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December 2, 1983

Mr. James Cicconi
Special Assistant to the President
Office of the Chief of Staff
The White House
Washington, D.C. 20500

Dear Mr. Cicconi:

We wish to express our sincere appreciation for allowing us the opportunity to visit with you last Tuesday, November 22, 1983 and for being so attentive during the presentation of our concerns. We would like to present the following for your consideration:

1. The U.S. Merchant Marine:

It was clearly expressed during our meeting that our industry is diverse and complicated and that it makes a substantial contribution to both our national economy and our national security. Our industry deserves the support of the U.S. Government as most nations in the world support their merchant fleets.

2. Preservation of the Jones Act:

The Jones Act, a 63 year old cabotage law, is the heart of the American flag fleet. This Act is the result of 130 years of maritime legislation designed to protect the U.S. coastal trades, to foster a strong United States flag fleet and to insure that there will be vessels under the American Flag to assist the Navy in times of war. The Administration should want to continue supporting and protecting the domestic trades consistent with our nations 200 year old policy.

3. Modify Government Programs For Increased Carriage By
U.S. Flag Ships Of Government Preference Cargo Upwards
Of 50%

We understand that the law allows increases over 50%.
The cargo allocation policy by various federal government

agencies have been controversial. A tremendous amount of intra-agency fighting has taken place with the U.S. Merchant Marine suffering at the end. First of all, there has been no strict enforcement of the U.S. Flag Cargo Preference laws. Every interpretation provided by federal agencies of the law has been against U.S. maritime interests. There is need for strong, coordinated direction from policy makers.

4. Construction Differential Subsidy (CDS) Payback:

This proposed rulemaking should be terminated immediately. DOT has significantly overestimated the projected benefits to the consumer and to the U.S. Government, while at the same time it underestimated the losses to the U.S. Government and the taxpayers. The potential benefit is only \$64 million while the losses to the government will be \$1 billion in defaulting mortgages, plus \$50 million in lost taxes each year. Our nation will lose 30 - 50 ships which will be scrapped, the replacement value of which is worth about \$4 billion. National Defense will be weakened by 30 - 50 vessels and, as you can observe from the attached documents, the military have objected to the DOT rulemaking. Also, 2,500 American seafaring jobs and thousands of additional jobs will be lost. Further details are presented in the attached documents.

5. Continue Ban On Alaska Oil Exports:

Independently owned unsubsidized U.S. flag tanker vessels will be heavily affected by discontinuing use of Alaskan Oil for domestic purposes. Experts advise that only temporary gains will be enjoyed by the state of Alaska, federal government and the oil producers because exports from Alaska will be short-lived. When the international oil prices reach lower levels, the oil will be purchased from other sources and not Alaska.

6. Need for Overall Maritime Policy:

We tried to obtain and forward to you a copy to you of the publication issued by the Office of Technology Assessment of the U.S. Congress entitled "An Assessment of Maritime Trade and Technology". However, the publication is out of print. It is indeed interesting to observe that there is such great interest. There has never been lack of interest. However, there has been a lack of solutions for U.S. merchant marine problems. We draw your attention to the summary section of this government publication and particularly to the heading "Policy Status". It is very clearly indicated that "...the United States has no overall, coordinated and effective maritime policy that responds to the major trends and realities confronting the U.S. maritime

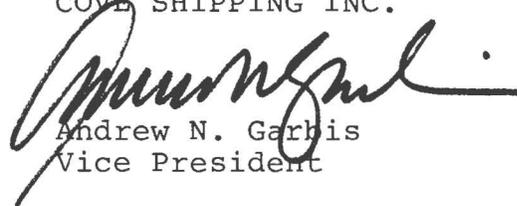
industry in the increasingly competitive and complex arena of world seaborne trade." It further states "Existing maritime policies are a patchwork of measures adopted at various times to address specific needs." Most nations in the world have long-range plans and policies to protect and preserve their merchant marine because it is vital for their economy, and to their national defense.

We urge the Administration to consider these matters seriously.

We will be very happy to provide you with additional information. Please feel free to call us.

Very truly yours,

COVE SHIPPING INC.

A handwritten signature in black ink, appearing to read "Andrew N. Garbis". The signature is fluid and cursive, with a prominent loop at the end.

Andrew N. Garbis
Vice President

ANG:jai
Encl.



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(VIA FEDERAL EXPRESS)

November 2, 1983

Mr. Christopher DeMuth
Administrator for Information and
Regulatory Affairs
Executive Office of the President
Office of Management and Budget
Washington, D.C. 20503

Re: Construction Differential Subsidy (CDS) Payback

Dear Mr. DeMuth:

We wish to thank you very much for your letter of September 15, 1983, copy attached.

In the second paragraph of your letter, you stated that in addition to benefits accruing consumers and taxpayers, the government may collect as much as \$200 million. This is not true, as explained hereunder.

1. We wish to provide you herewith with an analysis which clearly shows that the DOT estimate is grossly exaggerated. It is our view that initial payback from all vessels will not exceed \$128,656,000, as detailed in the attached analysis. Furthermore, after taking into account the fact that current tax laws allow accelerated write-offs of CDS payback, a five year write-off combined with Investment Tax Credit (ITC), will result in a 50% reduction to the government or \$64,328,000 potential benefit.
2. Although DOT states that their study was based on economics, they have not proven that there would be net monetary benefits to the government and/or to the consumer.
3. To the contrary, the government stands to lose close to \$1 billion in defaulting Title XI mortgages and close to \$50 million in taxes each year if the rule is adopted.
4. Due to the current, depressed market conditions, there is very little room for cost of transport savings that will benefit the consumer. Further downward rate movement is impossible.

.../...

Mr. Christopher DeMuth
November 2, 1983
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5. If the ruling goes into effect, 30 to 50 ships, vital to The Department of Defense, will be scrapped (replacement value about \$4 billion) and our entire foreign trade Merchant Marine fleet will be eliminated.

6. DOT openly admitted that the effect to our National Defense has not been evaluated. DOD has strongly objected.

7. Our company invested huge amounts of money during the last few years on the basis of existing laws. This rule, if adopted, will be devastating to our company.

8. The effect on balance of payments, loss of loans by banks, and loss of investments by individuals and companies, as well as the destruction of the maritime capital market have not been carefully examined by DOT.

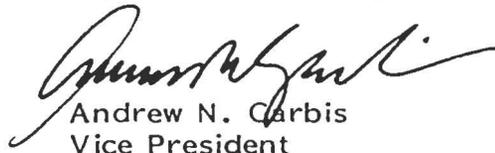
9. Evidence has been submitted to the Administration that the rule could generate a windfall of over \$600 million to oil companies (two of them foreign) and an individual, while thousands of people will be economically affected and some devastated.

10. Unquestionably this ruling will cause the loss of more than 2,500 American seafaring jobs and will affect thousands of jobs in shipyards, ship supply companies, spare suppliers and equipment manufacturers, office personnel and management of all of the above.

11. DOT presented the proposed rulemaking without making the required analysis and findings in respect to the impact of this rule on the industry. The impact of this rulemaking is certainly more than \$100 million, yet has not been dealt with as such.

Sincerely yours,

COVE SHIPPING INC.



Andrew N. Garbis
Vice President

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cc: James A. Baker, III, Chief of Staff
and Assistant to the President

Department of Transportation (see next page)

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November 2, 1983
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Raymond J. Donovan, Secretary of Labor
William P. Clark, Secretary of the Interior
William E. Brock, U.S. Trade Representative
Attorney General William French Smith
Donald T. Regan, Secretary of the Treasury



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

SEP 20 1983

September 15, 1983

Mr. Andrew N. Garbis
Vice President
Cove Maritime Companies, Inc.
Wall Street Plaza
New York, New York 10005

Dear Mr. Garbis:

Jim Baker asked me to respond to your letter concerning the Department of Transportation's proposed Construction Differential Subsidy repayment rule. We appreciate hearing your concerns; I hope you have conveyed them to the Department as well.

As you may know, OMB sent DOT a letter supporting the proposed rule during the public comment period. Our position was based on the DOT evaluation, which suggested that the proposal could benefit American consumers and taxpayers by leading to greater efficiencies in the shipping industry as well as to the repayment to the federal government of as much as \$200 million. If the assumptions upon which the evaluation was based are suspect, then we will have to reevaluate our support for the proposal.

President Reagan's Executive Order 12291 requires that government agencies issue regulations only after gathering sufficient information concerning the need for and consequences of proposed government action. DOT prepared an economic evaluation of the CDS repayment rule and solicited public comment on its accuracy. DOT is now analyzing the comments it received and adjusting its evaluation accordingly. Should the Department decide to issue a final rule, we will reassess our position based on the record and evaluation of comments.

Thank you once again for your views. I hope you will continue to share your thoughts with us on the policies of this administration in the months and years ahead.

Sincerely,

Christopher DeMuth
Administrator for Information
and Regulatory Affairs

CDS PAYBACK ANALYSIS
EFFECTIVE 4/30/84*

NOV - 1 1983

<u>VLCC's**</u>	<u>DWT</u>	<u>UNAMORTIZED CDS 7/1/83***</u>	<u>CDS AMORTIZATION TO 3/30/84</u>	<u>ADJUSTMENT CDS VESSEL REDUCTION</u>	<u>CDS PAYBACK 6 MOS. WAIVERS (10 YEARS)****</u>	<u>TOTAL CDS REPAYMENT</u>
ARCO INDEPENDENCE	265,000	24,886,000	1,375,000	---	8,800,000	14,721,000
ARCO SPIRIT	265,000	24,781,000	1,375,000	---	8,800,000	14,606,000
MARYLAND	265,000	21,028,000	1,272,000	---	8,100,000	11,656,000
MASSACHUSETTS	265,000	19,401,000	1,228,000	---		18,173,000
WILLIAMSBURG \	225,000	12,248,000	1,066,000	---	6,800,000	4,372,000
NEW YORK	265,000	16,187,000	1,038,000	---	8,100,000	7,049,000
BROOKLYN	225,000	10,163,000	818,000	---	5,100,000	4,245,000
		<u>128,694,000</u>	<u>8,172,000</u>		<u>46,700,000</u>	<u>74,822,000</u>
 <u>PANAMAX</u>						
KITTANING	91,000	9,700,000	429,000	---	---	9,291,000
CHESTNUT HILL	91,000	9,000,000	429,000	---	---	8,571,000
AMERICAN HERTIAGE	91,000	9,274,000	403,000	---	---	8,861,000
BEAVER STATE	91,000	9,296,000	403,000	---	---	8,883,000
GOLDEN ENDEAVOR	91,000	9,220,000	484,000	---	---	8,736,000
GOLDEN MONARCH	91,000	9,886,000	484,000	---	---	---
ROSE CITY*****	91,000	9,195,000	429,000	8,782,000	---	---
WORTH*****	91,000	9,565,000	429,000	9,152,000	---	---
			<u>3,491,000</u>	<u>17,934,000</u>		<u>53,744,000</u> TOTAL CDS PAYBACK
			11,663,000	53,744,000	46,700,000	128,656,000 TOTAL PAYBACK - ALL VESSELS

- * Assumes CDS Payback not implemented before 4/30/84.
- ** Vessels identified by DOT as CDS Payback candidates.
- *** DOT analysis of benefits of rule based on this date.
- **** CDS Payments to Treasury if Payback Rule not adopted.
- ***** Vessels selected for conversion to Hospital Ships for U.S. Navy.

DOT estimates total CDS Repayment at \$201,000,000.

SUMMARYTHE ADMINISTRATION'S SUBSIDY PAYBACK RULE
WILL ALLOW OWNERS, OPERATORS AND
CHARTERERS OF CDS VESSELS TO OBTAIN
MASSIVE WINDFALLS

- I. THE RULE COULD GENERATE A WINDFALL OF OVER \$600 MILLION TO AMERICAN AND FOREIGN COMPANIES.
 - A. CHARTERERS OF PANAMAX SIZE CDS VESSELS COULD REAP A WINDFALL OF \$308 MILLION BY SUBSTITUTING FOREIGN FLAG VESSELS FOR U.S. FLAG CDS VESSELS. (ATTACHMENT A, PGS. 7 THRU 9).
 - B. FOREIGN CHARTERERS OF TWO U.S. FLAG LARGE TANKERS COULD AVOID \$111 MILLION IN OPERATING LOSSES. (ATTACHMENT A, PGS. 5 THRU 6).
 - C. WHILE THE VALUE OF EXISTING UNSUBSIDIZED TANKERS WILL DECREASE DRAMATICALLY, THE VALUE OF TWO LARGE SUBSIDIZED TANKERS OWNED BY AN OIL COMPANY COULD BE ENHANCED BY \$185 MILLION BY PAYING BACK A PALTRY AMOUNT OF CDS. (ATTACHMENT A, PGS. 6 THRU 7).
 - D. TOTAL WINDFALLS OF AT LEAST \$604 MILLION DOLLARS WILL BE SHARED BY LEO BERGER ET AL \$308 MILLION DOLLARS, PETROFINA \$111 MILLION DOLLARS, AND ARCO \$185 MILLION DOLLARS.
- II. THE RULE WILL PERMIT SUCH WINDFALLS UPON REPAYMENT OF UNAMORTIZED CDS TO THE GOVERNMENT, A FRACTION OF THE GOVERNMENT'S ORIGINAL CDS INVESTMENT IN THE VESSELS.
- III. THE CDS REPAYMENT TO THE GOVERNMENT WILL BE LESS THAN 25 PERCENT OF THE WINDFALL MADE AVAILABLE TO PRIVATE PARTIES.
- IV. THE RULE WILL FORCE OUT OF BUSINESS 30 TO 50 SMALL TO MEDIUM SIZE PRODUCT TANKERS, ESSENTIAL IN CASE OF NATIONAL EMERGENCY. THEIR REPLACEMENT VALUE IS ESTIMATED AT ABOUT \$3 BILLION DOLLARS. THIS RULE WILL ALSO CAUSE ALL OTHER TANKERS, MEDIUM AND LARGE, INCLUDING MANY NEW BUILDINGS TO OPERATE AT LEVELS THAT WILL LEAD TO BANKRUPTCY.
- V. WHILE THE RULE INSURES HIGH WINDFALLS AND UNJUST ENRICHMENT TO A SELECT FEW, ALL NON-GOVERNMENT PARTIES, IT WEAKENS SERIOUSLY OUR MERCHANT MARINE AND OUR NATIONAL DEFENSE; CAUSES THE LOSS OF 2500 AMERICAN SEAFARING JOBS; CREATES OVERTONNAGING IN AN ALREADY DEPRESSED MARKET; PROVIDES NO SAVINGS TO THE CONSUMERS; CREATES CONDITIONS CONTRARY TO CONGRESSIONAL POLICY AND LEGISLATIVE HISTORY; ADVERSELY AFFECTS SHIPYARDS AND ALL RELATED SUPPORT FUNCTIONS; DESTROYS THE MARITIME CAPITAL MARKET AND SUBSTANTIALLY INCREASES THE GOVERNMENT'S EXPOSURE ON OVER \$1 BILLION OF TITLE XI GUARANTEES ON EXISTING TANKERS.

.....FOR MORE DETAILS, SEE ATTACHED.

In fact, it was considered then a good bargain for all parties including the Government which wanted a foreign trade American Flag fleet. Now, the charters are no longer profitable to the users (oil companies). The position of the U.S. Government as well as the position of the shipowners are under solid guarantee. The users are financially secure. The proposed rule gives the oil companies the opportunity to correct a business mistake into a sizeable profit.

The Administration, while allowing huge and unjust windfalls to major oil companies (some foreign) and to the one shipowner/operator compromises our national security, since 30 to 50 small to medium size product tankers (Jones Act ships) needed by the Navy would be lost. The replacement value of these ships is estimated at about \$3 billion.

Interestingly, despite its impact on our defense posture, the DOT proposal was offered without obtaining the views of either the Department of Defense or the National Security Council, as evidenced in the dialogue between a member of the House Subcommittee on Merchant Marine and the DOT spokesman - Charles Swinburn, Deputy Assistant Secretary for Policy and International Affairs - during the Subcommittee's hearings on the proposal on March 3, 1983:

Rep. Shumway: "Have you made studies on the possible impact of this proposal as far as it relates to our national defense needs?"

Mr. Swinburn: "The direct answer to that, Mr. Shumway, is no, we have not. The analysis stopped, if you will, with the economics."

This lapse, understandably, has caused concern among defense officials, and has led to letters to DOT Secretary Elizabeth Dole from Paul Thayer, Deputy Secretary of Defense, and George A. Sawyer, Assistant Secretary of the Navy. Copies of these letters are attached hereunder as Attachments A-1 and A-2.

Furthermore, the CDS rule, if enacted, will cause more than 2,500 seagoing jobs to be lost permanently when ships will be scrapped and creates a climate of instability. This loss of jobs does not include the thousands of jobs that will be affected or lost in shipyards, allied and support maritime industries and office/management personnel. The rulemaking, if enacted, would virtually close down the domestic shipyards. This is a devastating position to place our Navy in. Not only would we not have any shipbuilding capability during times of war but no repair facilities for combatant ships.

In excess of \$5 billion of private investment is being threatened. Domestic trade shipowners/operators made these investments in good faith and without Government help on the basis of existing laws.

It is unfair for the Administration to change the rules and to abandon the goals of existing Merchant Marine Legislation. This proposed rule is contrary to the intentions of the Congress when it passed the 1970 amendments to the Merchant Marine Act. Fifty years of legislation goes down the drain on the last day of a resigning Secretary?

Should the ground rules be changed so drastically and for so little reason? Will it ever be possible for the Merchant Marine community to find investors? Can the Administration overturn long standing maritime policy without congressional involvement?

The DOT proposal, instead of answering questions, raises more questions; instead of solving problems, creates more problems. The proposal was outdated the day it was issued, it contains faulty assessment of the number of ships that would repay their CDS; it overestimates the amount of oil production in Alaska; it shows lack of understanding of the Maritime Industry and market place pricing realities; it refers to shortages of VLCC's (very large crude oil carriers); and does not take into account physical port restrictions and natural barriers. It shows every shade of a "rush-rush-last minute quick fix".

Congressional leadership, responsible for maritime and defense matters and other legislators, not having the opportunity to consider the proposed fundamental changes to our Maritime policy, are strongly objecting to the rulemaking, as it is demonstrated in the attached letters (Attachments A-3, A-4, A-5, A-6, and A-7) to the current Secretary of Transportation, Elizabeth H. Dole.

It is also interesting to note that, during the early March 1983 Congressional hearings, neither the Maritime Administrator (Admiral H. Shear) nor the Senior Military Transportation Officer (Admiral Kent Carroll, Head of the Military Sealift Command) testified. Admiral Carroll was prohibited from testifying.

According to DOT, the following vessels are expected to pay back their CDS:

VESSEL NAME	OWNER/ CHARTERER	DWT (1)	UNAMORTIZED CDS (2)
<u>VLCC'S</u>			
1) ARCO INDEPENDENCE (3)	ATLANTIC RICHFIELD	265,000	\$24.9 (5)
2) ARCO SPIRIT (3)	ATLANTIC RICHFIELD	265,000	\$24.8 (5)
3) MARYLAND (4)	BOSTON VLCC TANKERS/SEATRAN	265,000	\$21.0 (4)
4) MASSACHUSETTS (4)	BOSTON VLCC TANKERS/SEATRAN	265,000	\$19.4 (4)
5) WILLIAMSBURG	PETROFINA	225,000	\$12.2
6) NEW YORK (4)	BOSTON VLCC TANKERS/SEATRAN	265,000	\$16.2 (4)
7) BROOKLYN (3)	PETROFINA	225,000	\$10.2
SUBTOTAL VLCC'S		1,775,000	\$128.7
<u>PANAMAX'S</u>			
8) KITTANING	KEYSTONE	91,000	\$ 9.7
9) CHESTNUT HILL	KEYSTONE	91,000	9.0
10) AMERICAN HERITAGE	BERGER	91,000	9.2
11) BEAVER STATE	BERGER	91,000	9.2
12) ROSE CITY	BERGER	91,000	9.1
13) WORTH	BERGER	91,000	9.5
14) GOLDEN MONARCH	BERGER	91,000	9.8
15) GOLDEN ENDEAVOR	BERGER	91,000	9.1
SUBTOTAL PANAMAX'S		728,000	\$74.6
TOTAL VLCC'S & PANAMAX'S		2,503,000	\$203.3

- (1) Deadweight Tons
- (2) Unamortized construction and reconstruction as estimated by MARAD (Maritime Administration) as at July 1, 1983 expressed in millions
- (3) Applications for CDS repayment have been filed with MARAD
- (4) Owner opposes CDS Payback
- (5) Owner does not support CDS under present conditions.

It is notable that Boston VLCC Companies, the owners of the VLCC's MARYLAND, MASSACHUSETTS and NEW YORK, are opposing the CDS Payback as expressed in a letter to Secretary Dole (Attachments A-8, A-9, and A-10). It is also noteworthy that Atlantic Richfield, a major oil company, does not support the entry under current conditions. Not a single oil company is in support of DOT. Shell Oil Company's comments (Attachment A-11) typify the comments of other oil companies. Therefore, the only VLCC owner who supports CDS Payback is Petrofina. Why? Because it stands to gain \$111 million.

The Petrofina VLCC's - BROOKLYN and WILLIAMSBURG - were built in 1973 and 1974 and chartered by Petrofina for their economic lives (25 years). The vessels were operated by Petrofina for many years in the international trade. Petrofina, as is the case with most other major oil companies, has experienced a reduced need for this class of vessels. Petrofina has scrapped its two owned foreign flag VLCC's, the FINA CANADA and the FINA BRITANNIA, and is attempting to reduce its shipping losses further by gaining full-time domestic trading rights for its two chartered U.S. Flag VLCC's. It is notable that Petrofina would still be forced to meet its commitments on four foreign flag VLCC's on long-term charter.

Due to current low rates, many charterers with long-term charter commitments are cancelling these charters and paying large settlements (see Attachment A-12).

Petrofina, as in the case of almost all owners or charterers of VLCC's, made a very costly commercial mistake in chartering two vessels for 25 years in a market soon to enter long-term and substantial overcapacity. The limited access to the domestic trade currently provides Petrofina with revenues sufficient to cover its capital and operating costs for a full year.

At least in the case of the BROOKLYN, the amount of CDS to be repaid (about \$10 million) is so little that the vessel would have an extraordinary capital cost advantage over all unsubsidized tankers constructed after 1973.

As an integrated, international oil company, with potential demand for ANS crude, Petrofina would have an imposing competitive advantage in securing charters for its two CDS vessels.

It is extraordinary that fundamental U.S. maritime policy would be changed to relieve a foreign charterer of a commercial mistake made in the early 1970's, at the expense of billions of dollars worth of tankers, old and new, large, medium and small, all secured by U.S. investors.

Petrofina's windfall is computed as follows:

	<u>ANTICIPATED LOSSES IN FOREIGN TRADE</u>	
	<u>FIRST 3 YEARS</u>	<u>LAST 12 YEARS</u>
	-----Millions of \$-----	
<u>VLCC "BROOKLYN"</u>		
Financial Costs	\$16.0	-
Lay-up Costs	5.0	\$32.0*
Operating Losses	-	-
	<u>\$21.0</u>	<u>\$32.0</u>

Potential Windfall for VLCC "BROOKLYN" from CDS Payback =
\$53.0 Million.

	<u>ANTICIPATED LOSSES IN FOREIGN TRADE</u>	
	<u>FIRST 3 YEARS</u>	<u>LAST 13 YEARS</u>
	-----Millions of \$-----	
<u>VLCC "WILLIAMSBURGH"</u>		
Financial Costs	\$18.0	-
Lay-up Costs	5.0	-
Operating Costs	-	\$35.0**
	<u>\$23.0</u>	<u>\$35.0</u>

Potential Windfall for VLCC "WILLIAMSBURGH" from CDS
Payback= \$58.0 Million.

Petrofina's Total Windfall Potential = \$111 Million.

* These vessels already are benefiting from the right to trade domestically for six months of any consecutive twelve month period. The calculations show the volume of losses likely with no domestic trading at all.

** Losses equal to \$1.00/DWT/month, reflecting higher U.S. operating costs.

Arco (Atlantic Richfield Company) purchased two (2) 265,000 DWT CDS-built VLCC's in 1981 for \$15 million in cash and the swap of three (3) foreign built 150,000 DWT tankers, the total value of which approximated \$50 million, or \$25 million per vessel. After CDS payback, the vessels would have a capital cost of approximately \$65 million. Ordered in 1983 in the U.S., ships with a comparable carrying capacity would require an investment of at least \$225 million (\$158 million after allowing for the age of the Arco vessels).

CDS payback, therefore, would produce a windfall to Arco of about \$185 million. Even with this prospect, as we stated previously, Arco does not support the entry of CDS vessels under present conditions.

These tankers were acquired by Arco from Gulf Oil at a depressed price (including the swap of three (3) smaller foreign flag vessels). The value of the two (2) U.S. ships reflected the limited employment opportunities available to the two (2) VLCC's in the domestic trade. To allow these ships into the domestic trade on a permanent basis after their distress sale would provide a major oil company with an unplanned and unnecessary windfall profit.

In addition, Arco, with its proprietary cargoes of ANS (Alaska North Slope) crude oil, can guarantee employment for its two (2) large vessels at the expense of currently chartered independent tanker capacity.

As far as VLCC's are concerned, conclusively Petrofina is the only supporter and possible beneficiary.

Leo Berger is the other major beneficiary. He is principal of the Berger Group of Companies, also known as Apex Marine.

The six (6) 91,000 DWT Panamax (capable of transiting the Panama Canal) Tankers operated by Apex Marine represent another situation producing an unequal competitive condition after CDS repayment. All of the six (6) ships have long-term charters with major oil companies. The oil companies have been experiencing losses from the operation of the vessels in foreign trade. The option of CDS repayment would provide the charterers with the possibility of relief from the unfavorable charter, the benefits of which would be transferred by the oil companies to Apex.

Aside from the possibility of profitability in the domestic trade, the unfair competitive advantage of cancelling the foreign trade charters come from the following factors:

- (1) the differential between the time charter rate paid for the Apex vessel and the present rate available for modern foreign flag vessels of a comparable size;
- (2) the wage escalation payments made by the charterer to Apex not made for foreign flag vessels under present market circumstances; and
- (3) the fuel cost differential for the Apex steam powered tankers as compared with more efficient foreign diesel tankers.

In sum, the cost advantage of cancelling the charters to Texaco, for example, would total approximately \$15 million over the remaining three (3) year life of the charters, on the assumption that Texaco requires any replacement vessels. The hidden benefits would provide these ships with an insurmountable competitive advantage. The subsidy program made these charters possible. Apex would receive the benefits of the charters in advance, enabling them to substantially reduce their break even cost. If it fails, Apex retains the foreign trade charters.

At no cost, the Administration would be granting to a shipowner the option to collect a windfall gain, skim the remaining cream from a weakening market or, at the worst, undercut existing domestic owners sufficiently to gain access to the domestic trade while retaining at least a large portion of its charter termination payment.

To quote the President of the American Maritime Association, this regulation "...would benefit principally one shipowner, Capt. Leo Berger, who has been cushioned against losses in the world market by his "hell-or-highwater" charters but who now is eyeing greater profitability."

Estimated Value of CDS Payback Windfall for Panamax Tankers was computed as follows:

TEXACO CHARTERS (5 SHIPS)	APPROXIMATE	
	CURRENT U.S. FLAG CDS/ODS	CURRENT FOREIGN FLAG T/C
	-----\$/DWT/MONTH-----	
Time Charter Cost	\$4.50	\$2.50
Wage Escalation Payment	1.00	-
Fuel Cost Differential	2.00	-
Total	\$7.50	

Monthly Differential = \$5.00/DWT/Month
 Annual Differential = \$5.00 x 91,000 DWT x 11.5 Months = \$5.2 Million

Remaining Ship-Years of Charters:

KITTANING	4 Years
CHESTNUT HILL	4 Years
BEAVER STATE	3 Years
WORTH	3 Years
ROSE CITY	<u>3 Years</u>

Total = 17 Years

Total Windfall = 5.2 Million x 17 Years = \$88 Million

Other Charters (5 Ships)

Estimated Average Remaining Life of Charters =	11 Years
Total Remaining Ship-Years of Charters =	55 Years

Estimated Average Monthly Differential =	\$4/DWT/Month
Estimated Total Differential =	\$20 Million/Year or \$220 Million

Total Panamax Windfall = \$308 Million

The three (3) applications for CDS repayment now before DOT (Arco, Petrofina, and Berger) represent specific situations that prevent fair competition in the domestic trade between the existing independent unsubsidized vessels and CDS tonnage. The owners or charterers that represent the three applications control 10 of the 15 ships enumerated by DOT as most likely to repay subsidy.

In summary, the windfalls will be shared as follows:

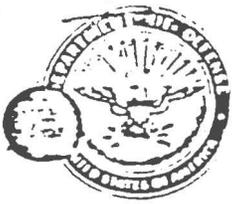
Berger et al	\$308,000,000
Petrofina	111,000,000
Arco	<u>185,000,000</u>
TOTAL	\$604,000,000 =====

All knowledgeable and affected parties have notified DOT that an adequate system exists to satisfy DOT's alleged reasons for the proposed rulemaking.

The proposed DOT rule, while it makes possible windfall profits/benefits to a small special interest group, if enacted, will:

- Increase unemployment substantially
- Create overtonnaging of American tankers
- Seriously affect National Defense
- Provide NO savings to the consumers
- Jeopardize Title XI Guarantees (up to \$1 billion)
- Create conditions contrary to Congressional policy and legislative history
- Severely affect shipyards and all related support functions, more unemployment
- Destroy the maritime capital market and any future capital investment in American ships
- Have catastrophic effect on the entire U.S. Merchant fleet including CDS vessels.

The DOT proposed rule should be rejected.



THE DEPUTY SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

28 MAR 1983

The Honorable Elizabeth Hanford Dole
The Secretary of Transportation
400 7th Street, S. W.
Washington, D. C. 20590

Dear Elizabeth:

The purpose of this letter is to request that the Department of Transportation not enact the Construction Differential Subsidy (CDS) Replacement proposal contained in your Notice of Proposed Rulemaking (NPRM), Federal Register (Volume 48, No. 21, p. 4408, of 31 January 1983).

Currently, CDS built tankers, as authorized by MARAD can participate in Jones Act Trade only to a maximum of six months annually. It is my understanding the proposed rule would lift all restrictions on Jones Act trading by CDS tankers whose subsidies had been reimbursed. The effect of this rule change would be threefold: (1) smaller, militarily useful tankers would be squeezed out of the domestic trade market by large tankers supported by the proposed rules; (2) our depressed shipbuilding industry, which has looked forward to the business created by the Port and Tanker Safety Act of 1978, would be deprived of the anticipated work it so badly needs; and (3) a windfall profit would be provided to a few major companies with CDS built tankers under charter.

The Navy's specific concern is the detrimental effect of accelerated small tanker retirements on our ability to resupply overseas forces in the event of war. Nearly half of our wartime shipping requirements, in terms of tonnage to be shipped, must be carried in tankers between 6 and 80 thousand DWT, with coated tanks to permit carriage of refined product. Larger tankers, the type supported by the proposed rules, are of limited value for military deployment and support purposes. As a result of the changes in petroleum product distribution systems, including shorter routes, greater use of pipelines, and other inland surface modes, the commercial requirement for smaller domestic oceangoing tankers has been steadily reduced. Application of the technical provisions of the Port and Tanker Safety Act will further accelerate the retirements of these tankers.

I fear that the proposed ruling to allow large tankers a greater share of domestic trade will greatly exacerbate an

already dangerous trend toward small tanker extinction. I have asked the Assistant Secretary of the Navy, Shipbuilding and Logistics to provide a more detailed explanation of our concerns.

Your assistance in this matter is greatly appreciated.

Sincerely,


Paul Thayer



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20350

MAR 29 1983

MEMORANDUM FOR THE SECRETARY OF TRANSPORTATION

Subj: Construction Differential Subsidy Repayment; Total Repayment Policy, 46 CFR Part 276; Notice of Proposed Rulemaking

With reference to your notice of Proposed Rulemaking (NPRM), Subject as above, contained in the Federal Register (Volume 48, Number 21, at page 4408, dated 31 January 1983), the Department of the Navy desires to comment on the proposed rules.

The Navy has viewed the declining health of the U.S.-flag merchant marine with grave concern. The major element of this concern has been the reduced capability of our merchant fleet to support our national defense requirements under contingency situations, particularly where the U.S. must act unilaterally and still support our private sector requirements.

We anticipate that nearly one-half of our contingency shipping requirements, in terms of tonnage to be shipped, would be in militarily-useful tankers. A militarily-useful tanker is defined as between 6 and 80 thousand DWT with coated tanks to permit carriage of refined product. Larger tankers, the type supported by the proposed rules, are of limited value for military deployment and support purposes.

Even without the adoption of this proposal, as a result of the changes in petroleum product distribution systems including shorter routes, greater use of pipelines, and other inland surface modes, the requirement for smaller domestic ocean going tankers has been reduced. As a result of the application of the technical provisions of the Port and Tanker Safety Act of 1978 to these ships in 1986, the retirements of these tankers will be accelerated beyond the rate which would normally be anticipated.

This proposal would further enlarge and accelerate that loss with at least an additional 20 tankers affected. Any deliberate actions taken as a matter of policy which effectively reduce the number of militarily-useful tankers in trade will not be helpful to our national defense posture.

An additional adverse national security impact will result from this proposal. Our depressed shipbuilding industry which has looked forward to the business created by the Port and Tanker Safety Act will not get the anticipated work it so badly needs. The Navy's combatant ship and sealift enhancement programs are not sufficient to maintain the private yards necessary for a diversified mobilization base. Given the declining private order book, the prospect for yard conversion work as well as new construction will be inhibited, if not extinguished, by a rule which would permit unrestricted domestic trade qualification by Construction Differential Subsidy (CDS) payback.

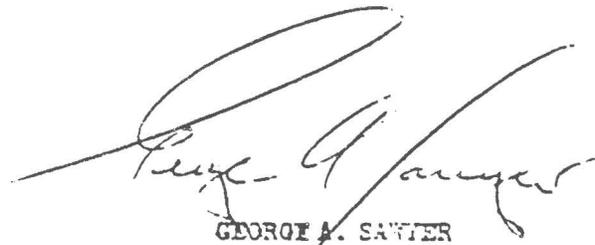
It appears to Navy that, in addition to adversely affecting our national security, the proposed CDS payback will result in little, if any, direct monetary benefit to the government; will be a breach of faith with the operators in the Jones Act Trades; and will result in a windfall to a few major companies who presently have CDS built tankers under charter.

As a result of the vessel retirements which would be occasioned by the CDS payback, Navy understands that MARAD has estimated that the Title XI loan guarantee exposure of the government could be as high as \$440 Million. If applications for CDS repayment are received for all eligible tankers, the unamortized Construction Differential Subsidy principle repaid will be \$470 Million, plus interest.

The current Jones Act Trade operators who have Title XI exposure would be defaulting on non-Construction Differential Subsidy vessels. By foregoing CDS, these operators had acted in good faith, relying upon the operating and financial protection of the Jones Act. Your former Secretary, Drew Lewis, speaking for the Administration on 20 May 1982 and 5 August 1982, reaffirmed support for the sanctity of Jones Act and existing cargo preference laws. And, the President has affirmed his support for the domestic trades. The proposed rulemaking would arbitrarily and rapidly reverse this position at a time when the domestic tanker market is already under great pressure.

In summary, the proposed changes would not assist in national defense, and in practice would be detrimental because useful-sized clean product ships would be displaced by less useful large, crude carriers.

Recognizing the dynamic nature of the tanker trades, both in domestic and international commerce, the Navy recommends that the proposed NPRM continue the present practice of allowing temporary qualification of limited duration with full pro-rata CDS payback (including interest), and only in those situations dictated by tanker undercapacity.



GEORGE A. SAWYER
ASSISTANT SECRETARY OF THE NAVY
(SELPBUILDING AND OFFICES)

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U.S. House of Representatives
Committee on
Merchant Marine and Fisheries
Room 1334, Longworth House Office Building
Washington, D.C. 20515

March 23, 1983

Hon. Elizabeth H. Dole
Secretary of Transportation
Department of Transportation
Washington, D.C.

Dear Madam Secretary:

In addition to the attached record of the hearing held March 3, 1983 that, with some exception, reflects general opposition to the proposed rule to permit CDS pay backs, we would express our particular concern with the proposal.

Of prime interest to us when the Subcommittee on Merchant Marine ordered this oversight hearing was the broadness of the rule and the possibility that its scope was in excess of the delegation of authority granted by the Congress in the Merchant Marine Act, 1936, as amended. The hearing did not resolve these questions to our satisfaction, and we therefore continue to raise as an outstanding issue the wisdom of making such sweeping policy changes of this type at this time.

By expressing our concern we do not take issue with the Supreme Court's 1980 opinion in Seatrain Shipbuilding Corp. v. Shell Oil Co. (444 U.S. 572). What we suggest is that the Court's conclusion in Seatrain be read for precisely what it said, ". . . the Act empowers the Secretary to approve full-repayment/permanent release transactions of the type at issue here." (emphasis added). Balancing the policy interests of the 1936 Act with the necessity for discretion in the administration of the Act would necessitate interpreting Seatrain as permitting payback and release for the Stuyvesant. By allowing, without distinction, any and all vessels to pay back without any subsequent review as to impact and effect by the Secretary would destroy the very discretionary power granted by

the Congress and reiterated in Seatrain. We also bring to your attention the opinion by the United States Court of Appeals in Independent U.S. Tanker Owners Committee v. Drew Lewis (342 F2d 502) in which the Court, applying Seatrain, discussed ". . . publication of a permanent rule governing repayment applications." We view the decisions as urging rulemaking that would fairly dispose of applications on a case-by-case basis.

Regardless of the many arguments which have been made for or against the proposed rule, there exists a sincere concern with the underlying basis for the current rulemaking, the need for competition in the allegedly lucrative Alaska oil trade. The Congress is in the process of considering the reauthorization of the Export Administration Act; at this time, it is not clear if either Congress or the Administration will choose to endorse extension of the current statutory requirement that Alaska North Slope oil not be exported. Obviously, if the restriction on export of Alaskan oil is eliminated, the underlying basis for the proposed rule would be seriously compromised.

We also believe it is essential that two other aspects of this proposal be examined more thoroughly. First, we find that there is insufficient economic documentation to support DOT's claim in the Notice of Proposed Rulemaking (Docket No. 78; Notice No. 4, p. 13) that ". . . The proposal is not considered to be 'major' as defined by E.O. 12291 because it would not have an annual affect on the economy of \$100 million or more". Indeed, Mr. Charles Swinburn, the Deputy Assistant Secretary of Transportation for Policy and Program Development, at the Merchant Marine Subcommittee hearing on March 3, 1983, expressed doubt as to the amount of interest payment that would be returned to the Government, while a witness representing shipbuilding asserted that the proposed rule would have an annual negative impact on the economy of \$315 million.

The second issue of concern to us is the national security implication of the proposed rule. There is compelling evidence that smaller tankers would be replaced by the larger CDS-built ships. It is these smaller tankers that are important to the military and, therefore, a thorough analysis of the rule's impact on our national security should be undertaken.

We do not believe we interfere with the right of the Executive Branch to implement, by way of rulemaking, the programs we have legislated when we respectfully request that for the reasons stated in this letter you withdraw the rulemaking.

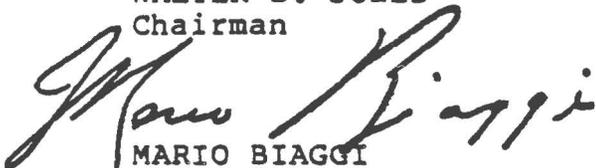
Sincerely,



WALTER B. JONES
Chairman



EDWIN FORSYTHE
Ranking Minority Member



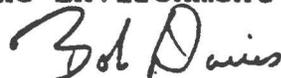
MARIO BIAGGI
Chairman, Merchant
Marine Subcommittee



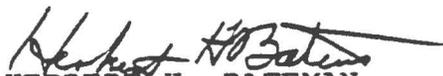
JOHN B. BREAU
Chairman, Fisheries and
Wildlife Conservation and
the Environment Subcommittee



ROY DYSON
Member of Congress



ROBERT W. DAVIS
Member of Congress



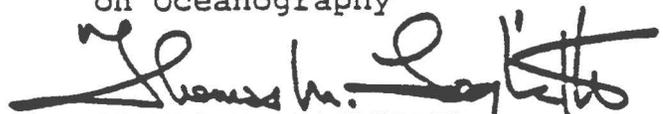
HERBERT H. BATEMAN
Member of Congress



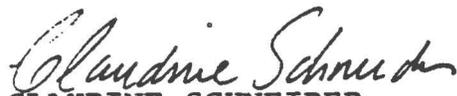
NORMAN E. D'AMOURS
Chairman, Subcommittee
on Oceanography



ROBIN TALLON
Member of Congress



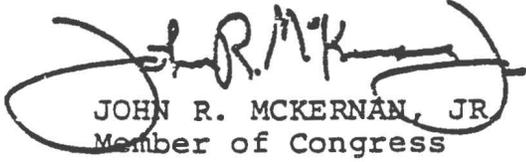
THOMAS M. FOGLIETTA
Member of Congress



CLAUDINE SCHNEIDER
Member of Congress



BARBARA A. MIKULSKI
Member of Congress


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Member of Congress


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WEBB FRANKLIN, MISS.

U.S. House of Representatives
Committee on
Merchant Marine and Fisheries
Room 1334, Longworth House Office Building
Washington, D.C. 20515

May 2, 1983

The Honorable Elizabeth H. Dole
Secretary of Transportation
400 Seventh Street, S. W.
Washington, D.C. 20590

Dear Madam Secretary:

We are writing to express again our sincere concern about the Department of Transportation proposed rule that would permit Construction Differential Subsidy (CDS) paybacks.

As was stated in a March 23 letter to you, signed by fifteen members of the House Merchant Marine and Fisheries Committee, there is considerable opposition to the proposed rule. An apparent majority of the members of the Merchant Marine Subcommittee question the wisdom of making such a sweeping policy change and question the rule as being in excess of the authority granted by the Congress in the Merchant Marine Act of 1936, as amended.

On Thursday, April 14, the Merchant Marine Subcommittee held a markup of H.R. 2114, the Maritime Administration Authorization legislation for fiscal year 1984. At the markup, Mr. Dyson of Maryland introduced an amendment addressing the subject of CDS paybacks. A copy of the amendment is enclosed for your information.

Several members of the Subcommittee, in support of Mr. Dyson's position, emphasized the possible adverse effect of the proposed rule on our nation's defense capabilities. They cited the Deputy Secretary of Defense Paul Thayer's letter to you asking that the rule not be implemented. We agree with Secretary Thayer's assessment that the rule would allow large tankers a

The Honorable Elizabeth H. Dole
May 2, 1983
Page 2

greater share of domestic trade, thereby greatly accelerating an already dangerous trend for defense purposes toward small tanker extinction. As Secretary Thayer noted in his letter to you, large tankers, the type that would benefit from the proposed rule, "are of limited value for military deployment and support purposes" in time of war.

After agreeing with the Committee leadership's desire to maintain a "clean" Maritime Administration authorization bill, Mr. Dyson withdrew his amendment. We have included a copy of the transcript of the pertinent discussion on this issue which occurred at the Subcommittee markup of the Authorization Bill.

For the reasons cited in this letter and in the March 23, 1983, letter to you, we urge you to withdraw the rule explicitly by notice in the Federal Register.

We look forward to your reply on this important matter.

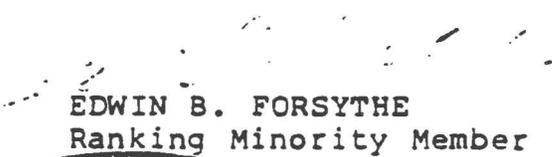
Sincerely,



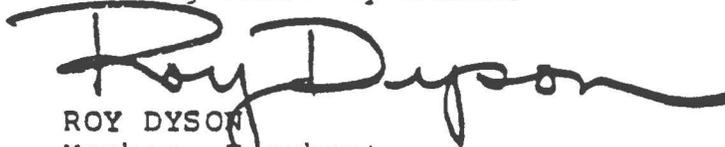
WALTER B. JONES
Chairman



MARIO BIAGGI
Chairman, Merchant
Marine Subcommittee



EDWIN B. FORSYTHE
Ranking Minority Member



ROY DYSON
Member, Merchant
Marine Subcommittee

Enclosure

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FRANK R. LAUTENBERG, NJ

WILLIAM M. DIEFFENDERFER, CHIEF COUNSEL
RALPH B. EVERETT, MINORITY CHIEF COUNSEL

United States Senate

COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION

WASHINGTON, D.C. 20510

May 17, 1983

The Honorable Elizabeth Dole
Secretary, Department of Transportation
400 Seventh Street S.W.
Washington, D.C. 20590

Dear Madame Secretary:

I am writing to express my concerns about the proposal presently before your Department to allow tank vessels built with subsidy to engage permanently in coastwise trade if they pay back a portion of the subsidy they have received. My greatest concern at this point is that, although ultimately a payback program may be found desirable, the logic, implications and consequences of this proposal have not been adequately scrutinized. I would like to raise a few of my concerns for your attention.

First, it is my understanding that in the very limited number of previous CDS-payback cases, there were at least three distinguishing features. The vessels were considered on a case-by-case basis. The vessels were subject to unique economic distress. And finally, the vessel paid back the government all or virtually all of the CDS that went into the vessel. This latter point seems particularly important. As I understand the present proposal before the Department, only the unamortized portion of the subsidy, with interest, would be paid back to the government. For a vessel that is not new, this means considerably less than full subsidy repayment. In fact, it appears that if accepted, this proposal would provide a highly subsidized financing package for such operators that is unavailable to and highly prejudicial to coastwise operators. For a vessel of considerable age, this proposal in fact would create a huge windfall to the vessel owner, by allowing them into the coastwise trade, without returning any significant benefit to the U. S. Treasury through a payback. It would seem to me that the proposal would be more equitable (and true to the press accounts discussing it) if the government were paid back its full construction-subsidy with interest in return for the fundamental reversal in ground rules that would enable such vessels to enter the domestic trade.

There are other concerns I have as well. These points might all be answered should full subsidy repayment, as discussed above, be

The Honorable Elizabeth Dole
Page two
May 17, 1983

required, but I believe they are worth your serious consideration as well.

The proposal before the Department, unlike other CDS payback proposals is not vessel-specific, but rather a generic change in the law whose implications are thus very difficult to anticipate. Is this generic approach a more appropriate way to proceed than a case-by-case approach?

Finally, if this proposal is accepted by tankers, I can perceive of no logical reason why it shouldn't be applied to liners, to the Hawaiian trade, or any other domestic trade plied by U.S. ships. Is this the intent of the Department? Has the Department examined all the implications of such a major change in our maritime laws? I suspect not. If it has, I would certainly like to see the results of such an examination.

Madame Secretary, this is only a brief look at some of the concerns that I see rising from this proposal. As I mentioned earlier, a CDS repayment program may ultimately be a sound idea. I am troubled, however, by the fact that the proposal as it stands before your Department fails to answer so many of the questions it raises. I am also troubled by the fact that it seems to be moving forward without Congress having the opportunity to consider the full implications of such a fundamental alteration of our maritime laws.

I do not believe that there is any real reason for the Department to make a decision on this proposal in the immediate future, and I hope that you will not make a decision on the proposal until you are quite confident of the proposal's full impact and implications and until Congress has had the opportunity to fully discuss the matter with you.

I appreciate your attention to this request.

Sincerely,

A handwritten signature in dark ink, appearing to read "Slade Gorton", written in a cursive style.

SLADE GORTON
United States Senator

SG:cko

NICHOLAS MAVROULES
6TH DISTRICT, MASSACHUSETTS

COMMITTEES:
ARMED SERVICES
SMALL BUSINESS

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WASHINGTON, D.C. 20515
(202) 225-8020

Congress of the United States
House of Representatives
Washington, D.C. 20515

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140 UNION STREET
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(617) 593-7105
TOLL FREE WITHIN
MASSACHUSETTS
(800) 272-6730

April 28, 1983

The Honorable Elizabeth H. Dole
Cabinet Secretary
U. S. Department of Transportation
Washington, D. C. 20590

Dear Madam Secretary:

As a member of the House Committee on Armed Services, I am concerned that the Department would promulgate a rule like the CDS payback rule, published by your predecessor on January 31, 1983, without due consideration to its impact on national security.

As you must know, both the Department of Defense and the Navy have expressed open opposition to the rule, citing their concern that implementation of the rule would cost the Navy at least 20 badly needed small product tankers.

I would appreciate your giving this matter a careful review. Once done, I am certain that you would withdraw this rule before our national security capabilities are further limited.

Let me thank you in advance for your attention to this matter.

Sincerely,

Nicholas Mavroules
Member of Congress

Congress of the United States
House of Representatives
Washington, D. C.

May 18, 1983

Honorable Elizabeth H. Dole
Secretary of Transportation
Department of Transportation

Dear :

I am writing to express my concern about a rule proposed by your Department which would permit the reimbursement of construction differential subsidies (CDS) and allow CDS tankers to engage without restriction, in trade reserved for non-subsidized vessels.

My concern is specifically that the proposed rule would be detrimental to our fleet of smaller vessels, which are more suitable to military use than the larger ships which would benefit from the CDS pay-back rule. I understand that Deputy Secretary of Defense Paul Thayer has brought this concern to your attention. It is anticipated that even without proposals such as the CDS pay-back rule, our fleet of small, militarily useful tankers will decline unacceptably in the future. The availability of small tankers capable of transporting refined petroleum products, as opposed to large tankers designed to carry crude oil, is essential to our military preparedness. It would be unwise, in my opinion, to take steps which would unnecessarily exacerbate this problem.

I am also concerned that the proposed CDS pay-back rule will create economic dislocations within the shipping industry. CDS supported tankers will receive a windfall of new business, while small tanker operators will lose business, as restrictions on larger vessels are lifted. In my view, this sweeping change in the shipping industry should be accomplished with due regard to its effects on all sectors of the economy. Because the Congress has not yet acted to reauthorize the Export Administration Act, which currently prohibits the exportation of Alaskan crude oil, the economic impact of the CDS pay-back rule cannot be predicted accurately.

For these reasons, I suggest that the Department withdraw its proposal and review the underlying policy carefully in light of national security and economic interests. Thank you for your cooperation in this matter.

Sincerely,

EDWARD P. BOLAND
Member of Congress

VLCC

2460 LEMOINE AVENUE
FORT LEE, N. J. 07024

TELEPHONE:
1212-269-1940
TWX: 710-991-9575

BOSTON VLCC TANKERS, INC.

II MASSACHUSETTS
IV NEW YORK
VI MARYLAND

8
9
10

May 26, 1983

Honorable Elizabeth H. Dole
Secretary of Transportation
U.S. Department of Transportation
Washington, D.C. 20590

Re: Proposed Rulemaking to Permit Repayments
Of Construction Differential Subsidy,
46 C.F.R. Part 276.

Dear Madam Secretary:

Boston VLCC Tankers, Inc. II ("Boston II") is the owner of the VLCC MASSACHUSETTS, a 264,073 dwt oil carrier which was built in 1975 at Sparrows Point, Maryland with construction differential subsidy (CDS).

We have been following with a great deal of concern the proposal to allow owners of vessels which were built with CDS to repay the CDS and immediately qualify their vessels for the domestic coastwise trade, trades which such vessels are prohibited from serving, by statute and contract, except in limited circumstances.

Boston II respectfully urges that the proposed regulations not be adopted. At first blush it might seem as though a proposal which would allow full coastwise privileges to vessels currently limited to trading only six months per year should be vigorously embraced by all owners of CDS-built vessels. However, careful study reveals the dangerous fallacy of this simplistic reasoning.

We will not herein restate the detailed market analysis which has been fully, and in our judgment accurately, put forth by OSG Bulk Ships, Inc./Overseas Shipbuilding Group, Inc., except to note that we share their conclusion that the Administration's proposal, if adopted, will result in severe overtonnaging of the Alaskan oil trade, not to mention other coastwise trades which are already depressed to the point where a substantial percentage of the U.S. fleet is in lay-up status. The proposed rulemaking itself acknowledges that there will be extensive overtonnaging.

At best, the proposed regulations will cause disruption in what is now a stable market, causing economic detriment to the entire U.S. tanker fleet, including the CDS-built vessels, with the possible limited exception of a few major oil companies (some foreign) and isolated individual owners. Boston II believes that all owners of CDS-built

Honorable Elizabeth H. Dole
May 26, 1983
Page Two

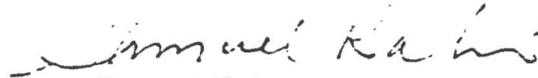
VLCC's would be forced to elect to repay the subsidy in order to obtain domestic cargoes. With no long-term foreign commercial prospects and the elimination of six month waivers, the result can only be massive overtonnaging, reduced rates and lost revenues. Any owner who does not repay the CDS under such circumstances will essentially have an unemployable vessel.

Boston II as an owner of a CDS-built vessel, and as an alleged potential beneficiary of the proposed regulation, strongly opposes the regulation because of the overtonnaging and market disruption that will flow from qualifying these vessels for the domestic trades and the resultant expected decline in the current value of all vessels.

Boston II believes that the current system, perhaps with some modifications after more careful study, consistent with S 506 of the Merchant Marine Act, 1936, permitting CDS-built vessels over 100,000 Dwt into the Alaskan crude trade for periods of up to six months per year serves to assure sufficient tonnage to meet cargo demand, while at the same time precluding overtonnaging and the resultant decline in the market value of existing vessels. We believe the continuation of the six-month waiver system is far more beneficial, as well as protective of all interests.

Sincerely,

BOSTON VLCC TANKERS, INC. II



Samuel Kahn
President

cc: Admiral Harold E. Shear, USN (Ret.),
Maritime Administrator
400 Seventh Street, S.W.
Washington, D.C. 20590

Wendell W. Gunn, Special Assistant to the
President for Policy Development
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Honorable Elizabeth H. Dole
May 26, 1983
Page Three

Congressman Mario Biaggi
House of Representatives
Room 2428
Washington, D.C. 20510

Congressman Edwin B. Forsythe
House of Representatives
Room 2210
Washington, D.C. 20510

Congressman Walter B. Jones
House of Representatives
Room 241
Washington, D.C. 20510

Senator Slade Gorton
United States Senate
Washington, D.C. 20510

Docket Clerk
Room 10421
Office of the Secretary
Department of Transportation
400 Seventh Street, S.W.
Washington, D.C. 20590

Peter A. Friedmann, Esq.
Senate Commerce Committee
508 Dirksen Senate Office Building
Washington, D.C. 20510

Shell Oil Company



Two Shell Plaza
P.O. Box 2099
Houston, Texas 77001

March 28, 1983

Docket Clerk, Room 10421
Office of the Secretary
Department of Transportation (DOT)
400 Seventh Street, SW
Washington, DC 20590

Gentlemen:

CONSTRUCTION - DIFFERENTIAL SUBSIDY REPAYMENT; TOTAL REPAYMENT POLICY;
NOTICE OF PROPOSED RULEMAKING

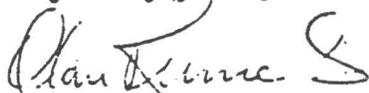
Shell Oil Company appreciates the opportunity to express its' views regarding the above Notice of Proposed Rulemaking. As a long-term charterer of two Jones Act ships (B.T. Alaska and B.T. San Diego) and two CDS vessels (U.S.T. Atlantic and U.S.T. Pacific) Shell has a direct interest in this matter. Shell is opposed to Total Repayment of CDS for the purpose of entering domestic trade and in this regard offers the following comments:

1. An adequate mechanism exists for satisfying Alaskan and other oil movements which exceed the capabilities of Jones Act tonnage. The "temporary waiver" system has provided an effective and equitable means of balancing the supply of equipment available to the market. Significantly, this system is also consistent with long-standing government rules and regulations which have resulted in unsubsidized investments in Jones Act vessels. The existing system works. There have been no instances of demand not being adequately met under these rules. Any benefits, then, to be derived from the "Proposed Rulemaking" would be beyond the requirement for adequate tonnage. In fact, it is difficult to see what if any, those benefits would be. Rather it appears that the "Proposed Rulemaking" would merely reward a select few who may have made unwise (albeit subsidized) investments and, at the same time, severely penalize those who have adhered to the well-established, long-standing rules of the Jones Act.
2. While the existing system of 6-month temporary waivers has adequately provided tonnage in excess of Jones Act supply, the point is made that the process for carrying this out is cumbersome and requires an excess of government (Marad) involvement. In this regard, Shell would support

a change in regulations to provide for consecutive 6-month waiver periods subject to determination that unsubsidized Jones Act tonnage is not being displaced. A system of this type would lessen the procedural involvement of Marad. At the same time, it would provide an improved longer-range planning guide for shippers of Alaskan crude oil. Most importantly, it would continue to provide an adequate supply of tonnage without causing an unfair, damaging alteration to the existing system.

3. In no case, is there justification for CDS repayment on vessels less than 100,000 DWT. Existing independently owned, unsubsidized vessels in this size range are more than adequate to meet demand. Repayment, we believe, would substantially weaken the financial viability of the independent Jones Act owners with whom Shell does business. We believe it is in the national interest as well as Shell's to maintain a strong and viable Jones Act fleet.
4. The Department of Transportation's Notice of Proposed Rulemaking is a radical and dramatic departure from well-established, long-standing rules and regulations. Its effect on Shell and others in industry could be substantial. No changes of this magnitude should be implemented without full review and public hearings. Shell strongly urges that public hearings be scheduled by the Maritime Administration on this important matter so that the views of all interested parties (including Marad) can be given full consideration.

Very truly yours,



Olan Runnels
General Manager Supply and Marine
Operations

Burmah pays \$32m to cancel two VLCC charters

BURMAH Oil Tankers of London and New York-based Universe Tankships Inc. have agreed to cancel the time-charters to Burmah of the 269,000 d.w.t. tankers *Universe Burmah* and *Universe Explorer*. The settlement amounts to approximately \$32 million in lieu of some six years' future charter hire payments. Payment was to be made, and the ships returned to Universe Tankships, during May.

The Burmah tanker fleet has now been reduced to a manageable nucleus. Of its

eight crude-oil carriers, the ULCC *Burmah Endeavour* is laid up at Southampton and sister-ship, *Burmah Enterprise*, 457,927 d.w.t., has just started a two-year storage contract with the Indonesian state oil company, Pertamina. The remaining six vessels, in the 56,000 to 138,000 d.w.t. range, are all trading.

Although the cancellations will result in an extraordinary charge to the Burmah group, they will reduce both the off-balance-sheet shipping commitments and the current and future trading losses.

The two VLCCs were time-chartered by Burmah for 15 years from the date of their delivery from the Japanese shipyard of Ishikawajima Heavy industries — *Universe Burmah* in September, 1973 and *Universe Explorer* in March, 1974.

Burmah decided to further reduce its exposure to the tanker market, not only because of the high charter-in rate of these vessels but also because the continuing surplus of VLCC tonnage will inevitably depress prospects for this section of the market in the medium term.

"Maritime policy is not a thing unto itself. It is or should be an integral part of our overall foreign policy. If it is not our national interest cannot be served and protected."

President Ronald Reagan

"Sealift to sustain our warfighting capability is inexorably bound to our maritime industry. Maritime superiority requires more than Naval ships, since in war, our U.S. merchant fleet is essentially a naval auxiliary. We rely on assets of our merchant fleet as a source of sealift for the deployment and support of our forces. We in the Navy support fully a strong, growing merchant marine."

Admiral Cowhill—Deputy Chief of Navy Operations for Logistics.

"The steady decline of our U.S.-flag merchant fleet, which is the backbone of our logistical support, causes the Department of the Navy great concern. Properly developed, a strong U.S. merchant marine is indeed a full partner, a fourth arm of U.S. national defense. If neglected—as has too long been the case—it is merely a strategic missing link."

Secretary of the Navy John Lehman

"I agree that the United States should have a viable U.S.-flag merchant marine, manned by U.S. citizens, capable of lifting a fair and reasonable share of our import-export trade, as well as serving as a naval auxiliary in time of need."

Secretary of Defense Caspar Weinberger

"I cannot say too often or too clearly how important has been the merchant navy's contribution to our effort. Without the ships taken up from trade, the operation could not have been undertaken, and I hope this message is clearly understood by the British nation."

Adm. Sir John Fieldhouse
Commander-in-Chief, British Fleet and Commander of Falkland Islands Taskforce

"In time of any new national conflict 90% of the logistics of our armies and NATO's armies must be carried by ships. Our success will rely on the immediacy of our response in moving men and materiel. There is no new magic, no easy way to get things from one place to another. Airlift can't handle more than 10% of the job. The Navy and the merchant fleet must do the job."

Admiral Isaac Kidd, former commander-in-chief, Atlantic Fleet, supreme allied commander for NATO

"The bald fact is that the United States has no surge capability in sealift. We would not be able to sustain a serious military operation unless we abandoned all our commercial trade routes. If we abandoned these trade lanes we would never recover them again."

General H.R. Del Maz, President of the National Maritime Council

"A nation's maritime commerce strength in peacetime is the most telling indicator of its overall endurance during war."

Admiral Alfred T. Mahan

Sealift Deficiencies Endanger Defense Strategy

By JACK ANDERSON



WASHINGTON—Naval planners in the backrooms of the Pentagon have their fingers crossed hoping that the United States doesn't have to fight a conventional war far from home.

The reason is simple, if embarrassing: We don't have the ships needed to keep our troops and our allies supplied.

Top-secret Pentagon assessments make frighteningly clear how low our sea lift capability has sunk since World War II, when the U.S. Navy and merchant marine carried the military output of American industry to battlefronts around the globe. That, basically, is what won the war.

The estimates, seen by my associates Donald Goldberg and Dale Van Atta, also show that the Soviets' ability to supply armies on distant battlefields has been growing as ours has withered away.

What makes this woeful lack of transport ability important is that the stocks of munitions now on hand in Western Europe aren't enough to keep a war alive.

As one top-secret Pentagon report puts it: "Both U.S. and allied war reserve stocks in Europe continue to be inadequate. A 'high risk' situation exists in NATO today because a strong initial defense in NATO cannot be sustained until the supply pipeline, supported by the U.S. industrial base, is established."

In other words, the United States is still the "arsenal of democracy" that it was in World War II—but there is no longer a way of shipping the arsenal's output where it's needed.

The importance of a sea lift capability—if it was ever in doubt—was made clear by the Falkland Islands mini-war, which the British won largely because they were able to press into service their civilian ships, including the "drafting" of the Queen Elizabeth II as a troop transport.

Unfortunately, the United States has no QE II or enough other civilian ships to draft for wartime duty. Here's what we have available to rely on in case of a national emergency:

- The Military Sealift Command Controlled Fleet of 134 government-owned ships. Unfortunately, "less than three dozen ships are estimated to be ideally suited for sea lift of military supplies," according to an internal White House document, which adds, with some understatement, that the fleet's "principal weakness is that it can only carry a small share of the military cargo likely to be needed."

- The National Defense Reserve Fleet of 254 ships that supposedly will be ready to go within three to eight weeks. As of October 1981, 130 of these ships were 30 or 40 years old.

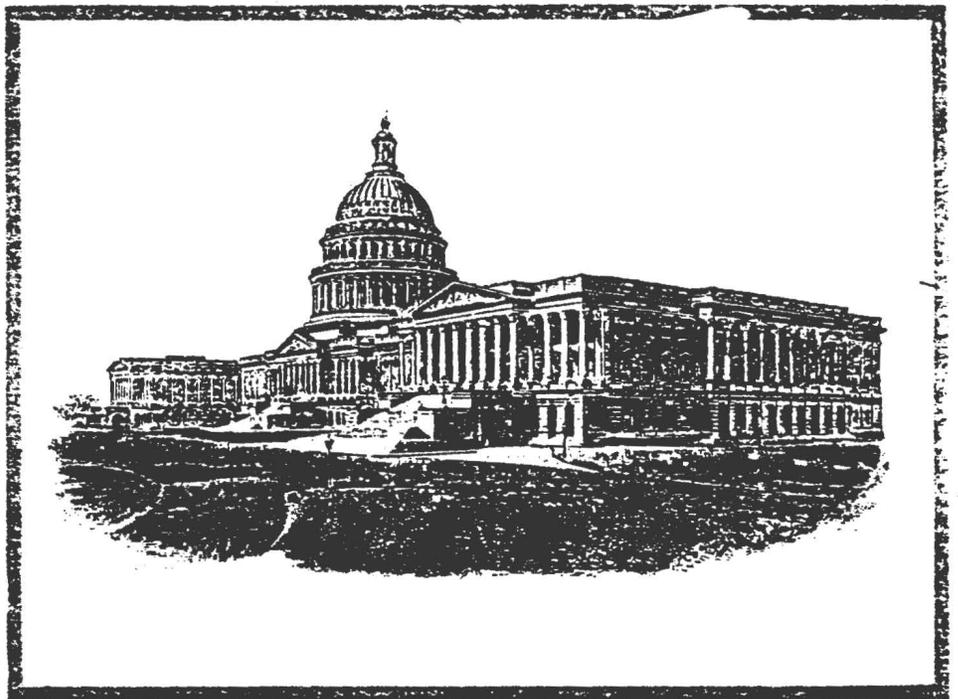
- The U.S.-flag Merchant Marine of 578 privately owned ships. But only 36 percent of this fleet is considered useful for the food and munitions that fighting forces need.

- The 343-ship "effectively U.S. controlled" fleet owned by American companies or individuals and registered with foreign countries. But only about 15 of these ships are capable of carrying dry cargo, and only 52 of the tankers are suitable for military use. Furthermore, these foreign-flag ships are manned by non-American crew, whose enthusiasm for getting shot at in an American war is understandably suspect.

- Free world shipping, some 600 ships. About 400 of these might be available, but there's no estimate of how many would actually be militarily useful.

- Some 20,000 ships owned by non-communist nations, capable of carrying 600 million tons of cargo. But few are likely to come rushing to America's aid—at least in time to do any good.

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The Military Looks at Our Sealift Capabilities—Grim!

"Without adequate and reliable sealift, literally none of our military plans are executable, since more than 90 percent of all wartime cargo will have to go by sea." Admiral Thomas B. Hayward.

"If the whistle blows this afternoon, do we have the sealift resources to deploy our combat power outside the United States? I don't think so. Statistics paint a grim picture." Admiral Kent J. Carroll.

"For all the improvements in technology and shipbuilding, the state of the merchant marine in our country casts doubt on our capability to supply our own needs, in peace or war, if ever forced to go it alone." John Lehman, Secretary of the Navy.

Required Reading

The Merchant Marine

Representative Joseph P. Addabbo, Democrat of Queens, addressing the House of Representatives on the condition of the United States merchant marine. Feb. 17, 1983:

The battle of the Falklands will continue to be analyzed for months and years to come. There are lessons to be learned. Clearly among them is the vital role of the British merchant marine.

That is what we must heed and heed well. We are spending billions of dollars on defense, yet we continue to neglect our basic resources of transportation: the merchant marine.

The February issue of "The Officer Magazine" includes an article under the byline of Vice Adm. Kent J. Carroll, U.S.N., commander, Military Sealift Command. I would call your attention to the opening paragraphs of this article:

"It is no exaggeration to say our country's merchant marine is foundering in the worst shipping slump in 50 years. I am worried. The more I see our merchant fleet decline, the more I see a blueprint for chaos develop, especially if this country requires a deployment of our combat power.

"If the whistle blew today, our own sea lines of communication might have to be filled by foreign flag ships. That does not make sense to me. A strong merchant marine, just as much as a strong navy, is the basis of any nation's seapower."

EXCERPTS FROM

REMARKS BY
ADMIRAL JAMES D. WATKINS
CHIEF OF NAVAL OPERATIONS
MILITARY SEALIFT COMMAND
CHANGE OF COMMAND
NAVY YARD, WASHINGTON, DC
26 MAY 1983

MILITARY SEALIFT: A RENAISSANCE OVERDUE

AS WE ENTERED THE 1950s, AMERICA'S MERCHANT FLEET WAS THE ENVY OF THE WORLD. WITH SKILLFULLY DESIGNED AND BEAUTIFULLY BUILT SHIPS, THE UNITED STATES HAD MORE TONNAGE UNDERWAY THAN ANY OTHER NATION. AND THANKS TO A THRIVING MARITIME INDUSTRY AND A STRONG, VIGOROUS NAVY, AMERICA HAD BECOME THE SEAPOWER OF THE CENTURY!

IN THOSE EXCITING TIMES, OUR MERCHANT MARINE WAS IN ITS PRIME -- FLEXING ITS MUSCLES IN GREAT EXPECTATION OF AMAZING THINGS TO COME.

BUT THAT WAS 30 YEARS AGO. TODAY AMERICA IS NO LONGER THE PRE-EMINENT MARITIME POWER IN THE WORLD. AND OUR PROUD, ENORMOUS AND EFFICIENT FLEET OF PRIVATELY OWNED AND OPERATED SHIPS HAS ALL BUT DISAPPEARED FROM THE SEAS.

- o THIRTY YEARS AGO WE HAD MORE THAN 1,400 CIVILIAN SEAGOING MERCHANT SHIPS. TODAY THERE ARE ABOUT 470, AND OUR MARITIME RESERVE FLEET HAS DECLINED FROM 1,800 SHIPS TO 220.
- o THIRTY YEARS AGO THIS COUNTRY'S SHIPS CARRIED 35 PERCENT OF OUR OCEAN-BORNE FOREIGN COMMERCE. TODAY IT'S LESS THAN FIVE PERCENT.
- o THIRTY YEARS AGO WE HAD MORE THAN 70,000 SEAGOING JOBS IN THE U.S. MARITIME INDUSTRY. TODAY THERE ARE LESS THAN 18,000.

IN LESS THAN 30 YEARS OUR FLEET HAS DECLINED FROM FIRST IN THE WORLD TO ELEVENTH, WHILE THE SOVIET COMMERCIAL FLEET HAS SURGED FROM 21st IN THE WORLD TO THIRD.

"SHIPPING," SAID PRIME MINISTER WINSTON CHURCHILL DURING WORLD WAR II, "WAS AT ONCE THE STRANGLEHOLD AND SOLE FOUNDATION OF OUR WAR STRATEGY."

ENGLAND AND THE REST OF THE ALLIES PRESSED ANYTHING THAT COULD FLOAT INTO SERVICE BECAUSE THEY KNEW A CRITICAL SHORTAGE OF SHIPPING WOULD MEAN AN END TO ALL OFFENSIVE OPERATIONS AND ESSENTIAL CIVILIAN SERVICES.

KOREA, VIETNAM, AND EVEN THE RECENT FALKLANDS CRISIS, HAVE PROVEN IT'S NO DIFFERENT TODAY. 'A STRONG MERCHANT MARINE IS INTEGRAL WITH THE CONCEPT OF A STRONG NAVY. IN FACT, IT'S A KEystone OF THIS NATION'S BASIC MILITARY STRATEGY.

OUR MERCHANT FLEET MUST NOT ONLY PROVIDE EFFICIENT, ECONOMICAL AND PROFITABLE COMMERCIAL SERVICES IN PEACETIME, BUT IT MUST BE READY TO CARRY MEN, MATERIEL AND SUPPLIES AS A NAVAL AUXILIARY FORCE IN TIMES OF EMERGENCY.

THEY SAY AMATEURS TINKER WITH TACTICS AND STRATEGY, BUT PROFESSIONALS DEAL WITH LOGISTICS. WE CLEARLY SAW THIS DEMONSTRATED DURING THE FALKLAND ISLANDS CAMPAIGN WHEN GREAT BRITAIN HAD TO ORGANIZE EVERY SEALIFT RESOURCE AVAILABLE TO SUPPORT AN 8,500 MILE LOGISTICS PIPELINE, USING EVERY SHIP THAT COULD GET UNDERWAY -- PASSENGER SHIPS, TRANSPORTS, EVEN THE QE2.

THE BRITISH WERE SUCCESSFUL. THEY DID KEEP THE LOGISTICS PIPELINE OPERATING. HOWEVER, IF THERE HAD BEEN ANOTHER SIMULTANEOUS EVENT REQUIRING SEALIFT, THEY WOULD HAVE BEEN UNABLE TO SUCCEED.

THEY BARELY KEPT THEIR LOGISTIC LINES OPEN WITH A MERCHANT FLEET TWICE THE SIZE OF OUR OWN, AND WITHOUT EXCESSIVE LOSSES FROM HOSTILE ACTION.

IF WE HAD TO CONFRONT A THREAT IN VARIOUS OCEANS AND VARIOUS LOCALES, WOULD WE BE ASSURED OF VICTORY WITH OUR MERCHANT MARINE OF TODAY?

ANSWERING THAT QUESTION BRINGS THE NEED FOR A STRONG MARITIME FLEET INTO SHARP FOCUS: A VIABLE COMMERCIAL MERCHANT MARINE REMAINS AN ABSOLUTE PRE-REQUISITE TO OUR NATIONAL ECONOMIC SECURITY AND TO THE DEPLOYMENT OF MILITARY FORCE OUTSIDE OUR NATIONAL BOUNDARIES. OUR NATION'S DEFENSE CANNOT BE SUCCESSFULLY CARRIED OUT WITHOUT ADEQUATE AND RELIABLE SEALIFT CAPABILITIES.

BUT SADLY, OUR IMPORTANT SEALIFT BASE HAS DRASTICALLY DIMINISHED.

LOOK AT THE FACTS, WHILE THE AMERICAN MERCHANT SEAGOING FLEET HAS DWINDLED TO LESS THAN 500 SHIPS, THE SOVIET FLEET HAS GROWN TO MORE THAN 2,500. THEY ALL OPERATE UNDER A MASTER PLAN THAT INTEGRATES MILITARY AND CIVILIAN SHIPPING INTO A POWERFUL TEAM. THE MOST EFFECTIVE IN THE WORLD.

IT IS VERY CLEAR: RUSSIAN NAVAL AND PARTY LEADERS THOROUGHLY UNDERSTAND THE IMPORTANCE OF A STRONG MERCHANT FLEET. THE HEAD OF THE SOVIET NAVY, ADMIRAL GORSHKOV, HAS SAID, ". . .THE SEAPOWER OF THE SOVIET UNION DEPENDS ON ALL ITS MEANS OF EXPLOITING THE WORLD'S OCEANS. . .TRANSPORT SHIPS AND NAVAL FORCES. . .AND ON SERVING ITS NATIONAL INTERESTS BY COMBINING THEM PROPERLY." THEIR MERCHANT FLEET IS EVEN INTEGRATED INTO THEIR NAVAL EXERCISES.

THE KEY TO A REVITALIZED STRATEGIC SEALIFT IS A STRONG AND HEALTHY COMMERCIAL FLEET IN PEACETIME THAT CAN ALSO BE A STRONG AND HEALTHY NAVAL AUXILIARY DURING HOSTILITIES. IT CANNOT SUCCEED UNLESS ALL CONCERNED BECOME COMMITTED.

ALTHOUGH IT TOOK OUTSIDE EVENTS -- LIKE THE THREAT TO FREE WORLD OIL FLOW AND THE SOUTH ATLANTIC CONFLICT -- TO SERVE AS CATALYSTS FOR ACTION, TO GIVE SEALIFT THE PRIORITY IT DESERVES, WE MUST NOW LOOK WITHIN FOR OUR STRENGTH.

IF WE CAN ALL PULL TOGETHER -- THE MARITIME ADMINISTRATION, AMERICAN FLAG SHIP OPERATORS, MARITIME UNIONS, NATIONAL LEADERSHIP AND OUR NAVY -- WE WILL BRING NEW ORDER OUT OF YESTERDAY'S CHAOS. WE WILL BREAK FREE OF THE MORASS WITH A NEW, INVIGORATED MERCHANT MARINE STRENGTH.

WE MUST ALL WORK TOGETHER TO DEVELOP A SERIOUS NATIONAL PLAN OF CORRECTIVE ACTION. OUR ECONOMIC STRENGTH DEPENDS UPON IT. OUR MILITARY CAPABILITIES REQUIRE IT.

LET'S ONCE AGAIN MAKE AMERICA'S MERCHANT FLEET THE ENVY OF THE WORLD!

THANK YOU & GOD BLESS.



AMERICAN INSTITUTE OF MERCHANT SHIPPING

April 29, 1983

Docket Clerk
Room 10421
Office of the Secretary
Department of Transportation (DOT)
400 Seventh Street, S.W.
Washington, D.C. 20590

Gentlemen:

The American Institute of Merchant Shipping (AIMS) is a national trade association representing twenty-nine (29) U.S. flag shipping companies which own or operate nearly 12 million deadweight tons of tankers and ocean-going bulk vessels engaged in the domestic and international trades of the United States.

The purpose of this letter is to submit AIMS comments on DOT's notice of proposed rulemaking appearing in the January 31, 1983 Federal Register, which provides for the total repayment of construction differential subsidy (CDS) and permanent entry for the vessels concerned into the U.S. domestic trades. The proposed rulemaking states that the purpose of this CDS payback approval is to "encourage the development of an efficient and competitive U.S. flag merchant marine by minimizing government obstacles to the market place decisions of vessel operators." AIMS members strongly feel that this radical policy change will have just the opposite effect and will serve only to drive the existing operators out of the domestic trades they have operated in over the years, specifically the Alaskan North Slope (ANS) trades: Valdez to the U.S. West Coast, Valdez to Panama, and Panama to the U.S. Gulf and East Coasts. In this connection, we are constrained to point out the gross inequity of drastically changing the rules in midstream. The existing operators in the domestic trades have made substantial investments in recent years on a fixed set of premises and on the basis of established lines of trade. The DOT proposed rulemaking would totally upset this investment balance. The mere payback of CDS on an unamortized or pro-rata basis as proposed can never put the former CDS recipient and the existing domestic trade operator on an equal competitive basis since the capital assumptions can never be equalized, or even equated. Basically then, the January 31 proposed rulemaking must be discarded because it will work a completely inequitable result since its thrust

is to jeopardize the substantial investments of the existing ANS operators made in reliance on the fixed and longstanding national policy of a subsidized foreign trade and unsubsidized domestic trade dual U.S. flag fleet. The subsidized operators made a commitment to the foreign trades with taxpayer assistance, they cannot now be permitted to shift wholesale into the domestic trades and disadvantage those operators who have relied on this policy.

In essence, we believe that the proposed rule should not be promulgated since it is completely unrestrained in its mandates. Not only is it wrong, but to change policy radically as the proposed rulemaking would do, will be catastrophic for the operators serving the ANS trades. Only irreparable harm can result from permanently dumping at one time all the CDS vessels wishing to payback into this already overtonnaged trade, which has approximately 1.2 million deadweight tons in layup. The large number of Jones Act vessels currently tied up clearly demonstrates that existing tonnage is more than adequate to meet demand. Only in the Valdez-Panama trade has the capacity of Jones Act vessels been inadequate, and this deficiency has been alleviated by the Section 506 waiver mechanism. We recommend that the Administration drop this proposed regulation and consider changes in Section 506 waiver mechanisms of the Merchant Marine Act of 1936, as amended, to deal with a more extensive shortage of tonnage if it develops in the future.

The basic fact upon which any tanker carriage must be based is the amount of cargo available. In this area the DOT proposal exceeds realistic projections with respect to future production of ANS crude in the 1990 time frame. The DOT proposal posits a cargo availability based on oil production increase from the present level of 1.6 million B/D to 2.0 million B/D by 1990 stabilizing at this level through 1995. AIMS members engaged in the Alaskan North Slope crude production and movement believe that the DOT proposal considerably overstates ANS production in the 1990 time frame. ANS crude production is currently about 1.6 million barrels per day. It is possible for an increase in production to 1.8 million B/D by 1985 or 1986 as more production from the Kuparuk field comes onstream. Prudhoe Bay production is then expected to decline, which will far exceed any increase from other known North Slope reserves. There is little probability of maintaining even 1.8 million B/D of ANS production during the latter part of this decade since significant production from new discoveries will not occur before 1990 and tertiary recovery programs will not increase production, but only retard declines.

As a consequence of these factors, it is far more likely that production levels of ANS crude in 1990 will be

below the current 1.6 million B/D rather than the 2.0 million B/D estimated by DOT in its proposal. Thus, neither the industry nor the promulgators of the proposed rule can look to an increased volume of ANS production to lessen the impact of unlimited CDS vessel entry into the ANS trades during the 1985-1990 period. In short, the DOT proposal's estimates of cargo availability upon which is based the rationale for CDS payback vessel entry are erroneous -- all other assumptions in the proposal regarding vessel availability and capability -- must thus fall with it.

In summary below are just some of the reasons our members oppose total CDS payback and why the January 31, 1983 proposed rule should be abandoned:

1. Catastrophic Losses would be inflicted on the entire domestic tanker industry due to overtonnaging and low rates.

This would cause reduced tax revenues to the government and possible Title XI defaults of one billion dollars (as against probably Payback of about \$200 million). There are 59 unsubsidized tankers built from 1968-1984 (or under construction) with about \$978 million Title XI. The market would be devastated not only by the vessels that payback but by the other subsidized tankers that potentially overhang the market.

2. Unemployment in the seagoing work force would further increase by an estimated 2,500. The skilled labor pool would soon disappear, making it impossible to man reserve vessels for national defense.
3. National Defense will suffer as the U.S. Merchant Fleet is reduced by an estimated 2,576,000 dwt, including modern vessels of the type desired by the Navy for national defense.

NOTE:

The Navy is currently building fleet oilers for \$117 million each and chartering T-5 30,000 dwt tankers that cost about \$70 million each.

It seems a waste for the Government to spend such sums on new ships while simultaneously destroying an existing fleet of vessels!

NOTE:

The British employed 34 product tankers to support the 10,000 man Falkland's task force. Our support for 100,000 men in the Arabian Gulf would require several hundred product tankers (including Navy orders).

4. Construction Subsidy Payback is less effective than it appears because it will be deductible for tax purposes (i.e., depreciated over 5 years). Also, certain VLCC's are already repaying CDS pro-rata on the existing 6 month waiver program. Cancellation of Operating Subsidy Contracts on the 80/90,000 dwt tankers ensure that those ships will never trade foreign, thereby ~~sacrificing the benefits of having U.S. flag vessels participate in international commerce and being strategically located in case of emergency.~~
5. Shipyards would have a smaller U.S. fleet to service, and due to overtonnaging would lose any future opportunity for domestic newbuilding. Several yards were discussing major conversion projects which are now on the "back burner" due to the payback proposal.
6. Future Capital Investment in shipping would be destroyed due to a shattered market and the complete loss of confidence in stable government policy.
7. No Savings to the Consumer will be realized since the delivered price of oil will be equal to other competitive crudes.
8. Windfall Profits would be experienced by the only two companies which are pushing very hard for Payback, having already taken advantage of government subsidy:
 - a) American Petrofina - an American subsidiary of a foreign company that would payback its VLCC's WILLIAMSBURG and BROOKLYN.

Petrofina is not in financial jeopardy.

Petrofina now is in a better position than if it had chartered foreign flag ships since it has six month/year access to Alaska oil.
 - b) The Berger Group - an individual whose 8 subsidized 80/90,000 dwt owner/operated tankers could payback. Two of these vessels, the ULTRAMAR and ULTRASEA, are controlled by American Ultramar, another subsidiary of a foreign company.

Mr. Berger's ships have all been involved in longterm charters. Mr. Berger's company is not in financial jeopardy.
9. Seatrain would attempt to payback its subsidy on the VLCC's NEW YORK, MARYLAND and MASSACHUSETTS. However, the financial burden of payback, the probable layup of

their 114,000 unsubsidized MANHATTAN, and rate pressures on their already sanitized STUYVESANT and BAY RIDGE would combine to aggravate Seatrains' precarious financial restructuring. Government guaranteed debt (Title XI and E.D.A.) at risk includes:

- a) \$100 million -- Title XI on the three large VLCC's.
- b) \$120 million original Title XI plus about \$80 million of other guaranteed notes used to support the CDS payback of the STUYVESANT and BAY RIDGE.
- c) \$100 million (approximately) Title XI debt needed to payback the three VLCC's.
- d) Total At Risk - over \$400 million.

It is argued that millions of dollars will be returned to the U.S. Treasury through CDS repayments, and the DOT rulemaking estimates this CDS recoupment to the Treasury at \$200 million plus interest. We believe that these speculative savings are largely illusory. If in fact \$200 million is repaid, the resulting tax effects cost the government almost 50% of the money repaid and so tax savings of \$90-100 million will return to the operators. In addition, failures of the existing unsubsidized vessels may well trigger Title XI loan guarantees of many hundreds of millions of dollars, as well as lost personal income tax and corporate tax payments. The net effect is that over the next five years, the government may well generate a net loss rather than net income.

Any improvement in the government's Title XI exposure on the present CDS vessels would be offset by the fact that Section 1104(a)(3) clearly permits Title XI guarantees to be used to finance CDS repayment, and such guarantees would undoubtedly be requested. Total Government Title XI exposure will increase, not decrease. Clearly, the Title XI exposure resulting from the present unsubsidized vessels driven from the trade will far outweigh any money the Treasury might realize from CDS payback.

It is stated in the rulemaking that "adoption of the proposal would be consistent with the policies of the Act." It is further stated as a basic justification for this inequitable proposal that an efficient and competitive domestic merchant marine should be encouraged primarily by allowing it to compete freely in the commercial market place. We contend that the proposed rule contravenes the purposes of the Merchant Marine Act, 1936, as amended. According to the Act, the responsible government entities are charged with fostering and developing the merchant marine with respect to the U.S. foreign trades. The proposed rulemaking and its supporting documents seem to dwell on the impact of this CDS payback initiative on the domestic

trades and do not at all analyze the impact of this questionable procedure on the U.S. flag merchant marine in the U.S. foreign trades. This clearly contravenes the intent of the 1936 statute which unmistakably establishes a dual U.S. flag merchant marine system of subsidized foreign trade and unsubsidized domestic trade. The proposed rulemaking is substantially deficient and illegal in ignoring the implications and impact of the proposed permanent CDS payback on the subsidized service of the U.S. foreign trades.

It is also deficient and illegal with respect to the 1936 Act mandate regarding the defense requirement for the U.S. flag merchant marine. This is drawn into focus even more by the Administration's public and avowed efforts to improve our military capability overall, and especially overseas. The withdrawal and reduction of U.S. flag vessels in our domestic and foreign trades is contrary to this effort as well as the statutory defense mandates.

The recent experience of the United Kingdom in their efforts to conduct extensive military operations in the Falkland Islands, eight thousand miles from England demonstrated once and for all the necessity of a strong national flag fleet that can be relied upon in the event of a national emergency. It is quite clear that this modest U.K. military operation, small in comparison to our rapid deployment force concept for the Mid-East, could not have succeeded without the contributions of the merchant marine components. Every commentator and authority has noted the absolute contribution of the commercial fleet to this effort: container ships, tankers, break bulk, passenger vessels and auxiliary ships. Despite this warning example, this inadvisable rule would further drastically reduce the size of our national fleet. DOD itself has stressed the need for tankers of 50,000 dwt and less to provide support and resupply capability to our Armed Forces, yet it is this very size vessel that it is contemplated would be reduced severely in numbers if the questionable policy under consideration is adopted.

Thus, as mentioned above, we contend that DOT has completely ignored this crucial factor which is critical to our national defense capability. The rulemaking conveniently ignores this vital matter -- another major deficiency. Once this proven defense capability is foolishly eliminated, it can only be restored at great cost. For example, the construction costs of these smaller tankers would exceed \$75 million per vessel. This would quickly more than counterbalance the alleged \$200 million benefit derived from CDS repayment.

Moreover, in proposing the CDS payback rule, the Department of Transportation is not "minimizing government obstacles to the market place decision of vessel operators to operate in the domestic trade," as it suggests, but overturning

longstanding maritime policy in the guise of economic "deregulation." The "obstacles" to the entry of CDS-built vessels into the domestic trade are statutory and contractual commitments upon which domestic operators have relied. CDS and ODS recipients made a "market place" decision to receive subsidy and to operate in the foreign trade when it was advantageous for them to do so. It is not unreasonable to ask them to live with these commitments during the current downswing in the foreign market.

Contrary to the Department of Transportation's stated purpose of removing government interference in the domestic trade, the proposed rule will have exactly the opposite effect. If enacted, the rule will create instability in the domestic trade. The proposed rule obviously precludes new tankers from being built for our domestic trades for at least 10 years, threatens reconstruction and repair work, and makes any kind of domestic vessel financing all but impossible. If the "ground rules" can change so radically and for so little reason, it will be impossible for the merchant marine community to make investment decisions of any kind for either the domestic or the foreign trade. Far from removing "obstacles" to the strengthening of the market position of the U.S. fleet, the proposed rule creates an environment of alarm, uncertainty and chaos in the U.S. maritime industry.

Nor would the proposed rule reduce "economic regulations" as alleged in the rule itself. DOT projects that some 15 of 29 possible vessels will repay operating subsidy and enter the domestic trade leaving 14 tankers and all existing liner vessels requiring a continuation of regulatory requirements as called for by the Merchant Marine Act of 1936, as amended. In other words, this change resulting from the rulemaking would not eliminate the necessity of the subsidy mechanism. The entire administrative-regulatory structure governing the vessel subsidy system would remain intact for the remaining subsidized tankers and the operating liner fleet. The reduction of "economic regulation" would be de minimis to non-existent.

It is argued in the proposed rule that the total repayment of CDS and permanent entry into the domestic trades will force the older, smaller inefficient vessels out of service. We do not agree with the basic premise of the rule with respect to the vessels it would force out and believe that to some extent the opposite effect will occur. To begin with, the present market along with the requirements of the Port and Tanker Safety Act of 1978 are of themselves cleansing the U.S. Tanker Fleet of the so-called inefficient and older vessels that are in need of substantial capital expenditures, because of the legislative requirements. Therefore, the permitting of subsidized vessels to enter the domestic trades will impact almost totally on many now

existing modern vessels which have been constructed within the last ten years, a significant number of which are covered by Title XI guarantees.

The basis of this proposed rule assumes that all modern tonnage will find employment and that those vessels having a larger capacity will displace the older and smaller vessels now trading. It is important to understand, that due to the existing restrictions in various domestic trades, which relate to the shore storage, cargo sales, terminal, draft and length restrictions, and regardless of whatever policy is adopted, there will continue to be a need for a certain number of smaller vessels, which in spite of their size, are the most efficient in these restrictive trades. Moreover, an older vessel is not necessarily less efficient or less safe. There are many older vessels that are certainly in comparable condition to some newer vessels.

The Department's argument that just a few old and small vessels will be displaced is not a determination of competitive impact. Congress long ago separated the foreign subsidized and domestic unsubsidized vessels in order to promote both trades. The purpose of the competitive impact test is to protect the domestic trades which the proposed rulemaking has failed to do. In failing to do so, the Department has acted in an arbitrary and capricious manner and has abused its discretion.

The proposed rule unfortunately creates a completely unstable atmosphere in which the unsubsidized owner would have to attempt to operate. This uncertain environment will preclude operators from constructing new tankers for at least ten years; reduce significantly, if not eliminate, reconstruction and repair work; lower considerably the capital value of unsubsidized vessels; and render impossible any kind of planning for domestic vessel financing. The only result of this ill-conceived rulemaking will be a climate of wildly fluctuating rates which will initially fall to lay-up levels, with every vessel in the domestic trades scrambling for any possible share in the market. It is obvious that if the basic ground rules upon which the operators have relied and invested over all these years can be changed so radically and for so little reason, it will be impossible for the merchant marine community to cover its present debt obligations, let alone make any kind of investment or operating decisions.

Contrary to the avowed purpose of the proposed rulemaking to strengthen the domestic fleet, it will impose a climate of instability, uncertainty and chaos which will be not only detrimental to the unsubsidized tanker operators, but will go a long way toward destroying them. Is this what the Department of Transportation really wants? Is this the long awaited and much heralded maritime policy of the Administration?

The proposed rulemaking is both shortsighted and deficient in not considering and weighing into the equation, the Administration's notion of possibly selling Alaskan North Slope (ANS) oil to Japan. There has been talk of selling between 300,000 to 800,000 B/D of ANS oil to Japan, which would displace more than 50 percent of our domestic fleet in the higher ranges. The inimical impact on the U.S. domestic tanker fleet from the export of Alaskan oil would occur absent the payback rule, which will all but destroy the U.S. domestic tanker fleet on its own. Put another way, if the Administration and the Congress should go forward with the export of Alaskan oil, which we oppose, there would not be enough left for the CDS payback concept to impact upon. Although the proposed rule is deficient in many aspects, it is certainly deficient inasmuch as it failed to analyze the impact of the possible export of ANS oil on the CDS payback scheme. It is our position, of course, that the proposed rulemaking should be abandoned. Under no circumstances should it even be considered until the issue of the export of ANS oil to Japan is resolved.

A corollary deficiency in the proposed rule is its failure to consider the effect on the non-ANS trades. The rulemaking does not analyze the impact on rate structure and service in the non-ANS trade when smaller vessels are displaced. The Department's own analysis and admission indicate that half of the Jones Act tonnage is in the non-ANS trade.

The far-ranging consequences of the proposed rule are awesome. It will result in a significant decrease of the U.S. domestic and foreign merchant fleets, and once these components are destroyed, it must be realized by the framers of the rulemaking, they cannot easily be replaced--if at all. The results of this can only be a severe loss of jobs and tax revenues. The proposal does not benefit anyone except a select few shipowners and impacts adversely on many, so that it is opposed by most of the shipowners and operators, by most petroleum companies, in whole or in part, by the maritime labor unions--save one, and by the ship builders. One of the insidious aspects of the rulemaking is that it would set a precedent that could extend far beyond the tanker segment of the industry and could upset the balance of the entire industry. How long, for example, would it be until the same proposal is advanced for the liner segment?

The proposal is in fact a radical policy change which should not be done by a rulemaking. It is in essence legislating by rulemaking and thus illegal. We submit that such a sweeping policy change can only be effected by legislation. If laws and basic policy governing the U.S. flag merchant marine are to be changed, it can only be done by the Congress.

The proposed rule is clearly illegal since it does not comply in any way with the numerous regulatory provisions mandated by Executive Order No. 12291 (February 17, 1981, 46 F.R. 13193). E. O. 12291 specifies in its preamble that its purpose is "to reduce the burden of existing and future regulations, increase agency accountability for regulatory actions, provide for presidential oversight of the regulatory process, minimize duplication and conflict of regulations, and insure well reasoned regulations." All of this should govern the January 31 rulemaking. Unfortunately, nowhere does the rulemaking give recognition to the mandates of the Executive Order, which states that:

"(b) 'Major Rule' means any regulation that is likely to result in:

- (1) an annual effect on the economy of \$100 million or more;
- (2) A major increase in costs or prices for consumers, individual industries, Federal, State, or local government agencies or geographic regions; or
- (3) Significant adverse effects on competition, employment, investment, productivity, innovation, or on the ability of United States based enterprises to compete with foreign-based enterprises in domestic or export markets."

Clearly the January 31 proposed rulemaking will impact on the economy much in excess of \$100 million and probably also falls within the purview of the other standards for inclusion as a "major rule" as set out in Subsection (b). The record of the hearing of March 3, 1983, held by the Merchant Marine Subcommittee of the House Merchant Marine and Fisheries Committee, shows many ways in which the proposed rule would affect the economy in excess of \$100 million such as the amount of interest payment that would be returned to the Government, the amount of Title XI defaults that would occur, and the business and employment dislocations that would result.

Since the proposed rulemaking does not comply with the many prescriptions and standards of E.O. 12291, such as the preparation and consideration of a "Regulatory Impact Analysis," the rulemaking under consideration is, we believe, invalid and illegal.

We would hope that the Department would consign this divisive and destructive proposed rule to regulatory limbo, devote its considerable energies and talents to more positive initiatives, and consider changes in existing legislation to deal with tonnage shortages if they develop in the future.

If this questionable rule were to be adopted it would cause serious economic damage to the unsubsidized domestic operators in the ANS trades, breach existing and traditional maritime policy which the unsubsidized operators have relied on in making very substantial investments in their domestic fleets, and would not assist in national defense but would in practice be detrimental to the nation's defense capability.

As pointed out, the proposed rule has serious flaws and glaring omissions in its economic analyses, does violence to many of the major provisions of the Merchant Marine Act, 1936, as amended, is unfair, ill-conceived, untimely and would accomplish nothing more than introduce uncertainty and chaos into an already faltering U.S. flag merchant fleet.

Sincerely,



W. M. Benkert
President

The Journal of Commerce

AND COMMERCIAL

NEW YORK, WEDNESDAY, JUNE 15, 1983

Subsidy Refunds Viewed Harmful to Government

By ROBERT F. MORISON
Journal of Commerce Staff

WASHINGTON — A non-subsidized tanker operator believes the Department of Transportation is wrong from beginning to end in its proposal to allow tanker operators with vessels built using federal subsidies to repay this aid in return for being admitted to domestic trades.

While the DOT analysis underlying its proposal envisages \$200 million or more coming back to the government, Jack Goldstein, vice president and economist for Overseas Shipholding Group Inc., insists the government instead "would suffer substantial economic losses as a result of the rule."

This would occur, he told a breakfast meeting Tuesday of the Propeller Club here, because of tax write-offs of such sums, threats of losses of \$800 million to \$900 million in government-backed mortgages on competing non-subsidized ships, and loss of federal income tax revenues from idled crewmen.

In short, he argued, "this does not appear to be an advantageous deal to the federal government."

Mr. Goldstein also claimed the most active proponents of the rules among 15 or so subsidy-built tankships have their ships under charter.

Implementation of the rules would result in possible "massive windfall profits — at no economic risks" as these long-term charters in the depressed foreign trade are liquidated

with "large cancellation payments to the owners."

The federal government, he added, should be aware that a primary beneficiary of the policy (refunding) would realize a much larger profit from the cancellation of the charter than could ever be realized from its observance.

"This cancellation payment, deposited in tax-deferred funds and used to repay Title XI (government-insured ship mortgages) debt at the end of the life of the vessel, would create an unsurmountable competitive advantage" for those operators paying back their subsidies, he added.

In Mr. Goldstein's view, the proposed rule, so worrisome to the established non-subsidized tanker operators in the Alaskan-Lower 48

states trade, also "contradicts" President Reagan's endorsement of the Jones Act protection for non-subsidized domestic carriers.

He also claimed that the rule would have adverse national defense consequences, and is "based upon a collection of misstatements, impressions, and assorted visions of the tanker market that do not reflect reality."

He rapped DOT's proposal for anticipating that only the old, smaller, and less efficient tankers would be "bumped" out of the trade by admission of the subsidy-built tankships.

"You can't bump out vessels that have already been bumped," he added, explaining that 52 to 126 older tankers already have been idled and claiming that modern, larger, non-subsidy-built vessels, too, would be threatened.

As for freeing Alaskan oil for sale to Japan — tied to making up such volume by imports from Mexico with U.S.-flag preference attached — Mr. Goldstein said that "wouldn't help very much."

He also rejected the argument that admitting the bigger, more modern subsidy-built tankships to the trade as a benefit to consumers, has an absurdity and would have "no effect on consumer costs."

Subsidy Refunds Held Harmful to Government



COVE CHARTERING INC

WALL STREET PLAZA, NEW YORK, N.Y. 10005

(212) 422-3355
Telex: RCA 222007
ITT 424126
Cables: COVESHIPS or MOUNTSHIP
TWX: (710) 581-2467

ATTACHMENT "B"

JUNE 17, 1983

VESSEL LAY-UP - TANKERS

<u>DEADWEIGHT TONS</u> <u>(IN THOUSANDS)</u>	<u>VESSEL</u>	<u>OWNER</u>	<u>LOCATION</u>	<u>LAID-UP SINCE</u>
17	LOMPOC	UNION	PORTLAND	FEB. 1981
24	SCORPIO	HESS	ORANGE, TX.	JUNE 1981
24	CAPRICORN	HESS	ORANGE, TX.	JUNE 1981
24	PISCES	HESS	ORANGE, TX.	JUNE 1981
26	RED RIVER	SABINE	PORT ARTHUR	APRIL 1982
26	COVE SPIRIT	COVE SHIP	MOBILE	APRIL 1982
24	MARINE TEXAS	MTL	BEAUMONT, TX.	APRIL 1982
20	MONA	LASC	BALTIMORE	MAY 18, 1982
26	BRAZOS	CORCO (TC)	PORT ARTHUR	MAY 1982
27	TEXACO KANSAS	TEXACO	PORT ARTHUR	JUNE 1982
27	MEADOWBROOK	KEYSTONE	SAN FRANCISCO	JULY 1982
51	OVERSEAS ANCHORAGE	MOC	JACKSONVILLE	JULY 1982
29	MONMOUTH	KEYSTONE	ORANGE, TX.	AUG. 1982
31	ARCO ENDEAVOR	ARCO	ORANGE, TX.	AUG. 1982
38	OVERSEAS ULLA	MOC	JACKSONVILLE	AUG. 1982
33	SAROULA	PRUDENTIAL	ORANGE, TX.	AUG. 1982
20	SUZANNE	LASC	SAN FRANCISCO	OCT. 1982
38	OVERSEAS ALEUTIAN	MOC	JACKSONVILLE	NOV. 1982
31	GULF SOLAR	GULF	PORT ARTHUR	JAN. 1983

<u>DEADWEIGHT TONS (IN THOUSANDS)</u>	<u>VESSEL</u>	<u>OWNER</u>	<u>LOCATION</u>	<u>LAID-UP SINCE</u>
27	TRINITY	SABINE	PORT ARTHUR	MAR. 1983
30	MEDINA	SABINE	PORT ARTHUR	MAR. 1983
30	COVE COMMUNICATOR	COVE	MOBILE	APRIL 1983
39	FREDERICKSBERG	HESS	ST. CROIX	MAR. 1983
39	CHARLESTON	HESS	ST. CROIX	MAR. 1983
29	COVE RANGER	COVE	PHILADELPHIA	MAR. 1983
30	DINA	L.A. STEAMSHIP	NEW HAVEN	MAR. 1983
27	BORDEAUX	TRINIDAD	TAMPA	MAR. 1983
27	AMERICAN TRADER	AMERICAN TRADING	TAMPA	APRIL 1983
49	MT. WASHINGTON	VICTORY	PORT ARTHUR	MAY 1983
62	GOLDEN GATE	KEYSTONE	SAN FRANCISCO	APRIL 1983
27	HOUSTON	APEX	PORTLAND	MAY 1983
26	TEXACO MASSACHUSETTS	TEXACO	PORT ARTHUR	APRIL 1983
34	AMERICAN OSPREY	AM. FOREIGN	PORT ARTHUR	MAY 1983
49	OVERSEAS JOYCE	MOC	JACKSONVILLE	MAY 1983
31	COVE NAVIGATOR	COVE	MOBILE	MAY 1983
28	SABINE	SABINE		MAY 1983
25	FRIO	SABINE	PORT ARTHUR	MAY 1983
27	SAN JACINTO	APEX	PORT ARTHUR	JUNE 1983
25	COVE TIDE	COVE	MOBILE	JUNE 1983
26	TEXACO MONTANA	TEXACO	PORT ARTHUR	MAY 1983
<u>40</u>	<u>TOTAL VESSELS LAID-UP - TANKERS</u>			

ATTACHMENT C

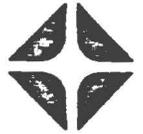
CDS PAYBACK

SUPPLEMENTAL LIST OF DOCUMENTS IN OPPOSITION TO CDS PAYBACK:

- C-1 ARCO TRANSPORTATION COMPANY LETTER 4/27/83
- C-2 SENATOR RUSSEL LONG LETTER 3/25/83
 SENATOR J. BENNETT JOHNSTON LETTER 3/25/83
 SENATOR WENDELL H. FORD LETTER 3/25/83
 SENATOR PAUL TRIBLE LETTER 3/25/83
 SENATOR JOHN WARNER LETTER 3/25/83
 SENATOR THAD COCHRAN LETTER 3/25/83
- C-3 SENATOR J. BENNETT JOHNSON LETTER 3/22/83
- C-4 CONGRESSMAN ROBERT L. LIVINGSTON LETTER 2/23/83

ARCO Transportation Company
515 South Flower Street
Los Angeles, California 90071
Telephone 213 486 6019

ATTACHMENT C-1



H.E. Bond
President

April 27, 1983

The Honorable Elizabeth H. Dole
Secretary of Transportation
Department of Transportation
Washington, D.C. 20500

Dear Madam Secretary:

I wish to express my opposition to the proposed rule to permit repayment of the subsidies granted Construction Differential Subsidy ships. Permitting any and all vessels to repay the construction subsidy would have a devastating impact on the Jones Act fleet in the United States.

Contrary to publicly expressed opinions, the Alaskan oil trade is not "lucrative". Ships in this service are making rates of return that are generally less than other investment opportunities of oil companies. Flooding the market with these previously subsidized ships would be unfair to the many companies who have invested in Jones Act vessels under the existing rules.

Very truly yours,

A handwritten signature in dark ink, appearing to read "H.E. Bond". The signature is written in a cursive, slightly slanted style.

United States Senate

WASHINGTON, D.C. 20510

March 25, 1983

The Honorable Elizabeth H. Dole
Secretary of Transportation
400 Seventh Street, S.W.
Washington, D.C. 20590

Dear Madam Secretary:

We are greatly concerned by the Department of Transportation's proposed regulations on payback of construction differential subsidies ("CDS"). The proposed regulations would establish a new policy which would adversely affect our nation's economy and security.

According to the January 31, 1983 notice, the objectives of this proposal are to: (a) replace smaller tankers in the Alaskan North Slope oil trade with larger CDS-built ships presumed to be more efficient; (b) reduce the cost of transporting Alaskan oil; and (c) benefit the government financially by recapturing CDS funds and reducing exposure under Title XI ship mortgage guarantees. We question whether the proposal will accomplish these objectives.

The "bumping" of smaller ships in favor of larger ones will not increase efficiency because many of the smaller ships are the newest, most efficient tankers available. Similarly, there is no assurance that the use of larger ships will lower the cost of transporting the oil; it may simply raise the profits of the ship's operators.

The supposed financial benefit to the government is equally illusory. Instead of increasing revenues to the Treasury or reducing Title XI risks, it merely shifts money from one pocket to another by allowing new Title XI guarantees to be issued to repay CDS. It also may result in the default of other Title XI loans on the many smaller ships whose future operation is jeopardized by this proposal.

Furthermore, it is apparent that the significant, adverse effects on the shipbuilding and ship operating industries, as well as our national security, have not even been studied in the preparation of this proposal. These issues concern us greatly.

The Honorable Elizabeth H. Dole
March 25, 1983
Page 2

As you are no doubt aware, President Reagan's Executive Order 12291 requires extensive economic analysis of any proposed regulation which is likely to affect the economy by at least \$100 million annually. In a recent hearing before a Committee of the House of Representatives, Deputy Assistant Secretary Swinburn testified that these regulations would "cut off" shipbuilding for the affected trades. This alone would result in a loss of over \$250 million per year to shipbuilders. At least another \$50 million per year would be lost to each involved ship operator. We urge you to follow the guidelines of Executive Order 12291, and conduct a complete analysis of these regulations before they are implemented.

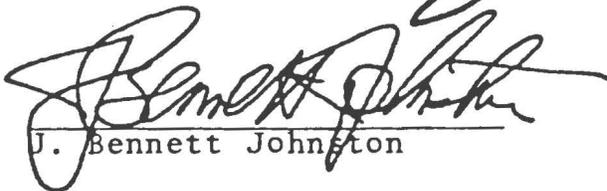
Secretary Swinburn's testimony contained the startling admission that no review of the effect on our nation's security had been done. This proposal's certain adverse effects on the many smaller vessels which may be retired and which may be vital to the national security, must be thoroughly studied and reviewed by the Department of Defense before these regulations take effect.

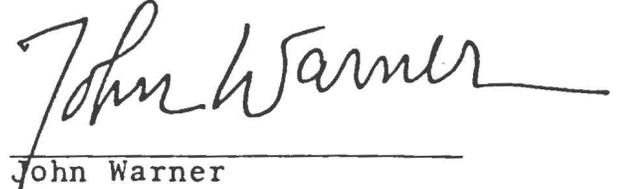
In view of these obvious problems with this proposal, we urge you to withdraw the proposed rule and appoint an interagency task force to study the far reaching economic and national security implications of this proposal.

Sincerely,


Russell Long


Paul Tribble


J. Bennett Johnston


John Warner


Wendell H. Ford


Thad Cochran


Howell Heflin

United States Senate

WASHINGTON, D.C. 20510

March 22, 1983

The Honorable Elizabeth Hanford Dole
Secretary of Transportation
400 Seventh Street
Suite 10200 Nassif Building
Washington, D.C. 20590

Dear Madam Secretary:

I am writing to express my concern about the proposed rule your agency issued in January to allow a blanket payback of construction differential subsidies (CDS) by vessels desirous to enter the Domestic Jones Act Trade.

I was very surprised to learn that your predecessor invoked formal administration rulemaking process as the initial and sole mechanism to receive comments by the public, industry, labor and other key parts of the executive branch as well on such a radical change in policy. I understand Deputy Assistant Secretary Charles Swinburn candidly admitted in testimony March 3 before Chairman Biaggi's Subcommittee on the Merchant Marine: "The analysis stopped, if you will, with the economics. It did not get into the defense needs questions of those smaller ships." That a purported Departmental analysis of this issue failed to seek Department of Defense comments on such a profound issue prior to initiating anything as formal as administrative rulemaking process wholly taints the current process. Even if the Department of Defense is able to file comments sometime prior to the close of the April 1 comment period, I and many others concerned with our defense readiness are precluded from considering our own comments in light of those of the Department of Defense. This Administration has rightly prided itself on development of policy which requires interagency complexity and expertise by careful and coordinated cabinet council or interagency consideration. The process currently employed by your Department on this proposed rule fails to meet your own usual stated standards. And, of course, the Department of Defense is just one agency of the executive branch whose views should have been sought and whose comments I would also like to review to make my own informed comment.

The issues and analysis required for a significant policy impacting the domestic tankers trade are not simple; rather, quite complex. I see no reason for rushing through a truncated, shortcircuited process that precludes meaningful analysis and input.

From what I have seen and heard thus far, I am inclined to raise my strong objection to the finalization of such a proposed rule. I am concerned with the harmful impact on the domestic shipping industry; I question whether the method proposed for the CDS payback does in fact hurt the non-subsidized shipping

The Honorable Elizabeth Hanford Dole
Page -2-
March 22, 1983

on an equal competitive footing with the former subsidized shipping; I am immensely concerned with the national security implications of the proposed rule; I question the outcome and effect of what Mr. Swinburn admitted in his testimony was a related issue - the sale of Alaskan oil to Japan; I am not persuaded that there really is an actual increase of revenues to the Treasury since new Title XI guarantees will be issued to repay CDS and the real possibility of default by non-subsidized ships driven from the domestic trade by the entry of the CDS vessels (Mr. Swinburn testified that it never occurred to him that the recent built ships might be adversely affected); I am concerned about the loss of jobs if the number of vessels likely to be driven from the domestic fleet is as great as industry predicts; and I am concerned about the disincentive this proposal has for proposed new buildings in the domestic fleet. These and other questions concern me greatly, and the analysis and data needed to supply answers must come from many perspectives other than the Policy Office of the Department of Transportation.

For these reasons, I strongly urge that you structure a new interagency evaluation process that includes input from all relevant quarters of the government and private sector, public hearings, and an opportunity for all of us to review and comment on that input before finalizing any Rule allowing blanket payback of CDS. It would seem that the most appropriate agency to conduct such an evaluation is the Maritime Administration, as the agency in the Executive Branch and within your Department with the delegated expertise and specialization to undertake the conduct of such a study.

I welcome your prompt reply.

With warm regards, I am

Sincerely,



J. Bennett Johnston
United States Senator

ROBERT L. LIVINGSTON
1ST DISTRICT, LOUISIANA
APPROPRIATIONS COMMITTEE
SUBCOMMITTEE
FOREIGN OPERATIONS
DR. HEALTH, HUMAN SERVICES,
AND EDUCATION



ATTACHMENT C-4

WASHINGTON OFFICE
ROOM 308
CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3018
DISTRICT OFFICE
642 F. EDWARD HENRY BUILDING
810 SOUTH STREET
NEW ORLEANS, LOUISIANA 70130
(504) 580-2753

Congress of the United States
House of Representatives
Washington, D.C. 20515
February 23, 1983

The Honorable Elizabeth Dole
Secretary of Transportation
400 Seventh Street, S.W.
Washington, D. C. 20590

Dear Madam Secretary:

As a follow-up to my conversation with Admiral Harold Shear, I am writing to express my grave concerns regarding your Department's proposed rulemaking published January 31 to allow repayment of construction-differential subsidies and ultimate re-entry of CDS vessels into domestic trade.

This proposal is a serious departure from past policy where CDS vessels have only been permitted to enter the domestic trades on a case-by-case basis for up to six months a year. Only on two occasions of which I am aware have these vessels been allowed permanent entry strictly because U.S. flag unsubsidized vessels were unavailable at the time.

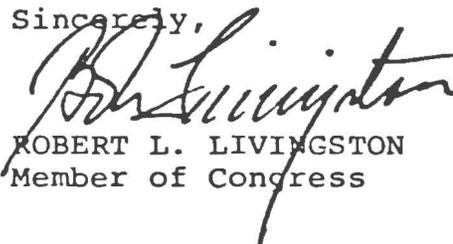
Adoption of this new policy will result in the admission of numerous CDS vessels into the already over tonned domestic trade routes. It is presently estimated that the domestic trades already have an existing surplus of vessels which total over 2.5 million deadweight tons. As a result, the permanent entry of CDS vessels into the domestic trades will mean the scrapping and layoff of numerous lower deadweight tonnage vessels already in the domestic trades, including those in the 20,000 to 35,000 deadweight range. In addition to the hardship placed on present domestic trade operators, the 20,000 to 35,000 deadweight vessels are the very vessels that our Navy depends upon for use in the event of a national emergency.

The Honorable Elizabeth Dole
February 23, 1983
Page Two

While I am opposed to the Department's new proposals, I request that you not consider adopting any proposed rule along these lines until Congressional hearings have been held on this issue and the entire domestic trades matter.

Thanking you in advance for your consideration, I remain

Sincerely,

A handwritten signature in cursive script, appearing to read "Bob Livingston".

ROBERT L. LIVINGSTON
Member of Congress

RLL:pcj

cc: Honorable Walter Jones
Admiral Harold E. Shear

The Journal of Commerce

AND COMMERCIAL

NEW YORK, WEDNESDAY, JUNE 22, 1983

New Tanker for Ingram May Be Last of Its Kind

By MAUREEN ROBB

Journal of Commerce Staff

SAN DIEGO — The last ship scheduled to be built for the independently owned U.S. tanker fleet was christened Tuesday, and maritime interests claimed that it may be the last such vessel ever ordered from a U.S. shipyard.

National Steel and Shipbuilding Co. has just completed the 658-foot Hunter Armistead for Ingram, which plans to offer the tanker for hire to the oil industry and the Military Sealift Command.

But the American Maritime Association, a Washington lobbying group that represents many U.S. tanker owners, issued a statement claiming that a Transportation Department proposal to allow subsidized U.S.-flag vessel operators to pay back their subsidies and enter the domestic trade would put a number of unsubsidized tankers out of businesses.

Under the Merchant Marine Act, only unsubsidized ships can operate in U.S. domestic trades.

Ingram's new diesel-powered ship, which can carry up to 300,000 barrels of petroleum products, will be particularly suited to carry Alaskan and Californian oil to domestic markets, according to the company.

Of Ingram's 33 tankers operating worldwide, four are used in this country's domestic markets. The four are known as independent tankers, or those not owned by an oil company.

While Ingram itself is not a member of the American Maritime Association, it does belong to a related group, the American Bulk Ships Operators Committee, which takes a similar position on the DOT proposal.

According to the American Maritime Association, operators of independent unsubsidized tankers could be forced to default on some \$1 billion of government guaranteed loans if the proposal takes effect.

Among other things, the DOT has "grossly overestimated" future Alaskan oil production figures, the group charged.

While the agency assumes that 1985 production will come to 2 million barrels per day and projects a demand for 6.4 million deadweight tons of shipping capacity by that time, Alaskan oil producers themselves disagree with these predictions, the maritime group claimed.

THE WHITE HOUSE

WASHINGTON

December 8, 1983

MEMORANDUM FOR JIM CICCONI

FROM: DANA ROHRBACHER *DR*

Subject: Jumbo Barge Carrier

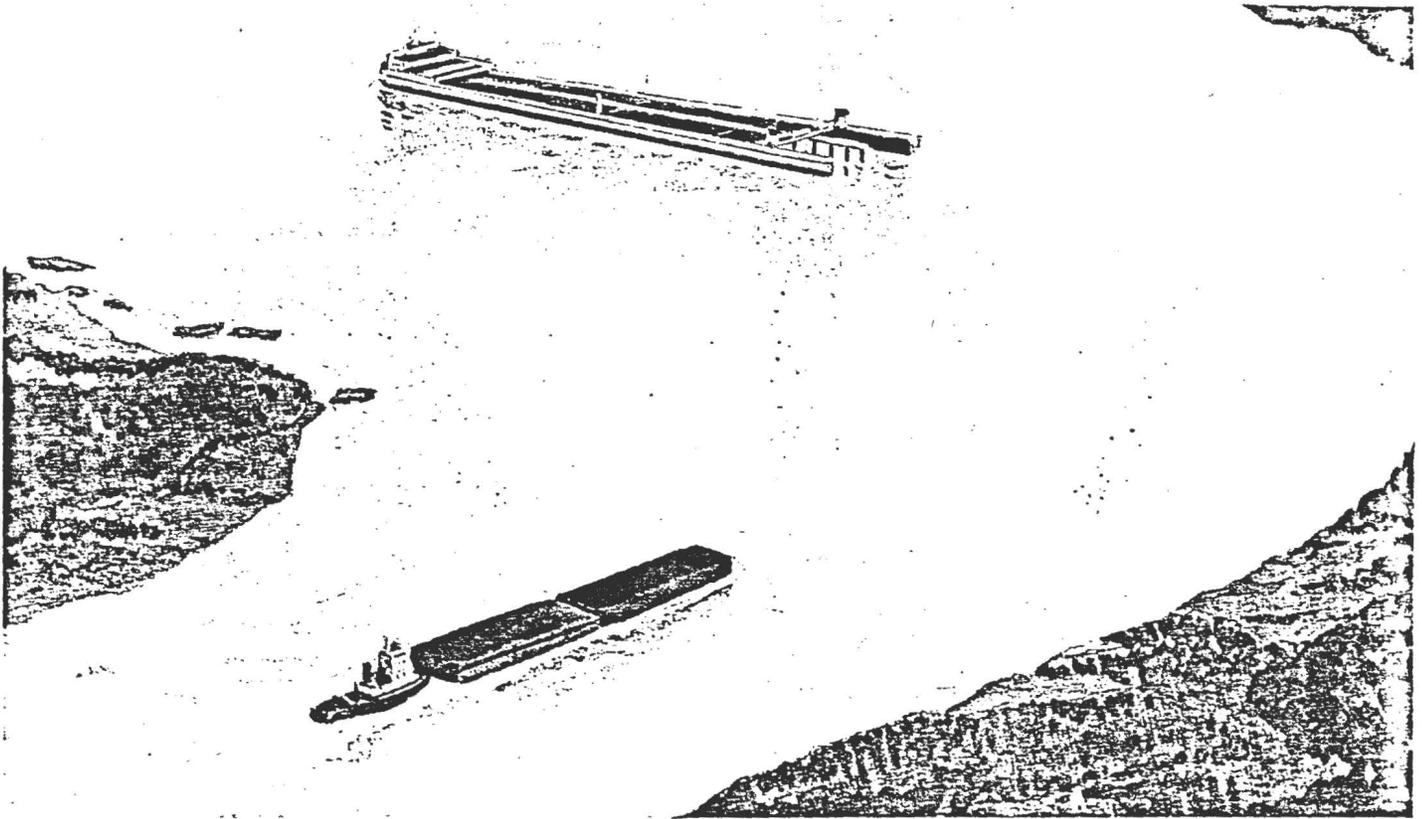
Demonstration tests will be conducted of the Jumbo Barge Carrier design at 1 p.m. on December 15th and 16th at the David Taylor Naval Ship Research Development Center in Bethesda, Maryland.

A quick lunch will be hosted by the designer, Ben Tornqvist, at the Capitol Hill Club at 11:30 a.m. both days. Immediately after lunch, transportation, if needed, will be provided to and from the test facility.

Confirm with me if you will be attending the lunch, the demonstration test, or both. My number is 456-7951.

ADC
PI call Dana's office
and regret. Am still
very interested in this idea,
but can't break away long
enough to do this. Tell him thanks.
Thanks
JE

From small river ports via JBC to small or large oversea ports



The JBC concept was designed and developed by Capt. Bengt W. Törnqvist, Sweden. He has previously designed many of the first RO/RO ships and automobile carriers for Wallenius Line and the fleet of vessels currently operated by Atlantic Container Line. Many combination vessels for bulk and container cargo including the BORO ships are also of his design.

The JBC is based on the trapetzoidal hull form for which patents have been obtained in USA, France and England and for which patents are pending in other shipbuilding countries.

Patents are also pending for the JBC system in all shipbuilding parts of the world.

World marketing rights for the Jumbo Barge Carrier System have as of January 1982 been secured by

JUMBO BARGE SHIPPING & COMMERCE LTD.

~~200 Park Avenue, Suite 4402, NEW YORK, N.Y. 10166, USA~~

Phone: ~~212-687-1549~~. Telex: ~~66 200 JBC~~ 662 000 JBC

We will be pleased to provide further information about JBC, license holders and sales agents.

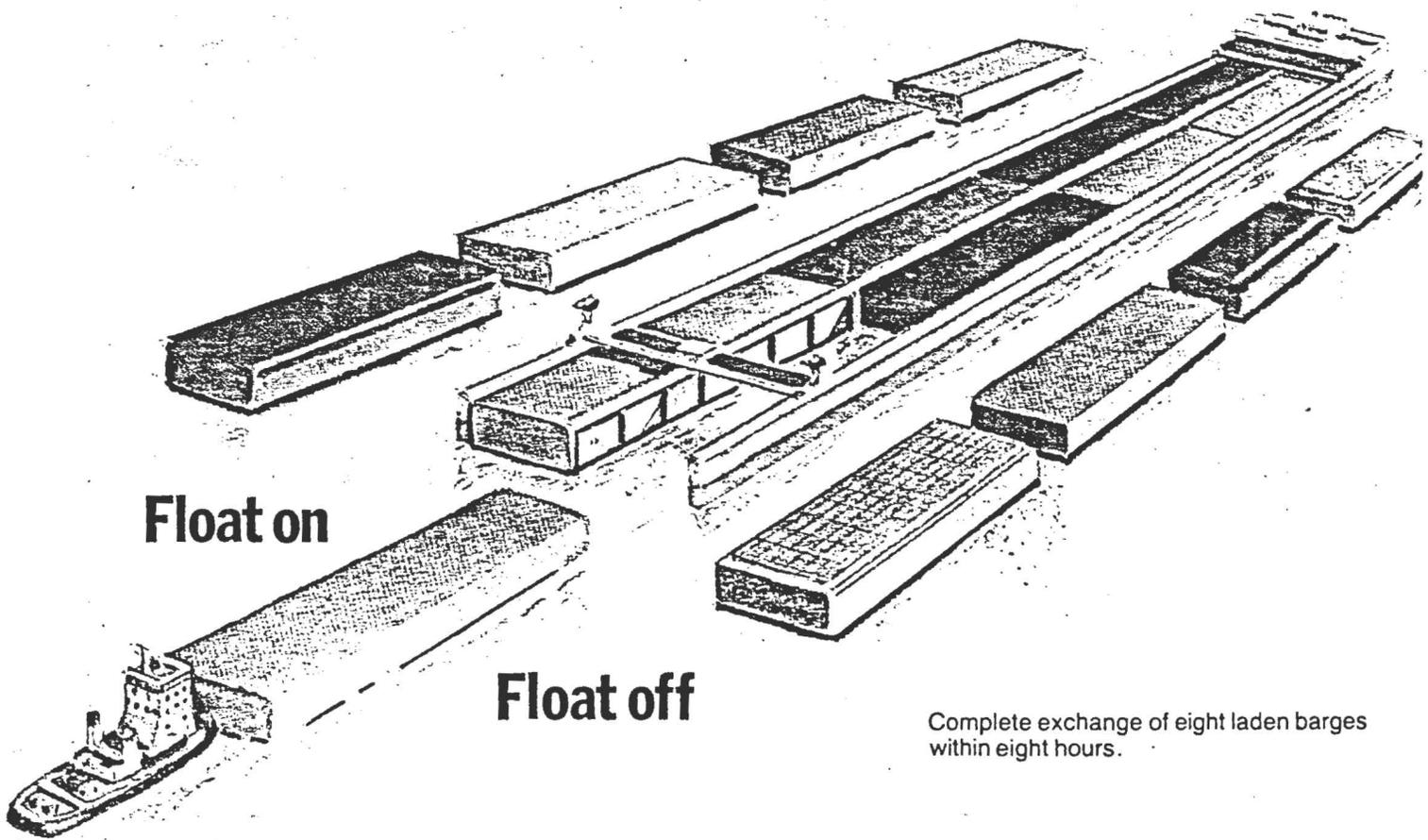
The Chrysler Bldg.

405 Lexington Ave.



JUMBO BARGE CARRIER

JBC—the new concept in deep sea transportation



Complete exchange of eight laden barges within eight hours.

- Large ship economy
- Small ship versatility
- Lower bunker cost per cargo mile
- Port time reduced to a minimum
- Stevedoring and terminal costs reduced
- Fewer ballast voyages
- Flexible cargo combinations
- Multipurpose

The overall result of these features adds up to higher profits and more competitive freight rates.

Eight fully laden arriving barges can be floated off and eight departing barges, also fully laden, can be floated on in a total time of about eight hours.

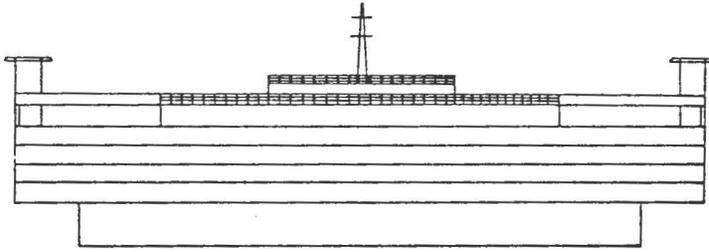
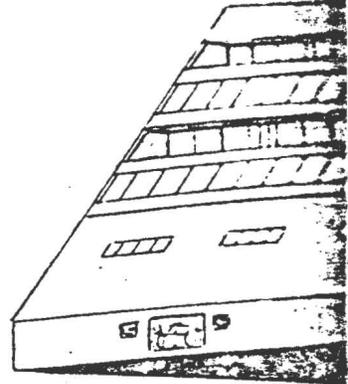
The eight arriving barges may then be towed to the desired terminal and unloaded in the most practical way during normal working hours.

While the JBC has gone back to sea on

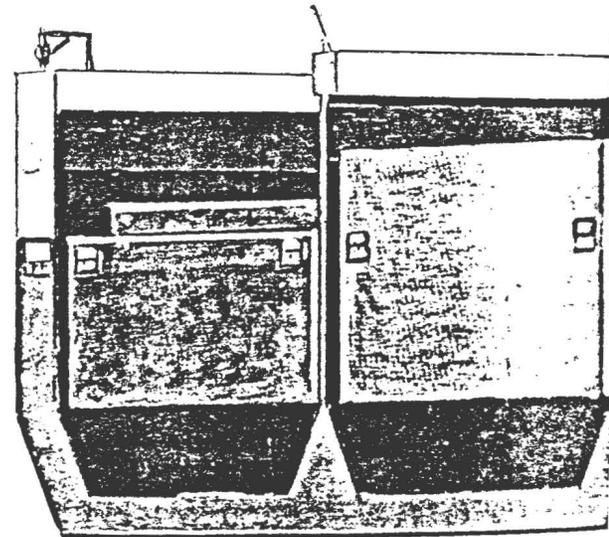
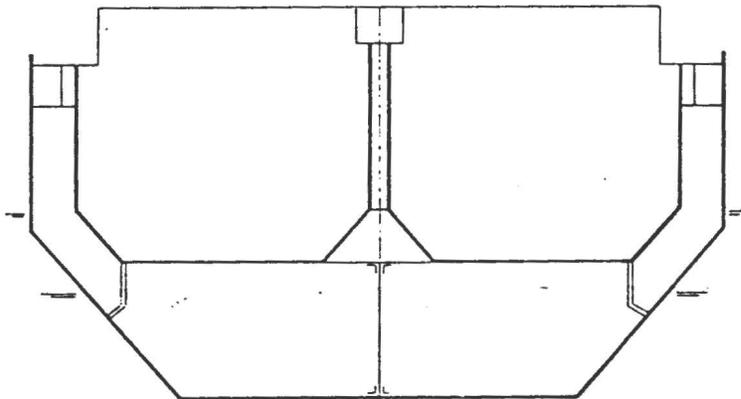
Proposed main particulars

Length over all	408 m=1,340 feet
Breadth moulded	75 m= 246 feet
Breadth at bottom	42-58 m=138-190 feet
Draught during navigation	10-13 m= 33- 43 feet
Draught during loading and unloading operations	21-25 m= 69- 82 feet
Main machinery diesels	30,000-120,000 BHP
Speed in service	15-24 knots

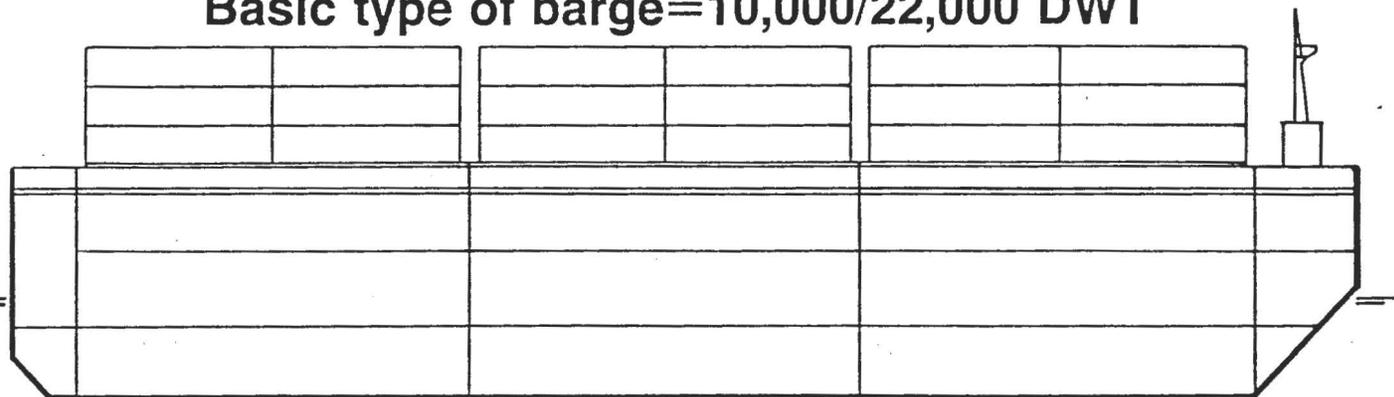
The stability and safety obtained thanks to the trapezoidal hull form shown below also permits even a large superstructure for passenger and passenger cars.



Midships sections!



Basic type of barge=10,000/22,000 DWT

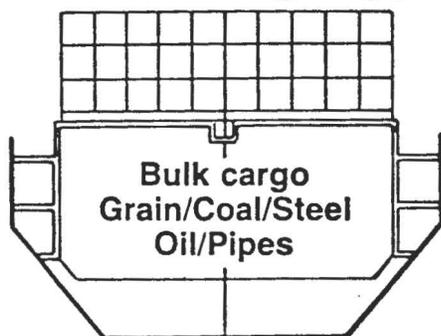


Length—90 m

Width—32 m

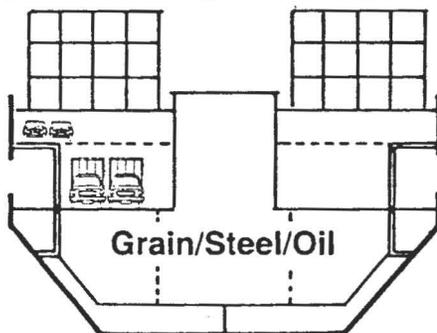
Draft—6.0/9.5 m

5 basic barge types providing multiple cargo combinations



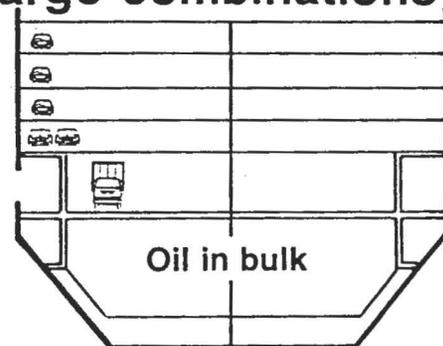
Bulk cargo
Grain/Coal/Steel
Oil/Pipes

Lift on/Lift off
barge



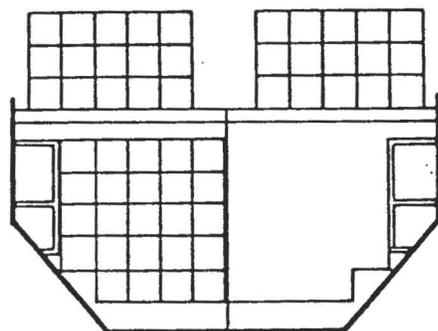
Grain/Steel/Oil

Lift on/Lift off
&
RO/RO barge



Oil in bulk

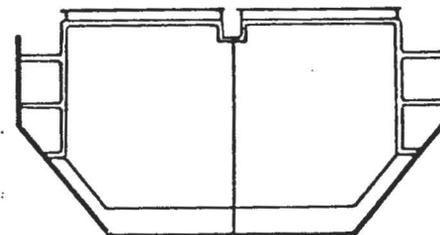
RO/RO barge



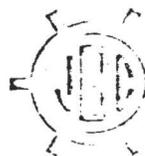
Container barge
Lift on/Lift off
1030 TEU

The possibilities of cargo combinations are only as limited as the imagination of the shipper.

The flexibility allows the basic barge to cater for virtually any combination of cargo loads.



Grain/Steel/Oil
Bulk barge



The IBC concept offers entirely new dimensions in creative shipping!



Jumbo Barge Shipping & Commerce Ltd.

INTRODUCTION:

Rising costs have precipitated a radical re-appraisal of ship utilization, within which the size and type of vessel are primary considerations. The need for even more economical and versatile operation in the future is apparent to everyone engaged in this industry.

It affects all sectors of shipping, covering conventional cargoes, dry and liquid bulks, and containerized operations.

In the long history of shipping, the container revolution has changed this industry faster than anything before, including the transition from sail to steam.

Today, it is estimated that only about half of the potential for containerized operation has been realized, so there is considerable scope for future growth, even during periods of world trade stagnation.

While the Jumbo Barge Carrier concept is suitable for all types of cargo - including Ro-Ro (trailers and cars) and bulk, we would like to present our initial thoughts against the background of containerized shipping on the North Atlantic and, most of all, considering the many possibilities of combined container traffic between North European ports and U.S. East Coast ports with bulk cargoes of grain, coal, steel and forest products in one or more of the barges.

Currently, about 20,000 boxes are being shipped every week in each direction, and the traffic is still slowly increasing. The traffic is very much concentrated on the ports of New York and Rotterdam. New York is presently offering about 40 sailings per month to Rotterdam with general cargo and containers.

The lines operating on the North Atlantic route give at least a weekly service to the major ports, with ships having a capacity of 700 to 2,000 boxes.

The ACL Group has recently ordered five larger combination ships for containers and Roll-on/Roll-off cargo. They have a capacity of 2350 TEU plus about 800 cars. The U.S. Line has ordered 14 ships in Korea, which ships are pure container carriers with a capacity of 4200 TEU. The speed of the ACL ship as well as the U.S. Line ship is reported to be about 18 knots in service.

The obvious solution for reliable and economical liner services on this route seems to be larger ships. Larger ships will, however, meet many difficulties in the existing port installations. Large ships will also be more sensitive to strikes. The time for loading and unloading, say, 3,600 boxes will also be out of proportion in this trade, with an estimated 35%-50% of the ship's life being spent in port.



A study in order to arrive at the most suitable and economical vessel and transport system for the trade (and the North Atlantic liner trade is considered to be the most competitive in the world!) has to take many complex factors into account. Apart from cargo potential, the various types of cargo, the present freight rates, frequency of sailings, ports of direct call, and type of feeder service, the following cost factors have also to be taken into careful consideration:

- a) bunker prices and speed
- b) stevedoring costs and time
- c) crew and maintenance costs

During the past twelve years bunker prices have increased from \$15.- per ton for heavy diesel fuel to approximately \$200.- at present. Light diesel fuel has increased from \$20.- to \$350.- per ton in the same period. It may well be that, by the end of this decade, we are faced with a price for heavy diesel fuel of \$400.- to \$500.- per ton. If the 1970 fuel bill for a container vessel amounted to \$30,000 for a round voyage, it is today \$350,000, and by, say, 1988, it may well exceed \$1 million for the same voyage!

When it comes to the stevedoring costs, the most important consideration today is to slash time in port. Regardless of the number of stevedoring people employed, every effort is made to get the ship out of port as fast as possible, and on scheduled time. When the vessel is delayed due to any one of many possible reasons, it is sometimes difficult and always expensive to obtain stevedores to work overtime. In order to catch up on lost time, the vessel may then have to increase speed between ports, resulting in still higher fuel costs. When overtime is worked, the already high loading and unloading costs are getting still higher. Better utilization of expensive capital equipment by ports can be achieved with a Jumbo Barge service, by more flexible scheduling of working arrangements on its berths.

With increasing wages and shorter on-board working hours, and the fact that each ship has to have a double crew, the operating costs are escalating year by year. The same goes for repair and maintenance costs, all on top of the largest single operating cost factor, bunkers.



AN ALTERNATIVE CONCEPT: THE JUMBO BARGE CARRIER

In order to meet the requirements just stated, to solve the problems and give a reliable, economic transportation service for the North Atlantic trade, consider the following:

Two large barge carriers of a new design - JUMBO BARGE CARRIERS - are built. More detailed particulars are given in the attached brochure. The carriers, called JBC Ships, are estimated to cost between \$85 and \$100,000,000 per vessel depending on where the ships are built and which speed is required. The JBC Ship for this particular trade with a service speed of 24 knots could carry 8 barges with an average capacity each of 1000 TEU containers or a total of 8000 units. In the event that such large quantities of containers are not available, two or more of the barges could carry bulk cargoes of grain or coal one way and steel or forest products on the return voyage. One of the barges could also be built for carrying Roll-on/Roll-off cargo in combination with containers and/or bulk parcels. With such a fast vessel calling on New York and Rotterdam the round-trip, with a safe margin, can be done in 14 days. Two JBC Ships can consequently give a weekly service to the ports mentioned.

Loading and unloading of the barges to be carried out in sheltered waters in the Roads outside the ports. The barges are floated on or off the U-shaped JBC Ship when she is lying at anchor partly submerged. After the barges are floated off, they are towed to the normal berth and unloaded/loaded as any conventional vessel. This operation can, however, be spread over a full week, and can be carried out during normal working hours.

The barges are constructed to permit towage from, for example, New York to Baltimore, or from Rotterdam to Antwerp, London or Le Havre. Longer distances, such as Hamburg, Bremen and Scandinavian ports, might be served by feeder vessels if so required.

Barges can be built in different lengths, or with different container capacity, to suit the requirements of particular ports. The barges can also be built to carry Ro-Ro cargo such as trailers and cars, and/or containers. With one set of barges on board each JBC Ship and one set on each side of the Atlantic a total of 32 barges is required for the system. Each barge is estimated to cost \$5 million.

Two vessels and 32 barges and some barges in reserve plus costs during building time are calculated to amount to about \$400 million.



Various barge-carrying systems are currently in operation. We have the LASH and SEABEE systems, as well as BACAT. They have drastically reduced time in ports. They are, however, working with rather small barges suitable for break-bulk cargoes. The largest carrier can load 28 barges, each carrying 800 tons of cargo. The barges have a rather limited volume capacity and could not be economical or practical for loading large numbers of containers or Ro-Ro cargo.

Compared to conventional vessels of maximum size for this trade, the Jumbo Barge Carrier system offers substantial savings in bunkers and crew costs, as well as significant reductions during loading and unloading operations. JBC Ships spend 90% of their time at sea, transporting cargo, and even though large quantities of containers are loaded/unloaded, the time in or outside the ports is only between 10% and 15%. The barge investment cost may be said to be high, but the fact that the barges also serve as warehouses, resulting in less storage area required in the port, should be considered.

Stevedoring costs are also likely to be reduced, as operations can be carried out during normal working hours. Barges are available for a full week for loading/unloading.

The most interesting and attractive aspect comes from the flexibility that the barge system offers, as practically all kinds of cargo can be loaded. Some barges may be loaded with normal general cargo, as containers, trailers and cars, while the remaining barges can be used for bulk cargoes such as grain, steel, coal, scrap, forest products or oil. Each barge is planned to have a dead-weight of 12,500 tons at a draft of 6 meters in trades where fast service is required.

In trades where bulk cargoes play a vital role and the dead-weight of the JBC is increased to say, about 220,000 tons, and the speed is reduced to about 20 knots, the barges can have a dead-weight of 22,500 tons at a draft of about 10.5 meters (35 feet).

During periods when, for one reason or another, normal general cargo traffic is declining, barges can be loaded with bulk cargoes. The overall result is more economic, and attractive, as it will be possible to contract for bulk cargoes over long periods. The extra cost for loading and unloading barges with bulk is marginal, and so is the time for floating them on and off.



When studying the bulk market in various trades, it is interesting to note that, for bulk cargoes in Liberty size (i.e., about 10,000 tons), and up to 30,000 tons, the freight rates are substantially better than for cargoes of 50,000 to 200,000 tons. The reasons for this are obvious. In many ports with restricted draft, industry has to pay premium rates for the smaller ships needed, and a similar "penalty" exists where loading/unloading is slow. For products like grain, scrap and timber, where the required stevedoring time is often long, the Jumbo Barge Carrier system is particularly suited.

The supporting calculations show that in certain trades, with all barges loaded with bulk cargoes, the JBC Ship can even return in ballast, and the round-trip result is still satisfactory.

In many trades where it is practically impossible to obtain return cargoes of 50,000 tons or more, the Jumbo Barge Carrier may, with its in-built flexibility, be able to secure different kinds of cargoes that can be moved by this system.

What is said about the North Atlantic is valid for practically all of the major trades where containers are moving and can be combined with bulk cargoes in one or both directions. As proved by the enclosed calculations, it is also obvious that from or to draft-restricted ports the JBC system offers a very competitive alternative to small-size bulk ships.

In the brochure describing the JBC concept the proposed dimensions and particulars give a dead-weight between 130,000 tons and 220,000 tons, draft between 35 and 45 feet and speed between 16 and 24 knots. It goes without saying that the particulars can vary with trade and cargo requirements.

Even if the required draft for a 220,000 DW ton JBC Ship is as much as about 90 feet, such deep and rather small required spots are available today without dredging on the Roads and/or the rivers in sheltered waters in or outside most of the major ports of the world. Consequently, expensive dredging of ports and channels can be avoided.

The JBC concept has so far technically gained approval by three major shipyards -- by Lloyd's Register, by Det Norske Veritas and it has also been checked by the U.S. Maritime Administration and the U.S. Coast Guard.



Jumbo Barge Shipping & Commerce Ltd.

The JBC concept is aimed to give the most economical overseas transport for a variety of import and export goods.

It gives a large-scale carrier's economy, but the barges -- which can load as much as, say, 50,000 tons each -- can reach draft-restricted ports. The barges have a draft of maximum 40 feet, enabling them to reach practically all American ports as well as the many restricted draft ports in the rest of the world.

Besides the big load, the turn-around time in ports is one of the key factors to the JBC concept. Unloading of about 200,000 tons and loading of 200,000 tons of cargo can be carried out in less than 8 hours.

The concept is entirely new and the barges carried are much bigger than the Seabee, Lash, BACAT or CAPRICOAL Systems, which latter systems allow maximum 2000 tons of cargo in each barge. The JBC barges are floated on or off, not lifted. The barges are then towed to nearby terminals or to other ports.

The concept has so far gained approval by three major shipyards, by Lloyd's Register, by Det Norske Veritas and it has also been checked by the U.S. Maritime Administration and the U.S. Coast Guard.

The JBC concept is particularly suitable for North America and its major trade routes. The U.S. yearly exports 150 million tons of grain, 100 million tons of coal, 50,000 automobiles and large quantities of refined oil products and petrol chemicals in bulk, several thousand units of large road-building machinery and general cargo in about 3 million containers (in the North Atlantic trade alone about 1 million containers and also about 1 million containers to the Far East).

The U.S. yearly imports about 6 million tons of steel from the Far East area and also about 6 million tons from Europe. Furthermore, the general cargo import consists of 3 million, of which 1 million containers are from Europe and also about 1 million containers from the Far East. Automobile import averages about 3 million.

If the UNCTAD Liner Code could be enforced or accepted, the U.S. could have access to 40% of the above-mentioned cargo quantities providing the U.S. Merchant Marine can offer regular, reliable and competitive shipping facilities and freight rates.

The JBC concept can bring about that the U.S. Merchant Marine can again play a vital role on the oceans. The operation must, however, start in time before the low-cost flag operators have built out the JBC System. No other single country can in its export or import to the USA, say in the European/Atlantic trade, have access to 40% of the cargo flow. The flag of convenience operators are certainly going to have some problems when meeting the competition of the JBC vessels.



Jumbo Barge Shipping & Commerce Ltd.

- 2 -

Based on the breakdown of the above-mentioned figures in relation to the U.S. East Coast and Northern Europe, a rough estimate of required ships gives the following result:

<u>Eastbound</u>	<u>Grain</u>	<u>Coal</u>	<u>Cars</u>	<u>Containers</u>
Total Per Year	30,000,000 tons	30,000,000 tons	20,000	1,000,000 TEU
Per Year 40%	12,000,000 tons	12,000,000 tons	8,000	400,000 TEU
Per Week 40%	240,000 tons	240,000 tons	160	8,000 TEU

<u>Westbound</u>	<u>Steel</u>	<u>Lumber, etc.</u>	<u>Cars</u>	<u>Containers</u>
Total Per Year	4,000,000 tons	--	200,000	1,000,000 TEU
Per Year 40%	1,600,000 tons	--	80,000	400,000 TEU
Per Week 40%	32,000 tons	--	1,600	8,000 TEU

Presume we load the weekly "U.S. part" in 5 JBC vessels, each vessel then to have the following amount of cargo:

<u>Eastbound</u>	<u>Westbound</u>
48,000 tons grain	6,400 tons steel
48,000 tons coal	320 cars
32 cars	1,600 TEU containers
1,600 TEU containers	+ lumber
+ chemicals	

The round-trip freight on fio basis then to be:

96,000 tons grain/coal	@ \$12.-/ton	=	\$1,152,000
32 U.S. cars	@ \$250.	=	8,000
1,600 containers	@ \$700.	=	1,120,000
6,400 tons steel	@ \$20.-/ton	=	128,000
320 European cars	@ \$150.	=	48,000
1,600 containers	@ \$700.	=	<u>1,120,000</u>
			\$3,576,000

Even with the above-mentioned freight rates which are very low and competitive, a JBC built in the U.S. and operated under U.S. flag will be able to more than break even and consequently should be in a very good position to obtain more than 40% of the cargo available. Most probably some of the ships should do the round-trip in two weeks and some in three weeks meaning that in this particular trade about 12/13 ships should be required to carry the above-listed cargo based on two or three-week service.



Similar calculations for other major trades, and also based on 40% U.S. participation in the dry cargo field, indicate that about 80 JBC vessels should be required.

Based on such a number of ships and considering that a very large part of this type of ship is just one big simple-to-build steel construction without pipes and heating coils, it should be possible to build the vessel in U.S. shipyards at competitive prices. In the wake of such a building program the following is bound to occur:

- A strong U.S. Merchant Marine in peacetime as well as in wartime.
- The U.S. steel industry would receive orders for many million tons of steel.
- The many industries' suppliers related to the shipping industry would receive new orders.
- The U.S. export as well as the U.S. import industry would be more competitive by lower freight rates.
- More than 100,000 new jobs would be created.
- The U.S. industrial image would be restored.



SUMMARY

"We must develop and undertake a maritime policy that will (1) demonstrate our understanding of the importance of the seas to America's future; (2) re-establish the U.S. flag commercial fleet as an effective economic instrument capable of supporting U.S. interests abroad; and (3) demonstrate America's control of the seas in the face of any challenges.

A specific naval-maritime policy must be developed that will...provide a unified direction for all government programs affecting maritime interests of the United States. We must ensure that there is active cooperation between the Navy and the Merchant Marine and the governmental departments responsible for each."

- Ronald Reagan
September 22, 1980

AT a time when pressures are on world shipbuilders to cut back capacity and there is an equal pressure on owners to step up newbuilding orders, Bengt Tornqvist is proposing new ship design concepts which he believes will increase owners' profits, increase world scrapping rates, and cause a healthy demand for newbuildings.

The nucleus of his proposals are his BOROLINER, TANKLINER, BULK-LINER, PARO and JUMBO ship systems which capitalise on their ability to carry two-way combinations of cargoes. Thus Tornqvist's proposals for eliminating ballast voyages could, he claims, bring benefits to shipowners in the region of 13 per cent for some of his concepts, a good enough reason for any shipowner to consider a newbuilding even at today's high bank rates.

Born in the small town of Vaermland in Sweden in May 1915 amidst a war-torn Europe, he first went to sea at the age of 17 at the height of the European depression. His first voyages were on the sailing ships which were still a common sight at this time and during this period he took part in a grain race from Australia in one of the many sailing vessels trading on this route—the last stronghold of major sail trades—before the Second World War. His ship came second arriving at Falmouth after 107 days at sea.

Following his apprenticeship and time as a mate Tornqvist obtained his master's ticket in 1938, his first position as an officer being on a small tanker for the Wallenius Lines. In 1941 his vessel was sold by Wallenius to Swedish Chicago Lines. Remaining with the ship and joining the new company he became a captain in 1943 and following his military service he became superintendent of newbuildings.

Returning to Wallenius Lines in 1953 at a more senior level he outlined a new transport system for the growing trade of motor car transport based on the roll-on/roll-off principle. The first newbuildings of the concept were Great Lakes vessels, which, through the new system, permitted the carrying of considerably more vehicles than with conventional vessels and still left space for other cargoes. Extending this principle to ocean-going vessels Wallenius Lines became the largest car shipping company in the world.

By 1961 Tornqvist's thoughts began to move in the direction of more integrated transport shipping systems and as a result, retaining connections with Wallenius, formed Scandinavian Motorships to co-ordinate specialised car/cargo shipment terminals and also to act as general world-wide agents for Wallenius.

Quickly realising the growing importance of container shipments in the mid-1960s he was responsible for the foundation of the Atlantic Container Line (ACL), a company formed by Cunard, Wallenius, and Scandinavian Motorships. For this company Captain Tornqvist designed a totally new type of vessel capable of loading many different combinations of cargoes such as cars, trailers, and containers. This type of vessel has subsequently



Captain Tornqvist: Looking beyond the BORO liner

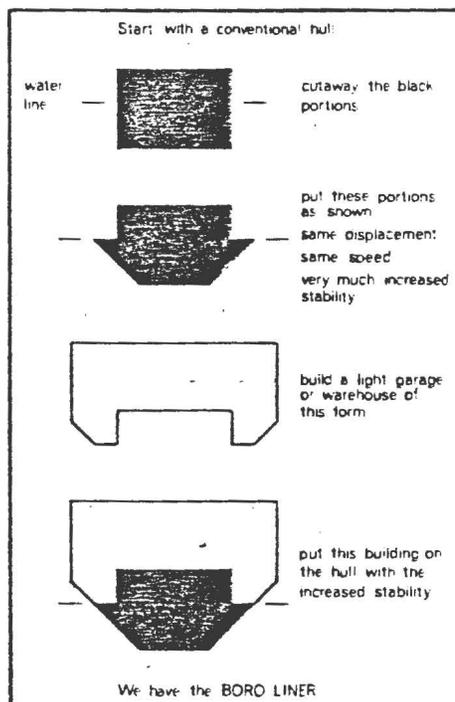


Fig. 1. Basic principles of the BOROLINER ship, showing the trapezoidal hull form.

all over the world and current forecasts suggest that this type of ro-ro and container ship will have increasing importance in years to come.

At the same time as Atlantic Container Line, Tornqvist was also involved in the formulation of Compagnie Generale Transbaltique, a 35 per cent Wallenius and 65 per cent Compagnie Generale Maritime-owned company specialising in ro-ro vessels.

Following the death of Mr. Wallenius in

Wallenius Lines completely and subsequently formed Trans Motorship Terminals, a terminal operation company which now owns car/cargo terminals in Bremen, Copenhagen, Helsinki and Sodertälje.

A side-shoot of Tornqvist's interests developed in 1961 in the formation of the Swedish company of Seasafe, manufacturing container and cargo lashings in addition to other general cargo handling equipment.

Unrelenting in his approach to develop more financially profitable integrated transport systems and realising the need for a corporate approach to the problem, Tornqvist formed Transport Trading A/B in 1976. As transportation is the world's largest industry, his beliefs are that this industry offers many possibilities for introducing technical improvements and economical solutions. The main aim of Transport Trading will therefore be to continue to develop new ideas in the field of transportation. The company also acts as a broker for the sale and purchase of second-hand tonnage and for the contracting of newbuildings.

Two BOROLINERS have so far been built, the "Bellman" (*The Motor Ship*, December 1977) and the "Taube", both by Kawasaki, of Japan. Considerable interest was aroused by these new vessels which are jointly owned by Scandinavian Motorships A/B and Cie. Gen. Transbaltique. Many criticised the design on the problems of organising the intricate cargo combinations, and that it would be difficult to co-ordinate the necessary quantities of cargoes for the vessel to survive. In operation, however, one of the BOROLINERS, after initially operating between Scandinavia and Northern Europe carrying paper products one way and returning with a cargo of cars and processed oil from Rotterdam, has now switched to the Pacific carrying vegetable oil westbound to Japan and returning with cars and manufactured goods to the U.S.A.

Middle East promise

Tornqvist then pointed out that of all the world's sea routes a BOROLINER fleet could advantageously be operated between the Europe/Middle East, Japan/Middle East and Japan/Southeast Asia routes. Today, dry cargoes, containers, cars, sundries and heavy-lift items account for the bulk of freight to the Middle East and Southeast Asia routes, with oil and empty containers for most part in the opposite direction. Thus he suggested a BOROLINER could overcome the tremendous costs of ballast voyages on these specific routes.

Challenged on the subject of the relatively small size of the "Bellman" he quickly indicated that the vessel is capable of loading 2 to 2.5 times as much freight as any conventional liner of a similar size.

From the naval architect's point of view the BOROLINER concept is a sound one in many ways. Firstly the trapezoidal hull

duced fuel consumption or increased speed for a specific engine installation. Secondly the angular shape of the hull creates a greatly increased stability situation and subsequently the third benefit is the tremendous possible increase in cargo carrying volume for that same displacement. This third point is of particular importance in today's high volume low unit weight cargoes.

	Tanker	Bulk Carrier (forest products)	"BORO" Liner
Length b.p.	125 m	150 m	142 m
Breadth	18 m	20 m	32.2 m
Cubic capacity	—	13 000 m ³	27 000 m ³
Tons d.w.	10 000	10 000	10 000
Draught	9.5 m	7.9 m	7.6 m
Gear	—	2 gantry cranes	Ro-Ro
Speed (knots)	15	15	15
Output (bhp)	8 000	8 000	10 000
Price (Sw.Kr.)	57 000 000	57 000 000	75 000 000

Voyage calculation

Oil	10 000 tons × 54 = 540 000		9 000 tons × 54 = 486 000
Forest products	—	10 000 tons × 64 = 640 000	10 000 tons × 64 = 640 000
Cars	—	—	700 cars × 210 = 147 000
Gross freight	540 000	640 000	1 273 000

Costs

Daily vessel	10 days × 14 000 = 140 000	12 days × 14 000 = 168 000	14 days × 16 000 = 224 000
Bunkers	8 days × 30 tons × Sw.Kr. 375 = 90 000	8 days × 30 tons × Sw.Kr. 375 = 90 000	10 days × 36 tons × Sw.Kr. 375 = 135 000
Ports	2 × 10 000 = 20 000	4 × 10 000 = 40 000	6 × 12 000 = 72 000
Kiel canal dues	2 × 6 000 = 12 000	2 × 6 000 = 12 000	2 × 8 000 = 16 000
Capital	16% × 57 M × 10 = 261 000	16% × 57 M × 12 = 313 000	16% × 75 M × 14 = 480 000
	350	350	350
Extras	= 17 000	= 17 000	= 23 000
Total costs	= 540 000	= 640 000	= 950 000
Profit/voyage	Nil	Nil	= 323 000
Profit/year	Nil	Nil	= 8 075 000

* If reducing the oil freight to Sw.Kr. 25, and the forest products to Sw.Kr. 58, the result will be break even.

able increased cargo capacity of his hull form without capsizing.

Further developments of the concept have been proposed such as the TANKLINER and BULKLINER, a small example of which is illustrated in Fig. 2b. The same advantages seen here are also possible with much larger vessels of 20 000 tonnes or 40 000 tonnes d.w., for which detailed design drawings are now available and will be illustrated in a future issue of

The Motor Ship. Recently a Sw. Kr. 600 million order for three 40 000 tonne d.w. vessels for the N. Europe/Persian Gulf route at the Swedish Götaverken Arendal yard were cancelled due to the lack of Government assistance but Tornqvist remains optimistic about their construction elsewhere; certainly he is confident of their suitability to this route carrying southward cargo mixes such as 750 containers, 100 trailers, 1 000 cars and 10 000 tonnes of steel, bagged cement or the like, and 30 000 tonnes of oil plus returning containers and trailers northwards.

New designs under study

Currently under development are two new extensions of the BOROLINER hull configuration, namely the PARO and JUMBO ships which for the moment remain confidential to those parties retaining Tornqvist's services. Whatever form these new designs take, one thing is for sure, they will by no means be conventional and certainly controversial.

Captain Tornqvist readily admits that his designs have a few extra problems to conventional ships. To the naval architect or shipbuilder they are easily surmountable but to the conservative shipowner or charterer Tornqvist believes that his designs propose a number of major upheavals. For too long he believes, shipowners have been relying on expanding world trade and the protection of conference rates. They must now change with the times and no longer rely on specific trades but to direct their thoughts to more complex and highly integrated transport systems embodying road, rail, and sea modes backed by better transshipment terminals. Transport is the world's largest industry and as such should be the world leader in technological systems and above all in more organised and sophisticated cargo organisation. □

BOROLINER principles

Fig. 1 shows simply and clearly the principle of Tornqvist's conceptual design, developing a conventional rectangular midship section to that of a trapezoid and then adding a large garage on top of the increased stability hull. Fig. 2c and associated table illustrates a direct comparison with a modern ro-ro ship of 9 000 tonnes d.w. Any shipowner applying his financial knowledge to the tabulated information will quickly see the potential of this concept even when allowing for additional building costs of approximately 20 per cent (mainly due to increased steel costs of the large garage). Other benefits of the concept are the elimination of the lower ro-ro hold with its inherent poor access problems and its utilisation for more easily handled fluid or bulk cargoes.

Taken to task on the stability of his designs, Tornqvist quickly offers to display a portable model and tank to any interested persons. Firstly he offers to demonstrate the loading capabilities of a conventional hull shape to the point of capsizing and then, altering the model as per Fig. 1 continues to demonstrate the remark-

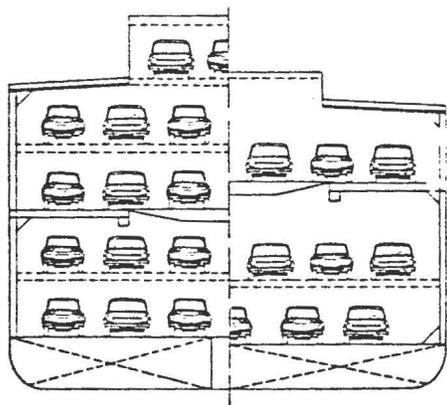
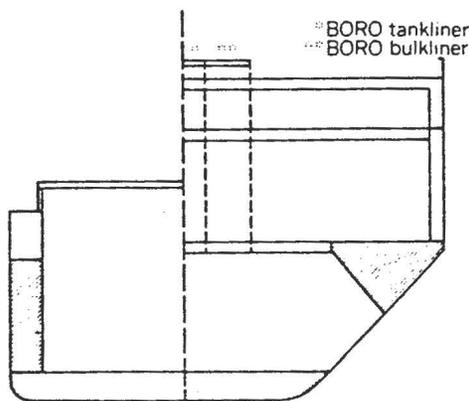


Fig. 2a (left). Tornqvist's 1950s proposal to build special car carriers (left) with improved capacity compared with a conventional vessel of the time (right).

Fig. 2b (below left). Comparison between an 11 000 tonne d.w. forest products carrier (left) of 540 000 ft³ and a BORO tank or bulk liner (right) of the same size and 950 000 ft³.

Fig. 2c (below right). Comparison between a modern ro-ro ship (left) of 9 000 tonne d.w. (1 780 trailer metres) and a BOROLINER for the same trade and of the same size (2 430 trailer metres).



December 5, 1983

MEBA POLICY RECOMMENDATIONS STILL UNFULFILLED
BY THE REAGAN ADMINISTRATION*

MEBA RECOMMENDATIONS

ADMINISTRATION ACTION

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| I. Recommended a clear, coherent maritime policy of interrelated efforts to be introduced and unified as a package in a Presidential declaration. | No unified package by the Administration. Two phases announced: a third, on the way since the summer of 1982 has yet to be seen. Little follow-up action: existing program of promotional measures dismantled with no substitute to replace it. |
| II. Supported widespread pursuit of bilateral agreements. | No mention of bilaterals in either Phase I or Phase II. No constructive cargo policy. |
| III. Supported ratification of the UNCTAD Liner Code. | Administration officially opposes ratification of the UNCTAD Code. |
| IV. Supported requirements for U.S.-flag carriage of a percentage of foreign-manufactured automobiles to encourage construction of militarily-useful RO/RO vessels. | No Administration action. |
| V. Proposed that Coast Guard should temporarily grant exceptions from certain vessel standards that hinder reflagging; documentation should be tied to meeting standards of ship classification societies. | No Administration action. |

* (excludes Administration proposals or Administration-backed proposals that have yet to receive Congressional approval)

MEBA RECOMMENDATIONS

ADMINISTRATION ACTION

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| VI. Favored removal of Title XI Ship Loan Guarantees ceiling. | Ceiling retained: in FY 1984, \$900 million of which \$300 million is reserved for military-useful ships. |
| VII. Supported repeal of Subpart F of the Internal Revenue Code and subsequent permission for U.S.-controlled foreign corporations to deposit income from foreign shipping operations into a fund for foreign building of U.S.-flag ships. | No Administration action. |
| VIII. Supported incentives through the tax system for U.S. shippers who ship on U.S.-flag vessels. | No Administration action. |
| IX. Proposed income tax reductions and pension assistance for merchant seamen sailing on ocean-going ships, possibly linked to participation in the U.S. Navy Reserve. | No action, although Administration debated this proposal during internal Phase I and Phase III discussions. |
| X. Supported buyouts of outstanding ODS contracts <u>only if</u> MARAD examines, on a <u>case-by-case</u> basis, with approval contingent upon fleet expansion opportunities. | To terminate subsidies ahead of their planned expiration dates, the Administration has begun to buy-out existing subsidies. Its policies regarding buyouts have not been well-defined: they have had inadequate guidelines: and they will result in a net loss of U.S.-flag ships. |

MEBA RECOMMENDATIONS

ADMINISTRATION ACTION

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| XI. Supported civilian contract manning of Navy fleet support vessels. | So far, there is no CIVMAN program, except to claim credit for already-planned use of civilian contract mariners or to deliberately juggle figures (the Navy) to make it look like there has been progress in CIVMAN |
| XII. Favored creation of a series of tax-exempt shipping bonds, guaranteed by the government, targeted on a special class of national defense merchant vessels constructed with military features and applicability in mind, to be operated by private shipping companies. | No Administration action. |
| XIII. Supported extensive use of merchant ship military enhancement features to enable merchant ships to be able to take up quickly defense roles in wartime. | For budgeting reasons and lack of emphasis, this program is virtually moribund. |