THE WHITE HOUSE

WASHINGTON

November 10, 1983

MEMORANDUM FOR JIM CICCONI

FROM: Douglas A. Riggs

SUBJECT: Action the Administration could undertake to foster support in the maritime industry

The attached memorandum was prepared by Robert Blackwell. Mr. Blackwell was the Assistant Secretary of Commerce for Maritime Affairs from 1972 to 1979 (Nixon and Ford Administrations.) He is presently the partner-in-charge of the Washington D.C. office of Bogle and Gates, a Seattle law firm with approximately 140 lawyers. His practice includes representation of steamship operators, maritime unions and possibly some shipyards.

I was a partner of Bogle and Gates until my resignation to join the White House staff. (In fact, I opened the Anchorage office for Bogle and Gates in 1980 and served as partner-in-charge.) I did not directly represent maritime interests, and frankly had and continue to have limited knowledge of the identity of Mr. Blackwell's clients other than I know he has a maritime practice.

I asked Mr. Blackwell to prepare this memorandum. I believe him to be very knowledgeable of the issues and players, and very politically savy. He is also very discreet. He does not want any publicity.

The shipyards, steamship operators and most seagoing unions perceive the President as having reneged on his campaign promises to support the American Merchant Marine.

The following suggestions are offered to change those perceptions. They would have a nominal line item effect on the budget and their adoption would bring the maritime industry much closer to the President. Their adoption would not guarantee, but would facilitate support from the shipyards and certain maritime unions in the 1984 election.

1. Authorize Title XI of The Merchant Marine Act, 1936 (the Act) To Be Used To Finance Foreign Construction Of U.S.-Flag Ocean Going Vessels Provided That The Applicant Incurs Similar Dollar Commitments To Build Non-Subsidized Ocean Going Vessels In The United States.

Legislation not required; could be accomplished by Maritime Administration rule. No line item budget impact, but would increase U.S. guaranteed obligations. Substantial increase in U.S.-fleet and seagoing jobs. Modest increase in U.S. shipyard order book and shipbuilding jobs. The mix of vessels produced would be capital cost competitive as higher U.S. construction costs are offset by more favorable financing of foreign built vessels under Title XI.

U.S. shipbuilding prices are three times those of shipyards in the Far East. Thus, three ships would be built abroad for one in the U.S. The U.S. shipyards probably will propose a 1-1 ratio and it might be possible to negotiate and obtain their support for two foreign building for one in the U.S.

2. Increase U.S.-Flag Share Of Government Preference Cargo From Fifty To Seventy-Five Percent.

Section 901(b) of the Act requires that at least fifty percent of government generated civilian cargo move on U.S. vessels. The government agencies that ship under these programs have read the words "at least" out of the Act and concluded that fifty percent U.S. carriage is a ceiling. Raising the requirement to seventy-five percent, which can be accomplished by rule, will create several million additional tons of much needed cargo for U.S. dry bulk vessels, tankers and liners.

With the U.S.-fleet shrinking rapidly and with over 60 vessels laid up for lack of employment this program would provide an immediate increase in U.S. shipping activity and jobs. Such action would demonstrate that the President recognizes the problems of the maritime industry and the need to support it.

In most instances it will cost more to ship these incremental tonnages on U.S. rather than foreign ships. The annual increased cost is approximately $78 million. The Department of Agriculture, a major shipper, will probably contend that the resulting increased shipping costs will diminish farm exports and injure farmers. For that reason the additional costs associated with this program should be appropriated and authorized as "shipping costs" and so budgeted, thus insuring that such additional costs will not reduce the amount of commodities exported.

3. Promptly Terminate The DOT Rulemaking Which Would Allow Tankers Built With Subsidy To Repay That Subsidy And Enter The Domestic Trade.

The merits of this proposal are still being debated. What is clear however is that DOT has significantly over-estimated the benefits of subsidy payback to the government; that if enacted the rule will force 35 to 50 additional vessels from employment with the resulting loss of 2,500 seagoing jobs; that the shipyards will be deprived of building replacement tanker vessels for the domestic trade for at least 10 years and that every U.S. shipyard, every seagoing union, save one; and every affected operator, save two, vehemently opposes the rule.

It would be extremely difficult for the President to re-establish his former rapport with the maritime industry and implement a credible series of maritime initiatives if the subsidy repayment rule is adopted.

4. Withdraw the Administration's Legislative Proposal To Eliminate The Fifty Percent Ad Valorem Tax On Foreign Repairs.

The Administration proposed the above elimination of the tax on foreign repairs of U.S.-flag vessels to enhance the competitiveness of our merchant marine. However, the proposal has been effectively stymied by the combined efforts of the shipyards and certain maritime unions. It is unrealistic to believe this legislation can pass. I suggest it be immediately withdrawn with an appropriate announcement that on further study it appears that eliminating the tax will further impair our shipyard mobilization base and lose jobs for American shipyard workers.

5. Signal A Change Of Policy On Bilateral Shipping Arrangements.

This and previous administrations have refused to adopt the UNCTAD Liner Code and have indicated bilateral shipping agreements with other nations will only be considered as measures of last resort.

Many U.S. operators are concerned that ratification of the UNCTAD Liner Code will preclude them from participation in the trades between other states or that such participation will be severely restricted. Yet, the trades of the U.S. are open to all fleets on an unrestrictive basis. Given the cost and regulatory disabilities that American owners operate under, considering that tonnage squeezed from other trades might be dumped into the American trades and recognizing that American operators cannot effectively combat the pernicious competitive practices of some of their foreign-flag competition because the FMC, the regulatory agency responsible for regulating our liner trades has such limited power and authority, operators and seagoing unions are concerned about the viability of American shipping services in our own trades.

These concerns are real and deserve examination on the highest government levels. It would encourage the maritime industry if an appropriate official of the Administration stated an intention to re-examine this entire problem with a view toward better protecting U.S. maritime interests. The Administration might also desire to open discreet discussions with the Republic of Korea and the Government of the Philippines who have both expressed a desire to enter bi-lateral shipping arrangements with the United States.

6. At Least Ten Auxillary Vessels Currently Operated By The U.S. Navy Should Be Immediately Made Available For Civilian Union Manning.

U.S. seagoing jobs have been declining for at least a decade and will continue to do so at an accelerated rate unless new job opportunities are quickly created. The jobs on the above Navy vessels are desperately needed by all maritime labor, and should be equitably divided among the unions.

Although such action must be approved pursuant to certain procurement regulations, it is generally recognized that, in the past, those conducting the reviews proceeded under economic assumptions that were unrealistic and unfair and made union manning of Navy vessels virtually impossible. If doubt exists regarding the efficacy of union manning, the ten vessels could be used as a test bed over a reasonably fixed period to determine conclusively the economic value of union manning.

Acceptance and implementation of this proposal would be obviously met with considerable favor by seagoing labor and their union leadership.

7. The Capital Construction Fund (CCF) Should Be Available For Foreign Construction.

The Maritime Administration administers the CCF in which approximately $700 million has been deposited for new vessel construction in the U.S. With construction subsidy no longer available these funds cannot be used for U.S. construction of foreign trade vessels and remain unproductive. It has been advocated that such funds be used for the construction of foreign built vessels to be operated under U.S.-flag. The shipyards and some unions have successfully opposed such legislation. However, if the instant proposal is coupled with Proposal 1 above, operators with CCF funds are likely to use such funds for building abroad as well as in the U.S. under whatever foreign/U.S. building formula is agreed upon; thus giving U.S. shipyards some of the benefits of CCF from which they are now totally deprived and an economic incentive to support both proposals.

THE WHITE HOUSE

WASHINGTON

October 14, 1983

TO: Jim Cicconi

MEMORANDUM FOR FAITH WHITTLESEY

THROUGH: JACK COURTEMANCHE

FROM: Douglas A. Riggs DAR

SUBJECT: Maritime Policy

I propose you forward the attached memorandum to Jack Svahn and Jim Baker as a means of pushing for a resolution on what this Administration is prepared to do for the maritime industry.

7. "Revitalize our domestic water transportation system."

8. "Reduce the severe regulatory environment that inhibits American competitiveness."

According to the maritime trade unions and the shipbuilding industry, the Administration has:

1. offered no support for cargoe promotion programs;

2. has begun to phase out of operating subsidies;

3. has cut and eliminated all shipbuilding subsidies without presenting a viable replacement program; and

4. placed an unnecessary cap on Title IV loan guarantees.

Moreover, according to the maritime trade unions and the maritime industry there are 531 U.S. Merchant Ships in the active fleet as of January 1981 in contrast to 459 as of June 1983. In January 1981 there were 16 U.S. commercial shipyards in contrast to 11 in June 1983. The number of ship-board jobs in June 1983 had decreased to 15,506 from 22,620 in January 1981. Further, the number of commercial vessels on order or under construction in U.S. yards in January 1981 was 46 in contrast to 13 as of June 1983.

The proposed maritime policy, as envisioned by the maritime industry and the maritime trade unions, is set forth in attachments A and B, respectively, to this memorandum.

At the conclusion of the meeting, it was agreed that the maritime unions have been friends to the Administration and other important maritime unions would like to be our friends. However, the continuation of a relationship requires this Administration to carefully review the 1980 promises and act where we can. Time is of the essence in terms of articulating a policy that will be helpful in 1984. I suggest we reconvene in four weeks for the purpose of reviewing the Administration's posture on this matter.

# A specific naval-maritime program must be developed that will:

1. Provide a unified direction for all government programs affecting maritime interests of the United States. We must insure that there is active cooperation between the Navy and the Merchant Marine and the governmental departments responsible for each. We must see that long-range building programs for naval and merchant ships are established and carried out.

2. Insure that our vital shipbuilding mobilization base is preserved. It is essential that sufficient naval and commercial shipbuilding be undertaken to maintain the irreplaceable shipbuilding mobilization base. Without this nucleus of trained workers and established production facilities, we can never hope to meet any future challenge to our security.

3. Improve utilization of our military resources by increasing commercial participation in limited functions. The Navy today is facing a critical shortage of trained personnel. With the commercial industry assuming increased responsibility for many auxiliary functions, substantial cost saving can be achieved and a large reserve of manpower can be released to provide crews for a growing naval fleet.

4. Recognize the challenges created by cargo policies of other nations. The cargo policies of other nations hold a challenge to the United States. We have traditionally believed in free trade and freedom of the seas. Today, however, we are faced with a network of foreign governmental preferences and priorities designed to advance the interests of foreign shipping at the expense of our own. It is much the same as a country which subsidizes its steel industry to enable it to dump steel in the U.S. market at prices below actual production costs. That's not free trade. Thus, countries will have to be told they can't have it both ways—protection for their ships and competition for everybody else. As President, I intend to make that fact very clear to a number of people who apparently have not heard much from the current administration on this point.

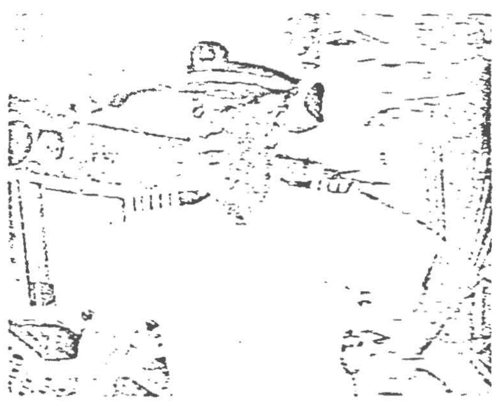
In addition, we must encourage and support our maritime industry by negotiating bilateral agreements with some countries now—such as Brazil and Argentina. A major goal of my administration will be to assure that American

"A"

flag ships carry an equitable portion of our trade consistent with the legitimate aspirations and policies of our trading partners.

5. Restore the cost competitiveness of U.S.-flag operators in the international marketplace. It has been American policy since 1936 for the additional costs of building and operating U.S.-flag ships to be borne by a system of subsidies to help insure the competitiveness of American importers and exporters. But our parity system failed in the mid-1970's because most foreign governments moved to protect their own vital maritime interests after the shipping collapse of the mid-1970's. We must now take corrective action to make certain our merchant fleet and our shipbuilding industry survive and grow.

6. Revitalize our domestic water transportation system. The inland water transportation system provides an economic and energy efficient method of moving the goods and commodities of the Nation between all parts of the country. It also provides a vital link in our international trading effort by tying the ports of all four sea coasts, which includes our Great Lakes, to the producing heartland of the Nation. Again we are paying a high price for the absence of any coherent national policy.



7. Preservation of coastal trade. The principle that a nation's own ships should carry its coastal trade, presently embodied in the Jones Act, has been part of this country's maritime policies since the early days of the Nation. I can assure you that a Reagan Administration will not support legislation that would jeopardize this long-standing policy or the jobs dependent upon it.

8. Reduce the severe regulatory environment that inhibits American competitiveness. As foreign competition on the maritime scene has increased, so have the operational and regulatory restrictions on U.S. shipping and shipbuilding. Many of these restrictions increase costs and, in some cases, simply prevent our ships from competing with foreign ships. There is rarely, if ever, any commensurate benefit from these restrictions. Accordingly, we will carefully and rapidly review the effect of these restrictions and sponsor appropriate actions.

In carrying out these expansive programs, a coordinated effort will be undertaken to create new jobs for American seamen, shipyard workers, and the thousands of workers in related industries. These maritime industries which are vital to our national well being, in the past have had an outstanding record of providing not only employment but the training to enable minorities and the disadvantaged to obtain continued advancement.

# MARITIME POLICY

The United States is a leading world power and the major force behind the promotion of democracy throughout the world. This country is also the world's largest trading nation. Bordered on the east by the Atlantic Ocean and on the west by the Pacific Ocean, shipping traffic to and from the United States has flourished to accommodate growing trade with Europe and the Far East. As a consequence of America's economic and political stature in the world, as well as her geographical location, it has long been recognized that a strong and viable merchant fleet is fundamental to this nation's security and econoimic well-being.

Unfortunately, at the moment, the existence of a strong and well-balanced merchant fleet befitting of America's world position is far from reality. In fact, over the past decade our merchant fleet has greatly deteriorated.

When this body last met for the biennial convention, we had great hope that the even-then declining position of the U.S.—flag fleet would be reversed by the newly elected President's pledge to revitalize America's maritime and shipbuilding industries.

Instead we have seen an increasingly incoherent and piecemeal approach to maritime policy due in part to the movement of the Maritime Administration from the Department of Commerce to the Department of Transportation. This transfer of functions to the Transportation Department has precipitated a dramatic change in attitude by the Maritime Administration, which was once the prime protector and outspoken advocate of the maritime industry. As part of the Transportation Department, the Maritime Administration no longer plays the role it once did since maritime concerns are increasingly eclipsed by other transportation issues.

Never before has America's merchant fleet been so important. Yet while our fleet is shrinking, and our shipyards close for lack of work, the fleets and shipbuilding industries of the nondemocratic world are expanding at an alarming pace. The Soviet Union, for example, has made remarkable advances into international shipping. Its fleet has increased more than five fold since the early 1960's, placing it well ahead of the United States.

This set of circumstances creates an urgent need for a new comprehensive and positive U.S. maritime policy, shaped to the needs of this country's economic and political position in the world.

What then, should a comprehensive maritime policy consist of?

- A maritime program which will ensure: a) the maintenance and retention of an adequate, efficient and modern fleet equal to the country's national security needs; b) a pool of well-trained men and women that can be called upon to man commercial ships or assist



"B"

the armed services in time of war or national emergency; and c) a viable commercial shipbuilding industry.

• Recognition that this nation cannot maintain a fleet without a minimum of subsidy in a world where many nations heavily subsidize their merchant-fleet operations and shipbuilding industries. Although we recognize that current subsidy programs may not be the final answer to the preservation of a U.S. fleet, until new mechanisms are put in place current support programs should not be eliminated. The truth of the matter is that nearly 50 percent of the U.S. fleet constructed in this country since 1957 was done with subsidy. The premature liquidation of subsidies since 1981 has meant that not one commercial order has been placed in U.S. shipyards this year, threatening the continued existence of several U.S. shipyards, the loss of U.S. shipyard jobs and the continued health of many allied industries.

• Recognition by the Administration that the Jones Act is a fundamental defense statute which has served as the backbone for the U.S. domestic fleet. The Administration must not only recognize the importance of the Jones Act, but must also bear in mind the millions of dollars that have been invested by domestic operators in reliance on its original principles and future existence. A maritime policy should also undertake to close existing loopholes in the Jones Act and expand its jurisdictional limits to reflect changing international attitudes.

• A well-balanced cargo policy. No merchant fleet can exist without assured cargoes to carry, thus the centerpiece of a truly effective maritime program must reserve a portion of U.S. bulk cargoes to U.S.-flag vessels. A comprehensive cargo policy must ensure that the Administration continues to monitor and enforce Federal agency compliance with existing cargo preference laws.

• Cargo preference laws should also be expanded in all areas. This would include entering into bilateral shipping agreements with America's trading partners so that the U.S. fleet can obtain an equitable share of cargo and ratification of the United Nations Conference on Trade and Development Code of Conduct for Liner Conferences (UNCTAD) since failure to ratify will reduce U.S.-flag access to many trade routes.

• Undertaking a program to strengthen U.S.-flag shipping on the Great Lakes and other inland waterways. America's ports and navigable waterways play a crucial role in the economic well-being of the country but a comprehensive approach to their operation and maintenance has yet to be formulated. Federal policies now in existence continue to disadvantage the private dredge fleet. Therefore, specific policies must be set forth to take the dredge and tugboat fleets out of the Federal realm and place them in the hands of the private sector.

• Renewed efforts to encourage the expansion and growth of the U.S. fishing and canning industries. Despite enactment of legislation extending the U.S. fishing zone and prohibiting foreign fishing fleets from operating in U.S. waters, the U.S still imports nearly 69 percent of all fish consumed in this country.

• Development of a viable oceans policy. Legislation has been enacted requiring the use of U.S.-flag, U.S.-built and U.S.-crewed vessels in new ocean ventures such as ocean mining and ocean thermal energy conversion. These ventures, operating at full capacity, will provide thousands of new job opportunities in maritime and related industries. The United States must continue to support programs that guarantee full participation by American industry and labor in the development of new marine technology.

We are adamant about the critical importance of our merchant fleet. As the "fourth arm of defense," the U.S. merchant marine plays a key role in assisting the U.S. military in time of war or national emergency and U.S. shipbuilding capability is a key national defense asset. Furthermore, the maritime and shipbuilding industries constitute major industrial sectors of the U.S. economy, which generate billions of dollars in the Gross National Product a year and employ thousands of workers throughout the United States. Therefore be it

*RESOLVED:* That the 1983 Biennial Convention of the Maritime Trades Department, AFL-CIO, affirms its commitment to a strong, effective and efficient U.S.-built, operated and crewed merchant fleet; and be it further

*RESOLVED:* That the Maritime Trades Department, AFL-CIO, will continue to oppose any governmental actions which in any way dilute or eliminate currently established maritime programs; and be it further

*RESOLVED:* That the Maritime Trades Department shall work to ensure the immediate development and adoption of a comprehensive, long-range maritime program designed to promote and encourage all segments of the maritime and shipbuilding industries; and be it further

*RESOLVED:* That upon adoption of this resolution, it be submitted to the 15th Constitutional Convention of the AFL-CIO for support and action.

**Resolution #2**

## KOREAN AIRLINE TRAGEDY

The recent tragic loss of life resulting from the unprovoked, brutal Soviet response to an accidental violation of airpace, vividly illustrates the frailty of the international foundations of civilized behavior upon which world peace and security rest. The wanton use of destructive force

THE WHITE HOUSE

WASHINGTON

October 14, 1983

To: Jim Cicconi

MEMORANDUM FOR FAITH WHITTLESEY

THROUGH: JACK COURTEMANCHE

FROM: Douglas A. Riggs

SUBJECT: Proposed letter from President Reagan to Howard Baker, Majority Leader of the Senate concerning the President's views on legislation to amend the Hobbs Act.

Dear Senator Baker:

As means of resolving any ambiguity that may exist as to my position concerning any proposed legislation to amend the Hobbs Act in such a way as to classify picket line violence as extortion and a federal crime, I would like to reaffirm my position that I do not favor such legislation. I believe that picket line violence can be adequately prosecuted within the context of the criminal statutes of municipal and state governments.

Sincerely,

THE WHITE HOUSE

WASHINGTON

October 14, 1933

To Jim Cicconi.

MEMORNADUM FOR FAITH WHITTLESEY

TRHOUGH: JACK COURTEMANCHE

FROM: Douglas A. Riggs DAR

SUBJECT: Status of the ICC Appointments

1. The ICC has seven (7) members. At the present time, four members are confirmed, to wit: Chairman Taylor, Messrs. Sterrett and Andre and Ms. Gradison. Their terms expire December 1983, December 1987, December 1987 and December 1988, respectively.

2. The White House has forwarded to the Senate, for confirmation, the names of Paul Lamboli and Jane Holt. Lamboli's name was submitted in December 1982 for a position which term expires in December 1985. Ms. Holt's name was submitted in April 1983 for a position which term expires in December 1985. The Senate has not scheduled hearings on these nominations. (It appears that Lamboli, a lawyer from Nevada, has the support of Senator Laxalt and the Teamsters. Holt, a consultant and who had prior experience in the Department of Transportation and the trucking trade association, appears to have galvanized some resistance from the Teamsters.)

3. There has been substantial effort to identify a candidate for the remaining vacancy. This vacancy is for a position which term expires in December 1985. At the present time, there are no candidates who either have the support of the White House or who are prepared to accept the position. (A candidate who is under consideration has informed the White House personnel office that he cannot accept the position. However, he may reconsider.)

4. Lamboli and Holt's nominations are apparently not being considered by the Senate because interested parties, including the Teamsters, have asked that the confirmation process not proceed until the nominee for the third vacancy is identified.

5. Chairman Taylor was sponsored by Senator Laxalt. As indicated, his term expires in December 1983.

THE WHITE HOUSE

WASHINGTON

October 17, 1983

MEMORANDUM FOR FAITH WHITTLESEY

THROUGH: JACK COURTEMANCHE

FROM: Douglas A. Riggs DAR

SUBJECT: Status of NLRB Vacancy

To Jim Cicconi

There is presently a vacancy on the NLRB occassioned by the expiration of Mr. Jenkins' term. White House Presidential Personnel is presently canvasing for a candidate. All interested parties, including the Teamsters, are being consulted in the identification and selection of a candidate.

THE WHITE HOUSE
WASHINGTON

January 5, 1984

To: Jim Cicconi

From: Elaine Chao

Re: Maritime policy

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For your meeting with Jack
Svahn tomorrow.

THE WHITE HOUSE

WASHINGTON

January 5, 1984

MEMORANDUM FOR JOHN A. SVAHN

FROM: ELAINE L. CHAO

RE: Maritime policy

Since late November, we have met with a number of representatives from the U.S. shipping industry and listened to their concerns. What emerges clearly from these meetings is the sad state of our merchant fleet and the inevitable demise that will result if no major action occurs.

This suggests several possibilities for policy development. First, the administration can continue the status quo, making changes on the margin. This will allow small comparative advantages and the "market" to encourage some profit and discourage some loss. Given today's and tomorrow's likely pressures, this course will probably not be sufficient to rejuvenate both the merchant marine and the shipbuilding industry.

Second, the administration could mount a major effort to support all sectors of the shipping industry through further government subsidies and advantages. This can be extremely costy and will not alter the structural realities which have put the maritime industry in its current position.

Third, the industries can be encouraged to take a hard, critical self-examination of their strengths and weakness, the challenges as well as opportunities. Given the large and diverse number of people directly involved in this industry, this may not be very easy. However, a possibility could be the establishment of an industry/government maritime commission.

In the final analysis, any policy decision must consider the goals of the American merchant fleet, and the balance between the interests of national security versus economic efficiency. A determination must also be made defining national security requirements and whether these requirements can be met by other ways such as through utilization of the U.S. beneficially controlled fleet. Past maritime policy have assumed that different sectors of the industry could be helped by the same medicine. Future policies should consider which sectors will be the potential beneficiaries. Finally, all these policies must be evaluated with their accompanying costs. In light of the numerous interest groups within and without government, greater participation by these different groups would insure greater success in developing and implementing any policy decisions.

attachments: 1980 Campaign Promises on U.S. Maritime Policy
Administration Announcements on Maritime Policy

<u>1980 Campaign Promises on U.S. Maritime policy*</u>

1. Provide a unified direction for all government programs affecting maritime interests of the United States.

   Status:

   MARAD was moved from DOC to DOT, however, interagency coordination is deemed by the industry to be worse than ever: State, DOD, Agriculture, Justice and others are perceived to be frustrating efforts to strengthen U.S. fleet (ie. civilian manning, Alaskan oil exports.)

2. Insure that our vital shipbuilding mobilization base is preserved.

   Status:

   Attainment of an active balanced U.S. Navy fleet of 600 ships by 1989 is a central objective of this administration. Contracts for 30 Navy ships were placed with U.S. shipbuilders during 1982, and at year-end, a total of 105 vessels were under construction at 12 of the 27 private yards in the shipbuilding mobilization base. These Navy contracts constitute more than 75% percent of the total U.S. orderbook. However, due to depressed world shipping conditions and uncertain domestic policies such as no new CDS payments and ceiling limiting Title XI guarantees, only 3 new commercial orders were placed. Of these, two were offshore drilling rigs. U.S. shipyards are barely surviving.

3. Improve utilization of our militiary resources by increasing commercial participation in limited functions.

   Status:

   This issue is currently under controversy. Some union leaders and companies have charged publicly that the Navy has obstructed the policy and used questionable bidding practices in awarding contracts. Navy officials claim that unions are unhappy because rival unions is consistently winning work by offering the Navy significant concessions that cut some categories of labor costs in half. Further, the Navy asserts, since 1981, more than 20 privately operated vessels have joined the support fleet as the Navy added new cargo ships in the Reagan defense buildup.

* (Based on statements made by Candidate Ronald Reagan in Washington, D.C. on September 15, 1980 and in St. Louis, Mo., on October 9, 1980, outlining his program for the development of an effective maritime strategy.)

4. Recognize the challenges created by cargo policies of other nations. A major goal of the United States must be to insure that American flag ships carry an equitable portion of our trade consistent with the legitimate aspirations and policies of our trading partners.

Status:

The Aministration opposes the concept of cargo sharing, and the UNCTAD liner Code. The Administration considers selected cargo sharing in defense of bilateral threats to U.S.-flag trade.

5. Restore the cost competitiveness of U.S.-flag operators in the international marketplace. We must take corrective action to make certain our merchant fleet and shipbuilding industry survive and grow.

Status:

Since May 1982, the Administration has not accepted any new ODS contracts, cut off CDS funding, allowed the payback of CDS, limited the increase in ceiling on Title XI guarantees. The Administration has allowed one U.S. company to terminate operating subsidies which give the company an enormous infusion of cash but does not guarantee that this cash will be used to support U.S. flag fleet. Yet, no authority has granted for shipowners build and acquire abroad to increase fleet size.

6. Revitalize our domestic water transportation system.

Status:

No mention in Drew Lewis' program and no Administration action.

7. Reduce the severe regulatory environment that inhibits American competitiveness.

Status:

Vice President's Regulatory Relief task group examined the 1) Coast Guard proposal requiring double hulls on new tankers, 2) new ship electrical engineering standards, and 3) retrofit requirements for small tankers under the Port and Tanker Safety Act. The review was concluded after 1) the Coast Guard withdrew the double hull proposal, 2) revised electrical engineering regulations, and 3) DOT decided to issue the PTSA retrofit rule.

Also established the Maritime Advisory Committee which has been since been perceived as being inactive.

8. Preservation of (U.S. Jones Act) coastal trade.

Status:

President Reagan was quoted in Business Week (2/14/83) in response to whether he would seriously consider legislation to change the prohibition on Alaskan oil exports as saying that "Yes, I would. It makes a lot of sense." Administration is perceived as having leaned toward lifting export restrictions.

The Administration has not made a stand on the "Cunard bill" on the Hill which would permit two foreign built cruise ships into the domestic cruise trade, an abrogation of the Jones Act.

The Administration also supports H.R. 89, a bill to allow foreign-flag ships to serve between U.S. ports and Puerto Rico. This is a loophole in the Jones Act.

# Administration Announcements on Maritime Policy, 1982-1983

The Reagan administration early in its term indicated that a strong merchant marine was one of its goals. This rejuvenation was to be stimulated by a reduction of Government regulations that hinder the ability of the U.S. fleet to be competitive. The administration sought to make the U.S. flag fleet more efficient and independent.

Shortly after the administration took office, an interagency task force was set up to examine current maritime policies and to make specific recommendations for changes.

On May 20, 1982, Secretary Lewis announced the initial elements of a new maritime program:

1. to honor existing operating differential subsidy contracts (CDS) and to retain the the Jones Act and existing cargo preference laws covering government-impelled cargoes;

2. to support regulatory reform legislation (the Shipping Act of 1983) which provided an expanded antitrust immunity and permitted U.S. flag liner operators similar flexibility as its international competitors.

3. support to an extension of temporary authority for subsidized U.S.-flag operators to construct or acquire vessels built abroad without construction differential subsidy (CDS) but still quality for ODS under U.S.-flag operations;

4. to encourage foreign investment in U.S.-flag shipping and permit the current 49 percent foreign ownership in U.S. flag ships to be increased to 75%;

5. to relieve all U.S. flag ships of the current 50 percent ad valorem duty on repairs performed abroad;

6. to reduce unnecessary regulation of the shipbuilding and ship operating industries and estalish a top level government-industry group to further that effort;

7. to support elimination of FMC regulation governing liner operators in domestic trades.

On August 5, 1982, the Secretary announced a second set of policy initiatives:

1. the Administration would authorize an increase in the fiscal year 1983 ceiling on ship financing guarantees (Title XI) from $600 million to $900 million. (The Administration sought a 1-year limit of $950 million on Title XI guarantees and annual limits in the future.)

2. to allow U.S. flag operators to use existing and newly deposited tax-deferred moneys in capital construction funds (CCF) and construct or acquire foreign vessels;

3. DOD would continue its efforts to expand use of civilian nongovernment seafarers to crew Government ships.

4. the U.S. Navy would provide significant work for U.S. yards, not only in combatant ships, but the U.S. Navy T-ship programs that are essentially construction/converstion of merchant ships for Navy use.

Most of the initiative listed above require legislative authority. The promotional maritime policy elements which do not require legislation announced by the administration to date are:

1. operating subsidy contracts will continue but no new contracts will be signed;

2. construction subsidies no longer will be funded;

3. Title XI guarantee and CCF program will continue.

On April 8, 1983, the Secretary of Transportation transmitted draft legislation to implement five promotional elements of the previously announced maritime policy package:

1. permission to build foreign;

2. Immediate cargo preference eligibility for reflagged vessels;

3. Allow greater percentage of foreign investment in U.S.-flag shipping;

4. Allow Capital Construction Fund to be used for building or acquiring foreign vessels.

5. Eliminate the 50% Ad Valorem tariff on foreign repairs.

When Congress recessed in 1983, the maritime shipping deregulation bills have passed both the House and Senate and are in Conference. Hearing have been held in the Senate and House on the maritime promotional reform bills.

Possible policy initiatives

I. reaffirm the Jones Act of 1920 as amended, to reserve domestic trade, for U.S. flag fleet ships in the 200 nautical mile economic exclusion zone (EEZ) around the U.S.

pros:
1. increases trade for U.S. ships
2. reinforces the U.S. position about exploiting the EEZ in the Law of the Sea.

cons:
1. likelihood of retaliation by other nations,
2. uncertain amount of trade that may be generated for U.S. flag ships,
3. improbable passage through Congress.

II. increase the allowable percentage of foreign ownership of U.S. flag fleet ships from 49% to 75%.

pros:
1. increase and stimulates foreign investments
2. decreases costs of U.S. owners
3. reduces trade deficit by capital inflow.

cons:
1. in times of crisis, cannot be assured foreign owners will permit ships to be used.
2. can decrease U.S. control unless strict guidelines are drawn to control.
3. strong capital inflow when balance of trade is in surplus may overstrengthen dollars.

III. authorize temporary construction and purchase of ships abroad while permitting ODS for U.S. flag fleet ships.

pros:
1. decreases costs of U.S. owners,
2. permits revitalization of merchant marine numbers including expanded sealift capacity in a crisis,
3. increase U.S. control of own fleet

cons:
1. reduces work for U.S. shipyards
2. increases dependence on foreign shipyards
3. contributes to negative balance of payments

IV. Remove 50% duty on repairs done in foreign shipyards.

Pros:
1. decreases costs of U.S. ship operators

Cons:
1. reduces work for U.S. shipyards
2. decreases U.S. revenues
3. increases dependence on foreign shipyards

Additional issues:

V. Create a maritime redevelopment bank to rejuvenate shipping industry.

VI. Whether to allow CDS paybacks.

VII. Whether to allow ODS buyouts.

VIII. Expand Capital Construction Fund and Title XI loan guarantees.

IX. Allow higher investment tax credit for construction of new ships in U.S. yards.

No resp necessary

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1-002661I342003 12/08/83
TWX COVESHIP NYK
03 NEW YORK, NY DEC. 8 83

83 DEC 8 A10: 48

PMS MR. JAMES CICCONI
SPECIAL ASSISTANT TO THE PRESIDENT
OFFICE OF THE CHIEF OF STAFF
THE WHITE HOUSE
WASHINGTON, D.C. 20500

RE: CDS PAYBACK

DESPITE OVERWHELMING MARITIME INDUSTRY AND UNION OPPOSITION, WE UNDERSTAND THAT DOT WILL ISSUE THE CONSTRUCTION DIFFERENTIAL SUBSIDY PAYBACK RULING WITHIN THE NEXT WEEK.

PLEASE CALL SECRETARY ELIZABETH DOLE AND TRY TO CONVINCE HER THAT THIS RULEMAKING IS NOT IN THE BEST INTERESTS OF OUR NATIONAL ECONOMY AND NATIONAL DEFENSE.

WE COUNT ON YOUR CONTINUED SUPPORT AND LOOK FORWARD TO HEARING FROM YOU.

COVE SHIPPING INC.
WALL STREET PLAZA
NEW YORK, NY 10005
TELEPHONE: 212-422-3355 EXT. 215

TELEX: 177362 CSI UT
TWX: 710 581 2467 COVESHIPS NYK

1013 EST

1025 EST

# THE REAGAN ADMINISTRATION AND THE MERCHANT MARINE: PROMISES VERSUS PERFORMANCE. . .

## A Comparison of Reagan Campaign Promises, MEBA Recommendations, and Administration Record

### MARITIME POLICY -- *GENERAL*

| CAMPAIGN OF CANDIDATE RONALD REAGAN | MARINE ENGINEERS' BENEFICIAL ASSOCIATION | ADMINISTRATION OF PRESIDENT RONALD REAGAN | RESULTS AND REMARKS |
|---|---|---|---|
| "THIS NATION BADLY NEEDS REVITALIZED MARITIME POLICY. That policy must reverse the drift and decline of the Carter Administration."* (10/9/80)<br><br>"We must...reestablish the US-flag fleet as AN EFFECTIVE ECONOMIC INSTRUMENT CAPABLE OF SUPPORTING US INTERESTS ABROAD." (8/19/80)<br><br>"Let's begin today...TO PUT AMERICA BACK IN THE CAPTAIN's CHAIR OF WORLD MARITIME POWERS." (8/19/80) | Recommended a clear, coherent policy of interrelated efforts introduced and unified as a package in a Presidential Declaration | Two phases announced; a third, "on the way" since summer of 1982, has yet to be seen | NO UNIFIED PACKAGE BY ADMINISTRATION; little follow-up action; EXISTING PROGRAM OF PROMOTIONAL MEASURES BEING DISMANTLED WITH NO SUBSTITUTE TO REPLACE IT; SIZE OF FLEET HAS DECLINED FROM 576 to 561 SHIPS; JOBS FOR AMERICAN SEAMEN HAVE DECLINED FROM MORE THAN 22,000 to LESS THAN 20,000. |
| "We must, first of all, PROVIDE UNIFIED DIRECTION FOR ALL GOVERNMENT PROGRAMS AFFECTING THE MARITIME INTERESTS OF THE UNITED STATES." (10/8/80)<br><br>"We must see that long-range building programs for Naval and merchant ships are established and carried out WITHOUT FALLING VICTIM TO PETTY BUREAUCRATIC JEALOUSY. THIS IS THE ROLE OF THE PRESIDENT AND I SHALL SEE THAT OUR MARITIME POLICY IS COORDINATED TO INSURE THAT IT ACHIEVES THE OBJECTIVES WE SET FOR IT." (9/22/80) | Recommended firm Presidential leadership and a unified program without circumvention of its policies by other government departments | MarAd moved to DOT; DOT Secretaries Drew Lewis and Elizabeth Dole designated Administration maritime spokespersons | Maritime Administration under DOT UNIFIED IN NAME ONLY; interagency coordination is worse than ever; State, DOD, Agriculture, Justice, and others still frustrate programs and damage proposals to strengthen US fleet (i.e., CIVMAN, cargo measures, Alaskan oil exports). |

* Emphasis is ours throughout.

# MARITIME POLICY -- *SPECIFICS*

| CAMPAIGN PROMISES AND STATEMENTS of CANDIDATE RONALD REAGAN | MEBA RECOMMENDATIONS (Primarily set forth in Paper presented to DOT Secretary Drew Lewis in January 1982) | ADMINISTRATION MARITIME POLICIES (Phase I: May 20, 1982; Phase II: August 5, 1982; Phase III: Not Yet Announced) | RESULTS AND REMARKS (as of December 5, 1983) |
|---|---|---|---|
| | **Cargo Policies...** | | |
| "The principle that a nation's own ships should carry its coastal trade, presently embodied in the Jones Act, has been part of this country's maritime policy since the early days of the nation. I CAN ASSURE YOU THAT A REAGAN ADMINISTRATION WILL NOT SUPPORT LEGISLATION THAT WOULD JEOPARDIZE THIS LONG STANDING POLICY OR THE JOBS DEPENDENT UPON IT." (10/9/80) | Supports strict adherence to Jones Act of 1920; permanent ban on Alaskan oil exports | (I) Affirms sanctity of Jones Act<br>(II) Reaffirms Administration support for Jones Act | When asked whether he would seriously consider legislation to change the prohibition on Alaskan oil exports, PRESIDENT REAGAN SAID: "YES, I WOULD. IT MAKES A LOT OF SENSE." (*Business Week*, 2/14/83); ADMINISTRATION HAS LEANED TOWARD LIFTING EXPORT RESTRICTIONS, an action that could lay up 50-80 Jones Act tankers of 1.8-4.9 million dwt (1/3 of US tanker fleet). However, the Administration has been restrained by the clear and overwhelming support in the Congress for continuing the restrictions. In addition, one of the most blatant examples of Jones Act erosion has been debated in both the House and the Senate, a measure commonly referred to as the "CUNARD BILL", yet the Administration has improvidently determined to take no stance. The Administration also supports H.R. 89, a bill to allow foreign-flag ships to serve between U.S. ports and Puerto Rico, with no reservations. In sum, the Administration claims to supports strict adherence to Jones Act, but in reality does not fight for this time-honored law needed for our shipbuilding base. |
| *"Further, my comprehensive National Maritime Policy will be targeted toward A GREATER MARKET SHARE OF EXPORTS AND IMPORTS FOR US-FLAG SHIPPING." (8/19/80)* | *Supports strict adherence to existing cargo preference laws covering US-flag carriage of government-impelled cargoes* | *(I) Affirms sanctity of cargo prefernece laws*<br>*(II) Reaffirms Administration support for cargo preference* | White House directive ordered one-time cargo preference for Egyptian wheat-flour (3/83); but NO DECISIVE STANCE on other interagency abuse of cargo preference laws — e.g., for "political" reasons, not legal reasons, Administration announced that farm exports financed under Agriculture's blended credit program do not have to meet any government cargo preference requirements. In other words, DOT/MARAD, our industry's only agency "ally", threw in the towel. Another setback came when DOT accepted Justice Department decision that Jones Act shipments of Alaskan oil for SPR may be counted toward the 50 percent US-flag cargo preference required by existing law. In short, STILL NO CLEAR NATIONAL POLICY GOVERNING CARGO PREFERENCE AND ANY RHETORIC ADDRESSES ONLY EXISTING LAWS — NO THOUGHT OF EXPANSION. |

| CAMPAIGN PROMISES AND STATEMENTS of CANDIDATE RONALD REAGAN | MEBA RECOMMENDATIONS (Primarily set forth in Paper presented to DOT Secretary Drew Lewis in January 1982) | ADMINISTRATION MARITIME POLICIES (Phase I: May 20, 1982; Phase II: August 5, 1982; Phase III: Not Yet Announced) | RESULTS AND REMARKS (as of December 5, 1983) |
| --- | --- | --- | --- |
| "Those countries will have to be told they can't have it both ways — protection for their ships, and competition for everybody else. As President, I intend to make that fact very clear to a number of people who have apparently not heard much from the Administration of Mr. Carter on this point. In addition, WE MUST ENCOURAGE AND SUPPORT OUR MARITIME INDUSTRY BY NEGOTIATING BILATERAL AGREEMENTS TO ASSURE EQUAL ACCESS TO CARGOES." (10/9/83) | Supports widespread pursuit of bilateral agreements | (I) No mention<br>(II) No mention | In a "Note" responding to an OECD Aide Memoire (11/82), DOT said that the U.S. would consider selective cargo sharing in defense of bilateral threats to US-flag trade; however, ADMINISTRATION REFUSES TO PURSUE CONSTRUCTIVE CARGO POLICY. Although bilaterals have been proposed in several areas, e.g., the Philippines, they appear to be defensive and reactive rather than what MarAd terms "deliberate bilateralism. |
| *"A major goal of my Administration will be to assure that American flag ships carry an equitable portion of our trade, consistent with the legitimate aspirations and policies of our trading partners." (10/9/80) "We must be prepared to RESPOND CONSTRUCTIVELY FOR OUR OWN INTERESTS TO THE RESTRICTIVE SHIPPING POLICIES OF OTHER NATIONS." (9/22/80)* | *Supports ratification of UNCTAD Liner Code, as well as bilaterals* | *(I) No mention<br>(II) No mention* | *Administration officially "shuns" the UNCTAD Liner Code, and OPPOSES EVEN THE CONCEPT OF CARGO SHARING: Asst. DOT Secretary Judith Connor said in early 1983: "THERE IS JUST NO WAY THE REAGAN ADMINISTRATION WILL GO FOR DIVIDING CARGOES"; meanwhile, the UNCTAD Code has entered into force -- with it would come a flood of foreign ships into the US trades because UNCTAD Code will reduce opportunities in other trades. U.S. government did not accept the UNCTAD Code for over 100 maritime nations, which went into effect October 6, 1983, and it has not formulated an alternative mechanism to protect US liner shipping. In addition, no aggressive bilateral shipping agreements have been pursued with our trading partners.* |
| — | Supports cargo preference for imports and legislation to phase in bulk cargo preference, such as one linked to series production of efficient class of coal-powered colliers | (I) No mention<br>(II) Promises to establish "interagency international shipping policy group to evaluate the options available to the US government." | NO such interagency group has been established; Administration has CONSISTENTLY OPPOSED ALL CARGO REQUIREMENTS OF ANY KIND TO STIMULATE DEVELOPMENT OF MODERN, EFFICIENT BULK FLEET, nor has it proposed a concrete alternative. |
| *"We are heavily dependent upon ships to bring in foreign goods as well as petroleum and the raw materials for our industries...." (9/22/80)* | *Supports requirements for US-flag carriage of 40 percent of strategic minerals cargoes* | *(I) No mention<br>(II) No mention* | *No Administration action.* |
| "...WE CANNOT EXPECT OTHERS — EITHER ALLIES OR ADVERSARIES — TO RESPECT OUR INTERESTS IF WE SHOW NO RESPECT OR CONCERN FOR THEM OURSELVES." (9/22/80) | Supports requirements for US-flag carriage of a percentage of foreign-manufactured automobiles to encourage construction of militarily-useful RO/RO vessels | (I) No mention<br>(II) No mention | No Administration action. |

| CAMPAIGN PROMISES AND STATEMENTS of CANDIDATE RONALD REAGAN | MEBA RECOMMENDATIONS (Primarily set forth in Paper presented to DOT Secretary Drew Lewis in January 1982) | ADMINISTRATION MARITIME POLICIES (Phase I: May 20, 1982; Phase II: August 5, 1982; Phase III: Not Yet Announced) | RESULTS AND REMARKS (as of December 5, 1983) |
|---|---|---|---|
| | **Re-flagging (see also Investment)...** | | |
| *"Reduce the severe regulatory environment that inhibits American competitiveness.... Accordingly, WE WILL CAREFULLY AND RAPIDLY REVIEW THE EFFECT OF THESE RESTRICTIONS AND SPONSOR APPROPRIATE ACTIONS." (9/22/80)* | *Proposes that Coast Guard should temporarily grant exceptions from certain vessel standards that would hinder re-flagging; documentation should be tied to meeting standards of ship classification societies* | *(I) No mention*<br>*(II) No mention* | *No Administration action; USCG refuses to see any problem with its requirements; no studies undertaken or planned; however, COSTS OF COAST GUARD AND MARAD REGULATIONS HAVE ADDED 9 TO 14 PERCENT TO THE COST OF A VESSEL.* |
| "Ninety-five percent of US trade is carried in foreign bottoms. IN TIME OF CRISIS, WILL THESE SHIPS BE AVAILABLE? WE SIMPLY DON'T KNOW. WHEN WE FIND OUT, IT MAY BE TOO LATE." (10/9/80) | Supports immediate eligibility for re-flagged vessels to carry preference cargoes without three-year delay as currently required under Section 901(b) of the Merchant Marine Act | (I) Proposes immediate eligibility for re-flagged vessels to carry government-impelled cargoes<br>(II) Reaffirms support | Administration gave vigorous vocal support and included immediate eligibility provision in FY '83 MarAd authorization bill; measure passed Senate, but when trouble was encountered in House, ADMINISTRATION SUPPORT FALTERED, MEASURE FAILED; introduced again as part of the Administration's Five Point Maritime Promotional Package — no action taken. |
| | **Investment...** | | |
| *(see quotation in SUBSIDIES section)* | *Supports construction or purchase of vessels abroad by ODS operators for <u>unlimited</u> period of time* | *(I) Considers extension of <u>temporary</u> authority for subsidized US operators to build abroad*<br>*(II) Reaffirms support for legislation to continue <u>temporary</u> build abroad authority* | *Administration support continues, but Concurrent Resolution at close of 97th Congress failed to extend build abroad rights; yet CDS funds remain at zero; SHIPS CANNOT BE BUILT WITHOUT FOREIGN BUILDING EXTENSION OR ANY ALTERNATIVE; new build abroad legislation introduced in Spring 1982 containing five principle elements, yet support for these concepts by Administration was so shallow that scheduled mark-up had to be scuttled.* |
| — | Supports elimination of current 50 percent duty on US-flag repairs performed abroad | (I) Supports elimination of current 50 percent duty on US-flag repairs performed abroad<br>(II) Reaffirms support | Introduced as part of the Administration's Five Point Maritime Promotional Package; no action taken. |

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|---|---|---|---|
| *Soviet "maritime activities are carefully orchestrated; their maritime resources supplement and reinforce one another. THE TIME HAS COME FOR THE UNITED STATES TO UNDERTAKE A SIMILAR COMMITMENT." (9/22/80)* | *Favors removal of arbitrary ceiling for Title XI Ship Loan Guarantees; program should be used as aggressive tool to attract capital* | *(I) No mention*<br>*(II) Authorizes $600 million for Title XI in FY '83 and augments it with $300 million additional reserve fund* | *For FY '84, Administation proposed $900 million for Title XI loan guarantees, of which $300 million must be saved for militarily-useful ships; ADMINISTRATION MISUNDERSTANDS UNIQUE, COST-EFFECTIVE TITLE XI PROGRAM; Congressmen fear that Administration may circumvent MM&F Cmte by placing cap on Title XI through Appropriations Cmte.* |
| — | Supports repeal of Subpart F exclusion of the Internal Revenue Code (which permits US corporations to escape taxes on earnings from foreign-flag shipping if the profits are reinvested in shipping operations abroad)... | (I) No mention<br>(II) No mention | No Administration action. |
| — | *...and subsequent permission for US-controlled foreign corporations to deposit income from foreign shipping operations into a fund for foreign building of US-flag ships* | *(I) No mention*<br>*(II) Approves CCF for foreign construction and acquisition* | *Introduced as part of the Administration's Five Point Maritime Promotional Package; no action taken.* |
| — | Calls for increased foreign ownership, with foreigners allowed direct managerial control in the foreign trades; MarAd, not Coast Guard, should determine whether a vessel's ownership is in compliance with US statutes | (I) Encourages foreign investment in US-flag shipping and proposes increase in percentage of foreign ownership from 49 to 75 percent<br>(II) Reaffirms support | Introduced as part of the Administration's Five Point Maritime Promotional Package; no action taken. |
| | **Tax Policy...** | | |
| *"A specific naval-maritime program must be developed that will...RECOGNIZE THE CHALLENGES CREATED BY CARGO POLICIES OF OTHER NATIONS...." (9/22/80)* | *Supports incentives through tax system for U.S. shippers who ship on US-flag vessels* | *(I) No mention*<br>*(II) No mention* | *No Administration action.* |
| ...and "RESTORE THE COST COMPETITIVENESS OF US-FLAG OPERATORS IN THE INTERNATIONAL MARKETPLACE." (9/22/80) | Proposes income tax reductions and pension assistance for merchant seamen sailing on oceangoing ships, possibly linked to participation in US Navy Reserve | (I) No mention<br>(II) No mention | No action, although Administration debated income tax reductions for merchant seamen during internal Phase I and Phase III discussions. |

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|---|---|---|---|
| | **Regulatory Reform...** | | |
| *"REDUCE THE REGULATORY ENVIRONMENT that inhibits American competitiveness. As foreign competition on maritime scene has increased, so have the operational and regulatory restrictions on US shipping and shipbuilding." (9/22/80)* | *Supports maritime regulatory reform embodied in Shipping Act (S. 47, Gorton; H.R. 1878, Biaggi)* | *(I) Supports maritime regulatory reform*<br>*(II) Reaffirms support* | *Gorton Shipping Act of 1983, S. 47, passed Senate 64-33 (3/1/83); Biaggi Shipping Act, H.R. 1878, passed House of Representatives by voice vote (10/17/83); INTERDEPARTMENTAL BICKERING (I.E., DOT V. STATE AND JUSTICE) WEAKENED ADMINISTRATION STANCE: e.g., tariff filing was first opposed,. then supported, then opposed by White House. Today, industry still without shipping act reform -- almost three years since Administration first embraced the concept owing to this equivocal stance on this most important provision in shipping reform.* |
| "Eight, I WILL DIRECT A REVIEW OF REGULATORY REQUIREMENTS IMPOSED IN US SHIPBUILDING (as well as other industries)..." (8/19/80) "MANY OF THESE RESTRICTIONS increase costs and, in some cases, SIMPLY PREVENT OUR SHIPS FROM COMPETING WITH FOREIGN SHIPS." (9/22/80) | Supports reduction of unnecessary regulation of shipbuilding and ship operating industries | (I) Favors reduction of unnecessary regulations<br>(II) Reaffirms support | President's Task Force on Regulatory Reform undertook general nationwide "study," but took no action and Task Force has since been dismantled; yet 20 PERCENT OF ALREADY HIGH US SHIPBUILDING COSTS CAN BE ATTRIBUTED TO UNNECESSARY FEDERAL GOVERNMENT REGULATIONS. |
| *"Since there are many who must be involved in developing a coordinated maritime policy, CONSTANT COMMUNICATION AND A FEELING OF MUTUAL TRUST MUST BE DEVELOPED BY A PRESIDENT AND HIS TOP EXECUTIVES AND THE MANY UNIONS, SHIPPING FIRMS AND OTHERS WITHIN THE PRIVATE SECTOR." (10/11/80)* | *Supports full and active advisory role of industry representatives as established in the by-laws of the "Maritime Advisory Committee," of which Mr. Calhoon is a member* | *(I) Establishes top level government/ industry committee to advise the Administration on all major maritime affairs*<br>*(II) Applauds committee formation* | *ADMINISTRATION HAS NOT FOLLOWED BY-LAWS OF COMMITTEE BY FAILING TO CONSULT MEMBERS ON KEY MARITIME ISSUES; Congressmen extremely critical of Maritime Advisory Committee's inaction (3/83); Administration has failed to support as well proposed Presidential Commission on defense-related aspects of maritime industry.* |
| | **Subsidies...** | | |
| *"But our parity system failed in the mid-1970's because most foreign governments moved to protect their own vital maritime interests after the shipping collapse of the mid-70's. WE MUST NOW TAKE CORRECTIVE ACTION TO MAKE CERTAIN OUR MERCHANT FLEET AND OUR SHIPBUILDING INDUSTRY SURVIVE AND GROW." (9/22/80)* | *Supports traditional ODS programs until workable set of alternatives can be found and put in place* | *(I) Promises to honor existing ODS contracts*<br>*(II) Promises to honor existing ODS contracts, but no new contracts will be signed* | *WITH ADMINISTRATION STRESSING ITS SUPPORT OF ONLY EXISTING ODS CONTRACTS, YET OFFERING NO NEW ALTERNATIVES, FLEET GROWTH WILL NEVER BE STIMULATED.* |

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|---|---|---|---|
| — | Supports buyouts of outstanding ODS contracts only if MarAd examines on a case-by-case basis, with approval contingent upon fleet expansion opportunities | (I) No mention<br>(II) No mention | To terminate subsidies ahead of their planned expiration dates, Administration has begun to buy out existing subsidies (i.e., Crowley/Delta), which gives the recipient company an enormous infusion of cash but does not guarantee that this cash will be used to support the US fleet or to keep US-flag ships sailing (the intent of the subsidy program in the first place); THE RESULT WILL BE A NET LOSS OF US-FLAG SHIPS. Without industry consulation, the Administration published proposed rule-making for early ODS buy-outs; no protection whatsoever included in rule for merchant seamen — the very segment of the industry that operating subsidies were designed to protect according to the purpose and principles of the Merchant Marine Act of 1936. |
| — | *Supports continuation of CDS subsidies until a workable set of alternatives can be found and put in place* | *(I) No mention*<br>*(II) Makes permanent the moratorium on signing new CDS agreements* | *Today: NO CDS IN ADMINISTRATION BUDGET. YET NO PERMISSION TO BUILD AND ACQUIRE ABROAD (see INVESTMENT); THUS, NO US-FLAG SHIPBUILDING.* |
| — | Supports paybacks by tanker operators of outstanding CDS contracts, in cash with amortized interest, in return for entry into hitherto restricted Jones Act trade | (I) No mention<br>(II) No mention | Administration favors CDS paybacks. Proposed Rulemaking in the works now for more than a year; Congressional efforts to prohibit rulemaking from being implemented thwarted every step of the way — not forcefully fought-off by Administration, but rather by the only maritime labor union backing the proposal. |

**Civilian/Military Cooperation...**

| | | | |
|---|---|---|---|
| *"AT A TIME WHEN THE NAVY'S SUPPORT CAPABILITY IS OPEN TO SERIOUS QUESTION, WE SHOULD BE INCREASING THE MERCHANT MARINER'S ROLE -- AND WE ARE NOT. WE KNOW THAT INTEGRATED COMMERCIAL SUPPORT OF THE NAVY IS POSSIBLE.... I KNOW, AND YOU KNOW, THAT THE MARITIME INDUSTRY CAN ASSUME ANY NAVY SUPPORT FUNCTIONS. IT WILL SAVE THE NAVY MONEY, AND IT WILL RELEASE TRAINED SAILORS TO MAN THE NEW SHIPS MY ADMINISTRATION WILL BUILD FOR THE FLEET. THIS KIND OF INTEGRATION AND COOPERATION WILL STRENGTHEN OUR DEFENSE, STRENGTHEN OUR MARITIME INDUSTRY, AND PROVIDE THE AMERICAN TAXPAYER WITH THE MOST FOR HIS MONEY." (10/11/80)*<br>*(Similar promises announced, 9/22/80.)* | *Supports civilian contract manning of Navy fleet support vessels* | *(I) No mention*<br>*(II) "The Department of Defense will continue its efforts to expand appropriate use of civilian non-government seafarers to crew government ships"* | *So far, THERE IS NO CIVMAN PROGRAM to convert Navy fleet support and MSC nucleus fleet ships -- only an effort to claim CIVMAN credit for some programs such as TAKX and TAKRX that ALWAYS have been planned (even by the previous Administration) to be contract manned; even retreated from Carter Administration program to turn over 21 MSC scientific support ships to civilian contract manning; while Navy continues to delay and delay, NO SUSTAINED WHITE HOUSE PRESSURE FOR ACTION.* |

| CAMPAIGN PROMISES AND STATEMENTS of CANDIDATE RONALD REAGAN | MEBA RECOMMENDATIONS (Primarily set forth in Paper presented to DOT Secretary Drew Lewis in January 1982) | ADMINISTRATION MARITIME POLICIES (Phase I: May 20, 1982; Phase II: August 5, 1982; Phase III: Not Yet Announced) | RESULTS AND REMARKS (as of December 5, 1983) |
|---|---|---|---|
| — | Favors creation of a series of tax-exempt shipping bonds, guaranteed by the government, targeted on a special class of national defense merchant vessels constructed with military features and applicability in mind, to be operated by private shipping companies in peacetime | (I) No mention<br>(II) No mention | TREASURY APPEARS TO BE UNALTERABLY OPPOSED AND UNWILLING TO CONSIDER VEERING FROM COURSE OF PREVIOUS ADMINISTRATIONS. |
| *"OUR MERCHANT MARINE IS A VITAL ANCILLARY TO THE NAVY." (10/11/80)* | *Supports extensive use of merchant ship enhancement features to enable merchant ships to be able to take up quickly defense roles in wartime* | *(I) No mention*<br>*(II) No mention* | *Because CDS has been eliminated, there is no money in the MarAd budget for national defense features for merchant ships; this program is virtually moribund except for a few features installed by the buyers themselves on US-flag ships temporarily constructed abroad.* |
| | **Improved Efficiency...** | | |
| — | Pledges to improve operating efficiency of US-flag fleet from within; recognizes that fleet revitalization cannot be accomplished by government alone; industry, labor, and management must work together for good of merchant marine, national and economic security | (I) No mention<br>(II) No mention | MEBA has worked steadily to improve operating efficiency on many fronts; signed contracts for SIGNIFICANTLY LOWER MANNING LEVELS on modern, efficient vessels soon to be built; DEMONSTRATED COOPERATION WITH ADMINISTRATION BY AGREEING TO 7.5 PERCENT WAGE ROLLBACK IT REQUESTED (7/82); testified on unnecessary and duplicative duties of USCG Commercial Vessel Safety Branch; submitted to the President's Task Force on Regulatory Reform a number of proposals, three of which were selected for special examination (8/81); (no subsequent Administration action). |

# MARITIME BUDGET: A COMPARISON

## FY '81 - FY '83
## (Thousands of Dollars)

| BUDGET YEAR: | FY '81 Actual | Carter Estimate FY '82 | Reagan Estimate FY '82 | Estimate FY' 83 | Total FY '81 Actual and Carter Estimated FY '82 Budget | Total Estimated Reagan FY '82 and FY '83 Budgets | Savings Difference | Current Monies Needed to carry out Carter programs using GNP deflator changes. * | Adjusted Savings Difference |
|---|---|---|---|---|---|---|---|---|---|
| MARITIME ADMINISTRATION | | | | | | | | | |
| CONSTRUCTION DIFFERENTIAL SUBSIDY | | | | | | | | | |
| Budget Authority | 135,000 | 107,000 | ---------- | ---------- | 242,000 | ---------- | -242,000 | 275,638 | -275,638 |
| Outlays | 208,113 | 206,000 | 208,200 | 54,300 | 414,113 | 262,300 | -151,813 | 471,657 | -209,357 |
| OPERATING DIFFERENTIAL SUBSIDY | | | | | | | | | |
| Budget Authority | 353,103 | 414,899 | 414,899 | 406,821 | 768,002 | 821,720 | +53,718 | 874,754 | +53,034 |
| Outlays | 334,854 | 417,148 | 417,148 | 454,010 | 752,002 | 871,158 | +119,156 | 856,528 | +14,630 |
| RESEARCH AND DEVELOPMENT | | | | | | | | | |
| Budget Authority | 13,800 | 17,210 | 8,491 | 16,800 | 31,010 | 25,291 | -5,719 | 35,309 | -10,018 |
| Outlays | 17,362 | 17,210 | 14,184 | 5,393 | 34,572 | 29,577 | -4,995 | 39,378 | -9,801 |
| OPERATIONS AND TRAINING | | | | | | | | | |
| Budget Authority | 66,016 | 77,063 | 75,007 | 71,013 | 143,079 | 146,020 | +2,941 | 162,967 | -16,947 |
| Outlays | 66,438 | 77,172 | 74,886 | 73,004 | 143,610 | 147,890 | +4,280 | 163,572 | -15,682 |
| FEDERAL SHIP FINANCING FUND | | | | | | | | | |
| New Commitments | 1,047,000 | 1,305,000 | 675,000 | 600,000 | 2,352,000 | 1,275,000 | -1,077,000 | 2,678,928 | -1,403,928 |
| EXPORT-IMPORT BANK DIRECT LOAN OBLIGATIONS | 5,430,780 | 5,000,000 | 4,400,000 | 3,830,000 | 10,430,780 | 8,230,000 | -2,200,780 | 11,880,658 | -3,650,658 (a) |
| PUBLIC LAW 480 COMMODITY LOANS | 1,22[illegible],930 | 1,263,100 | 1,000,000 | 1,028,000 | 2,492,030 | 2,028,000 | -464,030 | 2,838,422 | -810,422 (b) |
| FEDERAL MARITIME COMMISSION | | | | | | | | | |
| Budget Authority | 12,100 | 12,525 | 11,225 | 10,428 | 24,625 | 21,653 | -2,972 | 28,048 | -6,395 |
| Outlays | 11,738 | 12,424 | 11,067 | 10,324 | 24,162 | 21,391 | -2,771 | 27,521 | -6,130 |
| PUBLIC HEALTH SERVICE HOSPITALS AND CLINICS | 130,232 | 172,140 | 148,335 | ---------- | 302,372 | 148,335 | -154,037 | 344,402 | -196,067 |

NOTES:

* Figures derived by using GNP deflator changes of 13.9 percent from 1981 - 1983 (forecast).

(a) Under Public Resolution 17, subject to 100 percent U.S.-flag carriage unless a waiver is granted by MarAd.

(b) Under Public Law 480, subject to 50 percent U.S.-flag carriage, if ships are available.

| SAVINGS TOTALS: | Initial | Adjusted (Inflation) |
|---|---|---|
| | -$4,126,022 | -$6,543,379 |

Though the total represents, in many instances, both budget authority and outlays, it nevertheless reflects the additional savings in the FY '82 and FY '83 budgets when compared to money that would have to be currently spent to carry out President Carter's programs.