Case Number: 2016-0152-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the Clinton Presidential Library Staff.

Folder Title: Chron File - August 1993 #1 [4]				
Staff Office-Individual: Defense Policy-Bell, Robert				
Original OA/ID Number: 46				
Row: 31	Section: 3	Shelf: 2	Position: 2	Stack: V

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. memo	For Lynn Davis et al from Robert Bell. Subject: Arms Control IWG Meeting on ABM Treaty Review. (2 pages)	08/04/1993	P1/b(1)
001b. paper	Proposal for the 1993 ABM Treaty Review. (2 pages)	08/03/1993	P1/b(1)
001c. draft	Cable on September 1993 ABM Treaty Review. (2 pages)	08/03/1993	P1/b(1)
002a. memo	Duplicate of 001a. (2 pages)	08/04/1993	P1/b(1)
002b. paper	Duplicate of 001b. (2 pages)	08/03/1993	P1/b(1)
002c. draft	Duplicate of 001c. (2 pages)	08/03/1993	P1/b(1)
003. memo	Department of Energy Comments on Freedom Support Act. Record ID: 9305505. (2 pages)	08/04/1993	P1/b(1)
004. cable	re: Part I Significant Military Exercise Brief [Solid Stance 93] (3 pages)	06/22/1993	P1/b(1)
005. letter	[Personally Identifiable Information] [partial] (1 page)	07/30/1993	b(6)

COLLECTION:

Clinton Presidential Records
National Security Council
Defense Policy and Arms Control (Robert Bell)
OA/Box Number: 46

FOLDER TITLE:

Chron File - August 1993 #1 [4]

2016-0152-F
vz4451

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

August 4, 1993

ACTION

MEMORANDUM FOR WILLIAM H. ITOH

THROUGH: ROBERT BELL RB

FROM: KEITH HAHN KH

SUBJECT: Transportation Proposed Testimony on Vessel Reflagging

At Tab II is the proposed testimony of the acting Maritime Administrator of the Department of Transportation before the Subcommittee on Merchant Marine of the Senate Committee on Commerce, Science and Transportation. She will testify concerning the recent request by Sea-Land and the American President Lines to shift a total of 20 ships from U.S. to foreign flag. This is being done to make them more economically competitive in the world market.

The testimony acknowledges the economic disadvantages under which U.S. flag carriers operate and outline the steps that these carriers must take to shift flags. It is important to note that these ships will still be available to the U.S. for sealift in contingencies. The acting MARAD Administrator discusses the efforts of the recently completed NEC-chaired interagency working group on Maritime Revitalization to find cost-effective ways to help this industry. The recommendations of this IWG have been sent to the President, but no decision has yet been reached.

Concurrences by: Steve Jones *in draft* and Jeremy Rosner

RECOMMENDATION

That you sign the memorandum at Tab I concurring in the proposed testimony.

Attachments
Tab I Memorandum for Signature
Tab II Incoming Correspondence

NATIONAL SECURITY COUNCIL
WASHINGTON. D.C. 20506

MEMORANDUM FOR JAMES J. JUKES

FROM: WILLIAM H. ITOH

SUBJECT: Transportation Proposed Testimony on Vessel Reflagging

The National Security Council staff concurs in the proposed testimony.

10 pages
5802

TESTIMONY

EXECUTIVE OFFIC OF THE PR SIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503

TESTIMONY

August 3, 1993

LEGISLATIVE REFERRAL MEMORANDUM

LRM #M-590

TO: Legislative Liaison Officer -

AGRIC-CR - Hal Gross (all testimony) - (202)720-7095 - 230
COMMERCE - Michael A. Levitt - (202)482-3086 - 324
DEFENSE - Samuel T. Brick, Jr. - (703)697-1305 - 325
JUSTICE - Sheila F. Anthony - (202)514-2141 - 217
LABOR - Robert A. Shapiro - (202)219-8201 - 330
STATE - Julie C. Norton - (202)647-2137 - 225
TREASURY - Richard S. Carro - (202)622-1146 - 228
NSC - William H. Itoh - (202)395-3723 - 249
AID - Robert M. Lester - (202)647-8371 - 202
CEA - Francine Obermiller - (202)395-5036 - 242
NEC - Sonia Mathews - (202)456-6722 - 429
USTR - Fred Montgomery - (202)395-3475 - 223

FROM: (for) Jim Jukes
Assistant Director for Legislative Reference

OMB CONTACT: Jim BROWN (395-3473)
Secretary's line (for simple responses): 395-3454
Meg DiBARI (Wimmer) (395-3834)

SUBJECT: TRANSPORTATION Proposed Testimony on Vessel Reflagging

DEADLINE: 10:00 A.M. Wednesday August 4, 1993

COMMENTS: If we do not hear from you by the deadline, we will assume that you have no comment.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:
Meg DiBari
Roger Adkins
Michael Deich
John Goodman
John McClelland
Cookie Walden
Mike Schmidt
Bob Damus

LRM #M-590

RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

If your response to this request for views is simple (e.g., concur/no comment) we prefer that you respond by faxing us this response sheet. If the response is simple and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a secretary.

You may also respond by (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); (2) sending us a memo or letter; or (3) if you are an OASIS user in the Executive Office of the President, sending an E-mail message. Please include the LRM number shown above, and the subject shown below.

TO: Jim BROWN (395-3473)
Office of Management and Budget
Fax Number: (202) 395-3109
Analyst/Attorney's Direct Number: (202) 395-3473
Branch-Wide Line (to reach secretary): (202) 395-3454

FROM: ______________________ (Date)

______________________ (Name)

______________________ (Agency)

______________________ (Telephone)

SUBJECT: TRANSPORTATION Proposed Testimony on Vessel Reflagging

The following is the response of our agency to your request for views on the above-captioned subject:

______ Concur

______ No objection

______ No comment

______ See proposed edits on pages ______________

______ Other: ______________________

______ FAX RETURN of _____ pages, attached to this response sheet

DRAFT 8/2/93
5PM

STATEMENT OF JOAN B. YIM
ACTING MARITIME ADMINISTRATOR

DEPARTMENT OF TRANSPORTATION

BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE OF THE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

AUGUST 6, 1993

Mr. Chairman, members of the Subcommittee, my name is Joan B. Yim and I am the Acting Maritime Administrator of the Department of Transportation. I am here today to testify on behalf of the Department of Transportation concerning the applications of Sea-Land Service, Inc. (Sea-Land) and American President Lines, Ltd. (APL) to register their ships in foreign countries. The Department regrets that Sea-Land and APL have found it necessary to apply for permission to transfer a significant portion of their fleets to foreign registries.

Section 9 of the Shipping Act of 1916 requires the approval of the Secretary of Transportation before any U.S.-flag vessel may be placed under foreign registry, or sold, mortgaged, leased or transferred to someone other than a U.S. citizen. On June 28, 1993, Sea-Land applied for approval, pursuant to Section 9, for the transfer of 13 vessels to Marshall Islands registry. On July 16, 1993, APL asked for similar permission to transfer seven vessels to a foreign registry that would permit the vessels to remain under Effective U.S. Control for the purpose of requisitioning in time of war or national emergency. APL's request involves transfer at the time of withdrawal from APL's operating-differential subsidy (ODS) contract or the termination of this contract, whichever occurs first. As a subsidized operator, APL also applied for a waiver under Section 804 of the 1936 Merchant Marine Act to operate these vessels under foreign flag in APL's existing services, following reflagging and during the remaining term of its ODS contract.

From the applicants' perspective, the decision to reflag vessels is based primarily on vessel operating economics. We are all aware that U.S.-flag carriers face higher costs for personnel and insurance, more stringent regulatory requirements, and less favorable tax treatment than foreign-flag carriers. Lacking some form of government assistance, these factors make it more difficult for U.S. companies to compete against foreign-flag operators in our import and export trades. Nevertheless, these two companies are known to us and their competition as "world class" carriers.

The Administration acknowledges the important contribution of the commercial U.S.-flag fleet in meeting our national defense and economic security requirements. As President Clinton recently stated, "America's merchant ships continue to provide jobs and economic benefits for America. The men and women who sail those ships and who serve in supporting industries are prepared to support the Nation in times of crisis."

The importance of having a viable commercial fleet was most recently demonstrated during Operations DESERT SHIELD and DESERT STORM. About 80 percent of the dry cargo transported by sea in support of this conflict was carried on U.S.-flag vessels. More than one-third of the total military dry cargo that was transported by sea moved on commercial U.S.-flag liner ships that normally operate in our import and export trades. Sea-Land, APL, and their employees were key components of this success story.

U.S. citizen seafarers work on the ships under consideration at this hearing. Overall, more than 10,000 seafarers are employed on privately owned, U.S.-flag ships engaged in international trade. These men and women are available to the Department of Defense and the Maritime Administration to crew sealift ships, including the Ready Reserve Force, during crises like DESERT SHIELD and DESERT STORM. They also continue to work on commercial ships during a crisis, side-by-side with our combatants, to resupply American troops. This unique role of civilian merchant mariners in war and national emergency is one of the most cost-effective and efficient examples of "public-private partnerships".

As early as February 1992, APL and Sea-Land publicly stated that unless certain changes were made to reduce the disparities between U.S. and foreign capital and operating costs, they would have no recourse but to pursue operations under foreign flag beginning in 1995.

For nearly six months this year, this Administration considered initiatives that would help to improve the overall efficiency and economic competitiveness of the maritime industry. Early in his tenure, Secretary Peña met with representatives from all sectors of the U.S. maritime industry -- carriers, shippers, maritime labor and shipbuilders -- to discuss their concerns and to listen to their ideas on how to make the industry stronger.

In April, Secretary Peña developed a set of maritime policy initiatives that were presented to the National Economic Council (NEC). The NEC met regularly over the course of several weeks to discuss in detail each of the Secretary's initiatives, along with policy alternatives.

Maritime reform has received vigorous attention within the Administration and is still under active consideration. One of the crucial issues that has yet to be resolved is funding for a new maritime program. Severe budgetary limitations have already been placed on attempts to increase Federal expenditures generally, and financing priorities for some of the Administration's initiatives have yet to be resolved.

These applications to reflag twenty containerships, and the loss of over 900 jobs for merchant seamen who work aboard these ships, bring the U.S. maritime industry to a crucial juncture. These vessels are the most modern in the U.S.-flag fleet and their combined capacity represents over one-fourth of the total container capacity of the privately owned U.S.-flag fleet. This is an unprecedented request. No similar applications, in such number, have ever been processed by the Maritime Administration.

The Sea-Land and APL applications will be carefully reviewed. We recognize the advantages that the carriers hope to achieve by being able to compete on the same terms and conditions as foreign carriers, but we also recognize the impact on other elements of the U.S. maritime industry, in particular the impact on national security and economic interests of the United States. Let me assure you, however, that the concerns of all affected interests will be carefully weighed in the decision-making process.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions that you or other members of the Subcommittee may have.

#

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. memo	For Lynn Davis et al from Robert Bell. Subject: Arms Control IWG Meeting on ABM Treaty Review. (2 pages)	08/04/1993	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Defense Policy and Arms Control (Robert Bell)
OA/Box Number: 46

FOLDER TITLE:

Chron File - August 1993 #1 [4]

2016-0152-F
vz4451

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001b. paper	Proposal for the 1993 ABM Treaty Review. (2 pages)	08/03/1993	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Security Council
Defense Policy and Arms Control (Robert Bell)
OA/Box Number: 46

FOLDER TITLE:
Chron File - August 1993 #1 [4]

2016-0152-F
vz4451

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001c. draft	Cable on September 1993 ABM Treaty Review. (2 pages)	08/03/1993	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Defense Policy and Arms Control (Robert Bell)
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002a. memo	Duplicate of 001a. (2 pages)	08/04/1993	P1/b(1)

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National Security Council
Defense Policy and Arms Control (Robert Bell)
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FOLDER TITLE:
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002b. paper	Duplicate of 001b. (2 pages)	08/03/1993	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Defense Policy and Arms Control (Robert Bell)
OA/Box Number: 46

FOLDER TITLE:

Chron File - August 1993 #1 [4]

2016-0152-F
vz4451

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Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002c. draft	Duplicate of 001c. (2 pages)	08/03/1993	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Security Council
Defense Policy and Arms Control (Robert Bell)
OA/Box Number: 46

FOLDER TITLE:
Chron File - August 1993 #1 [4]

2016-0152-F
vz4451

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. memo	Department of Energy Comments on Freedom Support Act. Record ID: 9305505. (2 pages)	08/04/1993	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Defense Policy and Arms Control (Robert Bell)
OA/Box Number: 46

FOLDER TITLE:

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

August 4, 1993

ACTION

MEMORANDUM FOR WILLIAM H. ITOH

THROUGH: ROBERT BELL

FROM: KEITH HAHN

SUBJECT: Defense Revised Defense Enterprise Demilitarization and Restructuring Fund

The draft proposal at Tab II replaces a DoD proposal circulated on May 20 as an amendment to the Defense authorization bill. This proposal would authorize the Defense Enterprise Demilitarization and Restructuring Fund, which is a private, non-profit organization modeled on the more general Enterprise Funds established by Congress to assist in the development of market economies and the privatization of businesses in Eastern Europe and the former Soviet Union. This fund, however, will have a more focused objective -- to provide grants, loans and investments specifically to facilitate the demilitarization and conversion of the defense establishment in states eligible for Nunn-Lugar assistance to civilian, commercially-oriented enterprises.

Concurrences by: Rose Gottemoeller and Jeremy Rosner

RECOMMENDATION

That you sign the memorandum at Tab I concurring in the revised Defense draft.

Attachments
Tab I Memorandum for Signature
Tab II Incoming Correspondence

NATIONAL SECURITY COUNCIL
WASHINGTON. D.C. 20506

MEMORANDUM FOR RONALD K. PETERSON

FROM: WILLIAM H. ITOH

SUBJECT: Defense Revised Defense Enterprise Demilitarization and Restructuring Fund

The National Security Council staff concurs in the draft proposal.

5804

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

URGENT

August 4, 1993

LEGISLATIVE REFERRAL MEMORANDUM

LRM #D-334
DRAFT #310

TO: Legislative Liaison Officer -

ACDA - Barbara Starr - (202)647-8478 - 234
AID - Robert M. Lester - (202)647-8371 - 202
COMMERCE - Michael A. Levitt - (202)482-3086 - 324
ENERGY - Bob Rabben - (202)586-6718 - 209
JUSTICE - Sheila F. Anthony - (202)514-2141 - 217
NSC - William H. Itoh - (202)395-3723 - 249
NEC - Sonia Mathews - (202)456-6722 - 429
STATE - Julie C. Norton - (202)647-2137 - 225
TREASURY - Richard S. Carro - (202)622-1146 - 228
OGE - Jane Ley - (202)523-5377 - 262

FROM: RONALD K. PETERSON (for) Ronald K. Peterson
Assistant Director for Legislative Reference

OMB CONTACT: Annette ROONEY (395-7300)
Secretary's line (for simple responses): 395-6194

SUBJECT: DEFENSE REVISED Defense Enterprise Demilitarization and Restructuring Fund

DEADLINE: 11:00 A.M. [redacted], TODAY August 4, 1993

COMMENTS: This draft proposal replaces a Defense proposal circulated on May 20, 1993 (As an amendment to the Defense Authorization). Because the Defense Authorization Bill may be considered at any time, this needs to be cleared immediately. If you have not responded by the deadline, we will assume you have no objection.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:
G. Adams
D. Gessaman
B. Smith
K. MacIntyre
H. Paster
T. Chavez
M. Casella

6 pp

URGENT

LRM #D-334

RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

If your response to this request for views is simple (e.g., concur/no comment) we prefer that you respond by faxing us this response sheet. If the response is simple and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a secretary.

You may also respond by (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); (2) sending us a memo or letter; or (3) if you are an OASIS user in the Executive Office of the President, sending an E-mail message. Please include the LRM number shown above, and the subject shown below.

TO: Annette ROONEY
Office of Management and Budget
Fax Number: (202) 395-5691
Analyst/Attorney's Direct Number: (202) 395-7300
Branch-Wide Line (to reach secretary): (202) 395-6194

FROM: ______________________ (Date)

______________________ (Name)

______________________ (Agency)

______________________ (Telephone)

SUBJECT: DEFENSE REVISED Defense Enterprise Demilitarization and Restructuring Fund

The following is the response of our agency to your request for views on the above-captioned subject:

_______ Concur

_______ No objection

_______ No comment

_______ See proposed edits on pages ____________

_______ Other: ______________________

_______ FAX RETURN of _____ pages, attached to this response sheet

3 Aug 93

Draft Authorization Act Language for Defense Enterprise Demilitarization and Restructuring Fund

Sec. 5, Contracts and Grants for Defense Conversion Assistance for the Independent States of the Former Soviet Union: Defense Enterprise Demilitarization and Restructuring Fund.

(a) Purposes. -- The purposes of this section are to promote--

(1) the demilitarization of the former Soviet Union through the conversion of the military establishment and defense industry to civilian activities through loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, guarantees, and other measures.

(2) market reforms by promoting private capital investments in defense industry firms that are converting to the production of goods for the civilian market, thus furthering the independence of these firms from the state.

(b) Authorization of Appropriations. -- To carry out the purposes specified in subsection (a), the President may authorize the Defense Enterprise Demilitarization and Restructuring Fund to undertake defense conversion assistance for the independent states of the former Soviet Union for demilitarization of military capabilities and defense-related industry and equipment and the conversion of such military capabilities and defense-related industry to civilian purposes and uses. Funds are authorized to be made available until expended

(c) Designation of Defense Enterprise Demilitarization and Restructuring Fund--

(1) Designation. -- The President is authorized to designate a private, nonprofit organization -- the Defense Enterprise Demilitarization and Restructuring Fund (hereinafter in this section referred to as the "Fund") -- as eligible to receive funds and support pursuant to this section upon determining that such an organization has been established for the purposes specified in subsection (a). One or more such funds may be established under this authorization.

(2) Consultation with Congress -- The President shall consult with the leadership of each House of Congress before designating an organization pursuant to paragraph (1).

(3) Board of Directors. --(A) The Fund shall be governed by a Board of Directors comprised of private citizens of the United States who have demonstrated experience and expertise in those areas of private sector development in which the Fund is involved.

(B) The Fund may consult with citizens of countries in which Fund-sponsored projects are located. A host country citizen who is not committed to respect for democracy and a free market economy may not serve as a consultant to the Fund.

(4) Eligibility of Fund for Grants.--Grants may be made to the Fund under this section only if the Fund agrees to comply with the requirements specified in this section.

(5) Private Character of Fund.--Nothing in this section shall be construed to make a Fund an agency or establishment of the United States Government, or to make the officers, employees, or members of the Board of Directors of the Fund officers or employees of the United States for the purposes of title 5, United States Code.

(d) Grants to Fund.-- Funds appropriated to the Department of Defense pursuant to section _____ may be granted to the Fund by the Department of Defense to enable the Fund to carry out the purposes specified in subsection (a) and for the administrative expenses of the Fund.

(e) Eligible Programs and Projects.--

(1) In General.-- The Fund may provide assistance pursuant to this section only for the programs and projects which are consistent with the purposes set forth in subsection (a). The Fund shall have as an objective that at least 50 percent of the projects sponsored shall involve conversion of the workforce, facilities, and equipment associated with the research, development, or production of nuclear, chemical and other weapons of mass destruction and their delivery vehicles. Where possible, U.S. firms should participate as partners in projects to assure that solid management techniques are applied and access to hard currency sources are developed. Assistance may not be provided to any country not certified as eligible for such assistance. Private financial investors should be encouraged to co-invest in projects with the Fund to build diversity in the private capital sources available to industry in the former Soviet Union.

(f) Matters to be Considered by the Fund.-- In carrying out this section, the Fund shall take into account such considerations as are spelled out in section 3(d) .

(g) Retention of Interest.-- The Fund may hold funds granted to it pursuant to this section in interest-bearing accounts, prior to the disbursement of such funds for the purposes specified in subsection (a), and may retain for such program purposes any interest earned on such deposits without returning such interest to the Treasury of the United States and without further appropriation by the Congress.

(h) Reinvestment of Profits -- Profits generated by and payments received by the Fund may be reinvested in new projects.

(i) Use of United States Private Venture Capital.-- In order to maximize the effectiveness of its activities, the Fund may conduct public offerings or private placements for the purpose of soliciting and accepting United States venture capital which may be used, separately or together with funds made available pursuant to this section, for any lawful investment purpose that the Board of Directors of the Fund may determine in carrying out this section. Financial returns on Fund investments that include a component of private venture capital may be distributed, at such times and in such amounts as the Board of Directors of the Fund may determine, to the investors of such capital.

(j) Nonapplicability of Other Laws.-- Executive branch agencies may conduct programs and activities and provide services in support of the activities of the Fund notwithstanding any other provision of law.

(k) Limitations on Payments to Fund Personnel.-- No part of the funds of the Fund shall inure to the benefit of any board member, officer, or employee of such Fund, except as salary or reasonable compensation for services.

(l) Independent Private Audits.-- The accounts of the Fund shall be audited annually in accordance with generally accepted auditing standards by independent certified public accountants or independent licensed public accountants certified or licensed by a regulatory authority of a State or other political subdivision of the United States. The report of each independent audit shall be included in the annual report required by this section.

(m) GAO Audits.-- The financial transactions pursuant to this section by the Fund may be audited by the General Accounting Office in accordance with such principles and procedures and under such rules and regulations as may be prescribed by the Comptroller General of the United States, so long as the Fund is in receipt of United States Government grants.

(n) Recordkeeping Requirements.-- The Fund shall ensure--

(1) that each recipient of assistance provided through the Fund under this section keeps--

(A) separate accounts with respect to such assistance;

(B) such records as may be reasonably necessary to disclose fully the amount and the disposition by such recipient of the proceeds of such assistance, the total cost of the project or undertaking in connection with which such assistance is given or used, and the amount and nature of that portion of the cost of the project or undertaking supplied by other sources; and

(C) such other records as will facilitate an effective audit; and

(2) that the Fund, or any of their duly authorized representatives, have access for the purpose of audit and examination to any books, documents, papers, and records of the recipient that are pertinent to assistance provided through the Fund under this section.

(o) Annual Reports.--The Fund shall publish an annual report, which shall include a comprehensive and detailed description of the Fund's operations, activities, financial condition, and accomplishments under this section for the preceding fiscal year. This report shall be published not later than January 31 each year, beginning in 1995.

(p) Sunset Provision. -- Any document to establish and finance the Fund shall specify provisions for the Fund's eventual disestablishment.

UNCLASSIFIED
NSC/RMO PROFILE

RECORD ID: 9320860
RECEIVED: 05 AUG 93 11

TO: SODERBERG

FROM: BELL
MANZANARES

DOC DATE: 05 AUG 93
SOURCE REF:

KEYWORDS: ADMINISTRATIVE

PERSONS:

SUBJECT: TRAVEL REQUEST FOR ANDREASEN

ACTION: SODERBERG APPROVED RECOM DUE DATE: 09 AUG 93 STATUS: C

STAFF OFFICER: BELL LOGREF:

FILES: ADMIN NSCP: CODES:

D O C U M E N T   D I S T R I B U T I O N

FOR ACTION	FOR CONCURRENCE	FOR INFO
		ANDREASEN
		BELL
		MANZANARES
		NSC CHRON

COMMENTS: ______

DISPATCHED BY ______ DATE ______ BY HAND W/ATTCH

OPENED BY: NSJDA CLOSED BY: NSAS' DOC 1 OF 1

UNCLASSIFIED

20860

NATIONAL SECURITY COUNCIL
WASHINGTON D.C. 20506

August 5, 1993

ACTION

MEMORANDUM FOR NANCY SODERBERG

THROUGH: J. ROBERT MANZANARES

FROM: ROBERT BELL

SUBJECT: NSC Staff Travel - Steven Andreasen

Request travel orders be provided for Steven Andreasen to visit the Department of Energy's Los Alamos National Laboratory (August 10-12) and Sandia National Laboratory (August 12) in Albuquerque, New Mexico and Lawrence Livermore National Laboratory (August 13) in San Francisco.

NSC is requested to cover the expenses of the trip. Per diem is estimated at $94 for Albuquerque; per diem for San Francisco is $134. Air fare is estimated to be $739 round trip at coach class.

RECOMMENDATION

That you authorize Will Itoh to sign the attached travel request.

Approve W   Disapprove ______

Attachments
Tab I   Travel Authorization Form

DATE August 5, 1993

NSC STAFF TRAVEL AUTHORIZATION

1. **TRAVELER'S NAME:** Steven Andreasen

2. **PURPOSE/EVENT (Include Dates):** To visit the Department of Energy's Los Alamos National Laboratory (August 11-12) and Sandia National Laboratory (August 12) in Albuquerque, NM; and Lawrence Livermore National Laboratory (August 13) in San Francisco, CA.

3. **ITINERARY (Please Attach Copy of Proposed Itinerary):** Washington, DC to Albuquerque, NM to San Francisco, CA and return

4. **DEPARTURE DATE** 3:00 PM **RETURN DATE** TBD
   DEPARTURE TIME AUGUST 10, 1993 **RETURN TIME** TBD

5. **MODE OF TRANSPORTATION:**

   GOVT. AIR ____ **COMMERCIAL AIR** X **POV** X **RAIL** ____
   OTHER ____

6. **ESTIMATED EXPENSES:**

   TRANSPORTATION $739 **PER DIEM** $515 $94 Albuquerque $134 San Francisco **OTHER** $50
   TOTAL $1304

7. **WHO PAYS EXPENSES: NSC** X **OTHER** ____

   IF NOT NSC, DESCRIBE SOURCE AND ARRANGEMENTS: ____

8. **WILL FAMILY MEMBER ACCOMPANY YOU: YES** ____ **NO** X

   IF SO, WHO PAYS FOR FAMILY MEMBER (If Travel Not Paid By Traveler, Describe Source & Arrangements): ____

9. **TRAVEL ADVANCE REQUESTED: $** YES $195

10. **REMARKS (Use This Space to Indicate Any Additional Items You Would Like to Appear on Your Travel Orders):** ____

11. **TRAVELER'S SIGNATURE:** Steven P. Andreasen

12. **APPROVALS: Senior Director** Robert G. Bell
    For **Director of Administration** W. P. Clark
    Executive Secretary [signature]

20862

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

August 5, 1993

ACTION

MEMORANDUM FOR SAMUEL R. BERGER

THROUGH: ROBERT BELL

FROM: KEITH HAHN KH

SUBJECT: Deputies Committee Meeting on Shipbuilding Industry

A Deputies Committee meeting is scheduled for Monday, August 9, from 1:00-3:00 p.m. in OEOB 476 to discuss the draft Decision Memorandum on the U.S. Shipbuilding Industry (at Tab I). This draft is a result of our efforts over the past three months to respond to the Congressional mandate to formulate a plan for the revitalization of shipbuilding in the U.S. The mandate was inserted as a provision in the FY93 National Defense Authorization Act (H.R. 5006) by Representative Tom Andrews (D-Maine).

An NEC-chaired working group has been formed "for the sole purpose of developing and implementing a comprehensive plan to enable and ensure that domestic shipyards can compete effectively in the international shipbuilding market." The legislation requires that we present a comprehensive plan to Congress by October 1, 1993.

Large U.S. shipyards are now almost completely dependent on the Navy. Of the 87 ships currently on order or under construction, 86 are for the Navy. With the drawdown in defense spending, naval orders are expected to decline substantially. The problems faced by U.S. shipyards are thus similar to those faced by other defense contractors -- namely, how to shift from military to civilian production. Thus, to a great extent, this review should be viewed in the context of defense conversion.

The U.S. industry is currently not competitive in the global market. It is less efficient than its foreign competitors and has had little experience in the commercial market since the early 1980s when the U.S. ended construction differential subsidies and increased naval orders. U.S. yards are also disadvantaged by the subsidies granted by foreign governments to their own shipyards. As a result, U.S.-built ships are more expensive than foreign-built ships. According to the ITC, price differentials have reached 100 percent.

The Bureau of Labor Statistics estimates that U.S. shipyards employed 123,900 workers in 1992 (down from 171,600 in 1982). The shipbuilding industry estimates that, absent government assistance, 70,000 more shipbuilding jobs could be lost. Even with government assistance, however, shipbuilders estimate that the transition from military to civilian production will lead to a loss of 20 percent of current employees as some skills are no longer needed.

The Decision Memorandum provides a base program that ensures fair market access and international competition, removes unnecessary regulatory barriers, provides R&D assistance through the Technology Reinvestment Program (TRP), assists in international marketing efforts and promotes the financing of foreign sales with EximBank financing. The additional options listed in this paper provide increased direct or indirect subsidies for the shipbuilding industry. Even with the most enhanced options, the U.S. shipbuilding industry would barely be competitive on the international market. The expectations and the payoffs are low -- to gain a 10% market share over the next 10-15 years -- making the subsidy options unattractive in the current fiscal environment. Granting subsidies to this industry would have the added disadvantage of undermining our efforts to negotiate the termination of subsidies by other countries.

Concurrence by: Steve Jones

RECOMMENDATION

That you approve the base program and resist any of the options.

Attachment
Tab I Draft Decision Memorandum

DRAFT DECISION MEMORANDUM

I. SUMMARY

This memorandum asks you to select the elements to be included in the plan for the U.S. shipbuilding industry that the Administration is required to submit to Congress. Specifically, it asks you to:

1. Approve (or amend) the working group's core plan.

2. Decide whether to include additional subsidies for R&D and ship construction.

3. Confirm the group's recommendation to reject other measures included in current legislation.

II. ACTION-FORCING EVENT

In the past ten years, large U.S. shipyards have built vessels almost solely for the Navy. With the drawdown in defense spending, these yards must either find new commercial markets or significantly reduce capacity.

The National Defense Authorization Act of 1993 required the President "to establish an interagency working group for the sole purpose of developing and implementing a comprehensive plan to enable and ensure that domestic shipyards can compete effectively in the international shipbuilding market." The President is required to submit this plan to Congress no later than October 1, 1993 (although an extension until April 15, 1994 is permitted if the President transmits to Congress an explanation of the reasons for delay.)

This memorandum describes the problems faced by the industry and lays out options for the elements to be included in the President's plan.

III. BACKGROUND

A. Industry Structure and Employment

The U.S. shipbuilding industry consists of two broad segments: (1) major shipbuilding facilities, and (2) second-tier facilities.

Major shipyards construct and repair ocean-going vessels with a minimum overall length of 400 feet. There are currently 17 major shipyards. (Exhibit 1 shows the location of these yards.)

Second-tier shipyards--approximately 100 in number--construct and repair smaller vessels, such as inland waterways and coastal carriers, tug boats, supply boats, ferries, fishing vessels, barges, drill rigs, and small military and government-owned vessels. Although some of these yards compete successfully in international markets, most build ships for the domestic market which is protected by the Jones Act. That act restricts U.S. coastwise and inland maritime traffic to U.S.-built ships sailing under the U.S. flag. These yards do not face the conversion problem confronting the major shipyards and are thus not addressed directly in this memorandum. (However, they will also benefit from a number of the recommended policies.)

In 1992, U.S. shipyards employed 123,900 workers--down from 171,600 in 1982. Approximately two-thirds or 83,000 of these workers were employed in the 17 major yards.

B. Post-War Production in Major Shipyards

Apart from the immediate post-war period when the United States enjoyed a virtual shipbuilding monopoly, the U.S. shipbuilding industry has not been competitive in the market for ocean-going vessels. Since 1960, no major U.S. yard has produced ocean-going vessel for foreign carriers.

In the 1960s and 1970s, U.S. yards were able to continue producing and repairing ocean-going vessels for the U.S. flag fleet, thanks to the existence of a number of direct and indirect subsidies. These included:

- *Construction Differential Subsidy (CDS).* Adopted in 1936, CDS underwrote the differential between the costs of building in U.S. versus foreign yards (up to 50 percent of the purchase price). As that differential rose, so too did the average CDS. By the end of the 1970s, the level of subsidy had reached the 50 percent limit.

- *The Jones Act*, which requires that domestic waterborne trade be carried on U.S.-built ships.

- *Operating Differential Subsidies to U.S.-Flag Vessels*, which were generally available only to U.S.-built ships.

- *Capital Construction Fund (CCF)*, which permitted owners of U.S.-flag ships to shelter taxable income by placing it in a CCF. Funds withdrawn for the purchase of U.S.-built vessels would not be taxable.

- *Title XI*, which provided federal guarantees of private loans to U.S. carriers for the construction of U.S.-built ships.

- *Ship Repair Tariff*, under which the U.S. Customs Service levies a 50 percent tariff on the costs of non-emergency repairs made to U.S. flag vessels in foreign shipyards.

- *Cargo Preference law*, which require foreign-built U.S.-flag vessels to wait 3 years before they can carry civilian preference cargos.

In 1981, the Reagan Administration eliminated CDS, thereby forcing U.S. carriers to pay the full cost of building in U.S. yards. Since U.S. prices were double those offered by foreign yards, orders by U.S. carriers for ocean-going vessels dried up. The full economic and political impact of this decision was minimized, however, by the surge in government orders for naval vessels.

As U.S. Navy orders expanded, the major yards began to build almost exclusively for the U.S. Navy. Between 1981 and 1990, new naval orders averaged 17-18 ships per year. (In the past nine years, only four commercial ocean-going vessels have been built in these yards.)

The drawdown in defense spending has already led to a substantial reduction in naval orders, leaving U.S. yards with excess capacity. The challenge for U.S. yards is thus similar to that faced by many other defense contractors: how to convert from the military to the commercial market.

Unless these businesses become competitive in serving the commercial market, the shipbuilding industry estimates that 70,000 (of the 123,900) jobs could be lost. Even if they do operate at full capacity, however, shipbuilders estimate that 20 percent of this loss (14,000 jobs) would occur anyway as some skills will no longer be required for civilian production.

C. Future Markets for the Major U.S. Shipyards

1. U.S. Military Construction

The U.S. military will continue to provide a market, albeit a much smaller one, for U.S. shipbuilders. The Navy still has 75 vessels on order or under construction. (28 of these will be delivered by 1994). Requirements for U.S. military shipbuilding are currently under review, but DOD projects that it will order on average 8 new ships a year (including sealift ships) between 1995 and 1999.

In the next 10-20 years, replacement of aging military vessels will require some increased construction. However, DOD does not now plan any additional sealift procurement. While the total requirements remain uncertain, DOD does not believe that its annual needs will increase significantly. This level of ship orders is likely to sustain 2 to 3 shipyards (at least one of which must be nuclear capable).

2. Foreign Military

The market for foreign military vessels will remain relatively small. Most countries with significant blue water fleets purchase naval vessels from their own yards, although limited demand may exist for certain classes of small vessels.

3. U.S. Domestic (Jones Act) Fleet

The Jones Act market will remain small through this decade. Demand for ocean-going Jones Act fleet is estimated to be at most 2 to 3 new ocean-going vessels a year. These numbers reflect a decline in demand for tankers (even taking into account new requirements that tankers have double hulls) due to a projected reduction in Alaskan oil shipments.

4. Non-Shipbuilding Markets

In slack periods, shipyards have engaged in non-shipbuilding projects, including the construction of railroad cars, under-river tunnel sections, wind tunnels, prison barges, offshore oil rigs, and marine equipment. DOT's Maritime Administratio (MARAD) believes that quasi-shipwork projects--including methanol plant barges and power plant barges (40 of which are now in operation) also present a potential source of business, but cannot estimate the value of such business.

5. International Ocean-Going Fleets (U.S. and Foreign)

The international commercial fleet provides the only expanding shipbuilding market available to U.S. shipbuilders. Many shipyards and analysts believe that worldwide orders for oceangoing vessels will increase substantially in the coming years to replace the aging existing fleet. In addition, trade growth will create some demand for new capacity. Based on a report from Drewry, a shipbuilding consulting firm, the Shipbuilders Council has estimated that between 1992 and 2001 total demand (replacement + new demand) will be 11,500 large ships (built in major yards). (The U.S. Shipbuilders Council estimates that U.S. shipbuilders would have to build 30-50 commercial ships a year--approximately 4 percent of the total market--if they were to support present capacity.)

As worldwide demand increases, excess capacity is expected to decline. Some analysts therefore predict that prices for some categories of ships will rise to a level where some U.S. production would become profitable.

D. Competing in the International Market

U.S. shipyards face both external and internal challenges as they seek to compete in the international commercial market for ocean-going vessels.

1. Foreign Subsidies

Many foreign yards have benefited from substantial shipbuilding subsidies. Although the Japanese government has eliminated most of its direct subsidies, some members of the European Community and South Korea still provide significant assistance. The Shipbuilders Council has argued that, if these subsidies were eliminated, U.S. yards could compete effectively with foreign yards. *Based on a number of independent estimates, however, the Working Group believes that unless U.S. yards take actions to improve their operations, the elimination of foreign shipbuilding subsidies alone would not make U.S.-built ships competitive.*

2. Foreign Competitors

There are currently over 133 foreign yards capable of building ships over 400 feet. Japan and Korea together account for over half of the world production of commercial ships. To compete in the international market,, U.S. yards will have to develop a reputation for low price, quality, and on-time delivery and create international service networks. (Shipowners now require worldwide service for their purchased ships.)

3. Productivity and Production

U.S. yards are not significantly disadvantaged by the cost of direct labor. The Shipbuilders Council of America estimates that as of 1990 U.S. wages (including fringes) are 50 percent lower than in Germany, on par with Japan, and 50 percent greater than in Korea. Differences in productivity, however, have led to far higher unit labor costs. Most analysts estimate that the best foreign yards are twice as productive as U.S. yards. MARAD estimates, for example, that U.S. shipyards require 28 to 36 months from contract signing to delivery of the first ship of a class, almost twice the time required by the world's most efficient shipyards. This productivity gap results principally from:

- *The U.S. practice of building ships to order.* Foreign yards typically have built a series of ships from a standard design thereby benefiting from learning economies. (Analysts disagree over the extent of such economics, but most believe that costs continue to fall over the first five to six ships under construction.) Due, perhaps, to previous subsidies that removed the incentive to compete internationally, U.S. yards have not traditionally engaged in such series construction.

- *Differences in process flow management.* Although most U.S. yards are thought to have adequate physical facilities, many observers believe the lay-out of at least some U.S. facilities and the management of process flow--for example, in the use of modular construction--to be the most important source of bottlenecks and poor productivity in U.S. yards.

- *Need for greater capital investment.* Analysts disagree whether or not U.S. firms lag their foreign competitors in terms of technology. Most large yards have state-of-the-art equipment (e.g. CAD/CAM). The working group has not been able to assess whether or how much additional capital investment is required.

A number of efforts by U.S. shipbuilders are currently underway to overcome these problems. Some yards have entered joint ventures or other relationships with foreign yards to develop new designs and production capabilities. Recently, the U.S. Shipbuilding Consortium was formed to develop a simple design for the construction of multiple double-hull tankers. (USSC believes that it could compete in international markets without government assistance.)

4. Regulation

<u>Construction</u>. The U.S. Coast Guard sets construction standards for U.S. flagged vessels. Existing differences between U.S. and international standards make it more difficult for U.S. yards to produce off-the-shelf designs for both the domestic and foreign markets, thereby reducing both scale and cumulative learning.

<u>Defense Procurement</u>. Procurement regulations employed by the Department of Defense require substantially different practices (e.g. accounting, inspection) than those required for commercial production and often require military-unique specifications (e.g. pumps, generators), thereby adding to management overhead costs.

5. Management Culture

Most discussions about the problems facing U.S. shipyards return inevitably to the issue of management culture. For the past ten years, managers of major U.S. yards have become accustomed to serving only one customer, the U.S. Navy. Prior to that, their behavior was shaped by the existence of construction differential subsidies. The consequences of their isolation from the international market can be seen in their use of government-specified cost-accounting systems, focus on technological leadership rather than price, and lack experience in commercial competition.

IV. OPTIONS FOR THE ADMINISTRATION'S PLAN

The path from military to civilian production will not be easy. To be successful, U.S. shipyards will have to make extensive changes in their operations and, equally important, in their approach to doing business. While government can help facilitate this transition, responsibility for these changes ultimately lies with the owners, the managers, and the workers of U.S. yards.

The working group unanimously agreed on a core plan for the Administration's shipbuilding plan. This program is designed to create a level playing field for international competition and strengthen the market-driven adjustment of U.S. yards to the commercial market.

Some members of the working group believe that the Administration should go beyond the core plan and provide greater subsidies to the industry for R&D and ship purchases. These proposals, which are not mutually exclusive, are presented in Options 1 and 2.

Finally, the working group considered and rejected several other measures that have been included in current legislation.

The Core Plan

Rationale. The core plan is intended to provide firms the opportunity to compete internationally. The five elements--market access, deregulation, competitive R&D assistance, marketing assistance, and export financing--are consistent with our assistance to other industries seeking to convert from defense to civilian markets.

Description. This option has five elements:

1. Ensure Market Access and Fair International Competition

US negotiators are aggressively negotiating an end to foreign subsidies. These negotiations received a boost in July, when all principal parties agreed to negotiate on the basis of a proposal by the OECD chairman that called for an end to subsidy programs by January 1, 1995. The chairman has proposed that they be concluded by November 1993. Participants have agreed not to introduce any new programs after September 30, 1993. USTR and the State Department believe there is a reasonable chance that these negotiations will be successful, although some slippage may occur in the final phase-out date.

Although the Administration hopes that an agreement will be concluded this year rendering bills such HR 1402 (the Gibbons bill) unnecessary, the Administration will be working with

Congress to develop legislation that will provide remedies for the trade policy problems faced by the shipbuilding industry in a way that would support the long-term objective of eliminating subsidies.

2. Ensure that U.S. Yards are not Impeded by Regulatory Barriers

Coast Guard construction regulations. The Secretary of Transportation would direct the Coast Guard to continue working with the International Maritime Organization to upgrade critical international standards and with U.S. carriers and standards bodies to delete or revise regulations that add costs unnecessarily.

OSHA regulations. OSHA is currently working with the shipbuilding industry to review and revise its standards. The proposed revisions would continue to address the hazards to which workers are exposed, but would do so by deleting existing specification-type provisions which currently limit employer innovation, and by using performance-oriented provisions wherever appropriate. The proposed provisions will also update, reorganize, clarify, and simplify the current rules.

Anti-trust regulations. To facilitate various forms of cooperation in the shipbuilding industry, the Department of Justice would provide upon request an advisory opinion regarding proposed business conduct pursuant to its Business Review Procedure. Federal law enables shipyards to engage in a wide range of vertical and horizontal cooperative ventures. Existing antitrust law enables firms to form legitimate joint ventures involving some integration or risk sharing. The National Cooperative Research and Production Act provides anti-trust protection for firms engaging in joint R&D and production ventures. The Export Trading Company Act provides an antitrust exemption for export trade and related activities. In evaluating joint conduct under the antitrust laws, the Department of Justice will take into account efficiencies that the venture will produce as well as the existence of global competition in relevant markets.

Procurement regulations. Acquisition reform is being given high priority within DOD and is intended to reduce or eliminate barriers to the integration of military and commercial production, which will benefit shipbuilding along with other industrial sectors. Near term efforts that will benefit this industry include removing legislative impediments to the purchase of commercial items, prohibiting the use of DOD specifications or process standards unless there is no practical alternative, and removing the most serious impediments to doing business with the government that do not require legislative action.

3. Offer R&D Assistance through Technology Reinvestment Program (TRP)

The TRP is a collaborative inter-agency effort to support technology development, technology deployment, and education and training under the Defense Conversion, Reinvestment, and Transition Assistance Act. Shipbuilding infrastructure is one of the eleven technology focus areas that have been identified as TRP priorities. All proposals require 50 percent cost sharing. ARPA expects to award contracts in September. Of the $471.6 million appropriated for FY93, $15 million was earmarked in report language for commercial shipbuilding; the industry will otherwise have to compete for funds against proposals for other industries. TRP projects for shipbuilding could have a particular benefit for ship design, shipyard lay-out, and the management of process flow.

4. Assist Shipyard International Marketing Efforts

The Secretary of Commerce would direct the U.S. Foreign Commercial Service to assist U.S. shipyards in their efforts to develop and sustain relationships with key customers around the world. The USFCS provides assistance in the form of market information, marketing support, and trade missions. The Administration would facilitate cooperative arrangements and alliances between U.S. and foreign yards.

5. Promote the Financing of Foreign Sales with EximBank Financing

The President would instruct the EximBank to become familiar with the needs of the shipbuilding industry and to make loans on the export of vessels where appropriate in accordance with the OECD Code on Export Credits.

Pros:

- Industry has identified the elimination of shipbuilding subsidies as its primary goal
- Provides yards with opportunity to compete on level playing field (and should also increase the competitiveness of secondary yards)
- Provides R&D assistance consistent with that provided to other defense industries seeking to convert to civilian production
- Reduces government-imposed impediments to competition
- Helps yards overcome problems in marketing and export financing
- Elements are consistent with U.S. goals in international shipbuilding negotiations
- No new outlays required

Cons:

- Major shipyards and their supporters would argue that these measures are insufficient to achieve objective

Budget cost: 1st year: none. 5 year: none. This option would be deficit neutral.

OPTION 1: Provide Additional R&D Funding through Dedicated ARPA Program

Rationale. The TRP program may not provide adequate funds for ship design, process flow management, and new technology development--areas that must be improved to increase productivity. This option would provide six years of additional ARPA funding with no requirement for matching funds.

Description. This option would require ARPA to fund projects for:

1. The development and marketing of new designs and construction processes

Shipyards and others would compete among themselves for access to funds with these initiatives. They would be encouraged to initiate partnerships with customers, suppliers, and technologists to develop an integrated approach. Funds would be awarded to the teams that identified what ARPA considered a real market need; a new design concept; or a new competitive approach to the construction process. In the first four years, the program would fund 75-100 focused development projects. This support is designed to provide yards with the ability to compete in the near term.

2. The creation of National and Regional Maritime Technology Centers

The goal of these centers would be to provide for continuous product and process improvement in areas such as advanced materials, computer integrated enterprise, agile manufacturing, etc.

Budget Cost. The budget costs of this program are outlined in the following matrix:

	FY94	FY95	FY96	FY97	FY98	FY99
Near-term support	125m	165m	150m	75m		
Technology centers	25m	35m	50m	50m	50m	50m
Total	150m	200m	200m	125m	50m	50m

(5 year cost: $725m. 6 year cost $775m.)

Since the FY94 budget has already been submitted to Congress, FY94 funding would require the Administration either to submit a supplemental budget or to submit an amendment to its budget, requesting that funds be shifted from some existing DOD program. No offsets have been identified for either FY94 or the outyears.

Spending levels in FY95 and beyond would need to be considerably reduced (if not eliminated) in the event of an international agreement on shipbuilding subsidies which requires varying levels of matching funds for basic research (50%) and applied research and development (75%). Proponents note that if an agreement is likely, approximately $200 million in near-term funds should be front-loaded to FY94. Provided an international agreement is not concluded, this option could be selected with funding beginning in FY95.

Pros:

- Provides support and guidance that may help yards develop tools to compete in international commercial market.

Cons:

- ARPA has not already funded the project, because it is not yet convinced of the merits of this proposal relative to others it is also considering.
- DOD does not believe that investments in commercial shipbuilding represent best use of its declining resources.
- Program would be inconsistent with an international agreement eliminating shipbuilding subsidies
- Adoption of program would render negotiations to eliminate subsidies more difficult

OPTION 2: Expand Title XI Loan Guarantees

Rationale. The core plan (and Option 1) may not lead potential domestic ship buyers to order ships from U.S. yards. Loan guarantees to U.S. flag operators are designed to overcome this reluctance. (EximBank loans already provide such guarantees to foreign customers.)

Description. Fund Title XI loan guarantee program at $75 million in each of FY94 and FY95, and $50 million in FY96 for the acquisition of new vessels by U.S.-flag carriers. At this level of funding, guarantees would support a program level of $830 million in each of FY94 and FY95 and $553 million in FY96. [Allocated funds could be made on a no-year basis.]

Pros:

- Helps U.S. carriers attract capital to finance acquisition of new ships. May therefore lead to additional orders for U.S. yards.

Cons:

- Since guarantees are provided only to U.S. carriers and U.S. carriers represent a small portion of the international market, this measure will not have a significant effect on the ability of yards to compete in international market.
- Not all guarantees would benefit major yards. Title XI also provides guarantees for Jones Act carriers, some of whom build ships in second-tier yards.
- Domestic-build requirements would be inconsistent with an international agreement eliminating shipbuilding subsidies.
- Adoption of program would render negotiations to eliminate subsidies more difficult

Budget Cost: 1st year: $75 million. 5 year cost: $200 million. No offsets have been identified.

Since the FY94 budget has already been submitted to Congress, FY94 funding would require the Administration either to submit a supplemental budget or to submit an amendment to its budget, reprogramming requested funds. Provided an international agreement is not concluded, this option could be selected with funding beginning in FY95.

DRAFT DECISION MEMORANDUM

Other Proposals Included in Legislation but Unanimously Rejected by Working Group:

1. Make Title XI loan guarantees available for foreign carriers

Pros:
- Increases the number of customers who might be willing to buy U.S.-built ships
- Supported by shipyards

Cons:
- Eximbank already can provide such loans
- Title XI terms violate the OECD Code on Export Credits

2. Make $25 million in Title XI loan guarantees available for shipyard modernization

Pros:
- Provides funds to shipyards for purchase of new capital equipment
- Supported by shipyards

Cons:
- No strong evidence that shipyards are not sufficiently modern
- It is unlikely that shipyards could provide adequate collateral to cover the government's risk.

3. Provide DOD Funds for Series Construction

This proposal would permit the Secretary of Defense, subject to the availability of appropriations, to pay assistance to a U.S. shipyard for the construction of any vessel that is one of a series. To be eligible, shipyards must have entered into a contract for the construction of the first two vessels in the series. Series payments (to be determined by the Secretary of Transportation) would cover 100 percent of the difference between the cost of construction in a U.S. yard and foreign yard. Since costs are expected to decline with construction, payments would be expected to decline in a series as well.

Pros:
- By removing cost difference between U.S. and foreign yards, this measure would ensure orders for U.S. yards

Cons:
- Insulates shipyards from competitive pressures of world market and reduces incentive for yards to achieve market-rate efficiency
- Program assumes that shipyards will reach market rate efficiencies. If they do not, government could be forced to pay subsidies on an indefinite basis.
- DOD does not believe that subsidizing commercial shipbuilding represents the best use of its declining resources.
- Domestic-build requirements would be inconsistent with an international agreement eliminating shipbuilding.
- Adoption of program would render negotiations to eliminate subsidies more difficult

DRAFT DECISION MEMORANDUM

V. DECISION

Working Group Recommendation. All members of the working group believe that the base program should be included in the Administration plan. Members disagree about the merits of options 1 and 2, as well as whether options 1 and 2 should be linked. All members are opposed to the additional measures.

___Adopt Base Program

___Add Option 1 to Base Program

___Add Option 2 to Base Program

___Confirm Working Group recommendation to reject other proposals

___Amendments to Options

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

5835

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

August 5, 1993

ACTION

MEMORANDUM FOR WILLIAM H. ITOH

THROUGH: ROBERT BELL

FROM: KEITH HAHN

SUBJECT: Significant Military Exercise SOLID STANCE 93

Attached at Tab I is a proposed memorandum to the Executive Secretary, Department of Defense, approving military exercise SOLID STANCE 93. At Tab II Defense recommends approval and State concurs.

SOLID STANCE 93 is a major NATO exercise scheduled to take place in the northeast Atlantic, southern Norwegian Sea, North Sea and Baltic Sea August 12 - October 1. It will involve headquarters and maritime forces up to NATO Task Force level in crisis response operations, including surveillance, intelligence gathering, sea control, sea lines of communications protection and power projection. Approximately 3400 U.S. and 8200 Allied personnel will participate.

Concurrences by: Charles Kupchan, Barry Lowenkron and Anne Witkowsky

RECOMMENDATION

That you sign the memorandum at Tab I approving the exercise.

Attachments
Tab I Memorandum for Signature
Tab II OSD Executive Secretary Memorandum, August 3, 1993

DECLASSIFIED
E.O. 13526
White House Guidelines, September 11, 2006
By VL NARA, Date 10/3/2016
2016-0152-F

~~CONFIDENTIAL~~
Declassify on: OADR

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

MEMORANDUM FOR BG MICHAEL B. SHERFIELD
Executive Secretary
Department of Defense

SUBJECT: Significant Military Exercise SOLID STANCE 93

Military exercise SOLID STANCE 93 is approved.

William H. Itoh
Executive Secretary

5835

OFFICE OF THE SECRETARY OF DEFENSE

WASHINGTON, DC 20301-1000

3 AUG 1993

MEMORANDUM FOR EXECUTIVE SECRETARY, NATIONAL SECURITY COUNCIL

SUBJECT: Significant Military Exercise - SOLID STANCE 93

The Department of Defense recommends NSC approval of the attached Significant Military Exercise Brief, Exercise SOLID STANCE 93. The Department of State concurs with this recommendation.

Please note the critical cancellation date is 12 August 1993. The OSD action officers for this event are Lt Col Stan Hoppe, (703)614-2616, or LTC(P) Cliff Ripperger, 697-5454.

Michael B. Sherfield
Executive Secretary

Attachment:
As stated

This document is UNCLASSIFIED when separated from its attachment.

Sec Def Cont Nr. X62149

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. cable	re: Part I Significant Military Exercise Brief [Solid Stance 93] (3 pages)	06/22/1993	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Defense Policy and Arms Control (Robert Bell)
OA/Box Number: 46

FOLDER TITLE:

Chron File - August 1993 #1 [4]

2016-0152-F
vz4451

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
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b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

5852

Keith

FYI · Bob

Document No. 030945SS

WHITE HOUSE STAFFING MEMORANDUM

DATE: 8/4/93 **ACTION/CONCURRENCE/COMMENT DUE BY:** 8/9/93

SUBJECT: MILITARY NOMINATION: COLONEL WILLIAM C. BILO FOR APPT TO THE BRIGADIER GENERAL IN THE ARMY RESERVE

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	PASTER	☐	☐
McLARTY	☐	☐	RASCO	☐	☐
NEEL	☐	☐	RUBIN	☐	☐
PANETTA	☐	☐	SEGAL	☐	☐
BAGGETT	☐	☐	SEIDMAN	☐	☐
EMANUEL	☐	☐	STEPHANOPOULOS	☐	☐
GEARAN	☐	☐	TYSON	☐	☐
GERGEN	☐	☐	VARNEY	☐	☐
GIBBONS	☐	☐	WATKINS	☐	☐
HALE	☐	☐	WILLIAMS	☐	☐
HERMAN	☐	☐	~~BELL~~	☑	☐
LAKE	☐	☐	CLERK	☐	☑
LINDSEY	☐	☐		☐	☐
McGINTY	☐	☐		☐	☐
MONTOYA	☐	☐		☐	☐
NUSSBAUM	☐	☐		☐	☐

REMARKS:

Do ~~you~~ have any objection?

RESPONSE:

The National Security Council staff concurs in the attached military nomination.

Anthony Lake

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
Ext. 2702

TIME STAMP

NATIONAL SECURITY COUNCIL
EXECUTIVE SECRETARIAT STAFFING DOCUMENT

SYSTEM LOG NUMBER: 5852

ACTION OFFICER: BELL

DUE: 8/9/93

☑ Prepare Memo For ~~Lake/Berger~~

☐ Prepare Memo For Podesta

☐ Prepare Memo ______ to ______

☐ Appropriate Action

☐ Prepare Memo For Itoh

CONCURRENCES/COMMENTS* PHONE* to action officer at ext. ______

Concur	FYI		Concur	FYI		Concur	FYI	
☐	☐	Andreasen	☐	☐	Harris	☐	☐	Riedel
☐	☐	Andricos	☐	☐	Holl	☐	☐	Rosner
☐	☐	Aoki	☐	☐	Hooker	☐	☐	Saeed
☐	☐	Barth	☐	☐	Hull	☐	☐	Sanner
☐	☐	Beers	☐	☐	Indyk	☐	☐	Schwartz
☐	☐	Bell	☐	☐	Jett	☐	☐	Sheehan
☐	☐	Burns	☐	☐	Jones	☐	☐	Spalter
☐	☐	Canas	☐	☐	Kelly	☐	☐	Tenet
☐	☐	Clarke	☐	☐	Kristoff	☐	☐	Tilley
☐	☐	Clarke, P.	☐	☐	Kupchan	☐	☐	Van Eron
☐	☐	Claussen	☐	☐	Kyle	☐	☐	Waguespack
☐	☐	Farrell	☐	☐	Lowenkron	☐	☐	Walker
☐	☐	Fauver	☐	☐	Menan	☐	☐	Walsh
☐	☐	Feinberg	☐	☐	Merchant	☐	☐	Wayne
☐	☐	Forsythe	☐	☐	Morley	☐	☐	Wiedemann
☐	☐	Fry	☐	☐	O'Leary	☐	☐	Wilson
☐	☐	Gati	☐	☐	Owens-Kirkpatrick	☐	☐	Witkowsky
☐	☐	Gottemoeller	☐	☐	Poneman	☐	☐	______
☐	☐	Gross	☐	☐	Primosch	☐	☐	______
☐	☐	Hahn	☐	☐	Rice	☐	☐	______

INFORMATION ☑ Itoh ☑ Kenney ☑ Soderberg ☑ Exec Sec Desk

☐ Lake ☐ Berger ☑ Records Mgmt.

COMMENTS

Logged By JDA

Return to Records Mgmt.
379 OEOB

THE WHITE HOUSE

WASHINGTON

August 3, 1993

93 AUG 4 A10:15

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN A. GAUGHAN
DIRECTOR, WHITE HOUSE MILITARY OFFICE

SUBJECT: Army General Officer Nomination

Forwarded for your approval and signature is the nomination of Colonel William C. Bilo, for appointment to the grade of brigadier general in the Reserve of the Army of the United States.

This recommendation is based on a promotion board that was approved by the Acting Secretary of the Army. The Deputy Secretary of Defense has reviewed and approved this nomination.

Recommendation

That you approve and sign the attached.

Attachment

THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-1000

30 JUL 1993

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Army General Officer Nomination

On behalf of the Secretary of Defense, I recommend you nominate Colonel William C. Bilo for appointment to the grade of brigadier general in the Reserve of the Army of the United States. This officer was recommended for promotion by a promotion board approved by the Acting Secretary of the Army.

This nomination will not result in the Army exceeding the authorized strength of brigadier generals in an active status in the Reserve of the Army of the United States.

William J. Perry

William J. Perry

Attachments

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005. letter	[Personally Identifiable Information] [partial] (1 page)	07/30/1993	b(6)

COLLECTION:

Clinton Presidential Records
National Security Council
Defense Policy and Arms Control (Robert Bell)
OA/Box Number: 46

FOLDER TITLE:

Chron File - August 1993 #1 [4]

2016-0152-F
vz4451

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RR. Document will be reviewed upon request.

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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

The White House

Washington

To the Senate of the United States:

I nominate:

The following named United States Army National Guard officer for promotion to the grade of brigadier general in the Reserve of the Army of the United States under the provisions of Title 10, United States Code, sections 593(a) and 3385:

To be Brigadier General

Colonel William C. Bilo, (b)(6), Army National Guard [005]

20860

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

August 5, 1993

ACTION

MEMORANDUM FOR NANCY SODERBERG

THROUGH: J. ROBERT MANZANARES

FROM: ROBERT BELL

SUBJECT: NSC Staff Travel - Steven Andreasen

Request travel orders be provided for Steven Andreasen to visit the Department of Energy's Los Alamos National Laboratory (August 10-12) and Sandia National Laboratory (August 12) in Albuquerque, New Mexico and Lawrence Livermore National Laboratory (August 13) in San Francisco.

NSC is requested to cover the expenses of the trip. Per diem is estimated at $94 for Albuquerque; per diem for San Francisco is $134. Air fare is estimated to be $739 round trip at coach class.

RECOMMENDATION

That you authorize Will Itoh to sign the attached travel request.

Approve ________ Disapprove ________

Attachments
Tab I Travel Authorization Form

DATE August 5, 1993

NSC STAFF TRAVEL AUTHORIZATION

1. **TRAVELER'S NAME:** Steven Andreasen

2. **PURPOSE/EVENT (Include Dates):** To visit the Department of Energy's Los Alamos National Laboratory (August 11-12) and Sandia National Laboratory (August 12) in Albuquerque, NM; and Lawrence Livermore National Laboratory (August 13) in San Francisco, CA.

3. **ITINERARY (Please Attach Copy of Proposed Itinerary):** Washington, DC to Albuquerque, NM to San Francisco, CA and return

4. **DEPARTURE DATE** 3:00 PM **RETURN DATE** TBD
   DEPARTURE TIME AUGUST 10, 1993 **RETURN TIME** TBD

5. **MODE OF TRANSPORTATION:**

   GOVT. AIR ____ **COMMERCIAL AIR** X **POV** X **RAIL** ____
   OTHER ____

6. **ESTIMATED EXPENSES:**

   TRANSPORTATION $739 **PER DIEM** $94 Albuquerque **OTHER** ____
   TOTAL ____ $134 San Francisco

7. **WHO PAYS EXPENSES: NSC** X **OTHER** ____

   IF NOT NSC, DESCRIBE SOURCE AND ARRANGEMENTS: ____

8. **WILL FAMILY MEMBER ACCOMPANY YOU: YES** ____ **NO** X

   IF SO, WHO PAYS FOR FAMILY MEMBER (If Travel Not Paid By Traveler, Describe Source & Arrangements): ____

9. **TRAVEL ADVANCE REQUESTED: $** YES

10. **REMARKS (Use This Space to Indicate Any Additional Items You Would Like to Appear on Your Travel Orders):** ____

11. **TRAVELER'S SIGNATURE:** Steven P. Andreasen

12. **APPROVALS: Senior Director** Robert G. Bell

    Director of Administration ____

    Executive Secretary ____