

THE AMERICAN INSTITUTE OF MERCHANT SHIPPING (AIMS) WHICH
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THAN THIS ANTICIPATED SAVING. ULTIMATE LOSSES WILL NOT ONLY SKY-
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IMPACT ADVERSELY ON FURTHER CANAL TRAFFIC, EXACERBATING THE COST
PRESSURES THAT CURRENT ACTION SEEKS TO REMEDY.

WE URGE THAT THE PRESIDENT DIRECT THE CANAL ZONE CIVILIAN



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PERSONNEL POLICY COORDINATING BOARD TO WITHDRAW ITS FEBRUARY 17,
1976 PROPOSAL AND RECONSIDER THE ISSUES INVOLVED TO DEVELOP A
MORE REASONABLE PERSONNEL POLICY PROPOSAL. CONSIDERATION SHOULD
ALSO BE GIVEN TO APPOINTING HIGH-LEVEL INDUSTRY ADVISORY BOARD ON
CANAL OPERATIONS.

SIGNED: NORMAN SCOTT CHAIRMAN OF THE BOARD, AMERICAN INSTITUTE OF
MERCHANT SHIPPING, AND PRESIDENT, AMERICAN PRESIDENT LINES, LTD.

AIMS - 1625 K STREET N.W. WASHINGTON D.C. 20006

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025



Panama Canal

THE WHITE HOUSE
WASHINGTON

March 19, 1976

MEMORANDUM FOR: JIM LYNN
BRENT SCOWCROFT

FROM: JACK MARSH

SUBJECT: Panama Canal

Attached are copies of telegrams received from shippers concerning the Panama Canal situation.

As I pointed out in senior staff meeting this morning, I would be grateful if NSC and OMB would coordinate a response, with NSC taking the lead.

Many thanks.

cc: Dick Cheney



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PMS THE HON. JOHN MARSH
THE COUNSELOR TO THE PRESIDENT
THE WHITE HOUSE
WASHINGTON, D. C.

The White House
Washington
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HARE

WE URGE IMMEDIATE ACTION TO RESTORE NORMAL SERVICE THROUGH
THE PANAMA CANAL. TWO OCEAN TANKERS OPERATED BY US FOR THE
TRANSPORTATION OF PETROLEUM AND LIQUID CHEMICALS URGENTLY NEEDED BY
CARGO SHIPPERS ARE PRESENTLY DETAINED. MORE OF OUR SHIPS WILL BE
ARRIVING IN DUE COURSE. DELAY TO THESE SHIPS WILL CAUSE US AND OUR
CUSTOMERS IRREPARABLE DAMAGE AND WILL DISRUPT FUTURE SCHEDULES FOR
LIFTING AND DELIVERING CARGOES AND PROCESSING CHEMICAL PRODUCTS.

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RESPECTFULLY,

A. B. KURZ
PRESIDENT



KEYSTONE SHIPPING CO.

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MAR 16 1976

The White House
Washington

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PMS JOHN O MARSH, JR., COUNSELOR TO THE PRESIDENT

THE WHITE HOUSE

WASHINGTON D C 20500

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PERSONNEL POLICY COORDINATING BOARD TO WITHDRAW ITS FEBRUARY 17,
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11 CANAL OPERATIONS.
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15 SIGNED: NORMAN SCOTT CHAIRMAN OF THE BOARD, AMERICAN INSTITUTE OF
16 MERCHANT SHIPPING, AND PRESIDENT, AMERICAN PRESIDENT LINES, LTD.
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WILL THE FORD ADMINISTRATION, RECOGNIZING THE IMPORTANCE OF THE
PANAMA CANAL ECONOMICALLY AND MILITARILY, TAKE A VERY STRONG
POSITION WITH THE GOVERNMENT OF PANAMA

YOUR ADVICES WOULD BE DEEPLY APPRECIATED

PAUL J KREUZKAMP 1180 RAYMOND BLVD NEWARK NJ 07102

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MAR 18 1976

The White House
Washington

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PMS HONORABLE JOHN MARSH, COUNCIL TO THE PRESIDENT

WHITE HOUSE

WASHINGTON DC

SUBJECT PANAMA CANAL

I AM DEEPLY CONCERNED OVER THE POSSIBILITY THAT POLITICAL PRESSURES BEING BROUGHT ON THE UNITED STATES BY THE GOVERNMENT OF PANAMA COULD LEAD TO IMPAIRMENT OF FREE PASSAGE OF US FLAG MERCHANT VESSELS AND US NAVAL VESSELS THROUGH THE PANAMA CANAL FOR THE DURATION OF THE 20TH CENTURY

NEWSPAPER REPORTS WHICH I HAVE READ ON THIS OVERALL SUBJECT ARE UNCLEAR AS TO THE EXACT POSTURE OF THE UNITED STATES; SPECIFICALLY,

Panama

March 31, 1976

MEMORANDUM FOR:

CHARLIE LEPPERT

FROM:

JACK MARSH

Please follow up on the letter from Mrs. Sullivan concerning Panama to be certain we get a Presidential response to her. I expect NSC are going to have the action on this, so you will have to keep after Les Janka.

Many thanks.

JOM/dl



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U.S. House of Representatives
Committee on
Merchant Marine and Fisheries
Room 1334, Longworth House Office Building
Washington, D.C. 20515

March 29, 1976

The President
The White House
Washington, D. C.

Dear Mr. President:

I am writing to you and the Secretary of the Army to implore you both to take some direct action on the recent proposal of the Canal Zone Civilian Personnel Policy Coordinating Board which would in effect deprive 3,000 of the lower-grade employees of the Panama Canal Company and military services in the Canal Zone of raises over the next six or seven, or more, years, as well as the proposal of restricting future eligibility for the tropical pay differential.

For the benefit of all the parties concerned, I am convinced that it is essential that these controversial and inflammatory proposals be withdrawn and discussions be initiated with a view to discovering ways of attempting to accomplish savings and to help make up the deficit in toll revenues caused by the fewer numbers of ships transiting the Canal.

Unfortunately, for the past several years, these people have been frightened by the threat of their jobs being abolished because of the treaty negotiations which have been carried on by fits and starts. In addition, they have been faced with the loss of commissary privileges and the loss of recreational facilities, as well as many other harrassments. The last straw was the proposed changes in the basic wage scale which would have the effect of freezing their present pay for at least the next six or seven years, and for the foreseeable future. These positions which have been threatened

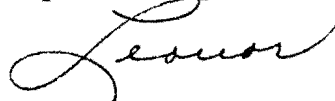
The President
Page Two
March 29, 1976

are the porters, stenographers, secretaries, and similar employees, and it even goes up to the younger craftsmen. It is my understanding that the net savings to be realized from squeezing these some 3,000 employees would be less than \$600,000, which is a mere drop in the bucket in relation to an approximate deficit of some \$14 million.

Our Committee is working on legislation to defer, or postpone, the interest payments made to the Treasury each year. This deferral of interest payments would be until the tolls begin to increase and there is a profit over expenditures. If some sensible, but effective, action is not taken within the next few weeks, we have ample evidence that anything can happen. We had a test last week of the almost complete stoppage of transits of the Canal because of the job action of the employees in the Canal Zone which was manifested as "sick" calls." Unfortunately, our pleas can no longer hold the Panama Canal Company employees back, and it was only decisive and reasonable action by Governor Parfitt which prevented the situation from becoming even much worse than it was. The Governor has been magnificent throughout this crisis and is held in high esteem by the Members of Congress who have attempted to alleviate this critical situation, as well as by the employees in the Canal Zone.

I am sure you understand the ramifications of the existing situation and the necessity of withdrawing the two proposals which are so inflammatory and which are regarded by the Panama Canal employees as a threat to their very livelihood and existence. I hope that you will take decisive and quick action with respect to this matter and I anxiously await a reply from you in this regard.

Respectfully,



Leonor K. (Mrs. John B.) Sullivan
Chairman

LKS:Cvb

March 29, 1976

MEMORANDUM FOR: BRENT SCOWCROFT
FROM: JACK MARSH

The attached is for your immediate attention.

Mrs. Sullivan sent this letter to the President by messenger.

I suggest you do a background paper to accompany the letter.

JOM/dl



MAR 30 1976

March 29, 1976

Dear Madam Chairman:

This will acknowledge receipt of your letter to the President of today's date, urging that the proposals of the Canal Zone Civilian Personnel Policy Coordinating Board relating to salaries be withdrawn immediately and that discussions be initiated to seek alternative solutions.

I wish to assure you that your letter will be called to the President's attention without delay. I am confident it will be fully reviewed.

With kindest regards,

Sincerely,

Charles Leppert, Jr.
Special Assistant for
Legislative Affairs

The Honorable Leonor K. (Mrs. John B.) Sullivan
Chairman
Committee on Merchant Marine and Fisheries
House of Representatives
Washington, D.C. 20515

cc: w/incoming to John Marsh for further handling

CL"JEB:VO:vo

