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APPROVED
NOV 13 1975

Signed 11/13

ACTION

Last Day: November 14

THE WHITE HOUSE

WASHINGTON

November 11, 1975

Posted 11/13

To Archives 11/13

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Enrolled Bill S. 1542
Maritime Appropriation Act of 1975

Attached for your consideration is S. 1542, sponsored by Senator Long, which:

-- Authorizes appropriations of $543.6 million for FY 76 for certain maritime programs within the Department of Commerce;

-- Requires that not less than 10% of construction and operating differential subsidy funds be allocated to each of the U.S. seacoasts, including the Great Lakes.

-- Increases the statutory limitation on the Federal ship mortgage guarantee program from $5 billion to $7 billion.

Additional information is provided in OMB's enrolled bill report at Tab A.

OMB, Max Friedersdorf, Counsel's Office (Lazarus), Bill Seidman and I recommend approval of the enrolled bill.

<u>RECOMMENDATION</u>

That you sign S. 1542 at Tab B.

GERALD R. FORD LIBRARY

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

NOV 7 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill S. 1542 - Maritime Appropriation Act of 1975
Sponsor - Sen. Long (D) La.

Last Day for Action

November 14, 1975 - Friday

Purpose

Authorizes appropriations of $543.6 million for fiscal year 1976 for certain maritime programs within the Department of Commerce; requires minimum allocation of certain funds to each of the four seacoasts of the United States; and increases the statutory limitation on the Federal ship mortgage guarantee program from $5 billion to $7 billion.

Agency Recommendations

Office of Management and Budget	Approval
Department of Commerce	Approval
Department of Transportation	Approval of Section 4; defers on rest
Department of the Treasury	Could not support approval recommendation unless guaranteed bonds are financed by Federal Financing Bank

Discussion

S. 1542 would authorize appropriations totalling $543,618,000 for fiscal year 1976 for the following maritime programs within the Department of Commerce:

-- subsidies for construction or reconstruction of U.S. flag vessels, and for costs of certain national defense features for U.S. flag ships -- $195,000,000;

-- operating differential subsidies -- $315,936,000;

-- research and development programs to advance ship development and construction, ship operations systems, and intermodal transportation systems -- $12,232,000;

-- maintenance expenses for the National Defense Reserve Fleet -- $4,242,000;

-- operating expenses for the Merchant Marine Academy -- $11,500,000;

-- financial assistance to State maritime academies -- $4,708,000.

The amounts authorized are identical to those requested by the Administration. Because of the requirements of the Congressional Budget and Impoundment Control Act of 1974, the Administration's draft bill also included authorizations for fiscal year 1977. The enrolled bill does not include those authorizations.

The enrolled bill would also authorize such sums as are necessary to cover increases in personnel salaries and benefits and the effects of inflation on the Merchant Marine Academy. The Administration had requested this provision because of the great impact which inflation has on the budget of a school as small as the Academy.

In addition, the enrolled bill would require that at least 10% of the funds appropriated for the construction and operating differential subsidy programs be allocated to each of the four seacoasts (defined as the Atlantic, Pacific, Gulf, and Great Lakes). An annual report on the effects of this provision would be required. The provision is designed to assure that a certain amount of funds be directed to the Great Lakes and St. Lawrence Seaway region, which was defined as the fourth seacoast in the Merchant Marine Act of 1970. Although not requested in the Administration bill, the Maritime Administration reports that this provision does not present a serious problem. The provision only requires the Maritime Administration to allocate a minimum 10% of subsidy funds to each seacoast in cases in which it receives valid applications (meeting all its criteria for approval) amounting to 10% or more of total requested funding.

S. 1542 would also increase from $5 billion to $7 billion the limit on the amount of loan guarantees which may be outstanding under the Title XI Federal ship mortgage guarantee program.

This program authorizes the Secretary of Commerce to guarantee the principal and interest on loans to finance the construction, reconstruction, and reconditioning of U.S. flag vessels, thus enabling vessel owners to obtain long-term financing at favorable rates.

It is estimated that the current $5 billion guarantee limit will be fully committed within fiscal year 1976. The Administration did not request this increase because OMB has asked the Commerce Department to conduct a study of this program to determine whether the limits and controls on the use of this guarantee authority should be modified. However, the Administration did not object to the ceiling increase when the bill was under consideration in the Congress because the use of guarantee authority is potentially controllable by administrative direction.

In its views letter on the enrolled bill, Treasury states that it is concerned with the method of financing this program. It believes that the bonds issued under this program should be financed through the Federal Financing Bank (FFB) rather than on the direct market as is currently done, thus resulting in lower interest rates on the bonds. Treasury states that FFB financing could result in interest savings of more than $100 million for the $2 billion expansion of the program. We should note, however, that this saving accrues to the borrowers, not to the government, and thus increases demand for the loan guarantees, resulting in greater Federal intrusion in the capital markets.

Treasury states in its letter on the enrolled bill that "unless there is agreement within the Administration that future issues of guaranteed merchant marine bonds will be financed by the FFB, the Department could not support a recommendation that the enrolled enactment be approved."

Financing by the FFB can be undertaken under current law and, therefore, is not dependent on this enrolled bill. Moreover, Treasury and OMB are currently conducting a joint study of appropriate guidelines for future FFB financing in general. In any case, your action on S. 1542 need not be determined by conditions related to agreement on financial arrangements now under study within the executive branch.

James M. Frey
Assistant Director
for Legislative Reference

Enclosures

OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

NOV 4 1975

GENERAL COUNSEL

Honorable James T. Lynn
Director
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Lynn:

You have asked for our comments on S. 1542, an enrolled bill

> "To authorize appropriations for the fiscal year 1976 for certain maritime programs of the Department of Commerce and for other purposes."

Section 4 of the enrolled bill, which amends Section 809(a) of the Merchant Marine Act of 1936, is of interest to this Department. It would require that not less than 10 percent of the funds appropriated for construction-differential subsidy and operating-differential subsidy be allocated to each of the Atlantic, Gulf, Great Lakes, and Pacific port ranges. However, this allocation shall apply only to the extent that subsidy contracts for each coastal range are approved by the Secretary of Commerce. Section 4 also requires the Secretary of Commerce to submit to Congress an annual report describing the actions that have been taken to assure insofar as possible that direct and adequate service is provided by United States-flag commercial vessels to each range of ports mentioned above, including any recommendations for additional legislation that may be necessary.

The Department of Transportation endorses efforts to attract United States-flag service into the Great Lakes. We understand that Section 4 of the enrolled bill is designed to provide the Great Lakes coastal range with a greater share of maritime subsidies, subject to the approval of appropriate subsidy contracts by the Secretary of Commerce (see October 20, 1975 Congressional Record at page H 10074). From this perspective, we would recommend that the President sign the enrolled bill. However, other provisions of the bill relate specifically to appropriations for certain maritime programs of the Department of Commerce, and we would defer to that agency as to the sufficiency of those provisions.

Sincerely,

John Hart Ely

GENERAL COUNSEL OF THE
DEPARTMENT OF COMMERCE
Washington, D.C. 20230

NOV 5 1975

Honorable James T. Lynn
Director, Office of Management
and Budget
Washington, D. C. 20503

Attention: Assistant Director for Legislative Reference

Dear Mr. Lynn:

This is in reply to your request for the views of this Department concerning S. 1542, an enrolled enactment

> "To authorize appropriations for the fiscal year 1976 for certain maritime programs of the Department of Commerce, and for other purposes."

Section 2 of S. 1542 authorizes the appropriation of $543,618,000 for fiscal year 1976 for maritime programs of the Department of Commerce.

Section 3 authorizes additional supplemental appropriations for fiscal year 1976 for the activities specified in section 2, to the extent necessary for increases in employee benefits authorized by law, and for uncontrollable cost increases in public utilities, food services and other expenses of the Merchant Marine Academy at Kings Point.

The provisions of sections 2 and 3 are identical to those contained in the draft bill submitted by this Department to the Congress on February 21, 1975, except that our proposal authorized $245 million in fiscal year 1976 for ship construction activities, whereas S. 1542 authorizes $195 million. Also, our proposal authorized appropriations for fiscal year 1977 as well as fiscal year 1976 for maritime programs. We have no objection to these changes. The decrease in authorizations was requested by the Maritime Administration to reflect a carryover of funds due to ship construction contract cancellations.

Section 4 amends the Merchant Marine Act, 1936 to require that not less than 10 percent of construction and operating-differential subsidy funds be allocated to each of the U.S. seacoasts, including the Great Lakes. Such allocations are to apply to the extent subsidy contracts are approved by the Secretary of Commerce that would

AMERICAN REVOLUTION BICENTENNIAL 1776-1976 absorb this amount. It also requires the Secretary of Commerce to submit annual reports to Congress on U.S. flag-commercial service to each of these seacoasts, including any recommendations for additional legislation that may be necessary to achieve the purpose of the section. We have no objection to section 4.

Section 5 amends the 1936 Act to increase from $5 billion to $7 billion the statutory limitation on obligations guaranteed under the title XI federal ship mortgage guarantee program. An increase to $8 billion was recommended by this Department in its Legislative Program for the 1st Session, 94th Congress. We have no objection to the $7 billion ceiling.

This Department recommends approval by the President of S. 1542.

Sincerely,

Karl E. Bakke

General Counsel

THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON, D.C. 20220

NOV 6 1975

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 S. 1542, "To authorize appropriations for the fiscal year 1976 for certain maritime programs of the Department of Commerce, and for other purposes."

The enrolled bill is similar to the Commerce draft bill, "To authorize appropriations for the fiscal years 1976 and 1977 for certain maritime programs of the Department of Commerce, and for other purposes," that was submitted to the Congress on February 21, 1975. Sections 4 and 5 of the enrolled enactment were not in the original proposal.

Section 4 would amend section 809(a) of the Merchant Marine Act of 1936, as amended, to require that not less than 10 percent of Maritime Administration program funds be allocated to serve the foreign trade requirements of the ports of each of the four seacoasts of the United States.

Section 5 would increase the statutory limitation on obligations guaranteed by the title XI Federal ship mortgage guarantee program from $5 billion to $7 billion. The House Report on H.R. 3902, a companion bill to S. 1542, states that the Office of Management and Budget indicated that it would not oppose this increase since any future increased controls in the program would not depend on the ceiling for enforcement.

The Department did not report on this legislation, and has no recommendation to make from a program standpoint. However, from a debt management standpoint, the Department is concerned with the method of financing the guaranteed merchant marine bond program which would be expanded by section 5 of the enrolled enactment. We believe that these bonds should be financed by the Federal Financing Bank rather than by the present method of direct market financing, which results in paying excessive interest rates to investors in obligations backed by the full faith and credit of the United States.

For example, on October 15, 1975 a $19 million issue of guaranteed merchant marine bonds was sold in the market at interest rates, depending on maturity, of 8.8 percent and 9.3 percent. If these bonds had been financed through the FFB, which was established by the Congress in 1973 for the purpose of consolidating the financing of such Government-backed securities, the FFB lending rates would have been 8.28 percent and 8.50 percent, respectively. On a present value basis, the savings in financing costs from FFB financing of this $19 million issue would have been $1 million. On this basis, the savings in financing costs from FFB financing of the $2 billion program expansion contemplated by the enrolled enactment would exceed $100 million. Rather than forego these savings and continue to pay needlessly high interest rates to investors in Treasury-backed securities, we believe that the savings should be realized by the guaranteed borrower or by the Government.

Accordingly, unless there is agreement within the Administration that future issues of guaranteed merchant marine bonds will be financed by the FFB, the Department could not support a recommendation that the enrolled enactment be approved.

Sincerely yours,

Richard R. Albrecht

General Counsel

Richard R. Albrecht

To Cavaney 11-7-75

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

NOV 7 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill S. 1542 - Maritime Appropriation Act of 1975
Sponsor - Sen. Long (D) La.

Last Day for Action

November 14, 1975 - Friday

Purpose

Authorizes appropriations of $543.6 million for fiscal year 1976 for certain maritime programs within the Department of Commerce; requires minimum allocation of certain funds to each of the four seacoasts of the United States; and increases the statutory limitation on the Federal ship mortgage guarantee program from $5 billion to $7 billion.

Agency Recommendations

Office of Management and Budget	Approval
Department of Commerce	Approval
Department of Transportation	Approval of Section 4; defers on rest
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In addition, the enrolled bill would require that at least 10% of the funds appropriated for the construction and operating differential subsidy programs be allocated to each of the four seacoasts (defined as the Atlantic, Pacific, Gulf, and Great Lakes). An annual report on the effects of this provision would be required. The provision is designed to assure that a certain amount of funds be directed to the Great Lakes and St. Lawrence Seaway region, which was defined as the fourth seacoast in the Merchant Marine Act of 1970. Although not requested in the Administration bill, the Maritime Administration reports that this provision does not present a serious problem. The provision only requires the Maritime Administration to allocate a minimum 10% of subsidy funds to each seacoast in cases in which it receives valid applications (meeting all its criteria for approval) amounting to 10% or more of total requested funding.

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James M. Frey
Assistant Director
for Legislative Reference

Enclosures

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.: 907

Date: November 7 Time: 400pm

FOR ACTION: Paul Leach
Steve McConahey
Dick Parsons
Ken Lazarus Bill Seidman
Max Friedersdorf

cc (for information): Jack Marsh
Jim Cavanaugh

FROM THE STAFF SECRETARY

DUE: Date: Tuesday, November 11 Time: noon

SUBJECT:

S. 1542 - Maritime Appropriation Act of 1975

ACTION REQUESTED:

____ For Necessary Action

____ Prepare Agenda and Brief

x For Your Comments

____ For Your Recommendations

____ Draft Reply

____ 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.

James H. Cavanaugh
For the President

THE WHITE HOUSE

WASHINGTON

ACTION MEMORANDUM

LOG NO.: 907

Date: November 7

Time: 400pm

FOR ACTION: Paul Leach
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___ For Your Recommendations

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_x_ For Your Comments

___ Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

No objection. -- Ken Lazarus 11/10/75

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James H. Cavanaugh
For the President

THE WHITE HOUSE

WASHINGTON

ACTION MEMORANDUM

LOG NO.: 907

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___ For Your Recommendations

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_x_ For Your Comments

___ Draft Remarks

REMARKS:

No objection. [initials]

Please return to Judy Johnston, Ground Floor West Wing

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James H. Cavanaugh
For the President

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.: 907

Date: November 7 Time: 400pm

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___ Draft Reply

___ Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

Concur [illegible] 11/10/75

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James H. Cavanaugh
For the President

THE WHITE HOUSE

WASHINGTON

ACTION MEMORANDUM

LOG NO.: 907

Date: November 7

Time: 400pm

FOR ACTION: Paul Leach
Steve McConahey
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Ken Lazarus
Bill Seidman
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cc (for information): Jack Marsh
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FROM THE STAFF SECRETARY

DUE: Date: Tuesday, November 11

Time: noon

SUBJECT:

S. 1542 - Maritime Appropriation Act of 1975

ACTION REQUESTED:

___ For Necessary Action

___ For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

x For Your Comments

___ Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

approval
JWS

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

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

James H. Cavanaugh
For the President

THE WHITE HOUSE

WASHINGTON

November 10, 1975

MEMORANDUM FOR: JIM CAVANAUGH

FROM: MAX L. FRIEDERSDORF M.F.

SUBJECT: S. 1542 - Maritime Appropriation Act of 1975

The Office of Legislative Affairs concurs with the agencies that the subject bill be signed.

Attachments

Calendar No. 88

94th Congress } SENATE { Report
1st Session } { No. 94–96

MARITIME APPROPRIATION AUTHORIZATION ACT OF 1975

REPORT

OF THE

SENATE COMMITTEE ON COMMERCE

ON

S. 1542

TO AUTHORIZE APPROPRIATIONS FOR THE FISCAL YEAR 1976 FOR CERTAIN MARITIME PROGRAMS OF THE DEPARTMENT OF COMMERCE, AND FOR OTHER PURPOSES

April 25 (legislative day, April 21), 1975.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1975

Calendar No. 88

94TH CONGRESS *1st Session*	SENATE	REPORT No. 94–96

MARITIME APPROPRIATION AUTHORIZATION ACT OF 1975

APRIL 25 (Legislative day, APRIL 21), 1975

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

REPORT

[To accompany S. 1542]

The Committee on Commerce reports favorably an original bill (S. 1542) to amend the Merchant Marine Act, 1936 and to authorize appropriations for the fiscal year 1976 for certain maritime programs of the Department of Commerce, in lieu of S. 820 which was considered by the Committee, and recommends that the bill do pass.

PURPOSE

The Maritime Appropriation Authorization Act of 1975 authorizes appropriations for fiscal year 1976 for certain maritime programs of the Department of Commerce, clarifies the congressional purpose of the capital construction fund provisions of section 607 of the Merchant Marine Act, 1936, as amended, allocates, subject to certain limitations, not less than 10 percent of the funds made available to the Maritime Administration for the foreign-trade requirements of the United States to each of the four seacoasts of the United States, and increases the limitation on Title XI obligations from $5 billion to $8 billion.

BACKGROUND

On February 21, 1975, the Secretary of Commerce Frederick B. Dent recommended and transmitted to the Congress legislation to authorize appropriations without fiscal year limitation for certain maritime programs of the Department of Commerce for the fiscal years 1976 and 1977. The legislation transmitted by the Secretary was introduced in the Senate and House of Representatives as S. 820 and H.R. 3902, respectively.

On February 28, 1975 the Merchant Marine Subcommittee of this Committee held a public hearing on S. 820. Oral testimony and written statements were received from Government, industry, and labor representatives.

On April 21, 1975 the Committee considered S. 820 and the proposed amendments thereto and ordered S. 1542, an original bill favorably reported.

Description

S. 1542 provides for fiscal year 1976 authorization of appropriations for six categories of maritime programs of the Department of Commerce, which are administered by the Maritime Administration, in the aggregate sum of $543,618,000. 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—$195,000,000;

(2) Payment of obligations incurred for ship operating differential subsidy—$315,936,000;

(3) Expenses necessary for research and development activities—$12,232,000;

(4) Reserve fleet expenses—$4,242,000;

(5) Maritime Training at the Merchant Marine Academy at Kings Point, New York—$11,500,000; and

(6) Financial assistance to the State marine schools—$4,708,000.

Section 3 of S. 1542 authorizes additional supplemental amounts for the activities for which appropriations are authorized under section 2 of the bill to the extent necessary for increases in pay, retirement, or other employee benefits authorized by law, and for increased costs for public utilities, food service an other expenses of the Merchant Marine Academy at Kings Point, N.Y.

Section 4 is an amendment to section 607 of the Merchant Marine Act, 1936, as amended. It is intended to clarify the intent of Congress with respect to the capital construction funds authorized by section 607 and, specifically, the relationship of such funds to the investment tax credit provided by section 38 of the Internal Revenue Code of 1954 (26 U.S.C. 38).

Section 5 of the bill would amend section 809(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213 (a)) to generally require, subject to certain limitations, that not less than 10 percent of Maritime Administration program funds be allocated to serve the foreign trade requirements of the ports of each of the four seacoasts of the United States.

Finally, section 6 increases the limitation on the aggregate unpaid principal on obligations guaranteed by the Title XI Federal ship mortgage guarantee program. The present ceiling on outstanding guaranteed obligations is $5 billion. This amendment to section 1103 (f) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1273(f)) would increase this limitation to $8 billion.

General Statement

The Merchant Marine Act, 1970 (Public Law 91–469) (hereinafter referred to as the "1970 Act") mandated a 10 year program to re-

vitalize the U.S. maritime industry by improving the efficiency of American shipyards and building a modern, efficient merchant fleet operating under the U.S. flag. The Committee has reviewed the performance of the Maritime Administration and its progress toward achieving the purposes of the 1970 Act in the process of considering the authorization request for fiscal year 1976, which is the 6th year of the 1970 Act's program.

Since passage of the 1970 Act, the Maritime Administration ship construction differential subsidy (CDS) program has sustained a long-range shipbuilding undertaking with maximum reliance on the initiative of private industry. At the same time, the program has encouraged the industry to maximize productivity to improve the Nation's competitive position in shipbuilding and ship repair. Milestones of declining CDS rates established by the 1970 Act which provide a subsidy rate ceiling of 35 percent by fiscal year 1976 have been achieved. To further assist U.S. shipyards in improving both productivity and cost savings, series ship production has been encouraged, where feasible, through multi-year procurement of standardized ship types.

The Committee fully expects future construction-differential subsidy contracts to remain within the guideline subsidy rate ceiling. It is recognized, however, that this may be more difficult as foreign shipyards reduce prices in order to attract work to replace cancelled tankers contracts and the U.S. inflation rate widens the gap between U.S. and foreign costs.

The new program of the 1970 Act has stimulated subsidized shipbuilding orders totaling $3 billion. These orders comprise 56 new ships totaling 6 million deadweight tons and 18 conversions of conventional freighters into more highly productive containerships. These new ships average five times the cargo carrying capability of ships constructed prior to the 1970 Act. Also, through this shipbuilding program, the Maritime Administration has aided the entry of the U.S. shipbuilding industry into four markets previously dominated solely by foreign shipyards—very large crude carriers (VLCCs), ultra large crude carriers (ULCCs), liquefied natural gas carriers (LNGs), and ore-bulk-oil ship (OBO) construction.

The collapse of the world tanker market due to the oil price increases and resulting lower demand following the Arab oil embargo has caused the cancellation of construction-differential subsidy contracts for three tankers at the Todd Shipyard and has placed the completion of two tankers under construction at Seatrain Shipbuilding in jeopardy.

The 1970 Act extended operating-differential subsidy (ODS) to tankers and bulk carriers. This has stimulated U.S.-flag tanker and bulk carrier construction, enabling U.S.-flag penetration into markets previously dominated solely by foreign ship operators. Additionally, the ODS program in combination with other maritime aids, has encouraged a larger, more modern U.S.-flag fleet. Since the 1970 Act, the deadweight tonnage of the subsidized U.S.-flag fleet has increased by approximately 11 percent, and the average age of the fleet has decreased by 18 percent. The average size of ships currently in the fleet is approximately 35 percent larger than those in service before 1970. Further, by working with management and labor, the

Maritime Administration has achieved substantial crew reductions on these larger ships. The net effect is that an ODS dollar supports the maintenance of more U.S.-flag cargo-carrying capacity than ever before.

Efforts to expand the share of our foreign trade cargoes carried in U.S.-flag merchant ships have had some success, but that share remains lower than the Nation's economic and national security interests warrant. In 1969, U.S.-flag ships carried 4.5 percent of our total foreign trade tonnage. In 1973, the last full year for which such data are available, that share increased to 6.4 percent. The share of liner traffic carried by U.S.-flag ships has been somewhat greater—22.6 percent in 1969, and 25.3 percent in 1973. In non-liner shipments, which consist largely of dry bulk cargoes, the U.S.-flag share was only 2.1 percent in 1969 and declined to 1.6 percent in 1973. The U.S.-flag tanker fleet improved its relative position somewhat by increasing its share of our foreign trade shipments of petroleum from 3.2 percent in 1969 to 7.6 percent in 1973.

The 10-year program inaugurated by the 1970 Act is at its midpoint. In the years prior to the 1970 Act, the U.S.-flag merchant fleet experienced a precipitious decline in status among the merchant fleets of the world. At the same time, foreign maritime nations were engaged in efforts toward rejuvenation. Between 1960 and 1969, for example, foreign maritime nations produced approximately 7,400 new merchant ships while the United States constructed only 200, or 2.7 percent of the world total. Foreign-flag vessels began competing for and transporting progressively larger shares of U.S. oceanborne trade. The 1970 amendments to the Merchant Marine Act, 1936 were adopted in order to halt the decline of the American merchant marine and shipbuilding industries.

The success experienced so far under the program which began in 1970 has been achieved in spite of vast changes in the economic and technological conditions under which the U.S. merchant fleet and shipbuilding industry operate. The continued Federal commitment to a long-term merchant marine revitalization program will provide a firm foundation for industry stability, particularly during such a period of adjustment. The authorizations requested for fiscal year 1976, will continue the building of such a foundation.

A strong merchant fleet is essential to our national security to provide logistic support for our military forces and to meet minimum essential U.S. economic requirements for imports in time of war. The needs of national security also dictate that the United States not be subjected to the economic and political pressures that could be exerted by ship-owning nations in peacetime if this country were dependent on foreign-flag ships to meet its essential economic needs for shipping. Since foreign ship operating costs are lower than U.S. costs, an operating differential subsidy is needed to provide for the continued operation of sufficient American ships in U.S. foreign commerce to meet national security needs. Some U.S.-flag ships, such as container-ships, are able to operate in the foreign trade without subsidy. But, this unsubsidized shipping can meet only a small part of the national security requirement, with the major part dependent on shipping that receives direct Government assistance.

In addition, there is a requirement for sufficient active shipyard capacity in the United States to meet essential requirements for ship activation, conversion, repair, and construction in time of war and in the immediate aftermath of a short war that might involve extensive ship loss and damage. The continued existence of this essential shipyard capacity on an economic basis is dependent on the maintenance of a reasonably constant shipbuilding workload, which is provided for by both Navy and commercial contracts.

Any effort to permit subsidized U.S.-flag operation of foreign-built ships would lead in all probability to the closing of a number of U.S. shipyards, with consequent loss of employment and serious erosion of the shipbuilding mobilization base.

The Arab oil producing countries are expanding their commercial fleets through both their own individual programs of fleet expansion and their joint Arab Maritime Petroleum Transportation Company (ARAMPTCO). These countries can be expected to rapidly increase their tanker capacity over the next 10 years. While the present capacity of these nations' fleets aggregates less than 2 million deadweight tons, as of mid-1974 orders were outstanding for new vessels which total about 6.2 million deadweight tons. In addition, the currently depressed state of the world tanker industry has provided the oil producing nations with an opportunity to purchase existing tankers at particularly attractive prices. Some ship brokers are now predicting that members of the Organization of Petroleum Exporting Countries will own as much as 20 to 30 percent of world tanker capacity by the 1980's.

If these countries were to gain control of a significant share of world tanker tonnage, they would be in a position to impose more damaging consequences on the United States or any other selected target than during the most recent Middle-East conflict. In the years before energy independence is reached, the U.S.-flag tanker fleet will, therefore, play a central role in moderating the adverse consequences of Arab fleet expansion on United States security.

The existence of a viable U.S.-flag merchant fleet provides the United States with a valuable resource in opposing such adverse policies. So long as the United States maintains a strong merchant fleet it will not be confronted with a situation in which its trading partners can gain commercial advantage by restricting or manipulating the necessary ocean transportation facilities.

As one example, the cost of building and maintaining a Government-owned fleet adequate to meet national security emergency sealift needs would be tremendous. Subsidies provide this capability at a fraction of that cost, with private capital making the major contribution. Furthermore, the return of other economic benefits to the economy through increased employment opportunities and reduced foreign exchange outflows, serves as a substantial offset against the cost of the maritime subsidy programs.

As of June 1, 1974, there were 28,379 seagoing billets on U.S.-flag merchant ships. Since an average of 2.2 persons are employed to fill each billet, total employment aboard U.S.-flag merchant ships approximated 62,400. As of the same date, the major private shipyards of the United States employed 72,386 workers. Half of these were engaged in commercial projects. These employment effects represent a substantial ancillary benefit of the maritime subsidy programs.

The impact of the merchant fleet on the U.S. balance-of-payments can be calculated in terms of the net difference in our international accounts that result from building ships in the United States and operating them under American registry, (i.e., by defining the extent to which the balance-of-payments differs from what it would be in the absence of such U.S.-flag ships). In this context, promotion of the U.S.-flag fleet can be viewed as a policy of import substitution. The estimated effects of the merchant fleet on the balance-of-payments are substantial—approximately $350 million in 1973, increasing to over $1 billion by 1980. Like the employment effects, these balance-of-payments benefits provide an offset for the costs of the maritime programs.

SECTION-BY-SECTION ANALYSIS

Section 1.

The short title of this bill is the "Maritime Appropriation Authorization Act of 1975".

Section 2.

This section authorizes appropriations, without fiscal year limitation, of funds for the use of the Department of Commerce, for the fiscal year 1976.

Section 607 of the Congressional Budget and Impoundment Control Act of 1974 requires that beginning with programs for fiscal year 1977, the Administration shall submit no later than May 15 of the previous year requests for authorizing legislation for the fiscal year following the ensuing fiscal year. Thus the draft legislation (S. 820) submitted to the Senate by the Secretary of Commerce includes authorizations for both fiscal years 1976 and 1977. However, according to the requirements of section 402(a) of the Congressional Budget Act, the fiscal year 1977 authorization legislation does not have to be reported to the Senate before May 15, 1976. In view of this, the Committee is taking action only on the fiscal year 1976 request, as follows:

(1) *For acquisition, construction, or reconstruction of vessels and for construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, not to exceed $195,000,000.*

Construction-differential subsidy is calculated on the basis of difference between United States and foreign building costs for similar ships and is paid to U.S. shipyards to enable them to meet foreign competition. This also allows U.S. shipowners to purchase ships at competitive prices for use in U.S. foreign trade. The 1970 Act provided for the gradual reduction of the construction subsidy level from 45 percent in fiscal year 1971 to 35 percent in fiscal year 1976.

The fiscal year 1976 funding level for construction-differential subsidy of $195 million will, at a subsidy rate of 35 percent, induce total direct government and private expenditures on ship construction of $700 million. Thus the total income generated in the economy will exceed the amount of these direct expenditures by several times.

Significantly, employment generated directly in the shipyards tends to be in those areas of the country hardest hit by the problems of unemployment. Most of the subsidized construction has taken place in ten U.S. shipyards. All but two of these shipyards are in areas classified by the U.S. Department of Labor in February, 1975 as having substantial or persistent unemployment. The anticipated subsidized shipbuilding programs for fiscal years 1975, 1976 and 1977 are expected to support employment for over 40,000 man-years in shipbuilding and an equivalent amount of related work.

This authorization for ship construction subsidy for fiscal year 1976 ($195 million) is $80 million less than for fiscal year 1975, but together with $50 million of deobligated fiscal year 1974 funds and $5.75 million in fiscal year 1975 deferred funds it is adequate to sustain a vigorous shipbuilding program. Contracts for 14 vessels are planned for the year. Twelve of these ships and 2 resulting from contracts in fiscal year 1975 will be funded in fiscal year 1976. The remaining two ships awarded in fiscal year 1976 will be funded in the transition period (July 1, 1976 through September 30, 1976) and in fiscal year 1977.

The following projected ship construction contract program for fiscal year 1976 was submitted to the Committee by the Maritime Administration:

Type	Capacity	Number
LNG	130,000 [8]	3
OBO	80,000 dwt	4
Bulk carrier	56,000 dwt	3
Containership	22,000 dwt	4

The fiscal year 1976 ship construction funding program is projected by the Maritime Administration, as follows:

Type	Capacity	Number	Amount (thousands)
Containership (fiscal year 1975 contract)	7,800 dwt	1	$9,500
Roll-on, Rolloff (fiscal year 1975 contract)	33,000 dwt	1	18,000
C–6 conversion (fiscal year 1975 contract)		2	11,500
LNG	130,000 [8]	3	32,000
OBO	80,000 dwt	3	72,000
Bulk carrier	56,000 dwt	3	51,000
Containership	22,200 dwt	4	48,000
Subtotal			242,000
Contingencies			8,750
Total			250,750

On April 11, 1975, Assistant Secretary of Commerce for Maritime Affairs, Robert J. Blackwell informed Senator Russell B. Long, Chairman of the Merchant Marine Subcommittee, by letter, that the Maritime Administration intended to amend its request for fiscal year 1976 appropriations for ship construction subsidy from $245 million to $195 million. This change resulted from cancellation of two contracts which deobligates $50 million of fiscal year 1974 funds, which will be carried over to finance fiscal year 1976 program requirements. Accordingly, the Committee reduced the amount authorized for ship construction differential subsidy from the requested $245 million to $195 million.

(2) *For payment of obligations incurred for operating-differential subsidy, not to exceed $315,936,000.*

Generally, operating-differential subsidy (ODS) is based on the difference between subsidizable U.S. and the foreign vessel operating costs, and are paid to U.S.-flag operators to enable them to operate in essential trades in competition with foreign-flag vessels. Essential trades are those routes, liner and bulk cargo carrying services, deemed essential for the promotion, development, expansion and maintenance of the foreign commerce of the United States. The authority for making and administering operating-differential subsidy contracts is contained in Title VI of the Merchant Marine Act, 1936, as amended (46 U.S.C. 601 et seq.). Eligibility requirements stipulate that applicants to the Maritime Subsidy Board must provide for the operation of vessels in an essential service in the U.S. foreign trade and that the vessels be built in the United States and manned by U.S. citizens. The 1970 Act extended ODS to bulk cargo vessel operators in our foreign trade.

These provisions have stimulated U.S.-flag tanker and bulk carriers construction, enabling U.S.-flag penetration into markets previously dominated by foreign ship operators. The authorization request for fiscal year 1976 of $315,936,000 is an increase of $73,136,000 over the funding level for ODS in fiscal year 1975. This increase results from eleven additional ship-years of operation ($8,298,000), cost increases ($16,181,000) and more rapid settlement of balances due for previous years ($48,657,000).

Both subsidized liner and bulk carrier activity will increase in fiscal year 1976. The level of passenger and combined cargo-passenger service supported by ODS payments will remain about the same as in fiscal year 1975, while ODS payments for Soviet grain shipments will decline. The cost of subsidy per ship year will increase by 6.6 percent overall in fiscal year 1976. Since the operating costs of foreign competitors are generally rising more rapidly than U.S. costs, the gap between U.S. and foreign costs (represented by the subsidy rate) is narrowing. However, the dollar amount of subsidy per ship is increasing because the base amounts of foreign costs are so much lower than domestic costs that the more rapid rate of foreign cost increases does not offset the relatively slower rate of U.S. cost escalation. This is illustrated by the following data for two actual ships now under subsidy:

	1975	1976	Percent change
U.S. costs	$3,459,972	$3,778,632	+9.2
Foreign costs	1,878,131	2,163,590	+15.2
Subsidy	1,581,841	1,615,042	+2.0

Final settlement of prior year obligations accounts for the largest share of the increase in the ODS authorization for fiscal year 1976. These payments will enable final settlements to be made with all subsidized operators through calendar year 1972. The ODS request also includes funds for computerized operation of subsidy rates and ODS accounting. This should assist the Maritime Administration in the calculation of rates and payment of operating subsidy.

From the total authorization of $315,936,000, an estimated $236,624,000 in ODS payments will be made in fiscal year 1976 for 6 passenger and combination cargo/passenger ships, 175.7 general cargo, and 13.5 bulk carrier ship-years of operation. A total of $79,312,000 will be paid in obligations incurred for subsidized operations in prior years, including $2.15 million under the Soviet grain program. No funds have been requested for Soviet grain shipment in fiscal year 1976 because of the uncertainty regarding the size of future grain purchases by the Soviet Union.

(3) For expenses necessary for research and development activities, not to exceed $12,232,000.

The research and development program of the Maritime Administration is focused on developing and applying new technology in shipbuilding and ship operations to increase the competitive strength of the United States in these areas. Greater emphasis on the practical application of technological advances has lead to close coordination with private industry programs. The Maritime Administration estimates that direct cost-sharing by industry on the fiscal year 1976 research and development program will total $7.05 million. This equates with 35 percent of the Maritime Administration expenditures.

The fiscal year 1976 research and development program will continue to support efforts to increase productivity and reduce costs in American shipyards through development of improved building techniques and equipment. The competitive nuclear merchant ship program is intended to develop a standardized nuclear propulsion system for commercial vessels. This program is operated on a cost-sharing basis between the Maritime Administration and the ship construction industry. Federal involvement in research and development is clearly required in this area to fully exploit this alternative means of marine propulsion which is not dependent on increasingly scarce and expensive fossil fuels.

Recent past intentions were to employ nuclear propulsion on VLCC and ULCC vessels. Due to the current depression in the tanker market and extraordinary increases in tanker prices, those proposals do not appear, at the moment, to be viable. However the recent operating experiences of the general cargo, or liner, segment of the U.S. industry has created a strong requirement for additional and replacement ships for these fleets. These construction proposals, which are in the preliminary phases, recognize the need for high speed general cargo ships. This additional speed can be achieved only through the use of larger powerplants with concomitant high fuel consumption rates and at current and projected fossil fuel prices, nuclear propulsion promises to become competitive.

In recognition of this potential role of nuclear propulsion for general cargo ships, two U.S.-flag ship operators, in conjunction with a major shipyard and major suppliers of nuclear steam equipment and steam turbines, have proposed to the Maritime Administration a cooperative effort to investigate the construction of nuclear fueled cargo ships. This proposal for a jointly sponsored project on a cost-sharing basis is a clear expression of renewed interest in a competitive nuclear merchant ship program.

The Maritime Administration will continue its program of improving ship utilization and reducing operating costs. In this area, greater attention will be directed toward developing systems which integrate all automated ship operating functions. Machinery control hardware for this system will be tested at sea. The Marine Computer Aided Operation Research Facility (CAORF) will be put into operation and tested. This facility employs simulation techniques to evaluate problems concerning ship design, operations and maneuverability. Advanced methods of satellite aided communication, ship navigation and collision avoidance systems are being developed. An additional program that is expected to cut costs and increase efficiency involves the use of computerized systems to control cargo, barges and containers and improve intermodal coordination and management efficiency.

The request for research and development for fiscal year 1976 of $12,232,000 is $13,668,000 below the appropriations level for fiscal year 1975. The fiscal year 1975 appropriations of $25,900,000, which was augmented by $193,000 carried over from fiscal year 1974, included $3,468,000 which was deferred to fiscal year 1976. The fiscal year 1976 requests will be further augmented by $4,300,000 from cancellation of a 1972 contract. The net reduction on this program level for fiscal year 1976, therefore, is $2,625,000.

(4) For reserve fleet expenses, not to exceed $4,242,000.

The Maritime Administration maintains the National Defense Reserve Fleet to supplement our active merchant fleet in time of war or national emergency. The authorization request for fiscal year 1976 will support the activities of three reserve fleet sites, located at James River, Virginia, Beaumont, Texas, and Suisin Bay, California. These sites will contain a total of 322 ships which will be preserved and secured for national security purposes. One hundred forty-seven of these are merchant ships. There are also 110 ships at these sites which are scheduled for orderly disposal through sale for scrap and 15 others being held in a special category status.

The average age of the ships in the retention fleet is 30 years and although they have not seriously deteriorated from extensive use, they are slow and small when compared with ships built in the 1960's and 1970's. If the Maritime Administration ship construction program is carried out as projected, a number of more modern, larger capacity ships could become available through trade-in or purchase.

(5) For maritime training at the Merchant Marine Academy at Kings Point, New York, not to exceed $11,500,000.

The Merchant Marine Academy at Kings Point, New York 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. Academy graduates are commissioned as Naval Reserve officers, and as such provide a portion of the standby military reserves available in time of national emergency or war. The Academy graduates approximately 200 new officers annually.

The authorization request of $11,500,000 for fiscal year 1976 for the operation of the Merchant Marine Academy is an increase of $982,000 over the appropriations level for fiscal year 1975. This increase results from the modernization program which involves extensive improvements to the Academy's physical facilities.

The buildings and utility systems of the Academy are over thirty-three years old. In 1972 a Master Facilities Plan was completed and implementation of the plan commenced in fiscal year 1973. Part of this modernization work scheduled for fiscal year 1976 was originally included in the fiscal year 1975 authorization, but was postponed because of inflation. In addition, $1,300,000 will be carried forward from the fiscal year 1975 appropriation to complete these projects originally planned for fiscal year 1975.

The Congressional Board of Visitors to the Merchant Marine Academy has expressed its concern over the condition of the physical plant at the Academy.

(6) For financial assistance to State marine schools, not to exceed $4,708,000.

This authorization request is for training cadets at six state maritime schools located in Maine, Massachusetts, New York, Michigan, Texas, and California. Assistance is provided under the authority of the Maritime Academy Act of 1958 (46 U.S.C. 1381 et seq.) as amended, by annual grants of $75,000 to each school, allowances for uniforms, textbooks, and subsistence of $600 per academic year per student, and the provision, maintenance and repair of suitable vessels (from the National Defense Reserve Fleet) for use as training ships.

Of the total $1,735,000 increase in the fiscal year 1976 authorization over the fiscal year 1975 appropriation, $1,300,000 is required for the installation of oily waste and sewage pollution control devices in the training ships.

Section 3.

This section of the bill authorizes supplemental appropriations for fiscal year 1976, as may be necessary to cover increases in pay or other employee benefits authorized by law, and uncontrollable increases in costs for utilities, food service, and other expenses at the Merchant Marine Academy at Kings Point, New York.

Section 4.

This section is an amendment to section 607 of the Merchant Marine Act, 1936, as amended. It is intended to clarify the intent of Congress with respect to the capital construction funds authorized by section 607 and, specifically, the relationship of such fuuds to the investment tax credit provided by section 38 of the Internal Revenue Code of 1954 (26 U.S.C. 38). Although clarifying in nature, the amendment would eliminate an uncertainty which is a significant impediment to the national policy to revitalize the U.S. flag merchant marine. Thus, the amendment is directly related to this legislation authorizing appropriations for the ongoing program to rebuild the U.S. merchant fleet.

Section 607 permits any citizen of the United States owning or leasing eligible vessels to enter into an agreement with the Secretary of Commerce establishing a capital construction fund. This fund is a tax deferral mechanism which allows a vessel owner or operator to accumulate and invest funds to be used for the reconstruction or replacement of certain qualified vessels, the construction of new qualified vessels or the amortization of indebtedness incurred in any such construction or reconstruction. A party to a capital construction fund is not forgiven taxes: the Treasury recoups each dollar deferred through the subsequent reduced deductions for depreciation which in turn increase taxable income, or through the taxation of non-qualified withdrawals or withdrawals treated as non-qualified withdrawals. Thus, the Treasury ultimately recoups each dollar of taxes which has been deferred.

Section 607 has long been an important part of the effort to permit U.S.-flag vessels constructed in the United States to compete with foreign vessels. A principal feature of flag-of-convenience registries with which U.S. vessels must compete is that they afford owners and operators under such registries a virtually complete tax haven. In addition, nearly all major maritime nations provide special tax treatment for owners and operators of vessels of their registry. A study conducted last year for the Maritime Administration included the following examples:

Japan provides an—

initial depreciation allowance of 25 percent on new ships and other tax rules whose effect is to minimize payment of corporate tax by Japanese operators who continue to improve their fleet . . . deferred capital gains tax on sales of ships . . . tax credits against earnings in the foreign trades by Japanese operators. . . .

Sweden provides—

accelerated depreciation of ships and in recent years, depreciation of over 100 percent of the investment cost . . . sheltering of capital gains from ship sales if reinvested in new ships . . . use of tax-free reserves to shelter windfall profits. . . .

The Federal Republic of Germany provides—

a 30 percent initial depreciation allowance, including downpayments and progress payments on a new ship . . ., write-off against personal income of tax losses from individual investments in a new ship . . . deferment of capital gains tax on the reinvested proceeds from a ship sale . . . 50 percent reduction in tax payable on income earned in foreign trades. . . .

Norway provides—

special tax-free reserves to which a ship operator or ship builder may allocate profits from boom years * * * special initial or accelerated depreciation provisions for ship sales from capital gains if the gain is reinvested in ships or can be offset by funds from certain reserve accounts.

The United Kingdom provides—

free depreciation of new ships, which permits the ship owner to use any rate in any year until the ship is fully depreciated.

By contrast to these and a multitude of other tax benefits provided by foreign governments to vessels of their registry, the tax deferral provisions of section 607 are a relatively modest, but nonetheless essential incentive.

The problem addressed by section 4 of the bill originates from two Revenue Rulings, 67-395, 1967-2 Cum. Bull. 11, and 68-468, 1968-2 Cum. Bull. 26, made in the late 1960's, compounded by an historical accident. Revenue Ruling 67-395 noted that a vessel built with funds withdrawn from a construction fund, would carry a reduced basis for depreciation purposes. From this observation, however, the ruling also deduced that the allowable investment tax credit was also reduced proportionately, as the "cost" had been reduced. Then in Revenue Ruling 68-468, the Service extended this conclusion by holding that qualified withdrawals for amortization of vessel indebtedness caused that property to cease to be section 38 property, in effect "recapturing" the investment tax credit as if there had been a refund on the price of the vessel. These rulings in large measure defeat the policy Congress set forth in section 607 and have discouraged utilization of that section's incentive. They require not only a dollar for dollar recovery of taxes deferred in the capital construction fund, but the

imposition of a penalty by effectively eliminating the availability of the investment tax credit for taxpayers which maintain a capital construction fund. In this case the tax detriment is substantially greater than the tax benefit. The following example was presented to the Committee:

Assume a corporate taxpayer deposits $1 million of ordinary income into a fund and thus realizes tax savings of $480,000 during his current tax year. Three years later, the taxpayer withdraws $1 million in order to purchase a new vessel. The taxpayer's basis for the new vessel would be zero, so that it would lose depreciation deductions of $1 million having a tax value of $480,000 over the depreciable life of the vessel. Thus far, the objective of the Act [section 607 of the Merchant Marine Act, 1936, as amended] is attained. But Treasury would deny the taxpayer investment tax credit of $70,000 in the year of purchase, based on a 7% investment tax credit, to which the taxpayer would have been entitled had it purchased the vessel out of general corporate funds. Thus, the tax detriment from the withdrawal from a capital construction fund would be $550,000 (i.e., $480,000 tax incidence plus loss of $70,000 7% tax credit) as contrasted to the original tax benefit of $480,000. Stated otherwise, if the taxpayer had never utilized the fund, it would have paid an original tax of $480,000, but the combined depreciation deductions over the life of the vessel and investment tax credit would have yielded a tax benefit of $550,000. It is true that the taxpayer, had it utilized the fund, would have enjoyed a deferral of the payment of tax on the original $1 million of ordinary income. However, this deferral is intended by the 1970 Act and provides no reason for denial of the investment tax credit.

Now comes the historical accident. In 1970, when Congress revised section 607 to substantially its present form as part of an overall program to revitalize the U.S.-flag merchant marine, it did not address the problem created by these rulings since the investment tax credit had been repealed by the Tax Reform Act of 1969 (Public Law 91-172). However, only a year later, in the Revenue Act of 1971 (Public Law 91-178), Congress reinstituted the investment tax credit. The Revenue Act was a comprehensive tax act, but at the time of its passage, attention was not given to the relationship between the investment tax credit and the capital construction fund. The 1970 Act directed the Secretaries of Commerce and Treasury to issue joint regulations for the administration of capital construction funds. The Treasury Department, however, insisted that its prior revenue rulings be recognized in the joint regulations. The Commerce Department declined to acquiesce to this position on the basis that the rulings defeat the Congressional intent embodied in section 607.

This amendment will resolve the impasse between the Departments of Commerce and Treasury by amending section 607 to permit use of the capital construction fund without diminution of the investment tax credit. This clearly indicates the Congressional intention that the proper construction of section 607 must be one to effectively promote the U.S.-flag merchant marine in order to enable it to fully and fairly compete with foreign flag vessels.

The recently enacted Tax Reduction Act of 1975 included changes which will make even more pronounced the need for this amendment. This Act increases the investment tax credit from 7 percent to 10 percent. Failure to overrule the results of Revenue Rulings 67–395 and 68–468, and clarify Congressional intent would increase the penalty for the use of the capital construction fund. Thus utilization of the capital construction fund would be even further curtailed.

Further, the Tax Reduction Act of 1975 provides an additional 1 percent investment tax credit provided the 1 percent is matched by an equal amount contributed to employee stock ownership plans. To the extent that capital construction fund depositors are precluded from receiving the investment tax credit, their employees will also be penalized by not being eligible for this stock incentive program.

The Committee intended, and recognized, that properly administered and fully utilized, section 607 could be translated into actual construction of vessels, with the attendant employment benefits in shipyards and aboard vessels, and the benefits to the U.S. balance of payments. This clarifying amendment will thus enable the capital construction fund to become the important and effective incentive for the U.S.-flag merchant marine which Congress intended.

Section 5.

This section would amend section 809(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213(a)), to require that 10 percent of construction and operating subsidy funds, as well as research and other funds, be allocated to serve the U.S. foreign trade requirements of ports on each of the four seacoasts. The amendment limits the provision by providing that in the case of construction and operating subsidy funds the 10 percent allocation requirement applies to the extent that subsidy contracts have been approved by the Secretary of Commerce.

Section 5 also requires the Secretary of Commerce to annually submit a detailed report to the Congress describing the actions taken pursuant to the Merchant Marine Act, 1936, as amended to provide adequate U.S.-flag commercial service to each of the four seacoasts. The annual report would also include any necessary legislative recommendations. This section of S. 1542 is intended to respond to the unique needs and problems confronting the Great Lakes-St. Lawrence Seaway ports which were designated in the Merchant Marine Act, 1970 as the "fourth seacoast" of the United States.

No ocean-going U.S.-flag ships now serve the Great Lakes; and there have been no regularly scheduled U.S.-flag ships calling at Lakes ports since 1969. However, two proposals requesting subsidy for construction and operation of vessels for Great Lakes overseas trade have been filed with the Maritime Administration, one of which only recently has been approved by the Maritime Subsidy Board.

The Great Lakes trade faces physical limitations and climatic conditions which make regular service difficult. The Committee's earlier action to require the establishment of a Maritime Administration regional office to serve the Great Lakes (P.L. 94–10) and this new requirement for fund allocation will assure that administrative neglect is not a further limiting factor.

Section 6.

This section increases the limitation on the aggregate unpaid principal on obligations guaranteed by the Title XI Federal ship mortgage guarantee program from $5 billion to $8 billion.

The mortgage guarantee program established by Title XI of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1271 et seq.) authorizes the Secretary of Commerce to guarantee the payment of principal and interest on loans made to finance the construction, reconstruction, and reconditioning of U.S.-flag vessels. This government guarantee on a major portion of the purchase price gives vessel owners the ability to raise long-term money at reasonable rates. It also makes private financing available to operators who might not otherwise qualify in the capital markets.

The Title XI program encourages a broad range of shipbuilding including vessels for both the U.S. foreign trades and the domestic trades. For example, among the vessels financed through this program as of January 1, 1975 were 93 tankers, 181 cargo ships, 10 combined cargo/passenger ships, 24 ocean tugs, 31 river tugs, 476 river barges and 86 drilling rigs and drilling service vessels.

As the statistics indicate, the Title XI program has been very successful in encouraging new ship construction. The Title XI ceiling was raised from $1 billion to $3 billion by the 1970 Act and to the current level of $5 billion by amendment to the Maritime Administration Fiscal Year 1974 Authorization Act. As of January 1, 1975, guarantees in force and commitments totaled $4.1 billion with pending applications for mortgage guarantees amounts to $2.8 billion. Total guarantees and commitments are expected to reach $4.9 billion by the end of fiscal year 1975. Current projections of U.S. shipbuilding activity indicate that the $5 billion ceiling will be exceeded during fiscal year 1976.

As of January 1, 1975, the Maritime Administration had guaranteed mortgages on a total of 976 ships with only 10 defaults resulting in foreclosures, for a net loss of $13.6 million. While the currently depressed conditions in the tanker market raise questions concerning possible future foreclosures, according to Maritime Administration officials the magnitude of potential foreclosures over the next two years could be covered from funds accumulated in the Federal Ship Financing Fund, which totaled $72.3 million on January 1, 1975.

Guarantees and commitments outstanding for tankers total just over $1 billion, comprised of $418 million for tankers in operation, $414 million for tankers under construction, and $198 million for tankers on order.

The Committee is hopeful that the Administration will swiftly adopt measures now under review to assist the U.S. tanker industry, which is very critical to national security and economic interests. Further, such action would reduce possible financial loss to the government, private investors and the industry.

Cyclical swings in profitability are characteristic of the shipbuilding industry and capital requirements for new vessel construction are large. Federal guarantees for borrowings in the private sector reduce the financing costs of the shipowner. Raising the Title XI ceiling is an essential element in creating favorably economic conditions for ship construction in the United States.

Estimated Cost

Pursuant to section 252(a) of the Legislative Reorganization Act of 1970 (Public Law 91-510), the Committee estimates the cost of the legislation to be $543,618,000, the amount authorized by the bill.

Changes in Existing Law

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill as reported are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

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TITLE VI—OPERATING-DIFFERENTIAL SUBSIDY

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Section 607(g). Tax Treatment of Qualified Withdrawals.

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"(6) Notwithstanding any provision of paragraph (2), (3), or (4) of this subsection or any other provision of law, in determining the 'qualified investment' in a vessel, barge, or container under section 46(c)(1) of the Internal Revenue Code of 1954, as amended (26 U.S.C. 46(c)(1)) or in determining the early disposition of such investments under section 47(a)(1) of such Code (26 U.S.C. 47(a)(1)), the basis or cost of such vessel, barge, or container shall not be reduced by the amount of all or any portion of a qualified withdrawal."

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TITLE VIII—CONTRACT PROVISIONS

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Sec. 809.(a) Contracts under this Act shall be entered into so as to equitably serve, insofar as possible, the foreign-trade requirements of the Atlantic, Gulf, Great Lakes, and Pacific ports of the United States. *In order to assure equitable treatment for each range of ports referred to in the preceding sentence, not less than 10 percent of the funds appropriated or otherwise made available for the foreign-trade requirements of the United States pursuant to this Act or any law authorizing funds for the purposes of such Act shall be allocated for the foreign-trade requirements of each such port range: Provided however, That in the case of funds appropriated for construction-differential and operating differential subsidies such allocation shall apply to the extent that subsidy contracts are approved by the Secretary of Commerce. Not later than March 1, 1976, and annually thereafter, the Secretary shall submit to Congress a detailed report (1) describing the actions that have been taken pursuant to this Act to assure insofar as possible that direct and adequate service is provided by United States-flag commercial vessels to each range of ports referred to in this section and (2) including any recommendations for additional legislation that may be necessary to achieve the purpose of this section.*

In awarding contracts under this Act, preference shall be given to persons who are citizens of the United States and who have the support, financial and otherwise, of the domestic communities primarily interested.

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TITLE XI—FEDERAL SHIP MORTGAGE INSURANCE

* * * * * * *

Sec. 1103(f). The aggregate unpaid principal amount of the obligations guaranteed under this section and outstanding at any one time shall not exceed [$5,000,000,000] *$8,000,000,000.*

Text of S. 1542 As Reported

To authorize appropriations for the fiscal year 1976 for certain 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 this Act may be cited as the "Maritime Appropriation Authorization Act of 1975".

Sec. 2. Funds are 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 1976, as follows:

(1) For acquisition, construction, or reconstruction of vessels and for construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, not to exceed $195,000,000;

(2) For payment of obligations incurred for operating-differential subsidy, not to exceed $315,936,000;

(3) For expenses necessary for research and development activities, not to exceed $12,232,000;

(4) For reserve fleet expenses, not to exceed $4,242,000;

(5) For maritime training at the Merchant Marine Academy at Kings Point, New York, not to exceed $11,500,000;

(6) For financial assistance to State marine schools, not to exceed $4,708,000.

Sec. 3. There are authorized to be appropriated for the fiscal year 1976, in addition to the amounts authorized by section 2 of this Act, such additional supplemental amounts, for the activities for which appropriations are authorized under section 2 of this Act, as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law, and for increased costs for public utilities, food service, and other expenses of the Merchant Marine Academy at Kings Point, New York.

Sec. 4. Section 607(g) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1177(g)), is amended by inserting at the end of paragraph (5) thereof the following new paragraph:

"(6) Notwithstanding any provision of paragraph (2), (3), or (4) of this subsection or any other provision of law, in determining the 'qualified investment' in a vessel, barge, or container under section 46(c)(1) of the Internal Revenue Code of 1954, as amended (26U.S.C. 46(c)(1)) or in determining the early disposition of such investments under section 47(a)(1) of such Code (26 U.S.C. 47(a)(1)), the basis or cost of such vessel, barge, or container shall not be reduced by the amount of all or any portion of a qualified withdrawal.".

SEC. 5. Section 809(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213(a)) is amended by inserting immediately after the first sentence thereof the following:

"In order to assure equitable treatment for each range of ports referred to in the preceding sentence, not less than 10 percent of the funds appropriated or otherwise made available for the foreign-trade requirements of the United States pursuant to this Act or any law authorizing funds for the purposes of such Act shall be allocated for the foreign-trade requirements of each such port range: *Provided however*, That in the case of funds appropriated for construction-differential and operating-differential subsidies such allocation shall apply to the extent that subsidy contracts are approved by the Secretary of Commerce. Not later than March 1, 1976, and annually thereafter, the Secretary shall submit to Congress a detailed report (1) describing the actions that have been taken pursuant to this Act to assure insofar as possible that direct and adequate service is provided by United States-flag commercial vessels to each range of ports referred to in this section and (2) including any recommendations for additional legislation that may be necessary to achieve the purpose of this section."

SEC. 6. Section 1103(f) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1273(f)) is amended by striking "$5,000,000,000", and inserting in lieu thereof "$8,000,000,000".

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94TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 94–175

MARITIME AUTHORIZATION—FISCAL YEAR 1976

APRIL 25, 1975.—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. 3902]

The Committee on Merchant Marine and Fisheries, to whom was referred the bill (H.R. 3902) to authorize appropriations for the fiscal years 1976 and 1977 for certain maritime programs of the Department of Commerce, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill do pass.

The amendments are as follows:

Strike all after the enacting clause and insert in lieu thereof the following:

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 1976, 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, $240,000,000;

(b) payment of obligations incurred for operating-differential subsidy, $315,936,000;

(c) expenses necessary for research and development activities, $12.232,000;

(d) reserve fleet expenses, $4,242,000;

(e) maritime training at the Merchant Marine Academy at Kings Point, New York, $11,500,000; and

(f) financial assistance to State marine schools, $5,808,000.

SEC. 2. In addition to the amounts authorized by section 1 of this Act, there are authorized to be appropriated for the fiscal year 1976 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, and for increased costs for public utilities, food service, and other expenses of the Merchant Marine Academy at Kings Point, New York.

SEC. 3. Section 1103(f) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1273(f)), is amended by striking the figure "$5,000,000,000", and inserting in lieu thereof the figure "$7,000,000,000".

SEC. 4. Section 6(a) of the Maritime Academy Act of 1958, as amended (46 U.S.C. 1385(a)), is amended by striking the figure "$600", and inserting in lieu thereof "$1,200".

Amend the title so as to read:

A BILL To authorize appropriations for the fiscal year 1976 for certain maritime programs of the Department of Commerce, and for other purposes

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 1976.

This authorization of appropriations 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 authorized 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, New York.
7. Financial assistance to State Marine Schools.
8. The Vessel Operations Revolving Fund.

INTRODUCTION OF H.R. 3902

In the past, the subject authorization request has been considered by your Committee on an annual basis. This year, the requirements of the Congressional Budget and Impoundment Control Act of 1974 ("Budget Act"), caused some changes in general procedure.

Normally, your Committee would be considering only the fiscal year 1976 authorization request of the Maritime Administration at this time. However, the Budget Act requires that proposed authorizing legislation must be submitted by the Executive Branch to the Congress by May 15th of the year proceeding the beginning of the fiscal year. Fiscal year 1977 begins on October 1, 1976. Therefore, it was necessary for the authorization request of the Maritime Administration for fiscal year 1977 to be submitted by May 15, 1975. Rather than submit two separate requests, by Executive Communication No. 397, dated February 21, 1975, 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 both fiscal years 1976 and 1977. Accordingly, H.R. 3902 was introduced on February 27, 1975, covering six categories of maritime programs of the Department of Commerce administered by the Maritime Administration.

H.R. 3902, as introduced, would authorize appropriations in the sum of $593,618,000 for fiscal year 1976, and $628,396,000 for fiscal year 1977, 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—$245,000,000 for fiscal year 1976, and $251,000,000 for fiscal year 1977;

(b) Payment of obligations incurred for operating-differential subsidy—$315,936,000 for fiscal year 1976, and $334,000,000 for fiscal year 1977;

(c) Expenses necessary for research and development activities—$12,232,000 for fiscal year 1976, and $18,000,000 for fiscal year 1977;

(d) Reserve fleet expenses—$4,242,000 for fiscal year 1976, and $4,437,000 for fiscal year 1977;

(e) Maritime training at the Merchant Marine Academy at Kings Point, New York—$11,500,000 for fiscal year 1976, and $12,301,000 for fiscal year 1977;

(f) Financial assistance to State Marine Schools—$4,708,000 for fiscal year 1976, and $8,658,000 for fiscal year 1977.

H.R. 3902, as introduced, also contained 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 the fiscal years 1976 and 1977 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, and for increased costs for public utilities, food service, and other expenses of the Merchant Marine Academy at Kings Point, New York.

A statement of the purposes and provisions of H.R. 3902, as introduced, is set forth hereafter in Executive Communication No. 397 which is appended to this report.

HEARINGS ON H.R. 3902

The Subcommittee on Merchant Marine held two days of hearings on H.R. 3902. The Honorable Robert J. Blackwell, Assistant Secretary of Commerce for Maritime Affairs, appeared on March 5, 1975, in strong support of the authorization request. On the following day, the President of the American Institute of Merchant Shipping and the President of the Shipbuilders Council of America, appeared before the Subcommittee to recommend approval of the requested amounts. The American Institute of Merchant Shipping is a trade organization representing about two-thirds of all active, privately owned, United States-flag merchant vessels. The Shipbuilders Council of

America is an industry association composed of major shipbuilders, ship repairers and ship component manufacturers in all sections of the country. These witnesses also recommended that the bill be amended to increase the statutory ceiling of the Title XI Guarantee Program from $5 billion to $8 billion. Careful inquiry was made of each witness with respect to the various elements. In fact, the Chairman and Members had numerous incisive questions for Mr. Blackwell concerning existing ship construction applications, anticipated applications, future vessel needs, pending operating subsidy applications and the Title XI mortgage insurance program. Your Committee was especially interested in the present repressed state of the tanker market and its adverse impact on ship operations and ship building. Your Committee questioned the witnesses at length concerning the alarming status of the Seatrain shipyard in New York and the Todd shipyard in San Pedro which have suffered the most from the tanker market depression and consequent cancellation of tanker construction contracts.

> 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, $245,000,000 for fiscal year 1976, and $251,000,000 for fiscal year 1977;.

Generally, construction-differential subsidy is based on the difference between United States and foreign shipbuilding costs, and paid to United States shipyards so that the vessel cost to the American purchaser is about what it would have cost if the vessel was constructed in a foreign shipyard.

Prior to the Merchant Marine Act of 1970, such subsidy was generally limited to liner vessels. That Act expanded this aid to include generally 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 1976, the construction subsidy level will be reduced from 37 percent to 35 percent.

The Honorable Robert J. Blackwell, Assistant Secretary of Commerce for Maritime Affairs, testified in strong support of the requested funds. Your Committee was informed that the 1976 authorization request, coupled with carryover funds of $5,750,000, would provide a total program level of $250,750,000, to fund the construction of 14 ships and the conversion of two containerships. The vessels anticipated for funding in fiscal year 1976, according to the Marad testimony, include five containerships, three bulk carriers, three ore-bulk-oil carriers (OBO's), two liquified natural gas carriers, and one roll-on/roll-off (Ro-Ro) vessel. The authorization requested for this program in fiscal year 1977 is $251,000,000. No carryover funds into fiscal year 1977 are anticipated. Funding is planned for 14 ships in fiscal year 1977. Preliminary plans for these ships include three dry bulk vessels, three containerships, three lighter-abroad-ship (LASH) vessels, three liquefied natural gas carriers (LNG's) and two ore-bulk-oil (OBO) vessels. The Industry witnesses generally supported the requested amounts as adequate for Construction Subsidy purposes.

The $245 million fiscal year 1976 authorization request for Construction Subsidy is $30 million less than the amount authorized for this

activity in fiscal year 1975. Even when consideration is given to the quested amount would be sufficient to continue the building program will be substantially less than that of the previous year. Normally, your Committee would be gravely concerned as to whether the requested amount would be sufficient to continued the building program envisioned by the Merchant Marine Act of 1970. However, these are not normal times, and the Tanker Market is experiencing what can only be described as a severe depression. At the present time, 28 United States-flag tankers of 1.1 million DWT are in lay-up for lack of employment. This is about 20 percent of the United States-flag Tanker Fleet. Additionally, two of our shipyards constructing tankers are experiencing difficulties. As 34 of the 59 vessels contracted to be constructed under the Merchant Marine Act of 1970 are energy carriers, your Committee went to great lengths to be assured that the requested funds are required at this time.

Although there is a current depression in the construction of United States-flag oil tankers, this has not suppressed the need for ship construction for other segments of our U.S. flag fleet engaged in foreign trade.

Ship owners who receive Operating-Differential Subsidy are obligated to replace their vessels at periodic intervals, and at the present time there are approximately 21 vessels which are involved in these trades under ship replacement obligations through fiscal year 1977. In this regard, American Export Lines, Farrell Lines, and Pacific Far East Lines have replacement obligations in fiscal year 1976. Additionally, as of March 1, 1975, there were 56 applications for a total of 154 vessels of all types on file with the Maritime Administration. None-the-less, your Committee was somewhat skeptical as to future shipbuilding prospects and questioned Secretary Blackwell with respect to the planned Construction Subsidy building program for fiscal year 1976, and was informed that the requested funds are not only necessary, but imperative in view of the need for new shipbuilding contracts, and to begin replacing our Liner fleet.

> SEC. 1(b) payment of obligations incurred for operating-differential subsidy—$315,936,000 for fiscal year 1976 and $334,000,000 for fiscal year 1977;

Generally, operating subsidy is based on the difference between subsidizable United States and comparable foreign operating costs, and is paid to the owners of United States-flag vessels so that they can operate in international trade at competitive rates. The Merchant Marine Act of 1970 generally extended this subsidy to bulk carriage operators in our foreign trade.

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 adjusted 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 news 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 in strong support of the requested funds: $315,936,000 in fiscal year 1976, and $334,000,000 in fiscal year 1977. Your Committee was informed that the requested funds for fiscal year 1976 would be used for the subsidized operation of United States-flag passenger, general cargo, and bulk cargo vessels. $21.7 million would be used for the operation of the six remaining United States-flag passenger and pasenger/cargo vessels; $204.6 million would be used for the subsidized operation of 179 United States-flag general cargo vessels to be operated on 19 essential trade routes; $10.3 million would be used for the subsidized operation of 16 United States-flag bulk carriers in world-wide trade. All of these bulk carriers are energy carriers. The balance, $79.3 million, would be for the payment of prior year obligations.

The fiscal year 1976 authorization request of $315,936,000 represents an increase of $73.1 million over the 1975 level of $242.8 million. Close questioning by your Committee revealed that $8.3 million of this increase will result from the addition of certain subsidized vessels. The subsidy cost per ship will increase by 6.6 percent overall in 1976, resulting in a cost escalation of $16.2 million. The final $48.6 million of the $73.1 million increase over fiscal year 1975 will be applied for prior year payments. One objective of the operating-differential subsidy program is to settle final payments owed to subsidized operators in a more efficient and timely manner. The requested amount will allow final settlements to be made with all subsidized operators through Calendar Year 1972.

The authorization request for this program in fiscal year 1977 is $334,000,000. Secretary Blackwell informed your Committee that the additional funds requested for fiscal year 1977 reflects additional ship deliveries entering the subsidized service as well as full year costs of those ships delivered in the previous year. The requested amount would also include funds for the settlement of 1973 and 1974 operatons for which final subsidy rates will be approved.

The Industry witnesses generally supported the requested amounts for fiscal years 1976 and 1977 as adequate for Operating Subsidy purposes.

Operating-Differential Subsidy is paid to American ship operators in order to promote the maintenance of a United States merchant fleet capable of providing essential shipping services. Essential shipping services are those ocean services, routes and lines and bulk carrying services essential for the promotion, development, expansion and maintenance of the foreign commerce of the United States. At the present time, ten Liner and nine Bulk operators are providing these essential shipping services. The ten Liner operators are as follows: American Export Lines operates 22 vessels from the United States Atlantic Coast to the Mediterranean, India, and the Far East. American Mail Line, now a part of American President Lines, operates nine vessels in the Trans-Pacific service. American President Lines operates 14 vessels from the United States Pacific Coast to the Far East, round-the-World service from the U.S. Atlantic and Gulf coasts to Asia. Delta Steamship Company operates 12 vessels from the U.S. Gulf to the East Coast of South America and West Africa. Farrell Lines operates 12 vessels from the U.S. Atlantic and Gulf Coasts to East and West Africa and Australia. Lykes Bros. Steamship Company operates 41 vessels from the U.S. Gulf to Europe, the Mediterranean, the Far East, South and East Africa and the West Coast of South America. Moore-McCormack Lines operates 14 vessels from the U.S. Atlantic Coast to the East Coast of South America, and South and East Africa. Pacific Far East Lines operates 8 vessels from the U.S. Pacific Coast to Australia and the Far East. Prudential Lines operates 20 vessels from the U.S. Atlantic Coast to the West Coast of South America, the Carribean, to the Mediterranean, and from the U.S. Pacific Coast to the Far East. Waterman Steamship Corporation operates 17 vessels from the U.S. Atlantic and Gulf Coasts to Europe, Asia, and the Far East. Liner operators receive about 77.6 percent of Operating-Differential Subsidy funds. The remainder of such funds go to the following companies that operate subsidized bulk vessels in World-wide trade: Aeron Marine Shipping Company; American Shipping, Inc.; Aires Marine Shipping Company; Ecological Shipping Corporation; Margate Shipping Corporation; Moore-McCormack Bulk Transport; Pacific Shipping, Inc.; Sea Tankers Inc.; and Worth Oil Transport, Inc.

SEC. 1(c) expenses necessary for research and development activities, $12,232,000 for fiscal year 1976, and $18,000,000 for fiscal year 1977;

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.*—This 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 operators 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.

In this regard, the Assistant Secretary of Commerce for Maritime Affairs testified that their efforts have been directed toward greater emphasis on practical applications of technological advances in conjunction with private industry, to enable the United States Shipbuilding Industry to build ships at costs more competitive with foreign built ships and to enable United States-flag operators to be competitive in the world market. Industry cost-sharing has increased from zero before the Merchant Marine Act of 1970 to a projected 35 percent in fiscal year 1976. With respect to ship construction, Secretary Blackwell mentioned the automation of steel plate cutting, and the development of new welding techniques and equipment which are providing substantial savings in man-hours and costs for work currently underway in United States shipyards. With respect to ship operations, Mr. Blackwell mentioned the improved gas turbine engines that are currently being installed in new tankers. These engines will have lower operating costs, and require less space permitting a greater payload. Some additional improvements, currently in final testing, which are expected to cut costs and improve efficiently in the future include: (a) use of computerized program systems to control cargo, barges and containers, improve intermodal coordination and management efficiency, (b) advanced methods of satellite aided communications, ship navigation, and collision avoidance systems which will result in improved ship safety and enable better use of ships, and (c) use of marine simulation capability through the Maritime Computer Aided Operations Research Facility where problems concerning ship design, operations, and maneuverability can be analyzed and alternative solutions evaluated.

Secretary Blackwell requested $12,232,000 for fiscal year 1976; a decrease of $15,668,000 from the previous year. The requested funds, together with funds carried over from fiscal year 1975 would fund a total program level of $20 million. Mr. Blackwell informed that projects which will be continued at lower funding levels include competitive shipbuilding technology, advanced ship machinery, ship operations information systems, cargo handling, and study projects in advanced maritime technology. The research center at Galveston, Texas, will be closed in fiscal year 1976 in order to concentrate efforts at Kings Point, New York. Fiscal year 1976 Research & Development efforts will generally concentrate on automated ships systems, satellite navigation and communication, development of new energy saving ship machinery and operating procedures, and in commencing operations of the Computer Aid Operations Research Facility.

With respect to the development of nuclear propulsion for merchant vessels, Secretary Blackwell informed that encouraged by past studies, in May of 1974, the Maritime Administration requested subsidy applications for nuclear powered tankers. This invitation closed in September of 1974 with disappointing results. It would appear that potential owners were discouraged by ship cost estimates. The internal analysis of the Maritime Administration revealed a continued advantage for nuclear power despite the higher ship construction costs, but this was partially offset by the considerable uncertainties in the nuclear area as to reliability of delivery dates, safety, indemnification and licensability. The Maritime Administration now considers the construction of a nuclear ULCC unlikely due to tanker market conditions, so that they are building upon their past work with this ship type to resolve safety and licensing problems. The results of this work can be readily transferred to other ship types. During fiscal year 1976, the Maritime Administration will concentrate on their continuing study of the licensing of nuclear ships in anticipation of a coming market for this ship type.

Secretary Blackwell requested $18 million for this activity in fiscal year 1977. The fiscal year 1977 program will continue emphasis on projects similar to those undertaken in the fiscal year 1976 program. Cost-sharing with the industry will continue in order to provide greater benefits for the Federal investment.

The President of the American Institute of Merchant Shipping found unfortunate the reduced R. & D. funding level, because considerable progress has been made in vessel technology, for example, as a result of the subject Research and Development Program. He informed that a new committee had been formed in his organization to improve their working relationship with the Maritime Administration in this area. In this regard, four members of A.I.M.S. are finalizing plans to submit a research proposal which will form the basis for a project to transmit electronically cargo manifests and other shipping documents. Paperwork has increased so markedly and vessels have such fast turnaround times that a ship may reach its port of destination before the necessary forms arrive. The President of A.I.M.S. cited this as one example of applying R. & D. money to serve the practical goals of increasing vessel efficiency and saving money.

Your Committee made careful inquiry with respect to the efficient expenditure of these funds. With respect to direct cost-sharing, the procedure followed by the Maritime Administration is that a research project is devised in cooperation with a United States firm and, depending on the direct benefits that firm could gain, a level of cost-sharing is negotiated. Cost-sharing firms include United States-flag shipping companies, shipbuilding firms, and marine equipment suppliers. At the present time the Maritime Industry now funds about 35 percent of current Research and Development Projects, whereas prior to the Merchant Marine Act of 1970, there were none. The fiscal year 1975 Program level is $22.6 million, of which about $20 million will be cost-shared. Direct cost-sharing is projected at $7 million, or about 35 percent. This equates to about 31 percent of all projects, as not all are able to be cost-shared. Some research and development projects are studies and basic research that can lead to specific projects which then may be cost-shared at a later stage of development. Some examples of Research and Development cost-sharing projects are: (a) for an improved design project of a neo-bulk ship, the Bath Iron Works paid $60,000, or 40 percent of the total cost; (b) for a project concerning computer aided pipe detailing in construction, the Newport News Shipbuilding & Drydock Company paid $70,000, or 50 percent of the total cost; (c) for a project involving automatic container identification for terminals, American Export Lines and Computer Identities paid $382,109, or 59 percent of the total cost; (d) for a project involving LASH terminal handling requirements, the Waterman Steamship Corporation paid $10,000, or 20 percent of the total cost; and (e) for a project developing a first-of-a-kind nuclear propulsion system, the Babcock & Wilcox Company paid $958,000, or 33 percent of the total cost.

Careful inquiry by your Committee revealed that Research and Development activities of the Maritime Administration have been of substantial asistance to the United States-flag merchant marine. Some examples of improvements resulting from these efforts are:

(*a*) Development of airlift platforms for moving large structural units up to 500 tons in building and assembling ships. These airlift platforms are being used in one shipyard with several others seriously studying this concept. Use of these platforms result in cost reductions in the construction of ships.

(*b*) Acquisition of a computerized system that automates the cutting of steel plates. This system has been placed in five major shipyards. Use of the system results in the reduced cost of steel fabrication.

(*c*) Development of a highly skewed propeller which has had successful tests on a new OBO vessel. Several ships under construction at the Bath Iron Works will also use these propellers. The benefits are reduced vibration, improved propulsion, and a reduction in operating and maintenance costs.

(*d*) Development of a marine gas turbine for shipboard use which wil reduce operating costs and, due to lesser space requirements, will enable the vessel to carry additional cargo.

(*e*) Development of a one-sided welding process which decreases welding costs and increases productivty in shipbuilding.

SEC. 1(d) reserve fleet expenses, $4,242,000 for fiscal year 1976, and $4,437,000 for fiscal year 1977;

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 built during World War II, is sold for scrap each year. In order to continue this program, Assistant Secretary Blackwell requested $4,242,000 for fiscal year 1976, and $4,437,000 for fiscal year 1977. Your Committee was informed that the requested funds would permit the continued operation of the three fleet sites on the Atlantic, Pacific, and Gulf coasts. The Fleet will contain a total of 147 merchant ships which will be preserved for national security purposes, as well as vessels scheduled for scrapping. Your Committee is concerned over the growing obsolescence of the reserve fleet and the dwindling numbers of vessels in that fleet. The facts indicate that in a few years the United States may find itself with no reserve sealift capacity. We always had such capacity to respond to the Korean and Vietnam sealift crises; we will not have ability to respond to such future sealift demands.

SEC. 1(e) maritime training at the Merchant Marine Academy at Kings Point, New York, $11,500,000 for fiscal year 1976, and $12,301,000 for fiscal year 1977;

The Maritime Administration operates the United States Merchant Marine Academy at Kings Point, New York, where United States citizens are trained to become merchant marine officers. The Academy has an enrollment of about 1,000, and graduates about 200 students annually. The Federal cost to graduate each student is about $37,000. Graduates are generally employed at sea as deck or engineering officers, or ashore in the Maritime Industry.

The Assistant Secretary of Commerce for Maritime Affairs requested $11,500,000 for the continued operation of the Academy in fiscal year 1976. The amount requested represents an increase of $982,000 over fiscal year 1975. $12,301,000 was requested for fiscal year 1977. Secretary Blackwell informed us that these levels of funding would support continued modernization of the 30-year-old Academy at Kings Point. The fiscal year 1976 modernization program includes construction of physical fitness facilities. This project was originally included in the fiscal year 1975 authorization, but the project was postponed due to inflation. It is included in fiscal year 1976 at costs deemed adequate. Additionally, work on academic facilities has been accelerated so that both phases can be contracted simultaneously. The requested funds also include $439,000 for increased costs and volume of maintenance and operating requirements at the Academy. Your Committee was informed that modernization of the Academy will continue in fiscal year 1977 at about the same level as in the previous year.

SEC. 1(f) financial assistance to State marine schools, $4,708,000 for fiscal year 1976, and $3,658,000 for fiscal year 1977.

The Maritime Administration supervises the Government grants and student aid given to the six State Marine Schools, which are located in Maine, New York, Massachusetts, California, Texas and Michigan. These Schools have a total enrollment of about 2,300 and graduate about 410 students annually. The average Federal Cost to graduate each student is roughly $7,000. Graduates are generally employed at sea as deck or engineering officers, or ashore in the Maritime Industry. Assistant Secretary Blackwell testified that the fiscal year 1976 and 1977 programs include continued grants to the Schools, allowances for uniforms, books, and subsistence and maintenance of the six Schoolships. Installation of oily waste and sewage pollution abatement and control devices in four of the ships during fiscal year 1976 requires an increase of $1,735,000 over Fiscal Year 1975. Your Committee was informed that these devices will put these ships in compliance with the policy of the Maritime Administration to provide leadership in compliance with Federal, State, and local pollution laws and regulations, and will involve only a one year expense.

SEC. 2. In addition to the amounts authorized by section 1 of this Act, there are authorized to be appropriated for the fiscal years 1976 and 1977 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, and for increased costs for public utilities, food service, and other expenses of the Merchant Marine Academy at Kings Point, New York.

As in previous years, section 2 of the authorization request includes a provision that authorizes supplemental amounts for certain increases in the remuneration of Maritime Administration employees at the National Defense Reserve Fleet and the United States Merchant Marine Academy at Kings Point, New York, which are included in section 1. Section 2 is required to avoid having to amend the fiscal year authorization request if supplemental appropriations are sought for this purpose. In this regard, Assistant Secretary Blackwell testified that for the first time section 2 now contains additional language to cover uncontrollable price and volume increases for public utilities, food service, and other expenses of the United States Merchant Marine Academy, should they be needed, because the increases in this area in recent years have been substantial.

In addition to the testimony of the witnesses at the hearings, your Committee received a number of communications concerning the proposed legislation which were made a part of the hearing record. By letter of March 11, 1975, the Transportation Institute, a research organization representing a wide segment of the U.S. Shipping and Inland Waterway Industry, strongly supported the authorization request and an increase in the Title XI Guarantee Program authority. The Labor-Management Maritime Committee, composed of major steamship lines and Maritime Unions, submitted for the record a statement in strong support of the authorization request and for an increase in the Title XI authority. By letter of March 13, 1975, Common Cause took the position that your Committee should undertake an extensive review of the entire Maritime subsidy program prior to the authorization of further funds. In this regard, Common Cause was of the view that this review must determine whether the basic premises underlying the subsidy program remain valid today. Your Committee concurs, and as mentioned elsewhere in this report, exhaustive oversight hearings on this and other pertinent subjects will be held in the immediate future. Finally, your Committee requested additional information from all the witnesses in order to clarify various points. This information is included in the hearing record.

MARK-UP SESSIONS

Three days of mark-up were held on H.R. 3902. During the first day, [Subcommittee mark-up] Mr. Robert J. Blackwell, Assistant Secretary of Commerce for Maritime Affairs, was invited back to testify regarding the number of Construction Subsidy applications the Maritime Administration had in hand to support its fiscal year 1976 authorization request and to answer questions about the request.

The Maritime Administration's program calls for 14 ships to be contracted for in fiscal year 1966—three Liquefied Natural Gas carriers (LNG's), four ore-bulk-oil ships (OBO's), three bulk carriers and four containerships. For this program, Secretary Blackwell testified that: (1) Applications were in hand for the three LNG's; (2) negotiations were underway with a company to build the four OBO's, though no applications have been filed; (3) applications were available for one bulk carrier, and there was a reasonable chance of proceeding with the construction of the other two; and (4) no applications for the four containerships were in hand, but they would be built pursuant to replacement obligations under Operating Subsidy contracts. He also indicated that since the subsidy rate usually declined by 2% every year, generally about 90% of construction contracts are signed in the last month of the fiscal year.

Secretary Blackwell also testified that as a program manager he would prefer to have authorizations for fiscal year 1977 as well as fiscal year 1976, but he did not feel that this was absolutely necessary and would not object to limiting the bill to authorizations for fiscal year 1976.

A question was raised concerning the possible involvement of subsidized U.S. shipping companies in the Arab boycott against Israel. Secretary Blackwell investigated the allegation and subsequently advised your Committee by letter that both Arab countries and Israel prohibit ships from stopping at a port in a non-friendly nation prior to delivery at their ports. This is apparently done primarily to assure that goods will not be confiscated enroute to their destinations. He concluded: "on the basis of information currently available to the Maritime Administration . . . there is no evidence that indicates that subsidized U.S.-flag operators have violated any law or regulations by their activities regarding the Arab boycott."

Issues arising at the mark-up sessions that resulted in amendments to the bill are covered in the next part of this report.

AMENDMENTS TO H.R. 3902

H.R. 3902 was amended in several respects during the Mark-up Sessions held by your Committee.

Your Committee amended the bill to eliminate the fiscal year 1977 authorization request of the Maritime Administration. As this request does not have to be reported before May 15, 1976, your Committee concluded that it would be premature to authorize such funds for fiscal year 1977 at this time. This action was based upon the uncertain economic situation of the Country today, and its impact on the United States-flag merchant marine. In addition, your Committee felt that it would have more flexibility and would be in a better position to analyze and assess the various fluid aspects of the maritime industry in relation to the fiscal year 1977 maritime authorization if it held the 1977 authorization until a time more proximate to its reporting date.

Five years have passed since the hearings on the legislation enacted as the Merchant Marine Act of 1970, and your Committee plans to hold exhaustive oversight hearings on the maritime subsidy programs before further authorizations are approved. Additionally, some of the Members of your Committee are of the opinion that the Maritime Administration did not furnish complete information to justify H.R. 3902, as amended. As the Budget Act requires that the bill be reported by May 15th of this year, your Committee unaminously reported H.R. 3902, with the understanding that the above mentioned oversight hearings will be held in the near future.

Your Committee amended H.R. 3902, as introduced, by the addition of a section 3 that would amend section 1103(f) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1273(f)), to increase the statutory ceiling of the Title XI Guarantee Program from % billion to $7 billion.

Pursuant to Title XI of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1271–1279b), the Government is authorized to guarantee loans and mortgages made by private lending institutions to United States citizens in order to aid in the construction or reconstruction of United States-flag vessels. The Title XI Guarantee Program is administered by the Maritime Administration of the Department of Commerce. In this connection, it is noted that the Federal Ship Financing Act of 1972 defines a vessel to include all types . . . of passenger cargo and combination passenger cargo-carrying vessels, tankers, tugs, towboats, barges and dredges. This obviously includes such an innovative variation as a factory barge.

During the hearings on H.R. 3902, Secretary Blackwell testified that the Title XI Guarantee Program has been a very successful program, and as of January 1, 1975, guarantees in force and commitments totalled $4.1 billion with pending applications for mortgage guarantees amounting to $2.8 billion. Total guarantees and commitments are expected to reach $4.9 billion by June 30, 1975, and the statutory ceiling of $5 billion should be exceeded during fiscal year 1976. Although Title XI was not a part of the authorization bill, as introduced, both Industry witnesses strongly recommended that the proposed legislation be amended to increase the Title XI authority of the Maritime Administration from $5 billion to $8 billion. Without such an increase, they testified that private capital would not be available to build the vessels contemplated by the Construction Subsidy Program of the authorization request, much less nonsubsidized construction in American shipyards that is financed by means of the Title XI Guarantee Program. Indeed, your Committee was informed by one American Company that they were having a $35 million oil drilling vessel constructed

in Japan and that they might have built this vessel in the United States if the Maritime Administration had assured them that Title XI financing would be granted.

An amendment was originally offered to raise the ceiling on Title XI mortgage insurance from $5 billion to $8 billion. A number of questions concerning the administration of this program and the amount of increase necessary were raised, and initial consideration of the amendment was deferred until the Committee had the opportunity to inquire further into the issue. Letters were addressed to the Maritime Administration and to the Office of Management and Budget. Inquiry was made concerning the following items:

(1) What regulations or legal opinion does the Maritime Administration have for determining which vessels qualify for Title XI coverage and specifically why have drilling rigs received coverage?

(2) Is a determination of capital needs ever made before Title XI coverage is granted?

(3) Does the availability of a number of maritime subsidy programs means that private operators can have vessels built without sufficient regard to whether they would be profitable, since for the most part government money rather than their own would be risked?

(4) Does the expected contniued depression in world tanker markets threaten the existing Title XI program? Specifically, what are the predictions for losses under the program in FY 1976?

(5) How are the other forms of federal assistance to the maritime industry coordinated with the Title XI program?

The Committee was not satisfied with the responses from the Maritime Administration, because they were unable to give an estimate of possible risk exposure in certain shipyards. Additionally, while they did provide estimates of possible risk exposure on other tankers in lay-up, the possibility of future lay-ups, which was really the heart of the question, was not addressed. No regulations or standards were cited to demonstrate how the various subsidy programs were coordinated or how mortgage insurance applications were evaluated. No regulations or legal opinions were cited to explain which types of equipment qualified for coverage.

However, both the American Institute of Merchant Shipping and the Shipbuilders' Council testified that an increase in this ceiling was necessary for the shipbuilding program during FY 1976. Moreover, the Office of Management and Budget indicated that it was requiring a comprehensive review of the Title XI program by the Department of Commerce, and that it would not oppose raising the ceiling at this time since any future increased controls over the program would not depend on the ceiling for enforcement. In addition, the Budget Impoundment and Control Act required that all authorization bills be reported out of Committee by May 15. These factors, combined with the Committee's intent to look at the program closely during oversight hearings led the Committee to adopt an amendment increasing the ceiling to $7 billion. The seven billion figure was thought adequate to cover any expected commitments during FY 1976, and the Committee did not want to authorize a higher ceiling until it had the opportunity to review the program more carefully.

Your Committee further amended H.R. 3902, as introduced, by the addition of a section 4 that would amend section 6 (a) of the Maritime Academy Act of 1958, as amended (46 U.S.C. 1385(a)), to increase the subsistence level for students at the State Marine Schools from $600 to $1,200 a year. Such an increase would require an additional $1.1 million authorization for the State Marine Schools in fiscal year 1976, and section 1(f) of H.R. 3902 was amended accordingly. These amendments are in accordance with one of the recommendations of the Ad Hoc Committee on Maritime Education and Training which has just concluded an in-depth study of current maritime training in the United States. This Report, which will be released shortly, recommends that the State Schools maintain certain records for the information of the Congress. For example, it was contemplated that the academies should inform us of the numbers and breakdowns of the students, the percentage of attrition, the percentage and duration of those employed in the merchant marine after graduation, how many go into shoreside industry jobs and how many join the U.S. Naval Reserve. Your Committee has amended the bill to increase the subsistence allowance of students at the State Marine Schools with the understanding that these Schools will faithfully maintain such records.

Finally, your Committee amended H.R. 3902, as introduced, by reducing the Construction Subsidy authorization request in section 1(a) from $245 million to $240 million.

During the Mark-up of the bill, your Committee received a letter from Secretary Blackwell indicating that the Maritime Administration's appropriations request for fiscal year 1976 would be reduced by $50 million. This change reflected the cancellation of two Construction Subsidy contracts (affecting a total of 4 ships), which deobligated $50 million of fiscal year 1974 Construction Subsidy funds. These funds, plus $5,750,000 from fiscal year 1975, will be carried forward to fiscal year 1976 to continue the program level at $250,750,000. Your Committee decided not to reduce the authorization request by the full $50 million, since there would appear to be some benefit in leaving the larger figure if construction contracts should materialize which would replace the terminated contracts. However, some reduction in the authorization bill was required since your Committee had approved an amendment making an additional $1.1 million available to students at the State Marine Schools, and this increased authorization was not reflected in the Committee's earlier budget estimates which had been sent to the Budget Committee. Consequently, $5 million was reduced from the Construction Subsidy authorization in section 1(a). Such a decrease should also accommodate any possible Budget Act problems arising pursuant to section 2 of the bill.

Conclusion

Your Committee reported the bill, H.R. 3902, with amendments, unanimously, after full and careful consideration of the entire record. Your Committee is of the view that the authorization for the requested funds and the increase in the authority of the Government's Title XI Guarantee Program are essential for the continuation of the new Maritime Program provided by the Merchant Marine Act of 1970.

Annually, your Committee holds hearings on the authorization request of the Maritime Administration, and also oversight hearings on the activities of that agency. However, as about five years have passed since the hearings on the legislation enacted as the Merchant Marine Act of 1970, your Committee is of the view that it is time for exhaustive oversight hearings with respect to the various Government aids to the United States-flag merchant marine administered by the Maritime Administration. The need for such hearings was one of the reasons your Committee did not pass on the fiscal year 1977 authorization request of the Maritime Administration at this time. It is contemplated that these hearings will be commenced shortly. Information from these hearings should be of great assistance to your Committee in its deliberations on the fiscal year 1977 authorization request of the Maritime Administration.

Cost of the Legislation

The total cost of the legislation is $589,718,000; the amount authorized by the bill. There is no increased cost to the Government associated with section 3 of the bill that would amend section 1103(f) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1273(f)), to increase the authority of the Government's Title XI Guarantee Program from $5 billion to $7 billion.

Compliance With House Rule XI

(1) With respect to the requirements of clause 2(l)(3)(A) of Rule XI, of the Rules of the House of Representatives, no oversight hearings have yet been held on the subject matter of this legislation, beyond the two days of hearings on the particular matter by the Subcommittee on Merchant Marine. However, as mentioned in the report, the Subcommittee on Merchant Marine plans exhaustive oversight hearings on the Government aid programs administered by the Maritime Administration.

(2) With respect to the requirements of Clause 2(l)(3)(B)(C) of Rule XI of the Rules, since Section 308(a) of the Congressional Budget Act of 1974 is not yet in effect, no statement under this paragraph is furnished; and no estimate and comparison of cost has been received by the Committee from the Director of the Congressional Budget Office pursuant to Section 403 of the Congressional Budget Act of 1974.

(3) With respect to the requirements of clause (2)(l)(3)(D), of Rule XI of the Rules, the Committee has received no report from the Committee on Government Operations on this subject.

(4) The enactment of H.R. 3902, as amended, and the subsequent expenditure of appropriated funds for shipbuilding, ship operation and other related activities will undoubtedly have a stimulative impact upon the national economy. However, failure to enact this legislation would result in a severe curtailment of shipbuilding activity and a decline in shipyard employment. Demand throughout the economy for component parts of ships would be reduced, affecting employment and business activity in virtually every State of the Union at a

time when the economic health of the Nation is far from sound. Likewise, a lack of Operating subsidies would result in the curtailment of existing ship services throwing thousands of merchant seamen out of work and further aggravating our employment and balance of payments. Failure to enact this legislation would signal the end of our national effort to rebuild the American merchant marine, and would precipitate an economic crisis in shipbuilding and related industries. Thus, it is the judgment of your Committee that the inflationary impact of this legislation as a component of the total Federal budget is substantially outweighed by its positive impact upon economic recovery and employment.

Departmental Reports

H.R. 3902 was the subject of Executive Communication No. 397 from the Secretary of Commerce, dated February 21, 1975. No reports have been received from any Federal Departments on this legislation; however, in reply to a letter from Congressman McCloskey dated March 17, the Office of Management and Budget has sent a communication dated April 4, 1975. Executive Communication No. 397 and the letter from the Office of Management and Budget follow herewith:

[Executive Communication No. 397]

The Secretary of Commerce,
Washington, D.C., February 21, 1975.

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 years 1976 and 1977 for certain maritime programs of the Department of Commerce, and for other purposes, together with a statement of purpose and need 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 years 1976 and 1977 for certain maritime programs of the Department of Commerce, and for other purposes

Be it enacted by the Senate and House 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 years 1976 and 1977, 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, $245,000,000 for fiscal year 1976, and $251,000,000 for fiscal year 1977;

(b) payment of obligations incurred for operating-differential subsidy, $315,936,000 for fiscal year 1976, and $334,000,000 for fiscal year 1977;

(c) expenses necessary for research and development activities, $12,232,000 for fiscal year 1976, and $18,000,000 for fiscal year 1977;

(d) reserve fleet expenses, $4,242,000 for fiscal year 1976, and $4,437,000 for fiscal year 1977;

(e) maritime training at the Merchant Marine Academy at Kings Point, New York, $11,500,000 for fiscal year 1976, and $12,301,000 for fiscal year 1977; and

(f) financial assistance to State Marine Schools, $4,708,000 for fiscal year 1976, and $3,658,000 for fiscal year 1977.

Sec. 2. In addition to the amounts authorized by section 1 of this act, there are authorized to be appropriated for the fiscal years 1976 and 1977 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, and for increased costs for public utilities, food service and other expenses of the Merchant Marine Academy at Kings Point, New York.

Statement of Purposes and Need of the Draft Bill, "To Authorize Appropriations for the Fiscal Years 1976 and 1977 for Certain Maritime Programs of the Department of Commerce, and for Other Purposes."

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. This 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 years 1976 and 1977, and reflects the continuing Departmental efforts to provide the essential resources required to accomplish the objectives of the Merchant Marine Act of 1970.

That Act was the most comprehensive and far reaching legislation in decades aimed at halting the pronounced decline of the U.S. merchant marine. The legislation 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. In the five years since enactment, substantial progress has been made toward rebuilding the U.S. merchant marine.

The amounts authorized to be appropriated by the draft 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, $245,000,000 for fiscal year 1976, and $251,000,000 for fiscal year 1977.

Construction subsidies are based on the difference between United States and foreign shipbuilding costs. These sums are paid to shipyards so that U.S. operators can purchase American-built vessels at the same price as similar foreign-built vessels. 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. Some subsidy awards have been at a lower rate, e.g., liquefied natural gas carriers have been contracted for at 16.5 percent.

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. Although only 14 new ships will be funded in 1976, their productive capacity exceeds that capacity goal established in 1970. When in service, these ships will help to create a competitive U.S.-flag fleet.

The authorization request for this activity for fiscal year 1976 and 1977 will sustain an adequate and orderly shipbuilding program. Contracting for fourteen new ships is planned in 1976. Included are five containerships, three bulk carriers, three oil-bulk-ore carriers (OBO's), two liquefied natural gas carriers (LNG's) and one Ro/Ro. In concert with the multi-year funding concept, funding in 1976 is planned for twelve of these ships and for two ships resulting from 1975 contracts. Of the remaining two ships contracted during 1976, funding is planned for one during the transition quarter (July 1, 1976 through September 30, 1976) and for one in 1977. Also planned for funding in 1976 is the conversion of two containerships. The 1977 shipbuilding program anticipates a growing emphasis on construction of general cargo ships as required to replace obsolete tonnage. Contracting for eighteen new ships is anticipated for 1977. Planned contracts include five containerships, four LASH vessels, four dry bulk vessels, three LNG's, and two OBO's. Funding in 1977 is planned for thirteen of these ships and for the remaining ships contracted during 1976.

(b) payment of obligations incurred for operating-differential subsidy, $315,936,000 for fiscal year 1976, and $334,000,000 for fiscal year 1977.

Operating subsidies are generally based upon the difference between United States and foreign vessel operating costs and are paid 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 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 1976 and 1977 authorization requests will finance operating subsidies to U.S.-flag operators in order to promote the continuation of essential American merchant marine services.

An estimated $236,624,000 in subsidy will be paid in 1976 for 201 ships and 195.2 ship years of operation. This latter figure can be broken down into 6.0 passenger and combination passenger/cargo, 175.7 general cargo, and 13.5 bulk carrier. An additional $79,312,000 will be paid for balances due for operations in prior years. The increase over the 1975 figure reflects cost escalation, full year costs of ships that entered the fleet in 1975 and 1976 delivery of bulk and general cargo ships. No funds are requested for fiscal year 1976 for the carriage of grain to Russia.

The 1977 program reflects additional ship deliveries entering the subsidized service as well as full year costs of those ships delivered in the previous year. Additionally, funds are requested for settlement of 1973 and 1974 operations for which final subsidy rates will be approved.

(c) expenses necessary for research and development activities, $12,232,000 for fiscal year 1976, and $18,000,000 for fiscal year 1977.

The purpose of the research and development program is the development of technological superiority to enable U.S. shipyards and vessel operators to become more competitive.

The 1976 program level totals $20,000,000 and is composed of $12,232,000 in new budget authority, $3,468,000 deferral of 1975 appropriated funds, and $4,300,000 recovery of prior year obligations. Projects under the program involve the development of new and more efficient types of ships, machinery, and equipment, and the improvement of operating practices to improve American shipping and shipbuilding and to help overcome foreign advantages (e.g., low-wage costs). Industry participation and cost-sharing have been emphasized to insure the relevance and practicality and these projects.

The 1977 program will continue emphasis on projects similar to those undertaken in the 1976 program. The overall program will be at an $18,000,000 level as various projects move from initial formulation to engineering development to product use. Cost-sharing with industry will provide greater research efforts for the Federal investment.

(d) reserve fleet expenses, $4,242,000 for fiscal year 1976, and $4,437,000 for fiscal year 1977.

The Maritime Administration maintains the National Defense Reserve Fleet to supplement our active merchant fleet in time of war or national emergency.

The 1976 reserve fleet program provides for the preservation and security of 222 ships, distributed among three active fleet sites. Periodic preservation 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. The program also provides for custody of about 140 ships that are scheduled for disposal.

The 1977 program provides for the preservation and security of 222 ships held for national defense purposes. The program level will continue with a similar workload but at increased costs.

(e) maritime training at the Merchant Marine Academy at Kings Point. New York, $11,500,000 for fiscal year 1976, and $12,301,000 for fiscal year 1977.

The 1976 maritime training program provides for the operation of the U.S. Merchant Marine Academy at Kings Point, New York, in accordance with the Merchant Marine Act, 1936. The objective of the

Academy is to instruct and prepare selected personnel for service as officers in the U.S. merchant marine. The level of funding supports continuation of the facilities modernization program, including major alteration and modernization of physical fitness facilities.

The 1977 program level will be a continuation of the prior year program with funding increases related primarily to cost escalations. The modernization plan continues the renovation and upgrading of the academic buildings and other facilities in accordance with recommendations set forth in the Facilities Master Plan.

(f) financial assistance to State Marine Schools, $4,708,000 for fiscal year 1976, and $3,658,000 for fiscal year 1977.

The 1976 State maritime training program implements the Maritime Academy Act of 1958 by providing assistance to States in the operation and maintenance of maritime academies for the training of merchant marine officers. Grants to participating States (California, Michigan, New York, Maine, Massachusetts and Texas), allowances for uniforms, books and subsistence to the cadets, and maintenance of ships on loan from the National Defense Reserve Fleet to be used as training vehicles are provided. The installation of pollution abatement and control devices in those training vessels is included in this estimate.

The 1977 program will continue at the prior year level. A reduction in the funding requirement is due to the nonrecurring expense in 1976 for pollution abatement and control devices to be installed on training vessels in the prior fiscal year.

Section 2 of the draft bill would authorize to be appropriated for 1976 and 1977 additional supplemental amounts for the activities for which appropriations are authorized under section 1 of the bill to the extent necessary for increases in salary, pay, retirement, or other employee benefits authorized by law. The purpose of this section is to provide authorization for supplemental appropriations for these purposes.

Also requested is necessary authority for supplemental appropriations, should they be needed, for uncontrollable cost increases in public utilities, food services and other expenses at the Merchant Marine Academy at Kings Point, New York. For example, in the first two quarters of fiscal year 1975, food service costs, which are pegged to the Department of Labor Wholesale Price Index, rose 11 percent over what was estimated and it is impossible to predict what increases may be expected for fiscal years 1976 and 1977. Closely related to this cost is an 8.6 percent increase over fiscal year 1975 predictions in the number of meals being served. This is due to continued high enrollment, and no basis exists for predicting a higher attrition rate over the next two fiscal years.

Further uncontrollable and unpredictable increased costs have arisen in the area of public utilities. The cost of heating oil has risen 41 percent from fiscal year 1974, i.e., from 25.2 cents per gallon to 35.6 cents per gallon. As of January 1975, the costs of electric power have risen 68 percent over March 1974, kilowatt hour costs. Increases have also been experienced in telephone, sewage and supplies and material costs. There is no basis on which to predict or control these costs.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., April 8, 1975.

HON. PAUL N. MCCLOSKEY, JR.,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN MCCLOSKEY: This is in response to your letter of March 17, regarding the desirability of an increase in the ceiling on loan guarantee commitments under Title XI of the Merchant Marine Act.

The questions you raised to Mr. Blackwell in your letter of March 17 are certainly valid ones which must be addressed. The real cost of the program and its economic impact warrant thorough review. The Commerce Department will be conducting such a review over the next few months.

After completion of this study effort it may be necessary to establish more specific controls over the use of Title XI authorities. This might be done administratively or, if necessary, through proposed legislative changes. The Committee will be informed immediately of the outcome of the study, and of any legislation which will be proposed.

In view of the above, it is our present intention to delay requesting an increase in the loan ceiling until this study is completed. Nevertheless, we would not object to an increase at this time if Congress sees fit, since it would be our expectation that any specific controls adopted or proposed would not depend on the ceiling for enforcement.

Thank you for your interest.

Sincerely,

JAMES T. LYNN,
Director.

CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, as amended, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTION 1103(f) OF THE MERCHANT MARINE ACT, 1936, AS AMENDED (46 U.S.C. 1273(f))

SEC. 1103. (a) The Secretary of Commerce, upon application by a citizen of the United States, is authorized to guarantee, and to enter into commitments to guarantee, the payment of the interest on, and the unpaid balance of the principal of, any obligation which is eligible to be guaranteed under this title.

(b) No obligation shall be guaranteed under this title unless the obligor conveys or agrees to convey to the Secretary of Commerce such security interest, which may include a mortgage or mortgages on a vessel or vessels, as the Secretary of Commerce may reasonably require to protect the interests of the United States.

(c) The Secretary of Commerce shall not guarantee the principal of obligations in an amount in excess of 75 per centum, or 87½ per centum, whichever is applicable under section 1104 of this title, of the amount, as determined by the Secretary of Commerce which determination shall be conclusive, paid by or for the account of the obligor for the construction, reconstruction, or reconditioning of a vessel or vessels with respect to which a security interest has been conveyed to the Secretary of Commerce, unless the obligor creates an escrow fund as authorized by section 1108 of this title, in which case the Secretary of Commerce may guarantee 75 percentum or 87½ per centum, whichever is applicable under section 1104 of this title, of the actual cost of such vessel or vessels.

(d) The full faith and credit of the United States is pledged to the payment of all guarantees made under this title with respect to both principal and interest, including interest, as may be provided for in the guarantee, accruing between the date of default under a guaranteed obligation and the payment in full of the guarantee.

(e) Any guarantee, or commitment to guarantee, made by the Secretary of Commerce under this title shall be conclusive evidence of the eligibility of the obligations for such guarantee, and the validity of any guarantee, or commitment to guarantee, so made shall be incontestable.

(f) The aggregate unpaid principal amount of the obligations guaranteed under this section and outstanding at any one time shall not exceed [$5,000,000,000.] *$7,000,000,000.*

Section 6(a) of the Maritime Academy Act of 1958, as Amended (46 U.S.C. 1385(a))

Sec. 6. (a) The Secretary may enter into agreements, with each academy or college with which he contracts under section 4 to make payments, at a rate not in excess of [$600] *$1,200* per academic year per student, to such academy or college, with respect to each student attending such academy or college. Such payments (1) shall be used to assist in defraying the cost of uniforms, books, and subsistence for such student, (2) shall commence to accrue on the day such student begins his first term of work at such academy or college and (3) shall be paid to such academy or college in such installments as the Secretary shall prescribe, while such student is in attendance and until the completion of his course of instruction, but in no event for more than four academic years for any one student.

(b) If the Secretary deems it advisable in the case of any such academy or college, he may, in lieu of entering into agreements with such academy or college for payments under this section, enter into such agreements directly with each student at such academy or college and make such payments directly to each such student.

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94TH CONGRESS
1st Session

SENATE

REPORT
No. 94-407

MARITIME APPROPRIATION AUTHORIZATION ACT OF 1975

OCTOBER 2 (legislative day, SEPTEMBER 11), 1975.—Ordered to be printed

Mr. LONG, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany S. 1542]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the House to the bill (S. 1542), to authorize appropriations for the fiscal year 1976 for certain maritime programs of the Department of Commerce, and for other purposes, 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 disagreement to the amendment of the House and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the House amend-
allowance would equal $139.48.

That this Act may be cited as the "Maritime Appropriation Authorization Act of 1975".

SEC. 2. Funds are 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 1976, as follows:

(1) For acquisition, construction, or reconstruction of vessels and for construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, not to exceed $195,000,000.

(2) For payment of obligations incurred for operating-differential subsidy, not to exceed $315,936,000.

(3) For expenses necessary for research and development activities. not to exceed $12,232,000.

(4) For reserve fleet expenses, not to exceed $4,242,000.

(5) For maritime training at the Merchant Marine Academy at Kings Point, New York, not to exceed $11,500,000.

(6) For financial assistance to State marine schools, not to exceed $4,708,000.

SEC. 3. There are authorized to be appropriated for the fiscal year 1976, in addition to the amounts authorized by section 2 of this Act, *such additional supplemental amounts, for the activities for which appropriations are authorized under section 2 of this Act, as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law, and for increased costs for public utilities, food service, and other expenses of the Merchant Marine Academy at Kings Point, New York.*

SEC. 4. Section 809(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213(a)) is amended by inserting immediately after the first sentence thereof the following: "In order to assure equitable treatment for each range of ports referred to in the preceding sentence, not less than 10 percent of the funds appropriated for construction differential subsidy and operating differential subsidy pursuant to this Act or any law authorizing funds for the purposes of this Act shall be allocated to each such port range: Provided, however, That such allocation shall apply to the extent that subsidy contracts are approved by the Secretary of Commerce. Not later than March 1, 1976, and annually thereafter, the Secretary shall submit to Congress a detailed report (1) describing the actions that have been taken pursuant to this Act to assure insofar as possible that direct and adequate service is provided by United States-flag commercial vessels to each range of ports referred to in this section; and (2) including any recommendations for additional legislation that may be necessary to achieve the purpose of this section."

SEC. 5. Section 1103(f) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1273(f)) is amended by striking "$5,000,000,000", and inserting in lieu thereof "$7,000,000,000".

And the Senate agree to the same.

WARREN G. MAGNUSON,
RUSSELL B. LONG,
ERNEST F. HOLLINGS,
J. GLENN BEALL, Jr.,
Managers on the Part of the Senate.

LEONOR K. SULLIVAN,
THOMAS L. ASHLEY,
THOMAS N. DOWNING,
JOHN D. DINGELL,
PAUL G. ROGERS,
PHILIP E. RUPPE,
PAUL N. MCCLOSKEY, Jr.,
Managers on the Part of the House.

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 amendment of the House to the bill (S. 1542), to authorize appropriations for the fiscal year 1976 for certain maritime programs of the Department of Commerce, and for other purposes, 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:

TITLE OF THE ACT

Section 1 of the Senate bill provides "That this Act may be cited as the 'Maritime Appropriation Authorization Act of 1975'." The House amendment does not contain a comparable provision. The conferees agreed to the title in the Senate bill, and accompanying technical changes in the numbering of the sections.

CONSTRUCTION-DIFFERENTIAL SUBSIDY

Section 2(1) of the Senate bill authorizes $195 million for construction-differential subsidy, whereas section 1(a) of the House amendment authorizes $240 million for this activity. The conferees agreed to $195 million because the Maritime Administration reduced its fiscal year 1976 appropriations request to that amount due to the cancellation of several ship construction orders.

STATE MARINE SCHOOLS

Section 2 (6) of the Senate bill authorizes $4,708,000 for financial assistance to the State marine schools, whereas section 1 (f) of the House amendment authorizes $5,808,000 for this activity. The increase of $1.1 million in the House amendment would authorize funding of section 4 of the House amendment which was not adopted by the conferees. The managers on the part of the House receded on the issue, therefore, the conferees agreed to the lesser amount of $4,708,000.

Section 4 of the House amendment amends section 6(a) of the Maritime Academy Act of 1958, as amended (46 U.S.C. 1385(a)), to increase the ceiling on the Federal subsistence payments which the Secretary of Commerce may pay to students at the State marine schools from $600 to $1200 per academic year. The Senate bill does not contain a comparable provision. This provision of the House amendment was not agreed to in conference.

The conferees did not feel that an adequate background had been developed to justify the increase. Hearings on the issue have not been held in either the House or the Senate. Furthermore, the House Merchant Marine and Fisheries Committee has not considered the report of its Ad Hoc Committee on Maritime Education and Training, which made a detailed 18-month survey of the State and Federal maritime academies and issued a report. The report was unanimously approved by the House Merchant Marine Subcommittee.

Legislation similar to section 4 of the House amendment is pending before the House Committee on Merchant Marine and Fisheries and the conferees concluded that consideration of that bill would be the most appropriate means for resolving this matter. The House Committee expects to act on the bill expeditiously.

CAPITAL CONSTRUCTION FUND

Section 4 of the Senate bill amends section 607(g) of the Merchant Marine Act, 1936, as amended, (46 U.S.C. 1177(g)) to clarify the intent of the Congress with respect to the relationship between the Capital Construction Fund provided by section 607, and the Investment Tax Credit provided by section 38 of the Internal Revenue Code of 1954 (26 U.S.C. 38). The House amendment does not contain a comparable provision. The managers on the part of the House agree with the merits of section 4 of the Senate bill and with the language of Senate Report 94-96 concerning that provision. However, both the Merchant Marine and Fisheries Committee and the Ways and Means Committee of the House of Representatives, have an interest in the issue. In the interest of avoiding further delay in the enactment of S. 1542, the conferees determined to delete the provision.

When section 607 of the Merchant Marine Act, 1936, was substantially revised in the Merchant Marine Act, 1970 (P.L. 91-469), the Ways and Means Committee and the Merchant Marine and Fisheries Committee agreed that the latter committee should take jurisdiction of the matter. The Chairman of the Merchant Marine and Fisheries Committee sought the same arrangement with the Ways and Means Committee with respect to Section 4 of the present Senate bill. After several months delay, the Ways and Means Committee determined that it should review the subject matter of section 4 of the Senate bill. The Ways and Means Committee also stated that it would take up the matter expeditiously, and the managers on the part of the House intend to keep in close touch with the Ways and Means Committee with respect to this matter.

In the view of the conferees, the amendment to section 607 contained in Section 4 of the Senate bill was solely a clarifying amendment, intended to bring administrative practice into conformity with Congressional intent. Although properly understood by the Department of Commerce, section 607 has heretofore been erroneously interpreted by the Treasury Department. In the view of the conferees, section 4 of the Senate bill accurately represents the state of existing law and appropriate Federal maritime policy. It is hoped that the manifest Congressional purpose of stimulating the growth of the U.S.-flag merchant marine will now be recognized by the Treasury Department and that no further legislation will be required. However, in the event that further legislation is needed to correct administrative practice, the conferees look to the commitment of the Ways and Means Committee to take up the matter expeditiously. For the present, however, the conferees have determined that the amendment to section 607 should be deleted in order to prevent further delay in the enactment of the maritime authorization bill.

SUBSIDY ALLOCATION

Section 5 of the Senate bill amends section 809(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213(a)), to require that not less than 10 percent of the Maritime Administration program funds be allocated to serve the foreign trade requirements of the ports of each of the four seacoasts of the United States. The amendment limits the 10 percent requirement by providing that this allocation applies only "to the extent that subsidy contracts have been approved by the Secretary of Commerce." The House bill does not contain a comparable provision.

The amendment recognizes the unique problems confronting the Great Lakes-St. Lawrence Seaway. It is intended to respond to the special needs and problems confronting this range of ports which was designated in the Merchant Marine Act, 1970, as the "fourth seacoast" of the United States.

The conferees agreed to this section of the Senate bill after amending it to apply solely to construction and operating-differential subsidy funds and concluded that the provision shall apply to all operating-differential subsidy contracts and not be limited to just new and renewed contracts.

TITLE XI GUARANTEES

Section 6 of the Senate bill increases the statutory limitation on obligations guaranteed by the Title XI Federal ship mortgage guarantee program from $5 billion to $8 billion, whereas section 3 of the House amendment raises the ceiling on guaranteed obligations from $5 billion to $7 billion. The conferees agreed to the lesser amount of $7 billion because the amount should be sufficient to cover revised anticipated obligations during fiscal year 1976.

WARREN G. MAGNUSON,
RUSSELL B. LONG,
ERNEST F. HOLLINGS,
J. GLENN BEALL, JR.,
Managers on the Part of the Senate.
LEONOR K. SULLIVAN,
THOMAS L. ASHLEY,
THOMAS N. DOWNING,
JOHN D. DINGELL,
PAUL G. ROGERS,
PHILIP E. RUPPE,
PAUL N. MCCLOSKEY, JR.,
Managers on the Part of the House.

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94TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 94–529

MARITIME APPROPRIATION AUTHORIZATION ACT OF 1975

OCTOBER 3, 1975.—Ordered to be printed

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

CONFERENCE REPORT

[To accompany S. 1542]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the House to the bill (S. 1542) to authorize appropriations for the fiscal year 1976 for certain maritime programs of the Department of Commerce, and for other purposes, 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 disagreement to the amendment of the House and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the House amendment insert the following:

That this Act may be cited as the "Maritime Appropriation Authorization Act of 1975".

SEC. 2. Funds are authorized to be appropriated without fiscal year limitations as the Appropriation Act may provide for the use of the Department of Commerce, for the fiscal year 1976, as follows:

(1) For acquisition, construction, or reconstruction of vessels and for construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, not to exceed $195,000,000.

(2) For payment of obligations incurred for operating-differential subsidy, not to exceed $315,936,000.

(3) For expenses necessary for research and development activities, not to exceed $12,232,000.

(4) For reserve fleet expenses, not to exceed $4,242,000.

(5) For maritime training at the Merchant Marine Academy at Kings Point, New York, not to exceed $11,500,000.

(6) For financial assistance to State marine schools, not to exceed $4,708,000.

SEC. 3. There are authorized to be appropriated for the fiscal year 1976, in addition to the amounts authorized by section 2 of this Act, *such additional supplemental amounts, for the activities for which appropriations are authorized under section 2 of this Act, as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law, and for increased costs for public utilities, food service, and other expenses of the Merchant Marine Academy at Kings Point, New York.*

SEC. 4. Section 809(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213(a)) is amended by inserting immediately after the first sentence thereof the following: "In order to assure equitable treatment for each range of ports referred to in the preceding sentence, not less than 10 percent of the funds appropriated for construction differential subsidy contracts and operating differential subsidy contracts pursuant to this Act or any law authorizing funds for the purposes of this Act shall be allocated to each such port range: Provided, however, That such allocation shall apply to the extent that subsidy contracts are approved by the Secretary of Commerce. Not later than March 1, 1976, and annually thereafter, the Secretary shall submit to Congress a detailed report (1) describing the actions that have been taken pursuant to this Act to assure insofar as possible that direct and adequate service is provided by United States-flag commercial vessels to each range of ports referred to in this section; and (2) including any recommendations for additional legislation that may be necessary to achieve the purpose of this section."

SEC. 5. Section 1103(f) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1273(f)) is amended by striking "$5,000,000,000", and inserting in lieu thereof "$7,000,000,000".

And the House agree to the same.

LEONOR K. SULLIVAN,
THOMAS L. ASHLEY,
THOMAS N. DOWNING,
JOHN D. DINGELL,
PAUL G. ROGERS,
PHILIP E. RUPPE,
PAUL N. MCCLOSKEY,
Managers on the Part of the House.

WARREN G. MAGNUSON,
RUSSELL B. LONG,
ERNEST F. HOLLINGS,
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 amendment of the House to the bill (S. 1542), to authorize appropriations for the fiscal year 1976 for certain maritime programs of the Department of Commerce, and for other purposes, 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:

TITLE OF THE ACT

Section 1 of the Senate bill provides "That this Act may be cited as the 'Maritime Appropriation Authorization Act of 1975'." The House amendment does not contain a comparable provision. The conferees agreed to the title in the Senate bill, and accompanying technical changes in the numbering of the sections.

CONSTRUCTION-DIFFERENTIAL SUBSIDY

Section 2(1) of the Senate bill authorizes $195 million for construction-differential subsidy, whereas section 1(a) of the House amendment authorizes $240 million for this activity. The conferees agreed to $195 million because the Maritime Administration reduced its fiscal year 1976 appropriations request to that amount due to the cancellation of several ship construction orders.

STATE MARINE SCHOOLS

Section 2(6) of the Senate bill authorizes $4,708,000 for financial assistance to the State marine schools, whereas section 1(f) of the House amendment authorizes $5,808,000 for this activity. The increase of $1.1 million in the House amendment would authorize funding of section 4 of the House amendment which was not adopted by the Conferees. The managers on the part of the House receded on the issue; therefore, the Conferees agreed to the lesser amount of $4,708,000.

Section 4 of the House Amendment amends section 6(a) of the Maritime Academy Act of 1958, as amended (46 U.S.C. 1385(a)), to increase the ceiling on the Federal subsistence payments which the Secretary of Commerce may pay to students at the State marine schools from $600 to $1200 per academic year. The Senate bill does not contain a comparable provision. This provision of the House amendment was not agreed to in Conference.

The Conferees did not feel that an adequate background had been developed to justify the increase. Hearings on the issue have not been held in either the House or the Senate. Furthermore, the House Merchant Marine and Fisheries Committee has not considered the report of its Ad Hoc Committee on Maritime Education and Training, which made a detailed 18-month survey of the State and Federal Maritime Academies and issued a report. The report was unanimously approved by the House Merchant Marine Subcommittee.

Legislation similar to section 4 of the House amendment is pending before the House Committee on Merchant Marine and Fisheries and the Conferees concluded that consideration of that bill would be the most appropriate means for resolving this matter. The House Committee expects to act on the bill expeditiously.

Capital Construction Fund

Section 4 of the Senate bill amends section 607(g) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1177(g)), to clarify the intent of the Congress with respect to the relationship between the Capital Construction Fund provided by section 607 and the Investment Tax Credit provided by section 38 of the Internal Revenue Code of 1954 (26 U.S.C. 38). The House amendment does not contain a comparable provision. The managers on the part of the House agree with the merits of section 4 of the Senate bill and with the language of Senate Report 94–96 concerning that provision. However, both the Merchant Marine and Fisheries Committee and the Ways and Means Committee, of the House of Representatives, have an interest in the issue. In the interest of avoiding further delay in the enactment of S. 1542, the Conferees determined to delete the provision.

When section 607 of the Merchant Marine Act, 1936, was substantially revised in the Merchant Marine Act, 1970 (P.L. 91–469), the Ways and Means Committee and the Merchant Marine and Fisheries Committee agreed that the latter committee should take jurisdiction of the matter. The Chairman of the Merchant Marine and Fisheries Committee sought the same arrangement with the Ways and Means Committee with respect to Section 4 of the present Senate bill. After several months delay, the Ways and Means Committee determined that it should review the subject matter of section 4 of the Senate bill. The Ways and Means Committee also stated that it would take up the matter expeditiously and the managers on the part of the House intend to keep in close touch with the Ways and Means Committee with respect to this matter.

In the view of the conferees, the amendment to section 607 contained in Section 4 of the Senate bill was solely a clarifying amendment, intended to bring administrative practice into conformity with Congressional intent. Although properly understood by the Department of Commerce, section 607 has heretofore been erroneously interpreted by the Treasury Department. In the view of the conferees, section 4 of the Senate bill accurately represents the state of existing law and appropriate Federal maritime policy. It is hoped that the manifest Congressional purpose of stimulating the growth of the U.S.-flag merchant marine will now be recognized by the Treasury Department and that no further legislation will be required. However, in the event that further legislation is needed to correct administrative practice, the conferees look to the commitment of the Ways and Means Committee to take up the matter expeditiously. For the present, however, the conferees have determined that the amendment to section 607 should be deleted in order to prevent further delay in the enactment of the maritime authorization bill.

Subsidy Allocation

Section 5 of the Senate bill amends section 809(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213(a)), to require that not less than 10 percent of the Maritime Administration program funds be allocated to serve the foreign trade requirements of the ports of each of the four seacoasts of the United States. The amendment limits the 10 percent requirement by providing that this allocation applies only "to the extent that subsidy contracts have been approved by the Secretary of Commerce." The House bill does not contain a comparable provision.

The amendment recognizes the unique problems confronting the Great Lakes-St. Lawrence Seaway. It is intended to respond to the special needs and problems confronting this range of ports which was designated in the Merchant Marine Act, 1970, as the "fourth seacoast" of the United States.

The conferees agreed to this section of the Senate bill after amending it to apply solely to construction and operating-differential subsidy funds and concluded that the provision shall apply to all operating-differential subsidy contracts and not be limited to just new and renewed contracts.

Title XI Guarantees

Section 6 of the Senate bill increases the statutory limitation on obligations guaranteed by the Title XI Federal ship mortgage guarantee program from \$5 billion to \$8 billion, whereas section 3 of the House amendment raises the ceiling on guaranteed obligations from \$5 billion to \$7 billion. The Conferees agreed to the lesser amount of \$7 billion because the amount should be sufficient to cover revised anticipated obligations during Fiscal Year 1976.

Leonor K. Sullivan,
Thomas L. Ashley,
Thomas N. Downing,
John D. Dingell,
Paul G. Rogers,
Philip E. Ruppe,
Paul N. McCloskey,
Managers on the Part of the House.
Warren G. Magnuson,
Russell B. Long,
Ernest F. Hollings,
J. Glenn Beall, Jr.,
Managers on the Part of the Senate.

S. 1542

Ninety-fourth Congress of the United States of America

AT THE FIRST SESSION

Begun and held at the City of Washington on Tuesday, the fourteenth day of January, one thousand nine hundred and seventy-five

An Act

To authorize appropriations for the fiscal year 1976 for certain 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 this Act may be cited as the "Maritime Appropriation Authorization Act of 1975".

SEC. 2. Funds are 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 1976, as follows:

(1) For acquisition, construction, or reconstruction of vessels and for construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, not to exceed $195,000,000.

(2) For payment of obligations incurred for operating-differential subsidy, not to exceed $315,936,000.

(3) For expenses necessary for research and development activities, not to exceed $12,232,000.

(4) For reserve fleet expenses, not to exceed $4,242,000.

(5) For maritime training at the Merchant Marine Academy at Kings Point, New York, not to exceed $11,500,000.

(6) For financial assistance to State marine schools, not to exceed $4,708,000.

SEC. 3. There are authorized to be appropriated for the fiscal year 1976, in addition to the amounts authorized by section 2 of this Act, such additional supplemental amounts, for the activities for which appropriations are authorized under section 2 of this Act, as may be necessary for increases in salary, pay, retirement, or other employee benefits authorized by law, and for increased costs for public utilities, food service, and other expenses of the Merchant Marine Academy at Kings Point, New York.

SEC. 4. Section 809(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213(a)) is amended by inserting immediately after the first sentence thereof the following: "In order to assure equitable treatment for each range of ports referred to in the preceding sentence, not less than 10 percent of the funds appropriated for construction-differential subsidy and operating-differential subsidy pursuant to this Act or any law authorizing funds for the purposes of this Act shall be allocated to each such port range: *Provided, however*, That such allocation shall apply to the extent that subsidy contracts are approved by the Secretary of Commerce. Not later than March 1, 1976, and annually thereafter, the Secretary shall submit to Congress a detailed report (1) describing the actions that have been taken pursuant to this Act to assure insofar as possible that direct and adequate service is provided by United States-flag commercial vessels to each range of ports referred to in this section; and (2) including any recommendations for additional legislation that may be necessary to achieve the purpose of this section.".

SEC. 5. Section 1103(f) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1273(f)) is amended by striking "$5,000,000,000", and inserting in lieu thereof "$7,000,000,000".

Speaker of the House of Representatives.

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

S. Con. Res. 71 Agreed to October 31, 1975

Ninety-fourth Congress of the United States of America

AT THE FIRST SESSION

Begun and held at the City of Washington on Tuesday, the fourteenth day of January, one thousand nine hundred and seventy-five

Concurrent Resolution

Resolved by the Senate (*the House of Representatives concurring*), That the Secretary of the Senate in the enrollment of the bill (S. 1542), to authorize appropriations for the fiscal year 1976 for certain maritime programs of the Department of Commerce, and for other purposes, is authorized and directed to make the following correction: Section 4 to read as follows:

SEC. 4. Section 809(a) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1213(a)) is amended by inserting immediately after the first sentence thereof the following: "In order to assure equitable treatment for each range of ports referred to in the preceding sentence, not less than 10 percent of the funds appropriated for construction-differential subsidy and operating-differential subsidy pursuant to this Act or any law authorizing funds for the purposes of this Act shall be allocated to each such port range: *Provided, however*, That such allocation shall apply to the extent that subsidy contracts are approved by the Secretary of Commerce. Not later than March 1, 1976, and annually thereafter, the Secretary shall submit to Congress a detailed report (1) describing the actions that have been taken pursuant to this Act to assure insofar as possible that direct and adequate service is provided by United States-flag commercial vessels to each range of ports referred to in this section; and (2) including any recommendations for additional legislation that may be necessary to achieve the purpose of this section.".

Attest:

Secretary of the Senate.

Attest:

Clerk of the House of Representatives.

November 3, 1975

Dear Mr. Director:

The following bill was received at the White House on November 3rd:

S. 1542

Please let the President have reports and recommendations as to the approval of this bill as soon as possible.

Sincerely,

Robert D. Linder
Chief Executive Clerk

The Honorable James T. Lynn
Director
Office of Management and Budget
Washington, D. C.