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August 2, 1976

Bill Seidman

**The attached was reviewed
by the President. The
attached is for your
information.**

Jim Connor


MEMORANDUM

THE PRESIDENT HAS SEEN.....

THE WHITE HOUSE
WASHINGTON



July 29, 1976

MEMORANDUM FOR: THE PRESIDENT
FROM: BRENT SCOWCROFT 
SUBJECT: Contract Versus Civil Service Manning
of Military Sealift Command Ships

During the EPB meeting yesterday you asked for a status report on the above subject. The Defense Department has provided the following chronology of actions they have taken.

On July 15, 1975, the President discussed the above subject with Secretary of Defense Schlesinger and urged that a plan for contract (union) operation of Military Sealift Command (MSC) ships be prepared. Accordingly, the Navy Department, the Maritime Administration and the Office of Management and Budget worked jointly on this consideration resulting in the preparation of an action memorandum to the President from the Director of the Office of Management and Budget, James T. Lynn. It is understood that this memorandum was presented to the President for consideration about 28 August 1975 (actual memo at Tab A). Five alternatives were provided which ran the gamut from contracting for operation of 21 MSC ships to retaining Civil Service crews. The Navy Department was informed that the President had selected Alternative #3 which called for contract operation of four MSC tankers. It was understood that the plan envisaged evaluation of the relative merits of contract operation versus Civil Service operation by the proposed four-ship program in order to provide an appropriate basis for a comprehensive future policy for manning of MSC ships.

On 2 September 1975, the Secretary of the Navy Middendorf directed the Chief of Naval Operations to place four Falcon Tankers under contract operation by means of a commercial competition. He stated that the plan was to conduct a one-year competitive cost evaluation based on data derived from this contract as well as a cost history which would be available from other ships being manned by Civil servants. Final evaluation would be based on all kinds of costs which are required for a proper comparison chosen through the joint consideration of OMB,

MARAD, and MSC. On 3 September 1975 the Secretary of the Navy informed the Director of OMB of this action.

On 17 October 1975, a solicitation was offered to Industry requesting quotations for a one-year period plus an option of six months. Valid bids were received from four organizations on 16 December 1975. Following negotiations and receipt of best and final offers, MSC made an award to Mount Shipping, Inc. on 18 March 1976. The four ships were placed into operation starting with the first one on 16 April 1976 and culminating with the fourth one on 26 May 1976. Based on the Mount Shipping contract price, it was estimated on 15 March 1976 that the contract operation would exceed the current price of Civil Service operation by about 13%. Prior to the Mount Shipping award, these figures were discussed with OMB after which the award was made.

As of this date, we are proceeding in accordance with the plan and anticipate that in mid-1977 data will be available after which time the economics and other factors will be reviewed and a longer range plan established.

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

ACTION

AUGUST 27, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: JAMES T. LYNN
SUBJECT: Union versus Civil Service Manning of
Military Sealift Command Ships

In your July 15 meeting with Secretary Schlesinger, you discussed the question of union versus Civil Service manning of Military Sealift Command (MSC) ships. The issue to be resolved involves the use of private contractors versus continued MSC operation of these ships. This memo identifies the ships involved, compares the operating costs under the two systems, and outlines three possible courses of action.

Discussion

MSC operates 54 ships with civil servants. Of these, 27 are special project mission related ships used for ocean research and survey, Polaris/Poseidon support, range instrumentation, and underseas surveillance. The remaining 27 MSC ships are the subject of this issue. These include:

Seven tankers, 4 of which are of particular interest for private contract operation since their operations are quasi-commercial.

- Four tankers were operated by a private contractor until April 1974 when the contract was terminated due to inadequate performance. Each ship is manned by 25 civil servants, virtually all of whom are members of maritime unions. Union criticism of the use of ships with Civil Service personnel results from the fact that even though the present employees are union members, there is no contribution to the union pension and welfare funds. If the ships were contractor managed, contributions would be made to the pension fund of the appropriate unions. (The National Maritime Union pension fund has a present unfunded liability of approximately \$170 million.)
- The other 3 tankers are engaged entirely in Pacific Inter-island operations. They do not return to any U.S. ports and are old with poor crew accommodations. It is extremely doubtful that they would be of interest to contractors.

Eleven dry cargo ships have always been manned by civil servants. Navy has firm plans to remove 3 of these ships from the active force in 1976; and removal of another 3 ships is under consideration. Cost studies confirm the economics of civil servant manning as against contract operation. Private contractor operations will cost 15-20% more than the current system.

Nine fleet support ships, including oilers and tugs, operate directly with the Navy fleets at sea. These ships were once manned with military personnel, but were converted to civilian manning. Because of the type of support required of these ships, the Navy would prefer military manning in lieu of a private contractor. (The Chief of Naval Operations has stated as policy that, "Underway replenishment ships that provide front line support will be manned by either Navy crews or MSC Civil Service marine personnel in order to provide positive Navy control.")

Considerations

Cost

Agreement has been reached by DOD, MARAD and OMB on comparative labor and labor related cost differentials between civil servant and contractor manning. All parties also agree that non-labor costs would be higher under contractor operation, but there is some disagreement as to the size of the difference. DOD bases its estimates for tanker operations on actual experience and uses the same cost factors to compute contract costs for the dry cargo ships. MARAD has reservations on these estimates but lacks operating data.

For the 4 tankers and 8 dry cargo ships, manning with civil servants under MSC is 17% less expensive than private contractor operation. Higher contractor costs would be experienced for the following areas: overtime and premium pay, pension and welfare payments, and contractor overhead and profits.

The annual costs are as follows:

- The 4 tankers have annual operating costs of \$12.0 million, including unfunded retirement liability and insurance applied at commercial rates. Comparable costs from contract operation are \$14.0 million. Thus, shifting to contractor operations would increase costs by \$2.0 million (16%).
- The 8 dry cargo ships have annual operating costs of \$27.4 million, including unfunded retirement liability and insurance applied at commercial rates. Comparable costs from contract operations approximate \$31.8 million. Thus, a shift to contractor operation would increase costs by \$4.4 million (16%).

- Note: It must be recognized that the contractor costs are our best estimate. They could be higher or lower, subject to negotiation with the unions.

You expressed concern as to the validity of training cost estimates for ships manned by civil servants. Training costs amount to less than 1% of total operating costs under both civil servant and private contractor manning. Even if doubled, they would have only a slight impact on operating costs.

Union Membership

Civil servants employed aboard the MSC ships are generally members of various maritime unions. It is impossible to predict which unions would be represented if a decision is made to contract for operation of the ships. The majority of civil servants are members of the National Maritime Union and Seafarers International Union. An appeal could be expected from one of the two unions affected by a contract decision.

Operational Flexibility

The Navy believes a shift to contractor manning could reduce operational control and flexibility in the use of these ships. They are adamant that the 9 fleet support ships remain under their positive control. The dry cargo ships face a similar problem in obtaining security clearances for all crew members on contractor operated ships for handling classified military missions assignments involving sensitive or hazardous cargo. These concerns could be mitigated if the unions changed their crew assignment policy by having crew members sign on for extended periods with a specific ship. The current union practice is to assign new crew members for each voyage. A second change would be to require security clearances for all union crew members for these ships, as is now done for all civil service crew members.

Summary

Reversion to contract operation of the 4 tankers may be justifiable in that their operation is quasi-commercial (Defense could be convinced to revert these ships to contractor operation). On the basis of costs, however, Civil Service manning is less costly. The 3 inter-island tankers are not conducive to contractor operations.

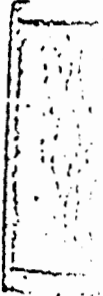
Contractor operation of the 5 remaining dry cargo ships is not cost effective and under current union policies could create problems when classified military missions involving sensitive or hazardous cargo are required.

The potential for reduced readiness exists if the 9 fleet support ships were operated under contractor management (strikes, crew rotation). If not manned by civil servants, there is a strong probability that military crews would be used.

4

Alternatives

Direct the Navy to:

- _____ 01 Contract for operation of 21 MSC ships, including 9 fleet support, 8 dry cargo, and 4 tankers. Annual operating cost increase would approximate \$11 million.
 - _____ 02 Contract for operation of 12 MSC ships (8 dry cargo, 4 tankers). Annual operating cost increase would approximate \$6.4 million (17%).
 - _____ 03 Contract for operation of 4 MSC tankers. Incremental operating cost increase to the Navy would approximate \$2.0 million (17%).
 - _____ 04 Solicit bids for contractor operation of 2 tankers and 4 dry cargo ships for a one-year trial period in order to evaluate costs and effectiveness of such operation.
 - _____ 05 Retain civil servant crews on these ships.
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COSTS FOR SHIPS OPERATION

(\$ in Millions)

	<u>MSC</u>	<u>Contract</u>	<u>Difference</u>
<u>Four Tankers</u>			
Costs of operations	11.3	14.0	+ 2.7
Additive costs not paid by MSC:	.7	--	- .7
Civil Service retirement fund unfunded liability and protection and indemnity insurance	-----	-----	-----
Full Cost of Operation	12.0	14.0	+ 2.0
<u>Eight Dry Cargo Ships</u>			
Costs of operations	25.8	31.8	+ 6.0
Additive costs not paid by MSC:	1.6	--	- 1.6
Civil Service retirement fund unfunded liability and protection and indemnity insurance	-----	-----	-----
Full Cost of Operation	27.4	31.8	+ 4.4