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POCKET VETO  
(EFF. MIDNIGHT 1/4/75)  
MEMO OF DISAPPROVAL (DATE) 1/4/75  
ISSUED 1/4/75

THE WHITE HOUSE  
WASHINGTON

ACTION

Last Day: January 4

January 3, 1974

MEMORANDUM FOR THE PRESIDENT

FROM:

KEN COLE

SUBJECT:

H.R. 13296 - Maritime Authorization

H.R. 13296 authorizes appropriations for maritime programs at Commerce for FY 75. It provides funding authority for programs requested by your Administration, but also includes an objectionable provision.

This provision, retroactive to 1972, would establish an indemnity program for U.S. fishermen whose equipment is damaged by foreign vessels. If enacted, the Secretary of Commerce would be required to make an interest free loan to cover the property and produce value lost as a result of foreign vessels operating in the area of the U.S. Continental Shelf. If proven that the damage was caused solely by a foreign ship, the loan repayment would be canceled and the U.S. would attempt to recover claims from the governments of the foreign nationals involved.

Bill Baroody talked to Paul Hall's people on this matter. They have no problem with the fishermen's indemnity provision. They feel, however, that if the bill is pocket vetoed for this provision, it should be clearly reflected in the memorandum of disapproval and that the rest of the bill be resubmitted to Congress.

Additional information is provided in the enrolled bill report (Tab A).

ARGUMENT FOR POCKET VETO

The indemnity for fishermen presents several problems. It is contrary to existing claims procedures and sets a precedent for the relief of fishermen from the actions of foreign nationals. Currently, relief is only extended to seizures by foreign governments through the Fishermen's Protective Act. This provision would be a problem to administer because of the difficulty of establishing any factual basis of responsibility for damages and would thus be prey to fraudulent claims. Finally, no analysis has been made to determine whether or not this particular form of injury has had an adverse impact on the U.S. fishing industry. If the bill were vetoed, operation of



the Maritime Administration programs would be provided under the continuing resolution, expiring on February 28, 1975.

ARGUMENT FOR SIGNING

Commerce recommends approval because it does not feel the indemnity program is serious enough to warrant a veto and points out that the Fisheries Loan Funds, which would support this provision, have been impounded until the end of FY 75.

STAFF AND AGENCY POSITIONS

The following recommend signature:

Department of Commerce

The following recommend disapproval:

Areeda  
Ash  
Cole  
Friedersdorf  
Department of Treasury

The following have no objection:

Department of Transportation  
Department of State

DECISION

Approve \_\_\_\_\_  
(Sign H.R. 13926 at  
Tab C.)

Disapprove NR7.  
(Sign Memorandum of  
Disapproval at Tab B.)



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

DEC 31 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 13296 - Maritime Authorization  
Sponsor - Rep. Sullivan (D) Missouri and 16 others

Last Day for Action

January 4, 1975 - Saturday

Purpose

To authorize appropriations for maritime programs of the Department of Commerce for the fiscal year 1975; require establishment of an office in the Great Lakes Region; and require the creation of an indemnity program for U.S. fishermen.

Agency Recommendations

|                                 |  |
|---------------------------------|--|
| Office of Management and Budget | Disapproval (Memorandum of disapproval attached) |
| Department of the Treasury      | Disapproval                                      |
| Department of Transportation    | No objection                                     |
| Department of State             | No objection                                     |
| Department of Commerce          | Approval   |

Discussion

The enrolled bill would authorize annual appropriations for certain programs of the Maritime Administration of the Department of Commerce as requested by the Administration. The authorized funds would provide for the following:

- construction or reconstruction of vessels and construction differential subsidies and certain costs of certain national defense features -- \$275 million



- operating differential subsidies -- \$242.8 million
- research and development programs to advance ship development and construction, ship operations systems, and port and intermodal transportation systems -- \$27.9 million
- maintenance expenses for the National Defense Reserve Fleet -- \$3.742 million
- operating expenses for the Merchant Marine Academy -- \$10.518 million and
- financial assistance to State maritime academies -- \$2.973 million.

However, the bill includes two additional provisions not requested. One would require the establishment of a regional Maritime Administration market development office for the Great Lakes region in order to help assure consideration of the transportation problems of the Great Lakes. Similar offices are now staffed in the Atlantic, Pacific, and Gulf port areas. The establishment of this fourth office, while not supported by the Administration, would be consistent with the legislative intent of current maritime statutes.

A second would establish an indemnity program for U.S. fishermen whose equipment is damaged by foreign vessels. Specifically, the bill would require the Secretary of Commerce to compensate owners and operators whose fishing gear has been damaged by foreign fishing vessels operating in waters above the Continental Shelf.

To implement this requirement, the bill would:

- require the Secretary within 30 days after an application by a fisherman, but after a determination that there was reason to believe a loss occurred, to make an interest free loan to cover the property damaged and the market value of fish spoiled as a result of gear damage
- require the Secretary to investigate each loan application within 180 days and:
  - cancel loan repayment if the damage was caused solely by a foreign vessel, and
  - require repayment of the loan with interest if the damage was not caused by a foreign vessel or was caused by the negligent or intentional action of the fisherman

- require the Secretaries of State and Commerce to attempt to recover claims assigned by fishermen from the foreign governments whose ships caused the damage, and
- make the program retroactive to January 1, 1972 through the enactment date if claims have been previously filed, and effective prospectively through March 15, 1976, when a Law of the Sea Treaty is expected to have been ratified.

The program to compensate fishermen poses three serious problems. First it would establish a precedent contrary to the current international policy against national assumption of responsibility for losses suffered by citizens because of actions by foreign governments. There are international claims procedures for such redress, and treaties to help solve disputes. This bill would be a disincentive to continued efforts to make these procedures work. The precedent might also lead to pressure for similar legislation for other industries for losses due to actions of foreign nations.

Second, the bill would pose serious problems of administration. Weather, actions of other U.S. vessels, or actions by the injured vessel itself could result in illegal claims. Since all eyewitnesses would likely be interested parties, establishing the factual basis for the damage would be difficult or impossible. Furthermore, since the bill provides no basis for any review of such factors as ability to repay, no informed judgment of the borrower's ability to repay could be made before loans are made. Costs of implementing the bill are impossible to project, but current estimates of claims already filed approximate \$2 million. Once the bill became law, there would be an incentive to file many more claims. If claims of damage to U.S. flag ships by foreign vessels cannot be validated, the program would essentially be a grant program with few effective restraints. Furthermore, Commerce states in its views letter on the enrolled bill that:

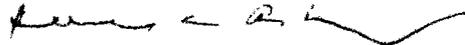
"...\$4 million in Fisheries Loan Funds which are to support the program have been impounded until the end of FY 1975, under the Budget and Impoundment Control Act of 1974. Further, funds authorized under this section would not be available for such compensation after March 15, 1976."



Third, when this amendment was added to the bill during Senate floor debate, no attempt was made to validate the seriousness of the problem to the U.S. fishing industry or the impact on our national interests. In fact, no evidence has been presented that the gear loss problem is substantially and adversely affecting vital U.S. interests.

If this bill were vetoed, funds for the operation of the Maritime Administration programs would continue to be provided under the continuing resolution which now expires February 28, 1975.

We have attached for your consideration a draft memorandum of disapproval.



/ Director

Enclosures





**THE UNDER SECRETARY OF COMMERCE**  
Washington, D.C. 20230

**DEC 27 1974**

Honorable Roy L. Ash  
Director, Office of Management  
and Budget  
Washington, D. C. 20503

Attention: Assistant Director for Legislative Reference

Dear Mr. Ash:

This is in reply to your request for the views of this Department concerning H.R. 13296, an enrolled enactment

"To authorize appropriations for the fiscal year 1975 for maritime programs of the Department of Commerce, and for other purposes."

Section 1 of H. R. 13296 authorizes the appropriation of \$562,933,000 for fiscal year 1975 for maritime programs of the Department of Commerce.

Section 2 authorizes additional supplemental appropriations for fiscal year 1975 for the activities specified in section 1, to the extent necessary for increases in employee benefits authorized by law.

Section 3 amends the Merchant Marine Act, 1936 to provide that at least one regional office of the Maritime Administration be maintained for each of the four major seacoasts of the United States.

Section 4 amends the Fish and Wildlife Act of 1956 by authorizing the Secretary of Commerce to compensate U. S. owners and operators whose fishing vessels or gear have been destroyed or damaged by the actions of foreign fishing vessels operating in waters superjacent to the Continental Shelf of the United States. However, it should be noted that the \$4 million in Fisheries Loan Funds which are to support the program have been impounded until the end of FY 1975, under the Budget and Impoundment Control Act of 1974. Further, funds authorized under this section would not be available for such compensation after March 15, 1976.

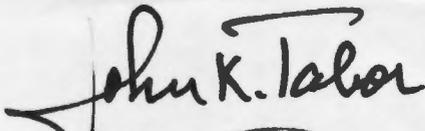


2.

The amount of funds required to implement section 3 has not yet been determined and will depend on the size and nature of a separate Great Lakes regional office. Also, we are unable at this time to estimate the extent of any additional appropriations required by section 4. This is dependent upon the amount of claims filed, the extent of investigation necessary and similar factors.

This Department recommends approval by the President of H. R. 13296.

Sincerely,

  
John K. Tabor





THE UNDER SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

DEC 27 1974

Director, Office of Management and Budget  
Executive Office of the President  
Washington, D. C. 20503

Attention: Assistant Director for  
Legislative Reference

Sir:

Reference is made to your request for the views of this Department on the enrolled enactment of H.R. 13296, "To authorize appropriations for the fiscal year 1975 for maritime programs of the Department of Commerce, and for other purposes."

Section 4 of the enrolled enactment, which was added on the Senate floor, would establish a new loan program under the Fish and Wildlife Act of 1956 which would make eligible for loans owners and operators whose fishing vessels or gear have been destroyed or damaged by the actions of foreign fishing vessels operating in waters superjacent to the Continental Shelf of the United States. If the Secretary of Commerce determines that the damage was caused solely by a vessel of a foreign nation, he shall cancel repayment of the loan and refund any principal paid thereon. If he determines that the damage or destruction was caused solely by the negligence or intentional actions of the owner or operator, he shall require the immediate repayment of the loan plus interest.

In a February 13, 1974, report to your Office, the Department concurred in clearance of a proposed Commerce Department report opposing similar legislation to provide compensation to U. S. fishing vessel owners for damages incurred as the result of actions by foreign vessels and the Department would concur now in a recommendation that the enrolled enactment not be approved by the President.

Sincerely yours,

Edward C. Schmults



OFFICE OF THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

DEC 27 1974

Honorable Roy L. Ash  
Director  
Office of Management and Budget  
Washington, D.C. 20503

Dear Mr. Ash:

You have asked for our views on H.R. 13296, an enrolled bill

"To authorize appropriations for the fiscal  
year 1975 for maritime programs of the  
Department of Commerce, and for other purposes."

Sections 3 and 4 of the enrolled bill are of interest to this Department.

Section 3 of the enrolled bill amends Section 809 of the Merchant Marine Act of 1936 by establishing within the Maritime Administration of the Department of Commerce a regional office for each of the United States port ranges -- Atlantic, Gulf, Great Lakes, and Pacific. This provision would, in effect, require a new Great Lakes Regional Office, since regional offices are already in existence for the other coastal ranges. We endorse efforts to attract American flag service into the Great Lakes, and do not have any objection to this provision.

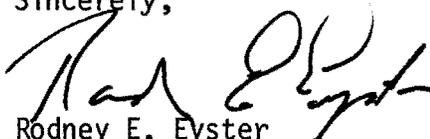
Section 4 of the enrolled bill adds a new subsection (f) to Section 4 of the Fish and Wildlife Act of 1956. The Secretary of Commerce would be authorized to use funds to compensate owners and operators whose fishing vessels or gear have been destroyed or damaged by the actions of foreign fishing vessels operating in waters lying over the Continental Shelf of the United States as defined in the Convention on the Continental Shelf. While we defer to the Department of Commerce with respect to this matter, we have the following technical comments to offer.

New subsection (f)(1) refers to "actions of foreign fishing vessels." New subsections (f)(2) and (f)(3), however, refer to "actions of a vessel (including crew) of a foreign nation." This discrepancy may result in interpretative problems as to the scope of these provisions.



Additionally, subsection (f)(2) contains the phrase "any vessel documented or certificated under the laws of the United States as a commercial fishing vessel." The word "certificated" has no perceptible meaning in regard to the documentation laws for vessels engaged in either the merchant marine or the American fisheries, and the term "commercial fishing vessel" is undefined in those laws. While we note these technical deficiencies, we do not have any objection to the President signing the enrolled bill.

Sincerely,



Rodney E. Eyster  
General Counsel



DEPARTMENT OF STATE

Washington, D.C. 20520

December 27, 1974

Honorable Roy L. Ash  
Director, Office of  
Management and Budget

Dear Mr. Ash:

Thank you for your communication of December 26 requesting the views and recommendations of the Department of State on the Enrolled Bill H.R. 13296, "To authorize appropriations for the fiscal year 1975 for maritime programs of the Department of Commerce, and for other purposes."

The Department has no objection to the proposed legislation from the standpoint of foreign policy and would defer to the views of other government agencies more directly concerned.

Please continue to call on me whenever you believe I might be of assistance.

Cordially,

A handwritten signature in cursive script that reads "Linwood Holton".

Linwood Holton  
Assistant Secretary  
for Congressional Relations

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

DEC 31 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 13296 - Maritime Authorization  
Sponsor - Rep. Sullivan (D) Missouri and 16 others

Last Day for Action

January 4, 1975 - Saturday

Purpose

To authorize appropriations for maritime programs of the Department of Commerce for the fiscal year 1975; require establishment of an office in the Great Lakes Region; and require the creation of an indemnity program for U.S. fishermen.

Agency Recommendations

Office of Management and Budget

Disapproval (Memorandum of disapproval attached)

Department of the Treasury

Disapproval

Department of Transportation

No objection

Department of State

No objection

Department of Commerce

Approval

Discussion

The enrolled bill would authorize annual appropriations for certain programs of the Maritime Administration of the Department of Commerce as requested by the Administration. The authorized funds would provide for the following:

- construction or reconstruction of vessels and construction differential subsidies and certain costs of certain national defense features -- \$275 million



To  
H. H. ...  
12-31-74  
6:30 P.M.

MEMORANDUM OF DISAPPROVAL

OK 10/25  
9-1-7-75

I am withholding my approval from H.R. 13296, a bill to authorize appropriations for the Maritime Administration.

This ~~bill~~ is the annual appropriations authorization bill for certain activities of the Maritime Administration in the Department of Commerce. I would be <sup>pleased</sup> ~~glad~~ to approve <sup>(the measure if it)</sup> ~~it~~ if the bill were limited to those authorizations.

Unfortunately, the Congress added an unacceptable <sup>Amendment</sup>  ~~rider~~ to the ~~bill~~ which would require the Federal Government to reimburse U.S. flag fishing vessel owners for damage ~~done~~ to their equipment by ~~acts of~~ foreign ~~flag ships~~ <sup>flagships.</sup> <sup>amendment</sup>

The ~~rider~~ would require the Secretary of Commerce to provide interest free loans to fishermen to cover the property and <sup>the value of produce</sup> ~~produce~~ value lost as a result of damage caused by foreign vessels operating in the area of the U.S. Continental Shelf. If <sup>an ensuing</sup> ~~the following~~ investigation proved the loss was caused solely by a foreign ship, the loan repayment would be cancelled and the United States would attempt to recover claims from the government <sup>to</sup> of the foreign national <sup>to</sup> involved. The program would be retroactive ~~until~~ January 1, 1972, <sup>submitted for</sup> ~~with respect to~~ claims already filed.



This indemnity program would pose serious problems of administration because it would be difficult to establish ~~any factual basis of~~ responsibility for <sup>any</sup> the damage caused, ~~and could be a vehicle for fraudulent claims.~~ Furthermore, since the bill provides no basis for any review <sup>advance</sup> ~~prior to the initial loan of~~ <sup>of the recipient's</sup> ~~the~~ Department financial ability to repay a loan, Commerce ~~could make no informed judgement~~

h

of a borrower's ability to repay before a loan was actually made and could find itself in the position of holding a group of "bad debts". <sup>At the same time,</sup> Since claims for damage would be difficult to validate, <sup>and the result</sup> the program would essentially be a grant program with few effective restraints.

Moreover, this program sets a precedent for the Federal relief of private parties from the actions of foreign nationals. Currently, relief is only extended to fishermen whose vessels are the victims of actions by foreign governments beyond <sup>or</sup> recognized territorial limits. International procedures now exist through which claims against foreign nationals can be asserted and adjudicated and these should be used in preference to a Federal indemnity program.

I urge the Congress to <sup>pass once again</sup> ~~re~~pass the appropriations authorizations provisions of the bill early in the next session. Meanwhile, the programs covered by these authorizations and funded by appropriations already enacted can be continued under the continuing resolution which runs through February 28, 1975.

THE WHITE HOUSE



*Steel  
Change  
1/27*

Date: January 1, 1975

Time: 11:00 a.m.

FOR ACTION: Geoff Shepard  
 Phil Areeda  
 Max Friedersdorf  
 Paul Theis

cc (for information): Warren Hendriks  
 Jerry Jones  
 Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Thursday, January 2

Time: noon

SUBJECT:

Enrolled Bill H.R. 13296 - Maritime Authorization

## ACTION REQUESTED:

 For Necessary Action For Your Recommendations Prepare Agenda and Brief Draft Reply For Your Comments Draft Remarks

## REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

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

Warren K. Hendriks  
 For the President

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 938

Date: January 1, 1975

Time: 11:00 a.m.

FOR ACTION: Geoff Shepard  
Phil Areeda *veto*  
Max Friedersdorf *veto*  
Paul Theis

cc (for information): Warren Hendriks  
Jerry Jones  
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Tuesday, January 2

Time: noon

SUBJECT:

Enrolled Bi-1 H.R. 13296 - Maritime Authorization

ACTION REQUESTED:

For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

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

\_\_\_\_\_  
K. R. COLE, JR.  
For the President

THE WHITE HOUSE  
WASHINGTON

1/2/75

MEMORANDUM FOR: WARREN HENDRIKS

FROM: MAX L. FRIEDERSDORF VL

SUBJECT: Action Memorandum - Log No. 938  
Enrolled Bill H. R. 13296 - Maritime  
Authorization

The Office of Legislative Affairs concurs with the Agencies  
that the enrolled bill should be VETOED.

Attachments

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 938

Date: January 1, 1975

Time: 11:00 a.m.

FOR ACTION: Geoff Shepard  
Phil Areeda  
Max Friedersdorf  
Paul Theis

cc (for information): Warren Hendriks  
Jerry Jones  
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Thursday, January 2

Time: noon

SUBJECT:

Enrolled Bill H.R. 13296 - Maritime Authorization

ACTION REQUESTED:

\_\_\_ For Necessary Action

\_\_\_ For Your Recommendations

\_\_\_ Prepare Agenda and Brief

\_\_\_ Draft Reply

\_\_\_ For Your Comments

\_\_\_ Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

*Agree with OMB: veto. But ~~strong~~  
message should not imply that an injured  
fisherman can realistically, possibly, make existing  
"international procedures"*

*P. Areeda*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

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

Warren K. Hendriks  
For the President

MEMORANDUM OF DISAPPROVAL

I am withholding my approval from H.R. 13296, a bill to authorize appropriations for the Maritime Administration.

This is the annual appropriations authorization bill for certain activities of the Maritime Administration in the Department of Commerce. I would be pleased to approve the measure if it were limited to those authorizations.

Unfortunately, the Congress added an unacceptable amendment which would require the Federal Government to reimburse U.S. flag fishing vessel owners for damage to their equipment by foreign flag ships.

The amendment would require the Secretary of Commerce to provide interest free loans to fishermen to cover the property and the value of produce lost as a result of damage caused by foreign vessels operating in the area of the U.S. Continental Shelf. If an ensuing investigation proved the loss was caused solely by a foreign ship, the loan repayment would be cancelled and the United States would attempt to recover claims from the government of the foreign national involved. The program would be retroactive to January 1, 1972, for claims already filed.

This idemnity program would pose serious problems of administration because it would be difficult to establish responsibility for any damage caused. Furthermore, since the bill provides no basis for advance review of the recipient's financial ability to repay a loan, the Commerce Department could find itself in the position of holding a group of "bad debts". At the same time, claims for damage would be difficult to validate and the result would essentially be a grant program with few effective restraints.



Moreover, this program sets a precedent for the Federal relief of private parties from the actions of foreign nationals. Currently, relief is extended only to fishermen whose vessels are the victims of actions by foreign governments beyond recognized territorial limits. International procedures now exist through which claims against foreign nationals can be asserted and adjudicated and these should be used in preference to a Federal indemnity program.

I urge the Congress to pass once again the appropriations authorizations provisions of the bill early in the next session. Meanwhile, the programs covered by these authorizations and funded by appropriations already enacted can be continued under the continuing resolution which runs through February 28, 1975.

*Gerald R. Ford*

THE WHITE HOUSE,

January 4, 1975.

Phil Areeda:

May I have your approval of the  
attached revised memorandum of  
disapproval. Thank you.

Judy Johnston

Date: January 1, 1975

Time: 11:00 a.m.

FOR ACTION: Geoff Shepard  
Phil Areeda  
Max Friedersdorf  
Paul Theiscc (for information): Warren Hendriks  
Jerry Jones  
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Thursday, January 2 Time: noon

## SUBJECT:

Enrolled ~~Bill~~ H.R. 13296 - Maritime Authorization

## ACTION REQUESTED:

 For Necessary Action For Your Recommendations Prepare Agenda and Brief Draft Reply For Your Comments Draft Remarks

## REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

I point out, as I did before, that the "international procedures" mentioned on page 2 are not realistically available to the small fisherman.

On page 1 note that the proper term is "foreign-flag ships", not "foreign flagships."

Otherwise the message is OK.

P Areeda



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

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

Warren K. Hendriks  
For the President

Vern Loen:

May I have your approval of the revised memorandum of disapproval attached asap.

Thanks.

Judy Johnston

OK JV

Date: January 1, 1975

Time: 11:00 a.m.

FOR ACTION: Geoff Shepard  
Phil Areeda  
Max Friedersdorf  
Paul Theis

cc (for information): Warren Hendriks  
Jerry Jones  
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Thursday, January 2

Time: noon

SUBJECT:

Enrolled Bill H.R. 13296 - Maritime Authorization

ACTION REQUESTED:

For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

OK [Signature]  
OK [Signature]



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

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

Warren K. Hendriks  
For the President

## MARITIME AUTHORIZATION—FISCAL YEAR 1975

MAY 31, 1974.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mrs. SULLIVAN, from the Committee on Merchant Marine and Fisheries, submitted the following

### REPORT

[To accompany H.R. 13296]

The Committee on Merchant Marine and Fisheries, to whom was referred the bill (H.R. 13296) to authorize appropriations for the fiscal year 1975 for certain maritime programs of the Department of Commerce, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

#### PURPOSE OF THE BILL

The purpose of this bill is to authorize certain appropriations for programs of the Maritime Administration within the Department of Commerce for fiscal year 1975.

The appropriation authorization is in accordance with Public Law 90-81, which is now incorporated in section 209 of the Merchant Marine Act of 1936. This law requires that after December 31, 1967, only such sums as the Congress may specifically authorize by law be appropriated for the Maritime Administration of the Department of Commerce for the following purposes:

1. Acquisition, construction, or reconstruction of vessels.
2. Construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships.
3. Payment of obligations incurred for operating-differential subsidy.
4. Expenses necessary for research and development activities (including reimbursement of the Vessel Operations Revolving Fund for losses resulting from expenses of experimental ship operations).
5. Reserve fleet expenses.
6. Maritime Training at the Merchant Marine Academy at Kings Point, N.Y.



7. Financial assistance to State Marine Schools.
8. The Vessel Operations Revolving Fund.

#### BACKGROUND OF THE LEGISLATION

By Executive Communication No. 1911, dated February 19, 1974, the Secretary of Commerce recommended legislation pursuant to section 209 of the Merchant Marine Act of 1936 to authorize appropriations without fiscal year limitation for certain maritime programs of the Department of Commerce for fiscal year 1975. Accordingly, H.R. 13296 was introduced on March 6, 1974, covering six categories of maritime programs of the Department of Commerce administered by the Maritime Administration.

H.R. 13296 would authorize appropriations in the sum of \$562,900,000, in the following categories and in the amounts indicated:

(a) Acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, \$275,000,000.

(b) Payment of obligations incurred for ship operating-differential subsidies; \$242,800,000.

(c) Expenses necessary for research and development activities, \$27,900,000.

(d) Reserve Fleet expenses, \$3,742,000.

(e) Maritime training at the Merchant Marine Academy at Kings Point, New York, \$10,518,000.

(f) Financial assistance to State Marine Schools, \$2,973,000.

H.R. 13296 also contains a section 2 that provides that "In addition to the amounts authorized by section 1 of this Act, there are authorized to be appropriated for fiscal year 1975 such additional supplemental amounts for the activities for which appropriations are authorized under section 1 of this Act as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law."

A statement of the purposes and provisions of H.R. 13296, is set forth hereafter as an attachment to the letter of February 15, 1974, from the Honorable Frederick B. Dent, Secretary of Commerce, enclosing a draft bill "To authorize appropriations for the fiscal year 1975 for certain maritime programs of the Department of Commerce."

#### HEARINGS ON H.R. 13296

H.R. 13296, the authorization bill for fiscal year 1975, includes requirements for the fifth year of expanded activities under the new Maritime Program provided by the Merchant Marine Act of 1970 (P.L. 91-169). The Merchant Marine Subcommittee of your Committee held hearings on H.R. 13296 on April 23, 1974. Careful inquiry was made as to the need for each element of the authorization request.

SEC. 1 (a) *Acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, \$275,000,000.*

So-called construction subsidy is generally based on the difference between United States and foreign shipbuilding costs, and paid to U.S. shipyards, so that our vessels can compete in international trade.

Prior to the Merchant Marine Act of 1970, such subsidy was generally limited to liner vessels: That Act expanded this aid to generally include all types of United States-flag shipping engaged in foreign trade, and also sets forth guidelines for the gradual reduction of the construction subsidy level to 35 percent in fiscal year 1976, and thereafter. In fiscal year 1975, the construction subsidy level will be reduced from 39% to 37%.

Subsidized shipbuilding orders exceeding \$2.5 billion have been generated by the 1970 Act. These comprise 52 new ships of 4.7 million deadweight tons and the conversion of 19 existing ships into container-ships. As of March 1, 1974, 90 merchant ships valued at \$3.6 billion and aggregating nearly 6.2 million deadweight tons were under construction or on order. Significantly, these new orders have raised the American Shipbuilding Industry to a leading position in the construction of liquefied natural gas or LNG ships. The ships being built are not only of advanced and highly productive designs, but also comprise a diverse mix of types that will provide the United States with a more competitive fleet in a variety of trades. Thirteen of the 52 ships ordered under the 1970 Act are lighter-abroad-ship or LASH vessels and roll-on/roll-off ships. These ships will further enhance our leadership in intermodel shipping. The remaining 39 ships are bulk carriers.

This progress under the Merchant Marine Act of 1970, has been made at the same time that government subsidy rates have been declining. Subsidy rate guidelines are scheduled to decline by 2 per cent a year from a maximum of 45% in 1971 until a 35% maximum rate is reached in 1976. These guideline rates are being met and in some cases the subsidy awarded is significantly below the guideline rate. A significant factor in the reduction of subsidy rates is series production. By building a large number of similar ships, the economies inherent in quantity procurement, a stable work force and job familiarity are being realized. Additionally, continued government support has encouraged shipyard modernization and expansion. The shipbuilding industry has demonstrated its commitment by investment or firm plans for investment of over \$500 million.

The fiscal year 1975 request of \$275 million is the same as that authorized for fiscal year 1974. Assistant Secretary of Commerce for Maritime Affairs Blackwell testified that these funds would sustain an adequate and orderly shipbuilding program. The Maritime Administration plans to execute contracts for 9 ships in 1975. Five of these ships, and seven ships resulting from 1974 contracts will be funded in 1975. The remaining four ships awarded in 1975 will be funded in 1976.

Your Committee was informed that the ships currently being built with the aid of construction differential subsidy are larger and more costly than those envisioned when the Merchant Marine Act of 1970 was passed. Even though only 12 ships will be funded in 1975, their productive capacity exceeds the capacity goals established by the 1970 Act.

The Assistant Secretary further testified that the 1975 appropriation request will allow series production of ships to continue at existing yards. The economics realized through series orders are essential to achieve competitiveness in the production of energy carriers. Additionally, subsidized LNG construction will expand from three yards at present to four yards in 1975. The combined 1974 and 1975 program will generate 50,000 man-years of work for shipyard employees and about an equivalent amount of employment in supporting industries.

Mr. Blackwell was confident that in 1975 all ships would be awarded at a subsidy rate lower than the 37 per cent mandated by the Act. Subsidy rates are as low as 33.4% for some types of tankers and 16.5% for LNG's. These declining subsidy rates mean that for a given level of government support, a larger shipyard orderbook is generated. Thus, while the 1975 program level is \$23 million less than in 1974, due to a decrease in the availability of carry-over funds, the 1975 funds will generate approximately \$976 million in shipyard orders; \$65 million more than for fiscal year 1974.

SEC. 1(b) *Payment of obligations incurred for ship operation-differential subsidies, \$242,800,000.*

So-called operating subsidy is generally based on the difference between United States and foreign vessel operating costs and paid to U.S.-flag operators so they can compete in international trade. The Merchant Marine Act of 1970 generally extended this subsidy to other than liner operators.

Subsidy is generally provided for U.S.-flag wage, maintenance and repair, and insurance costs. Payments are determined as the difference between the fair and reasonable cost of these items and the cost of the same items of expense if the vessel were operated under the registry of the flag of substantial foreign competitors. Allowable U.S. wage costs are determined by a special non-Maritime U.S.-wage index developed by the Bureau of Labor Statistics. This provides an incentive to the subsidized operators to minimize wage increases reached in collective bargaining agreements. Further control on wage costs is achieved by requiring manning levels for new subsidized vessels to be determined prior to the time construction subsidy contracts are entered into.

The Honorable Robert J. Blackwell, Assistant Secretary of Commerce for Maritime Affairs, testified that the requested appropriation authorization for 1975 of \$242,800,000 is to provide for payment of operating-differential subsidies to American ship operators in order to promote the maintenance of a U.S. merchant fleet capable of providing essential shipping services. Essential services are defined as those ocean services, routes and lines and bulk cargo carrying services essential for the promotion, development, expansion and maintenance of the foreign commerce of the United States.

At the present time there are 14 United States-flag operators providing these essential shipping services. Aeron Marine Shipping Company operates 2 tankers in world-wide service. Aries Marine Shipping Company operates 2 liquid and dry bulk vessels in worldwide service. American Export Lines, Inc. operates 19 container, break-bulk and Ro/Ro vessels from the United States Atlantic Coast to Europe, the Mediterranean, Far East, and Asia. American Mail Line,

Ltd., now a part of American President Lines, Ltd., operates 10 container and break-bulk vessels from the United States Pacific Coast to the Far East. American President Lines, Ltd. operates 12 container vessels from the United States Pacific Coast to the Far East, and from the United States Atlantic and Gulf Coasts to Asia. Delta Steamship Lines, Inc. operates 11 LASH and break-bulk vessels from the United States Gulf Coast to the East Coast of South America and West Africa. Ecological Shipping Corporation operates 1 liquid bulk vessel in worldwide service. Farrel Lines, Incorporated operates 12 container and break-bulk vessels from the United States Atlantic and Gulf Coasts to Africa and Australia. Lykes Bros. Steamship Company, Inc. operates 41 container, LASH, and break-bulk vessels from the United States Gulf and South Atlantic Coasts to Europe, the Mediterranean, Far East, South and East Africa, and the West Coast of South America. Margate Shipping Corp. operates 3 tankers in worldwide service. Moore-McCormack Lines, Inc. operates 14 break-bulk vessels from the United States Atlantic Coast to the East Coast of South America, and the South and East Coasts of Africa. Pacific Far East Line, Inc. operates 2 passenger vessels and 6 LASH vessels from the United States Pacific Coast to Australia and the Far East. Prudential-Grace Lines, Inc. operates 17 Combination, LASH, and break-bulk vessels from the United States Atlantic Coast to the West Coast of South America, the Caribbean, the Mediterranean, and from the United States Pacific Coast to South America, the Caribbean, Central America and Mexico. States Steamship Company operates 13 break-bulk and Ro/Ro vessels from the United States Pacific Coast to the Far East. Waterman Steamship Corporation operates 15 break-bulk and LASH vessels from the United States Atlantic and Gulf Coasts to the Far East and Asia.

Mr. Blackwell informed your Committee that subsidized liner activity would remain at essentially the same level as in 1974. However, bulk carrier service will increase from 3.1 ship years in 1974 to 6.8 ship years in 1975. He further informed that the carriage of the 1973 grain purchases to the Soviet Union will be completed this year. No funds are requested in 1975 for special commodity shipments of this type due to uncertainties about the extent of possible future purchases and the level of charter rates prevailing at the time.

With respect to the request for \$242,800,000, an estimated \$198,932,000, in subsidy will be paid in 1975 for 5.0 passenger and combination passenger/cargo, 153.2 general cargo, and 6.8 bulk carrier ship years of operation. An additional \$43,868,000 will be paid for balances due for operations in prior years. The 1975 request reflects a decrease of \$15,489,000 from the 1974 adjusted level of \$258,289,000. In this regard, it should be noted that the 1974 level includes 1973 appropriation carryover of \$13,774,410, and a proposed supplemental request for \$23 million that passed the House of Representatives on April 2, 1974.

SEC. 1(c) *Expenses necessary for research and development activities, \$27,900,000*

The objective of the research and development program is to explore and find ways to make the U.S. merchant fleet and the U.S. shipbuilding industry more efficient and competitive. Projects are

directed toward development of information and technology which will aid in reducing construction costs, operating costs and Government subsidies for ship construction and operation. The program aims at developing new and more efficient types of ships, machinery, equipment for shipbuilders and operators, and at improving operational practices in shipyards and aboard ships. Projects with near-term benefits are given priority. Industry participation and cost sharing projects have been obtained and enlarged. This joint Government and industry coordination results in expanded efforts and in enhanced probability of use of results by the U.S. maritime industry.

R. & D. programs can generally be designed as follows:

(a) *Advanced ship development and construction.*—Ships built in U.S. shipyards are expensive in comparison to ships built in foreign yards. U.S. labor costs are not competitive and much activity by segments of U.S. shipyards has to be subsidized. This program is directed towards initiating methods that will cut costs by developing new ship designs and machinery that will result in greater shipyard productivity. Efforts are conducted to improve ship types now in use by improving utilization of space, developing new types of cargo handling gear, reducing waiting time for ships, and making use of safety improvements in the transportation and handling of hazardous cargoes. The development and implementation of new systems, machinery, and designs will benefit the operator by providing greater ship utilization, safety and productivity. This results in improved ability to be competitive with foreign-flag competition; shipyards benefit by increased efficiency, and competitive position with cost reductions due to new shipbuilding procedures and improved ship design. The Government benefits by reduction of subsidies paid to shipyards.

(b) *Advanced ship operations systems.*—The program seeks opportunities for better use of people and equipment in the operation of U.S.-flag ships. Improvements in operational procedures will be reflected in decreased operating costs, through eliminating inefficient practices, by providing new ways to increase operational productivity, by encouraging U.S. ship operators to use modern management methods resulting in better use of their ships. The result is more effective competition with foreign-flag operators. These results are pursued through development of more rapid communication between ships and operators, improved automated ship and cargo handling systems and better equipment, training for personnel, improved navigation and safety, and improvements in pollution control. The benefits to the operator will come from less lost vessel time through more efficient safety practices and through improved navigation and communication. Rapid communication by satellite can cut costs and allow greater vessel productivity and use. Automation techniques and management systems will improve competitive capability. Benefits accrue to the Government in the avoidance and reduction of operating subsidies and the improved economic status of the U.S. merchant marine in the world market.

(c) *Advanced ports and intermodal systems.*—This activity is geared to investigate methods for establishing offshore deepwater ports that will safely and economically handle the large tankers and bulk carriers that cannot be accommodated in our ports due to insuffi-

cient depth. Ships using offshore ports will have to be able to discharge in most all weather conditions, so exploratory investigations will be conducted in underwater breakwater devices to diminish effects of high waves. New, faster and more economical ways to handle cargoes between ships and terminals or other carriers will be investigated to improve our foreign and domestic trades. This will require improvement in port management methods and productivity.

The 1975 request of \$27,900,000 is an increase of \$8,900,000 from the 1974 appropriation level. The 1974 appropriation of \$19,000,000 was augmented by \$5,000,000 carried forward from 1973. Thus, the actual increase in program level from 1974 to 1975 is \$3,900,000.

Your Committee questioned Mr. Blackwell closely with respect to tangible benefits resulting from Research and Development efforts. In this regard, he mentioned Government/Industry jointly funded efforts to develop gas turbine engines. At the present time, six nonsubsidized vessels are being constructed that will incorporate these engines. Mr. Blackwell anticipated that as shaft horsepower requirements increased, there would be a good deal more interest in the gas turbine engine for United States-flag merchant ships. Another concrete benefit has been the skewed propeller that has proven so successful in reducing vessel vibrations.

SEC. 1(d). *Reserve fleet expenses, \$3,742,000*

The Maritime Administration maintains a so-called National Defense Reserve Fleet of Merchant ships in 3 anchorages in the United States. The objective of the program is to maintain viable ships under preservation in the National Defense Reserve Fleet to supplement the active fleet in times of war or national emergency. Due to mounting obsolescence, a portion of the fleet, most of which was build during World War II, is sold for scrap each year.

The authorization request for 1975 of \$3,742,000 is \$31,000 less than the 1974 request for this activity. Mr. Blackwell testified that this reduction resulted from consolidating the reserve fleet into 3 sites on the Atlantic, Gulf and Pacific coasts, and the eliminations of obsolete capacity in the fleet. He informed that 29 merchant ships and 101 Navy ships are scheduled for scrapping in 1975. Two hundred and ninety-four merchant ships will be retained for national defense purposes.

SEC. 1(e) *Maritime Training at the Merchant Marine Academy at Kings Point, New York, \$10,518,000*

The Maritime Administration operates the United States Merchant Marine Academy at Kings Point, New York, to train deck and engineering officers for the U.S.-flag merchant fleet. The Academy offers a four year undergraduate program which leads to a Bachelor of Science degree and to a Merchant Marine license as a Third Mate or Third Assistant Engineer. In addition, the cadets are enrolled as midshipmen in the U.S. Naval Reserve and, if eligible, are commissioned upon graduation as Ensigns in the U.S. Navy Reserve. The Academy has a current enrollment of about 950 students and graduates about 200 students annually. The Federal cost of graduating each student is about \$33,000.

The Assistant Secretary of Commerce for Maritime Affairs requested \$10,518,000 for the continued operation of the Academy in

Fiscal Year 1975. The amount requested represents an increase of \$1.9 million over the 1974 level. Careful inquiry by your Committee indicates that the major portion of the increase is for the purpose of continuing the modernization of facilities program at the Academy and of initiating the renovation of its physical fitness facilities, including the construction of an indoor swimming pool, four squash courts, one wrestling room, shower and locker rooms for home and visiting football teams and restrooms for spectators.

The \$10,518,000 requested for Fiscal Year 1975 will be allocated as follows: (a) \$1,717,000 for cadet costs; (b) \$1,731,000 for maintenance, repair and operating requirements; (c) \$2,717,000 for the modernization program; (d) \$127,000 for the improvement of instructional equipment; (e) \$1,305,000 for program direction and administration, and (f) \$2,867,000 for the instructional program.

*Sec. 1(f). Financial Assistance to State Marine Schools, \$2,973,000*

The Maritime Administration supervises the Government grants and student aid given to the six State Maritime Academies which are located in Maine, New York, Massachusetts, California, Texas and Michigan. These Schools have a combined total enrollment of about 2,000 students and graduate approximately 350 students annually. Most graduates are employed either in the U.S.-flag merchant fleet as deck or engineering officers or ashore in the maritime industry. If offered a commission in the U.S. Naval Reserve upon graduation, they are required to accept.

Public Law 85-672 generally provides that Federal funds may be allocated to the State Maritime Academies for the following purposes: (1) a \$600 annual subsidy payment to each of a designated number of students; (2) a grant of at least \$25,000, but not more than \$75,000 to each School, conditioned upon the admission of a certain percentage of out-of-State students and matching funds by the State, and (c) maintenance and repair expenses of the training vessels on loan from the National Defense Reserve Fleet.

The Assistant Secretary of Commerce for Maritime Affairs requested \$2,973,000 which is an increase of \$546,000 over the 1974 level of funding. Your Committee was informed that this increase was necessary to meet the rising maintenance and repair costs of the six training vessels presently on loan to the State Maritime Academies from the Reserve Fleet.

Careful inquiry by your Committee revealed that the requested authorization of \$2,973,000 would be expended among the six Schools as follows: \$439,000 to California; \$690,000 to Maine; \$519,000 to Massachusetts; \$238,000 to Michigan; \$771,000 to New York, and \$316,000 to Texas.

*Sec. 2. In addition to the amounts authorized by section 1 of this Act, there are authorized to be appropriated for fiscal year 1975 such additional supplemental amounts for the activities for which appropriations are authorized under section 1 of this Act as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law*

The Assistant Secretary of Commerce for Maritime Affairs testified that funds for the remuneration of Maritime Administration em-

ployees at the National Defense Reserve Fleets and at the Federal Maritime Academy are included in section 1 of the authorization request. Section 2 is required to avoid having to amend the fiscal year 1975 authorization request if supplemental appropriations for fiscal year 1975 are sought for this purpose. There was no opposition to this section of H.R. 13296.

GENERAL STATEMENT

The Merchant Marine Act of 1970 (Public Law 91-469) provides for the new Maritime Program proposed by your Committee and the Administration. This Program envisions the construction of a substantial number of vessels over a ten year period, substantial improvements in the operating-differential subsidy program, and a number of other provisions to revitalize the United States-flag merchant marine and restore this country to its place as a leading maritime nation. In this regard, H.R. 13296 includes requirements for the fifth year of expanded activities under the new Maritime Program.

With respect to the authorization request of \$275 million for construction subsidy, set forth in section 1(a) of H.R. 13296, your Committee is of the strong view that these funds are the minimum required to carry on the new Maritime Program provided by the Merchant Marine Act of 1970, and that the proposed ship mix reflects the present needs of the United States Merchant Marine.

With respect to the authorization request of \$242,800,000 for operating subsidy set forth in section 1(b) of H.R. 13296, your Committee is well satisfied that these funds are required by the Maritime Administration for the continued operation of United States-flag passenger, general cargo and bulk vessels in our foreign commerce. Your Committee notes that 19 vessels formerly receiving operating subsidy no longer receive this form of Government aid. Additionally, a number of other capital intensive American vessels, such as containerships, are also competing in our foreign trade without such subsidy.

The authorization request of \$27,900,000 provided by section 1(c) of H.R. 13296, for Research and Development activities of the Maritime Administration, would appear to be in order. The Merchant Marine Act of 1970 provides for a gradual reduction of the construction subsidy level to 35 percent in Fiscal Year 1976 and thereafter. Research and Development programs of the Maritime Administration are one of the tools to achieve this goal, and are also aimed at increasing the productivity of American ships operations. Your Committee supports the authorization request after careful inquiry of these research and development programs.

Your Committee supports the authorization request of \$3,742,000 provided by section 1(d) of H.R. 13296 for the continued operation of the National Defense Reserve Fleet. However, the present age of vessels in the National Defense Reserve Fleet is a source of grave concern, and your Committee has proposed suitable legislation (H.R. 12427) that would upgrade the vessels in this Fleet.

Your Committee supports the authorization request of \$10,518,000 and \$2,973,000, provided by sections 1(e) and 1(f) of H.R. 13296 and notes that a six member Ad Hoc Committee on Maritime Education and Training, of your Committee, is in the process of making a comprehensive evaluation of all of our Nation's Maritime Schools.

Section 2 of H.R. 13296 is basically a technical amendment to avoid having to amend the Fiscal Year 1975 authorization request if supplemental appropriations for Fiscal Year 1975 are required for the remuneration of Maritime Administration employees at the National Defense Reserve Fleet and the Federal Merchant Marine Academy. An identical provision was in the authorization act for Fiscal Year 1974. Your Committee supports this provision of the bill.

#### CONCLUSION

Your Committee is unaware of any opposition to the proposed legislation, and reported H.R. 13296, without amendment, unanimously, after full and careful consideration of the entire record. Your Committee is of the strong view that the authorization for the requested funds provided by the bill is essential for the continuation of the new Maritime Program provided by the Merchant Marine Act of 1970.

#### COST OF THE LEGISLATION

The total cost of the legislation is \$562,900,000; the amount authorized by the bill.

#### CHANGES IN EXISTING LAW

If enacted, this bill would make no changes in existing law.

#### DEPARTMENTAL REPORTS

H.R. 13296 was the subject of an Executive Communication (No. 1911) from the Secretary of Commerce. The text follows herewith. There also follows the text of reports received from the Departments of Defense and State:

[EXECUTIVE COMM. NO. 1911]

THE SECRETARY OF COMMERCE,  
Washington, D.C., February 15, 1974.

HON. CARL ALBERT,  
Speaker of the House of Representatives,  
Washington, D.C.

DEAR MR. SPEAKER: Enclosed are six copies of a draft bill to authorize appropriations for the fiscal year 1975 for certain maritime programs of the Department of Commerce, together with a statement of purposes and provisions in support thereof.

We have been advised by the Office of Management and Budget that there would be no objection to the submission of our draft bill to the Congress and further that its enactment would be in accord with the program of the President.

Sincerely,

FREDERICK B. DENT,  
Secretary of Commerce.

Enclosures.

A BILL To authorize appropriations for the fiscal year 1975 for certain maritime programs of the Department of Commerce

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That funds are hereby authorized to be appropriated without fiscal year limitation as the appropriation act may provide for the use of the Department of Commerce, for the fiscal year 1975, as follows:

(a) Acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, \$275,000,000;

(b) payment of obligations incurred for ship operating-differential subsidy, \$242,800,000;

(c) expenses necessary for research and development activities, \$27,900,000;

(d) reserve fleet expenses, \$3,742,000;

(e) maritime training at the Merchant Marine Academy at Kings Point, New York, \$10,518,000; and

(f) financial assistance to State Marine Schools, \$2,973,000.

SEC. 2. In addition to the amounts authorized by section 1 of this Act, there are authorized to be appropriated for fiscal year 1975 such additional supplemental amounts for the activities for which appropriations are authorized under section 1 of this Act as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law.

#### STATEMENT OF THE PURPOSES AND NEED OF THE DRAFT BILL TO AUTHORIZE APPROPRIATIONS FOR THE FISCAL YEAR 1975 FOR CERTAIN MARITIME PROGRAMS OF THE DEPARTMENT OF COMMERCE

Section 209 of the Merchant Marine Act, 1936, provides that after December 31, 1967 there are authorized to be appropriated for certain maritime activities of the Department of Commerce only such sums as the Congress may specifically authorize by law.

The draft bill authorizes specific amounts for those activities listed in section 209 for which the Department of Commerce proposes to seek appropriations for the fiscal year 1975, and reflects the continuing Department efforts to provide the essential resources required to accomplish the objectives of the Merchant Marine Act of 1970.

(a) acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, \$275,000,000.

The fiscal 1975 ship construction program will provide multi-year funding of some ship construction contracts. It is anticipated that 1975 funding will cover unfinanced balances for 7 ships under fiscal 1974 contracts. Construction subsidy contracts for 9 ships are planned in 1975, with 5 ships being financed with 1975 funds and multi-year financing being utilized for the remaining 4.

(b) payment of obligations incurred for operating-differential subsidy, \$242,800,000.

Operating subsidy funds requested for FY 1975 would provide for payment of subsidy on two passenger ships, three combination passenger-cargo ships, 185 general cargo liners, and 22 bulk carriers during the year. Additionally the request includes funds for payment of subsidies determined to be due subsidized operators for operations in prior years.

(c) expenses necessary for research and development activities, \$27,900,000.

The 1975 program provides funding for the initiation and continuation of R&D efforts to reduce the costs of operating and building U.S. ships. Major efforts in FY 1975 are planned in the areas of advanced nuclear ship development, ship machinery, more productive ship-building methods, improved navigation/communication systems, and investigation of shipboard automation. The principal aims are to improve the productivity of U.S. shipyards and to reduce the life cycle costs of U.S.-flag ships in order to make the U.S. maritime industry more competitive with foreign fleets. The continued participation of industry in cost-sharing of R&D projects provides increased results for the government investment.

(d) reserve fleet expenses, \$3,742,000.

Funding provides for the preservation, maintenance and security of ships held for national defense purposes, distributed among three active fleet sites. Periodic represervation of hulls, machinery, and electrical components, combined with continuous application of cathodic protection to the bottoms, are methods employed in maintaining the ships for further service.

In fiscal 1975, funds will be used for the care of approximately 294 ships retained for national defense purposes. 130 other vessels will be scrapped by June 1975, assuming there is an acceptable market in scrap.

(e) maritime training at the Merchant Marine Academy at Kings Point, New York, \$10,518,000.

This requested authorization is for the operation of the Merchant Marine Academy at Kings Point to train cadets as officers for the U.S. merchant fleet in both peacetime and national emergencies. Approximately 200 officers graduate each year. A program increase is included to implement the Facilities Modernization Program at the Academy by expanding the physical training facilities, and by renovating part of one academic building.

DEPARTMENT OF THE NAVY,  
OFFICE OF LEGISLATIVE AFFAIRS,  
Washington, D.C., April 22, 1974.

HON. LEONOR K. SULLIVAN,  
Chairman, Committee on Merchant Marine and Fisheries, House of Representatives, Washington, D.C.

DEAR MADAM CHAIRMAN: Your request for comment on H.R. 13296, a bill "To authorize appropriations for the fiscal year 1975 for certain maritime programs of the Department of Commerce," has been as-

signed to this Department by the Secretary of Defense for the preparation of a report expressing the views of the Department of Defense.

As stated in its title, H.R. 13296 would authorize appropriations for the fiscal year 1975 for maritime programs in the Department of Commerce.

The Department of the Navy, on behalf of the Department of Defense, defers to other interested agencies on the merits of the bill.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report on H.R. 13296 for the consideration of the Committee.

For the Secretary of the Navy.

Sincerely yours,

E. H. WILLETT,  
Captain, U.S. Navy,  
Deputy Chief.

DEPARTMENT OF STATE,  
Washington, D.C., April 17, 1974.

HON. LEONOR K. SULLIVAN,  
Chairman, Committee on Merchant Marine and Fisheries, House of Representatives, Washington, D.C.

DEAR MRS. SULLIVAN: The Secretary has asked me to reply to your letter of March 11, 1974 requesting comment on H.R. 13296, a bill "To authorize appropriations for the fiscal year 1975 for certain maritime programs of the Department of Commerce".

The Department has no objection to the proposed legislation from the standpoint of foreign policy and would defer to the views of other government agencies more directly concerned.

The Office of Management and Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

Sincerely yours,

LINWOOD HOLTON,  
Assistant Secretary  
for Congressional Relations.

MARITIME ADMINISTRATION AUTHORIZATION  
FISCAL YEAR 1975

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REPORT

OF THE

SENATE COMMITTEE ON COMMERCE

TOGETHER WITH

SUPPLEMENTAL VIEWS

ON

H.R. 13296

TO AUTHORIZE APPROPRIATIONS FOR THE FISCAL YEAR  
1975 FOR CERTAIN MARITIME PROGRAMS OF THE  
DEPARTMENT OF COMMERCE



OCTOBER 9, 1974.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1974



## MARITIME ADMINISTRATION AUTHORIZATION FISCAL YEAR 1975

OCTOBER 9, 1974.—Ordered to be printed

Mr. LONG, from the Committee on Commerce,  
submitted the following

### REPORT

together with

### SUPPLEMENTAL VIEWS

[To accompany H.R. 13296]

The Committee on Commerce, to which was referred the bill (H.R. 13296) to authorize appropriations for the fiscal year 1975 for certain maritime programs of the Department of Commerce, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

#### PURPOSE

The purpose of the bill as reported is to authorize appropriations for programs of the Maritime Administration for fiscal year 1975 and to amend organic acts to permit a State government to safely embark on a program of financial aid to the fishing industry and to assure that the Maritime Administration maintains regional offices.

#### SUMMARY AND DESCRIPTION

The legislation provides for authorization for appropriations for six categories of maritime programs of the Department of Commerce, which are administered by the Maritime Administration, in the aggregate sum of \$562,933,000. Those programs, and the amounts authorized, are as follows:

(1) Acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships—\$275 million;

(2) Payment of obligations incurred for ship operating-differential subsidy—\$242.8 million;

(3) Expenses necessary for research and development activities—\$27.9 million;

(4) Reserve fleet expenses—\$3.742 million;

(5) Maritime training at the Merchant Marine Academy at Kings Point, N. Y.—\$10.518 million; and

(6) Financial assistance to State marine schools—\$2.973 million.

Section 2 authorizes additional supplemental appropriations for fiscal year 1975 for the activities specified in section 1 of the bill, to the extent necessary for increases in salaries, pay, retirement, or other employee benefits authorized by law.

Section 3 of the bill inserts into the Shipping Act, 1916 a definition of "citizen of the United States" which includes a State or a political subdivision of a State, thereby making the provisions of the Ship Mortgage Act applicable to State governments as well as to private lenders and mortgagees.

Section 4 of the bill amends the section of the Merchant Marine Act, 1936 which requires the four major seacoasts (Atlantic, Gulf, Great Lakes, Pacific) to be treated equitably by providing that at least one regional office of the Maritime Administration be maintained for each of the four areas.

#### BACKGROUND

Hearings were held by the Merchant Marine Subcommittee of the Merchant Marine and Fisheries Committee of the House of Representatives on H.R. 13296 on April 23, 1974. The Merchant Marine Subcommittee of this Committee on May 16, 1974 held hearings on S. 3319, a bill identical to H.R. 13296, as introduced.

On June 4, 1974, the House of Representatives passed H.R. 13296, without amendment. On October 2, 1974, this Committee in executive session ordered H.R. 13296 favorably reported, with amendments. The amendments are similar to the provisions of S. 1748 and S. 3915.

#### EXPLANATION OF COMMITTEE AMENDMENTS

The Committee adopted two amendments to the bill which are incorporated as sections 3 and 4 respectively.

1. *Section 3.*—Mortgages of vessels registered or enrolled as vessels of the United States are regulated in various respects by the provisions of the Ship Mortgage Act, 1920 (section 30 of the Merchant Marine Act, 1920, 46 U.S.C. 911-984). The Ship Mortgage Act, 1920, gives preferred status to mortgages of vessels of over 200 gross tons, on compliance with registration and other provisions of the act, provided that such a preferred mortgage constitutes a lien on the vessel that can be enforced by the mortgagee by suit in rem in admiralty, and provided that the mortgagee can, in addition to all other remedies granted by the act, bring suit in personam in admiralty in a Federal district court against the mortgagor, for the amount of the outstanding mortgage indebtedness secured by the vessel. The grant is thus one of exclusive jurisdiction to enforce the lien of a "preferred mortgage"; and if the mortgage is preferred within the definition of the act, jurisdiction is granted, but otherwise not.

Subsection D(5) of the Ship Mortgage Act (46 U.S.C. 922(a)(5)) requires that the mortgagee of a preferred ship mortgage be a citizen of the United States and provides that for purposes of the Ship Mortgage Act those designated in sections 37 and 38 thereof shall be deemed citizens of the United States. Section 37 (46 U.S.C. 888) states that the term "citizen of the United States" shall have the meaning assigned to it in sections 1 and 2 of the Shipping Act, 1916.

However, the term "citizen of the United States" is not presently defined in section 1 of the Shipping Act, 1916, and section 2 of that act only sets forth controlling interest prerequisites for a corporation, partnership or association to be deemed a citizen.

A State, or other governmental entity, is nowhere defined in the Ship Mortgage Act, 1920, or the Shipping Act, 1916, as being a citizen. The Ship Mortgage Act is specific as to the requirement for citizenship and it would be imprudent for a State, or other governmental entity to be the mortgagee on a ship mortgage for that mortgage could possibly be later held by a court to be invalid or less than "preferred."

In 1972, the State of Alaska enacted legislation creating a commercial fishing loan program to provide long-term, low-interest loans to fishermen for the purposes of repair, construction or purchase of vessels (Alaska Statutes 16.10.300-370). The Commercial Fishing Loan Act includes a provision that loans "shall be secured by a first lien" (Alaska Statutes 16.10.320). This first lien requirement will only be satisfied in the case of loans for use in connection with documented vessels of the United States by the perfection of a preferred ship mortgage as provided in section D of the Ship Mortgage Act, 1920 (46 U.S.C. 922). Security instruments other than preferred ship mortgages are junior in priority to subsequently perfected preferred mortgages and to maritime liens arising at any time.

The typical loan applicant is unable to offer any collateral other than his fishing vessel and thus is unable to perfect a preferred ship mortgage under the Ship Mortgage Act. To obtain a preferred ship mortgage, a State such as Alaska must put together a complicated alternative in the form of a trust indenture and bond arrangement, (as authorized by 46 U.S.C. 808 for alien lenders). A State should not be required to go through such complicated and expensive maneuvers and techniques to effect national purposes.

The Committee amendment places the new definition of citizen in the Shipping Act, 1916 (46 U.S.C. 801), rather than in the Ship Mortgage Act, 1920 (46 U.S.C. 922). Section 922 refers back to section 888 which, in turn, refers back to sections 801-803 for the definition of a citizen. The amendment would cover a State's ownership interest as well as mortgagee interest in a vessel in the event a preferred ship mortgage had to be foreclosed. It would also clarify the definition of "citizen" by negating the inference, possible until now, that the only citizens for purposes of the Shipping Act, 1916, are the corporations, partnerships and associations that fulfill the requirements of section 2 and natural persons who are citizens.

The Committee amendment will enable the governmental bodies concerned to create and hold ship mortgages and thus enable them to provide financing of fishing vessels which benefit many small but vital

business enterprises in the fishing industry which is sorely pressed economically.

2. *Section 4.*—The second Committee amendment would modify section 809 of the Merchant Marine Act, 1936, as amended (U.S.C. 1213) to establish by law at least one regional office of the Maritime Administration for each of the Nation's four seacoasts.

Section 809 currently provides that contracts entered into under the 1936 Act shall "equitably serve, insofar as possible, the foreign-trade requirements of the Atlantic, Gulf, Great Lakes, and Pacific ports of the United States." This amendment would provide the administrative structure for implementing that obligation as well as other responsibilities of the Maritime Administration.

Since the Maritime Administration already maintains regional offices for the Atlantic (New York), Gulf (New Orleans), and Pacific (San Francisco) ports, the practical effect of the amendment is to require the establishment of one additional regional office for Great Lakes ports and the St. Lawrence Seaway. A Great Lakes regional office can and should serve as a focal point for efforts to re-establish overseas U.S.-flag service in the Lakes and to realize the full potential of our fourth seacoast.

The amendment also requires the Secretary of Commerce to appoint a director for each regional office and it is the Committee's expectation that, where necessary, these offices will be established and adequately staffed as promptly as possible.

#### EXPLANATION OF THE AUTHORIZATION FOR FISCAL YEAR 1975

In 1970, the most comprehensive and far-reaching maritime legislation in decades was enacted in order to halt a pronounced decline of the U.S. merchant marine. That legislation, the Merchant Marine Act, 1970 (Public Law 91-469) (the "1970 Act"), provided for a 10-year program to improve the efficiency of American shipyards and to build a modern, efficient U.S.-flag merchant fleet so that the United States could once again be a major maritime Nation.

This bill, H.R. 13296, authorizes appropriations for the 5th year of the program established by the 1970 act. In considering the authorization request for fiscal year 1975, the Committee has reviewed the performance of the Maritime Administration. Substantial progress has been made toward rebuilding the U.S. merchant marine, and it has become increasingly clear that with continued support the goals set in 1970 will be reached.

Shipbuilding has reached a new peacetime high. The backlog of orders for new vessels is  $3\frac{1}{2}$  times as large as when the program began in 1970. The present backlog of 909 merchant ships valued at \$3.6 billion represents 200,000 man-years of employment for shipyard workers and those in the supply industries and a potential addition to our fleet of nearly 6.2 million deadweight tons. U.S. shipbuilders have begun for the first time to receive orders for very large crude oil carriers and have advanced to a leading position in the construction of liquefied natural gas carriers. The progress in the field of energy carriage balances earlier construction of modern liner vessels including LASH and RO/RO vessels for intermodal operations.

Series production of vessels and shipyard modernization and expansion have contributed to a reduction in subsidy rates for ship construction. The declining subsidy rates which encourage shipyard efficiency are being met and, in certain cases, the subsidy award is significantly below the guideline rate. While the guideline rate is presently 39 percent, awards for tankers have been made at 33.4 percent and liquefied natural gas carriers have been contracted for at 16.5 percent.

In the area of vessel operations, modern bulk carriers built with Federal assistance are beginning to enter foreign trade. This is important because over 90 percent of our country's foreign trade tonnage is comprised of bulk cargoes and U.S. participation in this trade has been minimal for many years. In the liner trades the average age of our subsidized fleet has decreased by 20 percent and the average ship size has increased by 17 percent, reflecting the replacement of older vessels with larger ships of advanced design.

Progress is also being made toward reducing the dependence of operators on operating subsidies. A number of capital intensive U.S.-flag vessels, such as container ships, are competing in our foreign trade without subsidy. Nineteen vessels previously receiving operating subsidy no longer receive such aid.

The 10-year merchant marine program is approaching its midpoint. Clear signs of progress are evident. The construction of a modern, balanced, competitive American merchant fleet is well underway. As these vessels are delivered and enter service, U.S.-flag penetration of our essential trades should become more evident, especially in the area of bulk carriage. The 1970 act's program is proving to be an appropriate instrument for restoring our Nation's prominence in international shipping. In the opinion of the Committee, this program should be continued to its completion.

#### SUMMARY

The amounts authorized by the bill are as follows:

(a) *Acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, \$275,000,000.*

These funds finance payment of construction subsidies based on the difference between United States and foreign shipbuilding costs. These sums are paid to U.S. shipyards so that operators can purchase American-built vessels at the same price as similar foreign-built vessels. In order to encourage the competitiveness of American yards, the 1970 Act provides for the gradual reduction of the construction subsidy level from 45 percent in 1971 to 35 percent in 1976.

Subsidized shipbuilding orders exceeding \$2.5 billion have been placed with U.S. shipyards since enactment of the 1970 Act. These orders have provided for the construction of 52 new ships of 4.7 million deadweight tons and for the conversion of 19 existing ships into container ships. These vessels are of advanced and highly productive design. They comprise a diverse mix of types that will provide the United States a more competitive fleet in a variety of trades.

The authorization request for this activity for fiscal 1975 (\$275 million) is the same as that for fiscal year 1974. This amount will sustain an adequate and orderly shipbuilding program, with contracts for nine vessels planned for the year. Five of these ships, and seven ships resulting from 1974 contracts will be funded in 1975. These vessels will include four intermediate size tankers, four liquefied natural gas carriers, and four very large crude carriers. The remaining four ships awarded in 1975 will be funded in 1976.

Ships currently being built with the aid of construction-differential subsidy are larger and more costly than those envisioned when the 1970 Act was passed. Even though only 12 ships will be funded in 1975, their productive capacity exceeds the capacity goal established when the 1970 Act was passed. The fiscal year 1975 authorization request will allow series production of bulk cargo ships to continue at existing yards. The economies realized through series orders are essential to achieve competitiveness in the production of energy carriers. When in service, these ships will help to create a competitive U.S.-flag bulk cargo fleet. The combined 1974 and 1975 programs will generate 50,000 man-years of work for shipyard employees and about an equivalent amount of employment in supporting industries.

Maritime Administration officials have expressed confidence that in 1975 all ship construction contracts will be awarded at a subsidy rate lower than the 37 percent mandated by the 1970 act. Subsidy rates have been as low as 33.4 percent for some types of tankers and 16.5 percent for LNG's. Those declining subsidy rates mean that for a given level of Government support, a larger shipyard orderbook is generated. Thus, while the 1975 program level is \$23 million less than in 1974 due to a decrease in the availability of carryover funds, the 1975 funds will generate approximately \$976 million in shipyard orders—\$65 million more than generated by the higher 1974 level of funding.

(b) *Payment of obligations incurred for ship operating-differential subsidies, \$242,800,000.*

Operating subsidies are generally based upon the difference between U.S. and foreign vessel operating costs and are paid in order to promote the maintenance of a U.S.-flag merchant fleet capable of providing essential shipping services. Essential services are defined as those ocean services, routes and lines, and bulk cargo carrying services essential for the promotion, development, expansion, and maintenance of the foreign commerce of the United States. Operators receiving subsidies for the provision of such services must operate American-built vessels manned by American crews. The fiscal year 1975 authorization request of \$242,800,000 will finance operating subsidies to U.S.-flag operators in order to promote the continuation of essential American merchant marine services. Subsidized liner activity will remain at essentially the same level as in fiscal 1974. New bulk vessels, most of which were built under the construction subsidy program, will be entering into service this year and in 1975. This is reflected by an increase in subsidized regular bulk carrier service from 3.1 ship-years in 1974 to 6.8 in 1975. Carriage of the 1973 grain purchases to the Soviet Union will be completed this year. No funds have been requested for fiscal 1975 for special commodity shipments of this type due to uncertainties about the extent of possible future purchases and the level of charter rates prevailing at the time.

From the \$242,800,000, an estimated \$198,932,000 in subsidy will be paid in fiscal year 1975 for 5 passenger and combination passenger/cargo, 153.2 general cargo and 6.8 bulk carrier ship-years of operation. An additional \$43,868,000 will pay obligations incurred under subsidy contracts for subsidized operations in prior years. The fiscal 1975 request reflects a decrease of \$15,489,000 from the 1974 adjusted level of \$258,289,000. It should be noted, however, that the 1974 level includes 1973 appropriations carryover of \$13,774,410 and a 1974 supplemental authorization for \$23 million (P.L. 93-308).

(c) *Expenses necessary for research and development activities, \$27,900,000.*

The Maritime Administration research and development program has as its purpose the development of technological superiority in order to enable U.S. shipyards and vessel operators to become more competitive. Projects under the program involve the development of new and more efficient types of ships, machinery, and equipment, and the improvement of operating practices in order to improve American shipping and shipbuilding and help overcome foreign advantages (e.g. as low-wage costs). Industry participation and cost sharing have been emphasized to insure the relevance and practicality of these projects.

In the area of advanced ship construction, the 1975 program will continue to explore new ship construction methods and equipment as well as new ship designs which will lower shipbuilding costs. Examples of this research include new welding procedures, standardized component designs, shipyard automation, and the development of improved transmission and propulsion systems, such as an advanced gas turbine and nuclear power.

In order to reduce operating costs and improve ship utilization, the Maritime Administration supports research and development in the area of advanced ship operations systems. Projects in this area include computerized models to assist operators with cargo space documentation, intermodal distribution coordination, fleet management, and computers to aid in navigation, communications, ship maneuvering and collision avoidance. These improvements will result in greater vessel utilization and increased safety of operation. This activity also supports R. & D. efforts in the areas of pollution abatement and safety improvements. The 1975 program will continue to develop cost-effective means of reducing pollution.

The fiscal year 1975 request for research and development of \$27,900,000 is an increase of \$8,900,000 from the 1974 appropriation level. The 1974 appropriation of \$19 million was augmented by \$5 million carried forward from 1973. Thus, the actual increase in program level from 1974 to 1975 is \$3,900,000.

(d) *Reserve Fleet expenses, \$3,742,000.*

The Maritime Administration maintains the National Defense Reserve Fleet in order to supplement our active merchant fleet in time of war or national emergency. The authorization request for this activity in fiscal year 1975 is \$3,742,000. That is \$31,000 less than in 1974. This reduction in Reserve Fleet expenses results from the consolidation of the fleet at the sites and the elimination of obsolete tonnage. In 1975 29 merchant ships and 101 Navy ships are scheduled for scrapping. The fleet will then consist of 294 ships.

(e) *Maritime training at the Merchant Marine Academy at Kings Point, N.Y., \$10,518,000.*

This authorization request of \$10,518,000 is for the operation of the Merchant Marine Academy at Kings Point, N.Y., to train cadets service as officers in the U.S. merchant marine. The 1975 program anticipates a graduating class of 200 officers, approximately the same level as in the past several years.

The major portion of the \$1.9 million increase requested for this category is for the necessary modernization program at the Academy, including renovation and improvement of the physical fitness facilities.

(f) *Financial assistance to state marine schools, \$2,973,000.*

The requested authorization is for the training of cadets at six participating state maritime schools located in California, Michigan, New York, Maine, Massachusetts, and Texas. Federal assistance to these schools, authorized by the Maritime Academy Act of 1958, as amended (46 U.S.C. 1383), includes subsidies and grants to the schools, allowances to cadets for uniforms, textbooks and subsistence, and maintenance and repair expenses of training vessels on loan from the National Defense Reserve Fleet.

The 1975 authorization request of \$2,973,000 reflects an increase over 1974 of \$546,000. Expenditures under this authorization will remain at essentially the same level as in 1974 except in the area of maintenance and repair of Federally owned schoolships. The requested increase will allow conversion from a reactive to a preventive maintenance program and assure continued compliance with Coast Guard and American Bureau of Shipping safety standards.

Section 2 of the bill is basically a technical amendment to avoid having to amend the 1975 authorization request if supplemental appropriations for fiscal year 1975 are required for increases in renumeration of employees at the National Defense Reserve Fleet and the Merchant Marine Academy.

#### ESTIMATED COSTS

Pursuant to section 252(a) of the Legislative Reorganization Act of 1970 (Public Law 91-510), the Committee estimates that the cost of the legislation is \$562,900,000, the amount authorized by the bill. The Committee amendments will not result in additional cost to the Government, except for administrative expenses incurred in establishing an additional regional office.

An act to authorize appropriations for the fiscal year 1975 for maritime programs of the Department of Commerce, and for other purposes.

#### TEXT OF H.R. 13296, AS REPORTED

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That funds are hereby authorized to be appropriated without fiscal year limitation as the appropriation act may provide for the use of the Department of Commerce, for the fiscal year 1975, as follows:

(a) acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense fea-

tures incident to the construction, reconstruction, or reconditioning of ships, \$275,000,000;

(b) payment of obligations incurred for ship operating-differential subsidy, \$242,800,000;

(c) expenses necessary for research and development activities, \$27,900,000;

(d) reserve fleet expenses, \$3,742,000;

(e) maritime training at the Merchant Marine Academy at Kings Point, N.Y., \$10,518,000; and

(f) financial assistance to State Marine Schools, \$2,973,000.

SEC. 2. In addition to the amounts authorized by section 1 of this act, there are authorized to be appropriated for fiscal year 1975 such additional supplemental amounts for the activities for which appropriations are authorized under section 1 of this act as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law.

SEC. 3. Section 1 of the Shipping Act, 1916, as amended (46 U.S.C. 801) is amended by inserting, after the introductory paragraph and prior to the paragraph that begins "The term 'common carrier by water in foreign commerce' the following new paragraph:

"The term 'citizen of the United States' means any State or political subdivision thereof, any individual who is a citizen of the United States by birth, by naturalization or other legal judgment, or any corporation, partnership, or association organized under and maintained in accordance with section 2 of this Act and the laws of any State. As used in this paragraph, 'State' means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, the Virgin Islands, and the territories and possessions of the United States."

SEC. 4. Section 809 of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213) is amended (a) by inserting "(a)" immediately before "Contracts" in the first sentence thereof; and (b) by adding at the end thereof the following new subsection:

"(b) There shall be established and maintained within the Maritime Administration such regional offices as may be necessary, including, but not limited to, one such office for each of the four port ranges specified in subsection (a) of this section. The Secretary of Commerce shall appoint a qualified individual to be the Director of each such regional office and shall carry out appropriate functions, activities, and programs of the Maritime Administration through such regional offices."

## SUPPLEMENTAL VIEWS OF MR. COTTON

Although I interpose no objection to the bill, H.R. 13296, authorizing appropriations for the fiscal year 1975 for certain maritime programs of the Department of Commerce, I believe it appropriate to bring to the attention of my colleagues in the Senate the relationship between this maritime promotional legislation and H.R. 8193—the so-called “Energy Transportation Security Act of 1974”—which was passed by the Senate on September 5, 1974. H.R. 8193 represents another maritime promotional program to be financed by the American taxpayers, albeit *indirectly* rather than *directly* as authorized by H.R. 13296.

Thus, on the one hand, the Senate will be called upon to consider H.R. 13296, authorizing appropriations of Federal funds of slightly more than one-half billion dollars to finance *directly* maritime promotional programs for the fiscal year 1975. On the other hand, the Senate already has passed H.R. 8193, providing a statutory requirement that an increasing percentage of all oil imported into the United States shall be transported on higher-costing United States-flag vessels. Simply stated, this constitutes *indirect* Federal aid to the American merchant marine, the total cost of which may never be known to the American taxpayer, or for that matter, to the Congress. According to estimates made by the Department of Commerce, under the most optimistic assumption, the combined *minimum cost* of construction-differential and operating-differential subsidy through 1980 will be approximately \$800 million!

Certainly, the *direct* subsidy approach of H.R. 13296, utilizing the Congressional authorization and appropriation process through which the Congress and the public will know its cost, is much more preferable than that taken by H.R. 8193, since the latter approach involves substantial indirect costs which are hidden from public and Congressional scrutiny.

Almost 40 years ago, Congressional concern over revealed abuses of similar indirect aid in the form of ocean-mail contract payments to the American merchant marine led to the enactment of the Merchant Marine Act of 1936 providing for direct Federal subsidies. And, it was in this context that President Roosevelt in his message of March 4, 1935, on the American merchant marine made the following observation:

“In many instances in our history Congress has provided for various kinds of disguised subsidies to American shipping \* \* \*.

“I propose that we end this subterfuge. If the Congress decides that it will maintain a reasonable adequate American Merchant Marine I believe that it can well afford honestly to call a subsidy by its right name.”

Apparently, this lesson of history has been lost upon a majority of the members of this Congress. While H.R. 13296 avoids such subterfuge, H.R. 8193 does not!

NORRIS COTTON.

## MARITIME AUTHORIZATION

DECEMBER 19, 1974.—Ordered to be printed

Mrs. SULLIVAN, from the committee of conference,  
submitted the following

### CONFERENCE REPORT

[To accompany H.R. 13296]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 13296) to authorize appropriations for the fiscal year 1975 for certain maritime programs of the Department of Commerce, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendment numbered 1.

That the House recede from its disagreement to the amendment of the Senate numbered 2 and agree to the same.

That the amendment of the Senate numbered 3 is reported in disagreement.

That the House recede from its disagreement to the amendment of the Senate to the title of the House bill and agree to the same.

LEONOR K. SULLIVAN,  
FRANK M. CLARK,  
THOMAS L. ASHLEY,  
JOHN D. DINGELL,  
THOMAS N. DOWNING,  
JAMES R. GROVER,  
CHARLES A. MOSHER,  
PAUL N. McCLOSKEY,

*Managers on the Part of the House.*

WARREN G. MAGNUSON,  
VANCE HARTKE,  
EDMUND S. MUSKIE,  
TED STEVENS,  
J. GLENN BEALL, JR.,

*Managers on the Part of the Senate.*



## JOINT EXPLANATORY STATEMENT OF THE COMMITTEE OF CONFERENCE

The managers on the part of the House and the Senate at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 13296) to authorize appropriations for the fiscal year 1975 for certain maritime programs of the Department of Commerce, submit the following joint statement to the House and the Senate in explanation of the effect of the action agreed upon by the managers and recommended in the accompanying conference report.

### AMENDMENT No. 1

#### HOUSE BILL

No comparable provision.

The Senate adopted an amendment, adding a new section 3 to the House-passed bill, which amended the Shipping Act, 1916 by adding a definition of "citizen of the United States" which would include a State or a political subdivision of a State, thereby making the provisions of the Ship Mortgage Act applicable to State governments as well as to private lenders and mortgagees.

#### CONFERENCE AMENDMENT

Although the conferees rejected the Senate amendment, there was no disagreement about the need for the proposal and the Managers on the Part of the House agreed to act expeditiously in the 94th Congress on similar legislation if it should be approved by the Senate.

### AMENDMENT No. 2

#### HOUSE BILL

No comparable provision.

#### SENATE AMENDMENT

The Senate adopted an amendment, adding a new Section 4 to the House-passed bill, which would create by statute at least one regional office of the Maritime Administration for each of the four major sea-coasts of the United States.

#### CONFERENCE AGREEMENT

The conferees agreed to the Senate amendment.

The Merchant Marine Act of 1970 (Public Law 91-469) made comprehensive amendments to the Merchant Marine Act, 1936. One such amendment was to make specific reference to the Great Lakes in sec-

tion 809 of the Merchant Marine Act, 1936 (46 U.S.C. 1213). This was to give long overdue recognition to the Great Lakes as the fourth major seacoast of the United States. The Maritime Administration of the Department of Commerce implements the Merchant Marine Act, 1936 through its Washington, D.C. office, and a regional office on the Atlantic, Gulf and Pacific coasts of the United States. The conferees agreed to the Senate amendment as it would provide for a Great Lakes regional office as contemplated by the legislative history of the Merchant Marine Act of 1970. It is anticipated that this office will be established and adequately staffed before the end of the current fiscal year.

AMENDMENT NO. 3

HOUSE BILL

No comparable provision.

SENATE AMENDMENT

Reported in technical disagreement. The managers on the part of the Senate will offer a motion to recede from its amendment with an amendment changing paragraph (5) of the proposed new subsection (f) to read as follows:

(5) This subsection shall apply with respect to uncompensated damage to or destruction of any vessel or the gear of such vessel occurring:

(A) during the period from January 1, 1972, through the date of enactment of this subsection, if an application for a claim for such damage or destruction has been filed with the Federal Government during such period; and

(B) during the period from the day after the date of enactment of this subsection through March 15, 1976.

Funds authorized under this section shall not be available for compensation under this subsection after March 15, 1976.

The managers on the part of the House will move to concur in this amendment.

The Senate adopted an amendment, adding a new section 5 to the House-passed bill, which would establish a special loan program to provide for the payment of compensation to U.S. owners and operators whose vessels or gear are damaged by the actions of foreign vessels on the U.S. Continental Shelf. This amendment would amend section 4 of the Fish and Wildlife Act of 1956 (16 U.S.C. 742c: 70 Stat. 1121) which creates a more general loan program for financing or refinancing the cost of purchasing, constructing, and equipping, maintaining, repairing, or operating commercial fishing vessels or gear.

CONFERENCE SUBSTITUTE

The conference substitute is identical to the Senate amendment with two changes. First, the Conferees agreed to incorporate an expiration date of March 15, 1976, on this new program. This will allow the

Congress to evaluate the success of this program after a year's experience. Second, the Conferees agreed to restrict the retroactive provision (paragraph 5 of the Senate amendment) to only that damage or destruction for which claims for compensation were filed with the Federal Government between January 1, 1972, and the date this amendment would become law. Those who filed such claims would also file applications for compensation, pursuant to this new program. In addition, the program would be available for compensating damage or destruction to U.S. fishing vessels or gear occurring between the effective date of this new provision and March 15, 1976. Funds authorized under this section would not be available for compensation after March 15, 1976.

It is the intent of the Conferees that the "fisheries loan fund" provided for in subsection (c) of section 4 of the Fish and Wildlife Act of 1956 be the source of funds for compensation made pursuant to this amendment. Currently, the fund contains approximately \$4,000,000.

However, because of past administrative difficulties the Administration has imposed a moratorium on the use of these funds, although these difficulties may soon be resolved. Since the purposes of this amendment do not involve past differences with the general loan program and since it is tied to a compensation program which will keep the fund replenished, this moratorium should not apply to the program created by this amendment. The funds to be used are not expected to exceed \$250,000 per year.

Paragraph (2) of the amendment outlines the procedures and states the basic conditions of the loan/compensation program. These procedures begin with an application by an owner or operator claiming to have had his vessel or gear either damaged or destroyed by the actions of a foreign vessel or its crew. After receiving the application, but not more than 30 days after it is filed, the Secretary of Commerce determines whether there is reason to believe that damage or destruction did, in fact, occur as a result of actions by vessels of a foreign nation. To establish a *prima facie* case, a fisherman should submit the following: (1) a copy of the vessel's log showing the location of the vessel and the location, quantity, and type of gear alleged to be lost, damaged, or destroyed; (2) a statement by an appropriate Government official (e.g., someone from the U.S. Coast Guard) that foreign vessels were known to be in the area at the approximate time the gear was lost, damaged, or destroyed; and (3) an affidavit of the owner or operator of the vessel that, to the best of his knowledge, the damage or destruction of the gear or vessel was not caused by his negligence or intentional acts, natural causes, or other U.S. fishing vessels, and that he was not operating his vessel or employing his gear in violation of any applicable laws or regulations. To knowingly falsify such statements will subject the applicant to the penalties contained in 18 U.S.C. 1001 relating to false statements.

After being satisfied that any owner or operator has a bona fide case according to the above guidelines, the Secretary is to make a non-interest bearing loan to each such owner or operator from the fisheries loan fund. The loan would essentially cover "out-of-pocket" losses of the vessel owner. It would be made in an amount equal to the replacement value of the damaged or destroyed property and the market value

of fish proved to be onboard a damaged or destroyed vessel or within lost, damaged or destroyed fishing gear.

The loan is made subject to the following conditions:

- (1) assignment to the Secretary of Commerce of any right to recover for damages caused by foreign fishing activities;
- (2) the other requirements of section 4 relating to loans to the extent they are not inconsistent with the purpose of this amendment; and
- (3) any other conditions determined by the Secretary to be necessary.

As soon as an application is received, the Secretary must begin a thorough investigation of the incident alleged to have taken place. Although this investigation may be completed before a loan is made (which is unlikely), it must be completed within six months after the loan compensation application is filed. In this time frame, it is believed an adequate investigation can be efficiently completed. If the Secretary finds that the damage or destruction was indeed caused by the actions of foreign vessels, he is required to cancel repayment of the loan made and to seek recovery from the foreign nation involved. If, however, despite the truthful sworn statement of the owner or operator, the Secretary finds that the damage or destruction was caused by natural events (storms, waves, etc.) the non-interest bearing loan is to be converted into one with interest at a rate determined appropriate by the Secretary. In addition, if the owner or operator is at fault because of negligence or intentional actions, the Secretary is to require the immediate repayment of the loan with interest.

Paragraph (4) directs and authorizes the Secretaries of State and Commerce, with the help of the Attorney-General if need be, to seek recovery of damages from the foreign nation whose vessels are found to be at fault.

LEONOR K. SULLIVAN,  
FRANK M. CLARK,  
THOMAS L. ASHLEY,  
JOHN D. DINGELL,  
THOMAS N. DOWNING,  
JAMES R. GROVER,  
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*Managers on the Part of the House.*

WARREN G. MAGNUSON,  
VANCE HARTKE,  
EDMUND S. MUSKIE,  
TED STEVENS,  
J. GLENN BEALL, JR.,

*Managers on the Part of the Senate.*



# Ninety-third Congress of the United States of America

AT THE SECOND SESSION

*Begun and held at the City of Washington on Monday, the twenty-first day of January,  
one thousand nine hundred and seventy-four*

## An Act

To authorize appropriations for the fiscal year 1975 for maritime programs of the Department of Commerce, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That funds are hereby authorized to be appropriated without fiscal year limitation as the appropriation Act may provide for the use of the Department of Commerce, for the fiscal year 1975, as follows:*

- (a) acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, \$275,000,000;
- (b) payment of obligations incurred for ship operating-differential subsidy, \$242,800,000;
- (c) expenses necessary for research and development activities, \$27,900,000;
- (d) reserve fleet expenses, \$3,742,000;
- (e) maritime training at the Merchant Marine Academy at Kings Point, New York, \$10,518,000; and
- (f) financial assistance to State Marine Schools, \$2,973,000.

SEC. 2. In addition to the amounts authorized by section 1 of this Act, there are authorized to be appropriated for fiscal year 1975 such additional supplemental amounts for the activities for which appropriations are authorized under section 1 of this Act as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law.

SEC. 3. Section 809 of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213) is amended (a) by inserting "(a)" immediately before "Contracts" in the first sentence thereof; and (b) by adding at the end thereof the following new subsection:

"(b) There shall be established and maintained within the Maritime Administration such regional offices as may be necessary, including, but not limited to, one such office for each of the four port ranges specified in subsection (a) of this section. The Secretary of Commerce shall appoint a qualified individual to be the Director of each such regional office and shall carry out appropriate functions, activities, and programs of the Maritime Administration through such regional offices."

SEC. 4. Section 4 of the Fish and Wildlife Act of 1956 (16 U.S.C. 742c; 70 Stat. 1121), as amended, is further amended by adding the following new subsection:

"(f)(1) The Secretary of Commerce is authorized, under such terms and conditions as he may prescribe by regulation to use funds appropriated under this section to compensate owners and operators whose fishing vessels or gear have been destroyed or damaged by the actions of foreign fishing vessels operating in waters superjacent to the Continental Shelf of the United States as defined in the Convention on the Continental Shelf.

"(2) Upon receipt of an application filed by an owner or operator pursuant to this subsection after the effective date of this subsection by the owner or operator of any vessel documented or certificated under the laws of the United States as a commercial fishing vessel and





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after determination by the Secretary that there is reason to believe that such vessel or its gear was destroyed or damaged while under the control of such owner or operator in waters superjacent to the Continental Shelf of the United States by the actions of a vessel (including crew) of a foreign nation, the Secretary shall, as soon as practicable but not later than thirty days after receipt of an application, make a non-interest-bearing loan to such owner or operator from the fisheries loan fund created under subsection (c) of this section. Any such loan, as determined by the Secretary, shall be in an amount equal to the replacement value of the damaged or destroyed property and the market value of fish, if any, onboard such vessel and within such gear which are lost or spoiled as the result of such damage or destruction. Any such loan shall—

“(A) be conditional upon the owner or operator of such damaged or destroyed property assigning to the Secretary of Commerce any rights of such owner or operator to recover for such damages;

“(B) be subject to other requirements of this section with respect to loans which are not inconsistent with this subsection; and

“(C) be subject to other terms and conditions which the Secretary determines necessary for the purposes of this subsection.

“(3) The Secretary of Commerce shall, within one hundred and eighty days of receipt of a loan application, investigate each incident as a result of which a loan is made pursuant to this subsection and—

“(A) if he determines in any such case that the destruction or damage was caused solely by a vessel (including crew) of a foreign nation, he shall cancel repayment of such loan and refund any principal paid thereon prior to such cancellation and seek recovery from such foreign nation;

“(B) if he determines that the damage or destruction was not caused solely by a vessel (including crew) of a foreign nation or solely by the negligence or intentional actions of the owner or operator of the vessel, he shall require such owner or operator to repay such loan at a rate of interest determined by him, pursuant to subsection (b) of this section, which rate shall be retroactive to the date the loan was originally made; or

“(C) if he determines that the damage or destruction was caused solely by the negligence or intentional actions of the owner or operator, he shall require the immediate repayment of such loan at a rate of interest determined by him, pursuant to subsection (b) of this section, which rate shall be retroactive to the date the loan was originally made.

“(4) The Secretary of Commerce and the Secretary of State shall, with the assistance of the Attorney General, take steps to collect any claim assigned to him under this subsection from any foreign nation involved. Amounts collected on any such claim shall be deposited in the fisheries loan fund.

“(5) This subsection shall apply with respect to uncompensated damage to or destruction of any vessel or the gear of such vessel occurring:



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"(A) during the period from January 1, 1972, through the date of enactment of this subsection, if an application for a claim for such damage or destruction has been filed with the Federal Government during such period; and

"(B) during the period from the day after the date of enactment of this subsection through March 15, 1976.

Funds authorized under this section shall not be available for compensation under this subsection after March 15, 1976."

*Speaker of the House of Representatives.*

*Vice President of the United States and  
President of the Senate.*

January 4, 1975

## Office of the White House Press Secretary

THE WHITE HOUSE

## MEMORANDUM OF DISAPPROVAL

I am withholding my approval from H.R. 13296, a bill to authorize appropriations for the Maritime Administration.

This is the annual appropriations authorization bill for certain activities of the Maritime Administration in the Department of Commerce. I would be pleased to approve the measure if it were limited to those authorizations.

Unfortunately, the Congress added an unacceptable amendment which would require the Federal Government to reimburse U.S. flag fishing vessel owners for damage to their equipment by foreign flag ships.

The amendment would require the Secretary of Commerce to provide interest free loans to fishermen to cover the property and the value of produce lost as a result of damage caused by foreign vessels operating in the area of the U.S. Continental Shelf. If an ensuing investigation proved the loss was caused solely by a foreign ship, the loan repayment would be cancelled and the United States would attempt to recover claims from the government of the foreign national involved. The program would be retroactive to January 1, 1972, for claims already filed.

This indemnity program would pose serious problems of administration because it would be difficult to establish responsibility for any damage caused. Furthermore, since the bill provides no basis for advance review of the recipient's financial ability to repay a loan, the Commerce Department could find itself in the position of holding a group of "bad debts". At the same time, claims for damage would be difficult to validate and the result would essentially be a grant program with few effective restraints.

Moreover, this program sets a precedent for the Federal relief of private parties from the actions of foreign nationals. Currently, relief is extended only to fishermen whose vessels are the victims of actions by foreign governments beyond recognized territorial limits. International procedures now exist through which claims against foreign nationals can be asserted and adjudicated and these should be used in preference to a Federal indemnity program.

I urge the Congress to pass once again the appropriations authorizations provisions of the bill early in the next session. Meanwhile, the programs covered by these authorizations and funded by appropriations already enacted can be continued under the continuing resolution which runs through February 28, 1975.

GERALD R. FORD

THE WHITE HOUSE,  
January 4, 1975

# # #

December 24, 1974

Dear Mr. Director:

The following bills were received at the White House on December 24th:

|                 |                |            |            |
|-----------------|----------------|------------|------------|
| S.J. Res. 40    | S. 3481        | H.R. 8958  | H.R. 14600 |
| S.J. Res. 133 ✓ | S. 3548        | H.R. 8981  | H.R. 14689 |
| S.J. Res. 262 ✓ | S. 3934        | H.R. 9182  | H.R. 14718 |
| S. 251          | S. 3943        | H.R. 9199  | H.R. 15173 |
| S. 356          | S. 3976 ✓      | H.R. 9588  | H.R. 15223 |
| S. 521 ✓        | S. 4073 ✓      | H.R. 9654  | H.R. 15229 |
| S. 544 ✓        | S. 4206        | H.R. 10212 | H.R. 15322 |
| S. 663 ✓        | H.J. Res. 1178 | H.R. 10701 | H.R. 15977 |
| S. 754          | H.J. Res. 1180 | H.R. 10710 | H.R. 16045 |
| S. 1017         | H.R. 421       | H.R. 10827 | H.R. 16215 |
| S. 1083         | H.R. 1715      | H.R. 11144 | H.R. 16596 |
| S. 1296         | H.R. 1820      | H.R. 11273 | H.R. 16925 |
| S. 1418 ✓       | H.R. 2208      | H.R. 11796 | H.R. 17010 |
| S. 2149 ✓       | H.R. 2933      | H.R. 11802 | H.R. 17045 |
| S. 2446 ✓       | H.R. 3203      | H.R. 11847 | H.R. 17085 |
| S. 2807 ✓       | H.R. 3339      | H.R. 11897 | H.R. 17468 |
| S. 2854 ✓       | H.R. 5264      | H.R. 12044 | H.R. 17558 |
| S. 2888         | H.R. 5463      | H.R. 12113 | H.R. 17597 |
| S. 2994         | H.R. 5773      | H.R. 12427 | H.R. 17628 |
| S. 3022         | H.R. 7599      | H.R. 12884 | H.R. 17655 |
| S. 3289 ✓       | H.R. 7684      | H.R. 13022 |            |
| S. 3358 ✓       | H.R. 7767      | H.R. 13296 |            |
| S. 3359 ✓       | H.R. 8214      | H.R. 13869 |            |
| S. 3394 ✓       | H.R. 8322      | H.R. 14449 |            |
| S. 3433         | H.R. 8591      | H.R. 14461 |            |

Please let the President have reports and recommendations as to the approval of these bills as soon as possible.

Sincerely,

Robert D. Linder  
Chief Executive Clerk

The Honorable Roy L. Ash  
Director  
Office of Management and Budget  
Washington, D. C.